

# EIR

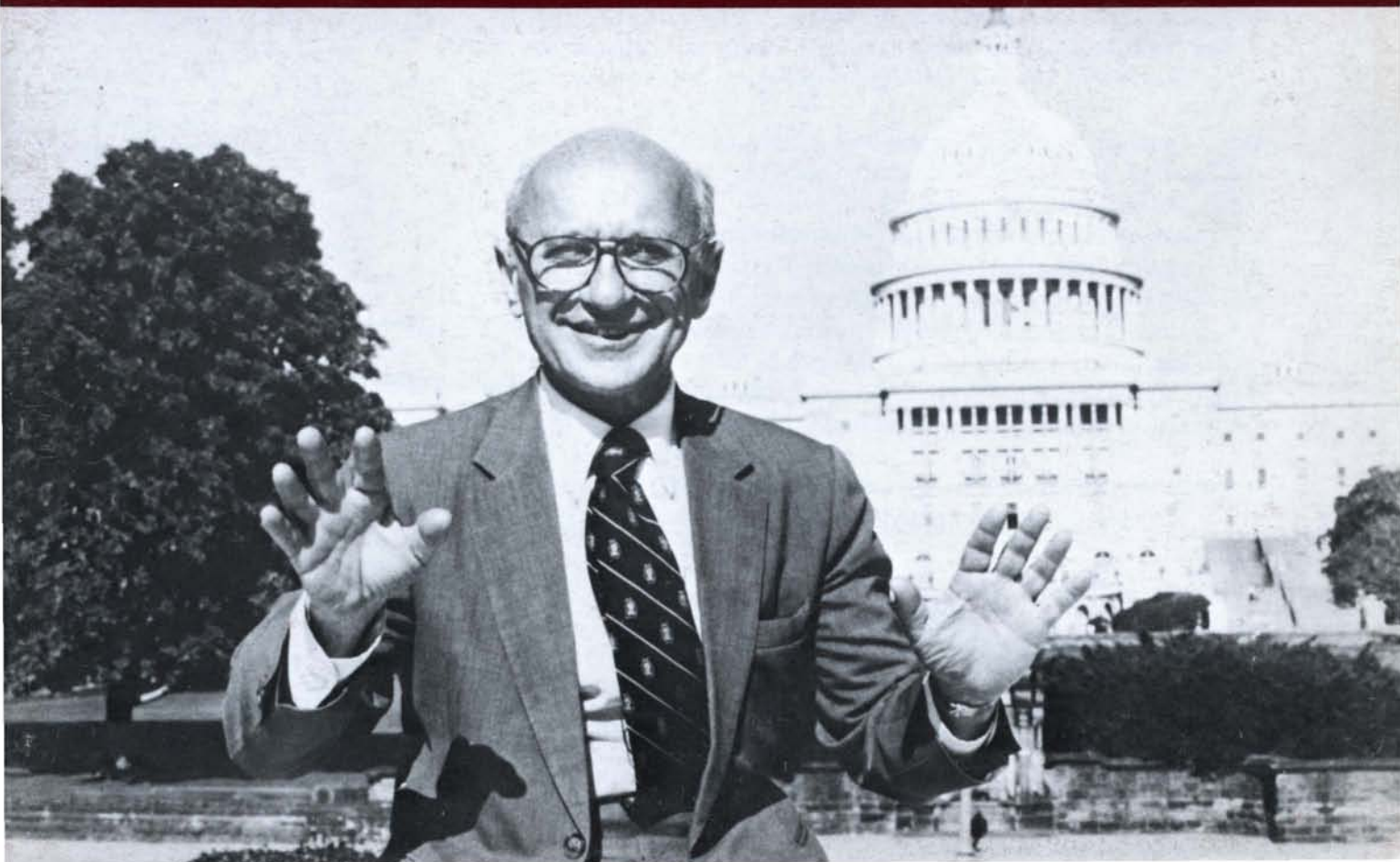
Executive Intelligence Review

July 22, 1980

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World ownership changes hands  
Will Carter start a July missile crisis?  
Church radicals organize 'Chicano violence'

**Mont Pelerin's hatchetman:  
The Milton Friedman record**



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# EIR

## From the Editor

As some of the nation's policymakers begin to look out from under the rubble of the Carter administration's depression economics toward a new "reindustrialization" drive, we expand our coverage of the question. How can the U.S. best revive its scientific, technological and industrial capacities?

In collaboration with the Fusion Energy Foundation, *EIR* is preparing a detailed overview of the reindustrialization debate: who is on the right track, who isn't, and what the essential method for rapidly pulling the nation out of its Malthusian economic collapse really is.

This week we begin the discussion with a warning on the "wrong track." Double-digit inflation has made it fashionable to blame inflation on big government spending programs and demand a "Friedmanesque" regime of monetary stability.

For those with a short memory we bring you the Friedman record. The man who shares the blame for the 1953, 1957, 1960 and 1969 recessions plans to guide a Reagan administration. Under such a regime nothing that resembles reindustrialization could possibly take place.

Economics Editor David Goldman presents a preview of the forthcoming book on Milton Friedman he wrote with Lyndon LaRouche. In Israel, Friedman's advice to the newly-elected Begin government was largely responsible for that country's 20 percent-per-month inflation increases. In Chile, Friedman devised a policy which reduced the average intake to less than 1200 calories per day. But Friedman's star performance is in Margaret Thatcher's Great Britain, where for the first time in postwar history someone has managed to increase the inflation rate of an industrial country fourfold in a mere 12 months, while achieving unprecedented levels of deindustrialization in the same time period.

Next week we'll detail the economic policy options to ensure that Friedman's U.S. experiment doesn't break the British record.



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# Business Briefs

## Trade

### Carter vs. Japan on autos—and more

Electioneering in Detroit on the way to Tokyo for the funeral of Prime Minister Masayoshi Ohira, President Carter promised aid to the U.S. auto industry including acceleration of an International Trade Commission review of whether Japanese exports have damaged the American industry. Auto is the most prominent issue now, given the 300,000 layoffs in the U.S.

Japan now outproduces the U.S. in autos, with 5.4 million units in January-June against only 4.4 million for the U.S. Moreover, Japan now exports the majority of its car production and has achieved a 23 percent market share in the U.S.

The United Autoworkers Union has demanded that Congress legislate requirements for Japanese firms to manufacture in the U.S. any models that sell more than 200,000 per year there. Carter is expected to inform Japan that they should agree to this demand voluntarily, rather than see it imposed by Congress.

After stern demands made by Secretary of State Muskie to Foreign Minister Saburo Okita during their recent meeting in Malaysia, Japan's Ministry of International Trade and Industry (MITI) officially denied that Japanese firms had plans to increase production capacity by 2 million units, while Toyota announced a production cut of 7 million units for the second half of 1980. Nissan is expected to follow.

The auto issue is most explosive politically in the public mind. But from the long-range strategic point of view, the trade friction over computers is far more important. Carter will demand once more that Japan's government-owned Nippon Telegraph and Telephone allow procurements by U.S. firms in advanced-technology areas.

The motivation here is to prevent Japan from gaining the technological wherewithal to challenge IBM. The Japanese challenge has become dramatic in this area with Fujitsu's announcement last week that it will have commercially

available by 1985 a gallium aluminum arsenide computer chip with 25 times the speed capacity of the standard silicon chips now used. The production cost is much cheaper than that of alternative chips. Since Japan plans to make computers and numerically controlled machine tools the export products of the future, Washington's actions in this sphere have the most significant effect on market shares in the mid-to-late 1980s.

Japanese computer execs say of recent Japanese advances in microchip technology and computer controls for machine tools, "We have no intention of trying to compete with IBM on its home ground. But we will be able to take the dominant position in Third World markets."

## Gold

### Soviets debate gold's monetary role

A spirited debate has broken out in Soviet government and academic circles over the proper role of gold in the international monetary system. The essential question underlying this debate is whether or not the Soviets should seek closer collaboration with the European Monetary System (EMS), the gold-backed European currency arrangement.

The April issue of the Soviet Journal *Ekonomicheskoye nauki* (*Economic Science*) reports that the Moscow Institute of Finance held a conference in 1979, which was devoted entirely to discussion of gold's role in the Western monetary system. The speakers representing IMEMO (the Institute of the World Economy and International Relations) all sounded very much like U.S. Treasury officials, insisting that gold had been demonetized during the 1970s and would never return. Speakers who contended that gold's monetary role is in the process of being restored included a representative of the Gosbank (the Soviet agency which markets Soviet gold), a member of the Institute of Economics of the Soviet Academy of Science, and MFI personnel.

In the May issue of *Kommunist*, Gos-

bank chairman V. Alkhimov dropped a strong hint that the Soviets are prepared to cooperate with Western European governments in using gold to restore stability to the world monetary system:

"The U.S.S.R., as a gold-producing country, uses the sale of gold to increase imports, particularly to overcome disproportions in the national economy caused by unforeseen circumstances. It should be noted that we frequently have to solve all these problems of currency and economic relations under conditions of deep collapse in the Western countries' economy, increasingly frequent bankruptcies of firms and banks, and monetary instability.

"Therefore, it is necessary for our banks to constantly perfect their activity, find flexible and stable forms of working with clients and correspondents, monitor carefully all events in the economic, monetary, and financial spheres, as well as cooperate closely with the banks of other countries, especially those which support progressive changes and tendencies in the international division of labor."

## Corporate finance

### GM billion bond soon on market

Inside reports are that General Motors will come onto the New York bond market for a whopping \$1 billion debt issue some time this fall. Eager investment houses are confident the bond will go well, on a combination of GM's reputation and price. The expected issue will seal 1980 as a record year for U.S. corporate bond issues. Investment houses are now intent on pulling in greater volume of foreign capital into this market than ever before.

For foreign investors, top traders report, U.S. investments are highly secure, and perhaps more important, at just the right price. Using GM as an example, one investment house pointed out that GM is on its way to becoming the leading auto company of the 1990s, in the sense of its unprecedented size and market weight for that industry; and at the same

time, its share price is still "cheap."

To the extent that foreign investors have not rushed to pour funds into the U.S. corporate bond market, a major reason is the federal withholding tax on corporate debt holdings of foreign interests. Investment houses are closely watching Congressman Al Ullman (D-Wash.) who has just introduced a recommendation that the withholding tax be dropped. New York investment houses are hoping that once it goes, Arab, European and Latin American dollars will flow into New York in unprecedented volume.

To set the mood for such large-scale capital inflows, financial networks are circulating the line that international investors prefer American paper "because the U.S. is the last real bastion of capitalism." This line—which will amuse businessmen in such nations as Germany, France and Japan—was launched by *Forbes* magazine, which titled a lengthy feature on growing German capital investment in the U.S. this week "Drang nach U.S.A."

### Foreign exchange

## **U.S. dollar battered again**

Foreign investors dumped dollars last week in the wake of the Federal Reserve's July 4 move to lift the credit control regulations imposed in March. The pound sterling hit a five-year high against the dollar on July 7, surpassing \$2.38. On the following day, the dollar slumped badly against the major European currencies and fell to as low as 1.73 deutschemarks, before it was steadied by "substantial" central bank intervention.

According to a British banker, foreign investors view the Fed's lifting of credit controls—although of little significance in and of itself—as a signal that the Fed will seek to reflate the economy in order to ensure Carter's reelection. Since the underlying inflation rate is still high, at about 10 percent, this is considered a sure prescription for another dollar crisis.

Meanwhile, the pound's strength reflects the July 3 decision of the Bank of England to lower its minimum lending rate from 17 percent to 16 percent. The Bank of England's strategy is to revive the flagging gilts (government paper) market by reducing interest rates very gradually, thus encouraging investors to lock in high yields while they still can.

### Resources

## **Soviets plan biggest ever water diversion project**

Fifteen years ago, an American engineering company proposed a project to divert more than 130 cubic kilometers of water annually from Alaska and Canada to the U.S. and Mexico through a network of canals and reservoirs including an 800 kilometer trench reservoir in the Rocky Mountains. Today a project like the North American Water and Power Alliance Project could more likely be built on the moon than in the U.S., RAND Corporation researcher Than Gustafson wrote in *Science* magazine recently. But ground may be broken on a project of similar scope—which would be the most expensive and complicated engineering project ever undertaken—in the Soviet Union in as little as five years.

There are currently two major diversion projects under discussion in the Soviet Union, Gustafson reports, to reroute the flow of several northern lakes and rivers to support agricultural development in the south and to halt the decline of the Caspian and Aral seas, and generally lay the basis for further industrial development of the southern regions. The largest, the Central Asian Diversion Project, would divert a portion of the Ob River in Western Siberia southward, over the Turgai Divide into Central Asia and the Arab Sea basin. The project would require the construction of a canal about 1500 kilometers long. The first stage is estimated to cost 30 billion rubles—equivalent to one-quarter of total capital investments in the Soviet economy in 1979, and approximately equal to the total 1979 investment in agriculture.

## *Briefly*

● **FORD MOTOR** Company's chief economist, William Niskennen, lost his job last month. A monetarist-leaning economist who worked closely with Milton Friedman, he refused to draft a change-of-line statement calling for higher tariffs on car imports.

● **FRENCH OBSERVERS** of American politics expect the next American President will have to strike a deal on gold with Western Europe, *Le Monde* commentator Paul Fabra said in a recent conversation. Fabra thinks that the pro-gold stance of Reagan adviser Arthur Laffer points to an inevitable trend.

● **DR. EDWARD TELLER** of the Hoover Institute at Stanford University is convinced that the Carter administration's no-policy stance on energy is even more dangerous than a wrong policy. Favoring nuclear fission and fusion, Teller permitted a recent Hoover conference to promote coal-based synthetic fuels in the hope that the Carter Department of Energy would pick up on something, even if not the most desirable energy approach.

● **OFFICE OF TECHNOLOGY** Assessment officials deride the White House's recent statements on industrial policy as "just buzzwords" and "obviously political." Carter isn't doing anything on innovation policy, OTA officials believe. OTA reports directly to Congress.

● **ARAB MONETARY** officials, 25 from all the leading countries, showed up at the West German Bundesbank on July 9 for intensive but informal discussions.

● **CHEMTREE** Corporation chief executive officer William Cornelius Hall has been unseated in the midst of a Securities and Exchange Commission lawsuit against the company, which produced a revolutionary high-hydrogen formula for iron oxide mortar.

## World ownership changes hands

by David Goldman

The world is now passing through one of those extraordinary periods exemplified by the transfer of financial dominance from Amsterdam to London in 1773, the post-Vienna reorganization of European state finances in the second decade of the 19th century, or the post-World War II ascendancy of the United States. It is not altogether clear whether, unlike most previous such events, the world will avoid major financial panics or war. But the trend is no less important for being quieter.

Two years ago this month, *EIR* presented the agreement to create a European Monetary System as "the seed-crystal of a new monetary system." The diplomacy of European leaders since the spring—French President Giscard's March trip to the Persian Gulf, his visit to Moscow, Saudi Arabian King Khaled's June visit to Bonn, German Chancellor Schmidt's visit to Moscow—have made that seed-crystal viable. The entire world is scrambling to stay upright, because the ground underneath has changed.

What Khaled worked out in Bonn is already understood by a few, with the result that the average share price on the Frankfurt exchange has risen 10 percent in the past three weeks. The agreement is, in essence, that Saudi Arabia will invest a large share of petrodollar deposits now sitting in short-term bank deposits into European equity under the supervision of the European governments; and that the point of these equity investments will be to equip Western European industry for major expansion into the developing sector's "threshold countries."

Thus the essential importance of the plan is that it directly relates international credit to the question of

productivity. The usual way the question of the oil producers' surplus comes across is entirely wrong. Private bankers, IMF spokesmen or U.S. Treasury officials generally want the Arabs to take the surplus and hand it back to oil-importing countries, either in the form of treasury bills, and so forth, or debt rollover for Third World countries. What is wrong with this is obvious: it merely circulates more paper through economies already weakened by higher oil prices.

Some argue that the Arabs are greedy to have raised oil prices and owe the West all the money they can lend back to it or to its debtors. That is the kind of sanctimonious nonsense that has gotten us nowhere. OPEC's oil reserves are a large chunk of the world's available capital; that is, surplus production available for new investment. Who happens to have title to it is much less important than how it is invested.

Properly deployed, the OPEC surplus represents a fund to improve the productivity of world industry, a means of centralizing the surplus production of the industrial countries for high-technology investment. This is what the West Germans propose to do with it. Despite their bouts of monetarism since the heyday of Ludwig Erhart, they know very well that any credit that leads to productivity rates above paper interest rates may soundly be issued by the public or private sector, and will in fact be counterinflationary.

### Revamping conditionalities

At the same time, the scaling down of so-called conditionality on lending will enable the International



Monetary Fund and World Bank group to prevent the financial collapse of less fortunate developing countries—according to European banking sources *EIR* believes are reliable.

The reported turnabout at the International Monetary Fund was given fairly strong motivation at a speech by its managing director, Jacques de Larosiere, at a meeting last week of the United Nations Economic and Social Council in Geneva. De Larosiere urged an easing of the previously brutal conditions attached to IMF lending, which have dissuaded eligible countries from using most of the \$50 billion in potentially available IMF resources.

The Fund's managing director additionally said that the IMF should take into account countries' long-term potential for economic growth in assigning conditions to loans, an implicit attack on the previous approach of enforcing the most extreme balance-of-payments constraints and disregarding such questions as the survival of the population in question.

De Larosiere may after all be a French submarine at the previously American-run institution. Suspending that question, what is central is a political agreement between Europe, the Arabs, and, as a silent partner, the Soviet Union, to solve the "petrodollar problem" in the grand fashion.

What was patently incompetent about most of the "petrodollar recycling" schemes the Arabs saw and rejected is that they proposed simply piling debts on top of debts. Recycling excess Arab earnings into the International Monetary Fund to lend to poor developing countries would merely send these funds indirectly to their banking creditors. Lending them to the American Treasury would not have much better effect. In the long term, simply lending large amounts to European governments would not improve matters either.

### **Direction of equity buildup**

However, the Germans propose to invest the petrodollars—a total surplus of \$400 billion by 1982—in increases in global productivity. As *EIR* reported last month in some detail, West Germany got its economy back onto a long-term growth track by matching productivity increases in industry to the higher cost of imported oil. The core of the new investments will be in nuclear energy and associated high temperature reaction coal-gas technology, advanced computer-guided machine tools, and petrochemical industry expansion to exploit oil as a feedstock rather than as an energy source.

Without going into more detail than is prudent, we can state that the West German and French operation is comprehensive, exhaustively planned, and basically competent on economic criteria. The influence of the European initiative has been felt in the United States and Western Europe.

In America, the slogan is "reindustrialization," a topic to which we devote next week's cover story. The perception strongly urged on American leaders, such as they are, by the Europeans is that the entire 15-year accumulation of junk called "the postindustrial era" must go. Every American economic policymaking center is rushing to retool, in order to have something interesting to say about reindustrialization. Both the collapse of America's competitive position on world markets, and the obvious inadequacy of American armed forces and industrial mobilization capacity, have sunk into some of the thickest heads on this side of the Atlantic.

To preview next week's report: the quality of the sudden volume of commentary on this issue is extremely uneven, ranging from stream-of-consciousness from *Business Week* magazine to carefully thought through, eminently feasible work at Stanford University under the supervision of Dr. Edward Teller. What is most impressive is not so much the specifications of various "reindustrialization" plans as much as the emerging consensus around the project. It is clear even to such formerly antinuclear spokesmen as Democratic Senator Paul Tsongas of Massachusetts that nuclear energy is vital to America's future. The Office of Technology Assessment of the White House has suddenly started to issue reports on the need to rebuild the American steel industry and other basic industrial capacity. The Europeans and, in their own tactless way, the Russians, have forced the debate here onto the right terms.

### **Survival questions**

In Britain, most of the country's best minds are hard at work at two problems. One is how to make Britain's standing in raw materials in the Commonwealth, especially in South Africa and Australia, improve the flea-bitten lion's bargaining position with Europe (see International Credit). The second is how to make the impossible Mrs. Thatcher bargain Britain's way into what has clearly become a European game. Discussion in the City of London includes replacing her with the "more flexible" Lord Carrington, now Britain's Foreign Secretary.

During one of a number of seminars we conducted in the U.S. West and Southwest recently, a subscriber asked how businessmen can survive at a time when the Carter administration has apparently chosen economic suicide. That remains a difficult question, but it can be said fairly that if anything holds America back from the brink, it will be a combination of European pressure and the political upset inside the Democratic Party conducted by Lyndon LaRouche. In their own dinosaurish way, some large American companies are orienting towards the European Monetary System and its corollary developments. *EIR* intends to help a great many others do the same.

# Citibank's strategy impasse

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*South Dakota is only one of the setbacks for the New York giant, Leif Johnson reports*

Citibank and Federal Reserve Chairman Paul Volcker have reopened two flanks in their effort to transform the American banking system into a unitary hot-money extension of the offshore Eurodollar markets. Citibank's renewed campaign for a "Banking Free Zone" in New York arouses little support even among other commercial giants. The second flank—Volcker's threat to amend the McFadden Act and permit interstate takeovers, a threat contained in a recent letter to Senate Banking Committee Chairman William Proxmire and Republican committee member John Heinz—is stirring nationwide opposition.

Citibank's push for the free zone was resuscitated in a lead business-page article in the July 5 *New York Times* entitled "Free Trade Zone Idea Gains." Two years ago, Citibank pushed authorization for the plan through the New York State legislature, determined to create a high-profit, high-interest, high-arbitrage operation that would draw capital from both the U.S. itself and from Europe in particular.

A "free zone" would enable commercial banks to accept deposits and make loans without reserve requirements or any sort of Federal Reserve controls, so long as deposits and loans were "offshore" funds rather than domestic funds. The operations now conducted in the ill-famed Cayman Islands and elsewhere would be moved back to the money center banks' head branches.

Despite support from the *Times*, Morgan Guaranty, Bankers Trust and New York Fed chief Anthony Solomon, the idea is unlikely to coast through. A year and a half ago, when the Hongkong and Shanghai Bank, the world's central drug bank, was under attack for its bid to take over New York's Marine Midland Bank, Citibank first openly floated the free zone plan to the Fed. Comments flooded in, almost all emphatically negative. Nor has opinion switched, although the Fed has made it known that it intends to approve the plan some time this year. Citibank has resorted to promising 5,000 additional jobs in New York City if the free zone materializes.

Meanwhile, as played up in the European press, Citibank is in poor shape. What is less well known is that three weeks ago the bank decided to withdraw from its much-touted plan to use South Dakota as its credit card base. Citibank's card operation, through which it hoped to take deposits and conduct services from obtaining a plumber to financing family insurance, met the same reception as its free zone blueprint, only more so.

Citibank's international situation is worsening, too. Purveyors of the "post-industrial society" speculative skimming of resources were badly shaken by last week's news report that West Germany has opened a petrodollar recycling facility to plough oil dollars into German industrial shares to enhance continental Europe's healthy capital growth and export trade. Defeat of the new French-German superpower can only be attempted by mobilizing large hot money resources to buy up and seal off natural resources, and to outbid industrialists for Euro- and petrodollars.

The international trade zone would give the advantage to Citibank and its collaborators, particularly in a period of tight credit, by eliminating costly reserve requirements on a large chunk of their operations. In practice, the "free zone" plan would eliminate any distinctions between the so-called Eurodollar market, where \$1.2 trillion changes hands on average every two weeks, and the domestic credit markets. The notion that "foreign" operations free of reserves can be kept clear of domestic lending is a hoax; American corporations already borrow heavily on the Eurodollar market, and the choice between foreign or domestic banking is a simple matter of convenience.

## **Takeover ploy**

Fed Chairman Paul Volcker's letter to Senators Proxmire and Heinz demands that Congress not worry about takeovers by foreign banks and concentrate instead on allowing interstate bank takeovers of "failing institutions." Having created the conditions for bank

failures with his own credit policies, Volcker can argue that abridgement of the McFadden Act which prohibits interstate banking, including buyouts, may be necessary. This too is a non-starter. Last month 24 state bankers' associations tried to force their parent American Bankers Association to call an emergency meeting to defend McFadden. The ABA, heavily controlled at the top by the money center banks, cooled things off by mandating a panel on the subject at the September national convention in Washington; but the magnitude of the revolt is unprecedented. The plan to grind America's 14,000 banks, with their basic commitment to local industry, farming, mining and ranching, into a tightly controlled several dozen dominated by the money center giants has drawn other resistance as well.

The U.S. Savings League, which three weeks ago sued Volcker's Deregulatory Committee to stop it from wrecking the S&L's ability to service the housing market, is now considering a suit to overturn the Deregulation Committee section of the 1980 Omnibus Banking Bill as unconstitutional.

Savings and loan bankers thrown the carrot of credit cards, trust accounts, checking and NOW accounts have widely rejected the "service economy" road and confirmed their dedication to financing America's homebuilding.

As one New England savings banker said, "We're committed to housing because the nation needs housing and we can best finance it. We are not going to change our stripes to compete with Citibank and be swallowed up by them."

This will not deter the money center banks and their regulatory allies. Citibank is still pushing its Electronic Funds Transfer operations in Ohio, its data processing services. It also continues to push its integration of services with holding company corresponding banks like Minnesota's First Bank Systems. Citibank's control of Florida's governor has won it loan creation offices in that state, known for its drug money. Word is that Citibank is about to float a new secondary mortgage buy and sell operation to ease the savings banks out of their housing paper.

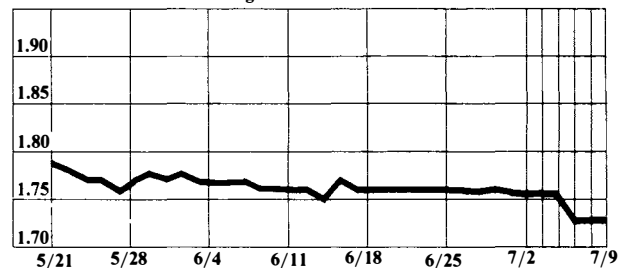
For its part the Fed last month issued rules for defining deposits which would reduce the period money must remain in an institution to receive interest. The cut was from 30 days to 14 days—a necessary "reform" to create hot money potential.

But the truth is that the "one banking system" drive has been temporarily stalled at a critical moment in its promoters' financial war against the European Monetary System. The ball is suspended in midair. Whether U.S. regional banks can find the policy to drive credit back into production and out of the hands of the hot-money banks and their political allies—that is what remains to be seen.

## Foreign Exchange

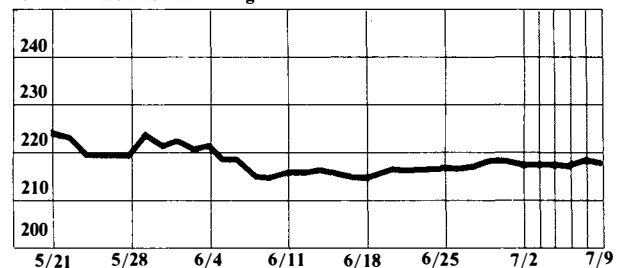
### The dollar in deutschemarks

New York late afternoon fixing



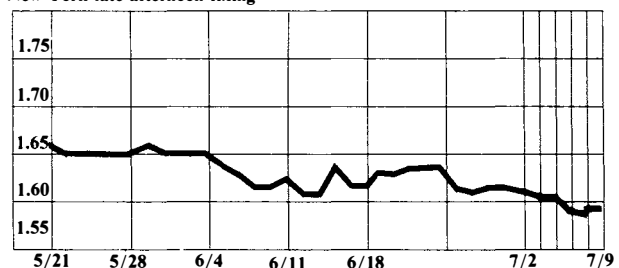
### The dollar in yen

New York late afternoon fixing



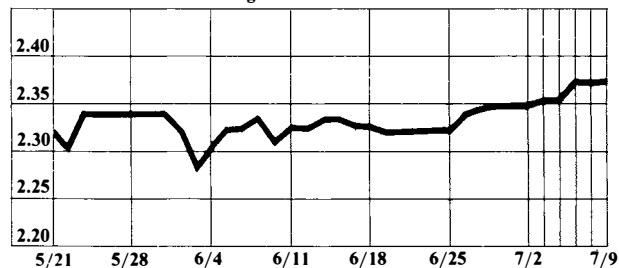
### The dollar in Swiss francs

New York late afternoon fixing



### The British pound in dollars

New York late afternoon fixing



## BP moves into minerals marketing

*British domestic corporate profitability is at depression levels. British Petroleum has launched the new strategy: "go global."*

**O**n July 7, British Petroleum reached agreement to purchase the mining and minerals exploration company Selection Trust from its major shareholder, Charter Consolidated. At over \$1 billion (£480 million), the acquisition is the largest ever on the U.K. stock exchange.

Following weeks of speculation as to whether the deal would come through, the final terms of the purchase signal the opening phase of a strategy by British-based multinationals to become "more global" in their activities. This is their solution to the hideous collapse of British industry, documented in recent issues of *EIR*.

The final terms of the acquisition are quite different from what was originally mooted by the international financial press. Instead of paying Charter cash for Selection Trust, BP has given an open option for an exchange of shares. Selection shareholders would receive shares in unspecified North Sea holdings of BP, as well as continuing ownership of Selection's subsidiary Alexander Shand, an opencast coal mining and engineering outfit. This arrangement will also reduce the British government's holding in BP from 46 percent to 43 percent.

BP's first purpose in this arrangement is to massively beef up its marketing strength, which is very weak compared, for example, to Royal Dutch Shell, which earns the weight of its activities from global marketing, not extraction

and direct sale, of petroleum supplies.

Most important, BP is about to become the petroleum tentacle of a huge, integrated fuels and minerals empire.

The hidden feature of the deal, and the steppingstone to consolidating such a fuel-minerals empire, is that the share-exchange agreement will link BP directly into the South African-based minerals giant Anglo-American Corporation. Just as Charter Consolidated owns 26 percent of Selection Trust, which it is now about to convert into BP shares, Anglo-American owns 26 percent of Charter Consolidated.

The aim of the arrangement is not so much to expand fuel or minerals exploration, but to gain marketing clout. Britain foresees its strength in the coming decade in control over raw materials. This is its answer to France and Germany, which, through the European Monetary System, are developing a "superpower" capability in basic manufacturing and heavy industry worldwide. Britain hopes to hold the French-German superpower "hostage," if possible, on access to essential raw materials and fuels.

Selection Trust's most important division, and the one which BP will wholly acquire, is its financing division. One expert on British stocks reported that BP decided to strengthen marketing capabilities after last year. "BP was one of the most exposed companies in Iran,"

he said. "Following the Iranian upsets, and complications arising with its Alaskan oil fields, BP became a net purchaser of oil during 1979." He added that the Iranian debacle had also taught BP the importance of *not* concentrating its international commitments in any particular region, but rather striving for "global weight."

The acquisition occurs amidst the Thatcher government's maintenance of grueling, tight money conditions domestically. Corporations are closed out of domestic borrowing channels, which are being stuffed with government paper. On July 4, the Bank of England had to pump £900 million into the markets to purchase government gilts. On July 9, the government will issue £800 million in new gilts, soaking up the added liquidity just provided.

Through high interest rates, which succeeded in pushing sterling to a five-year high of \$2.38 on July 7, the government hopes to attract international funds into gilts. These funds, however, are only going into Britain short-term. In the first quarter of this year, net foreign purchases of short-term (less than one year's maturity) government paper were £246 million. The same quarter, net foreign purchases of longer-term government funds was £2 million!

British banks meanwhile are maintaining paper profitability by concentrating more funds in high-interest speculation. Two growth areas for British financial institutions presently are Hong Kong real estate and, following the lifting of exchange controls last October, sale and secondary marketing of high-interest certificates of deposit from their offshore branches.

## A Soviet-South African deal

*U.S.S.R. gold sales have all but dried up, as discussions intensify with Pretoria. Not only prices but monetary policy are at stake.*

Could it be that the Soviet Union and South Africa, two long-standing and seemingly implacable political foes, are coordinating their gold sales in a joint effort to bid up the price?

Consolidated Goldfields, the London-based holding company that controls South Africa's second largest mining group, Goldfields of South Africa, sent a team of gold experts to Moscow last week to confer with Soviet officials. A source at Consolidated Goldfields, says the visit was at the invitation of the Soviet government, and marks the first time ever that the Soviets have shown a willingness to share intelligence on the market.

"If Consolidated Goldfields is going to Moscow, it is probably correct to conclude that they are discussing the coordination of gold sales," commented a European gold source. "In fact, they might even be seen as a semi-official representative of the South African government. . . ."

Rumors are mounting about a possible shift in South African gold marketing strategy.

Whereas the South African Reserve Bank previously marketed the country's mining output as soon as it was produced, there are now signs that the central bank has been holding some supplies off the market in an effort to bolster the price. As of the end of May, the Reserve Bank's gold holdings had risen to 351 tons compared to 299 in Sep-

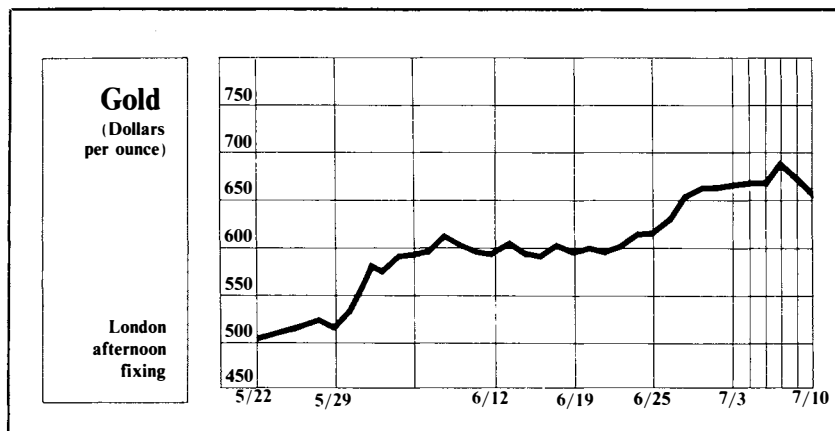
tember 1979. However, part of the increase may reflect repurchases of gold from Swiss banks under old "swap" deals.

Significantly, Soviet gold sales all but dried up during the first half of this year. According to the London *Financial Times*, this year the Soviets have sold no gold in Zürich, their traditional marketing outlet. Potts estimates that the Soviets may sell only about 150 tons to Western markets this year, compared with 299 tons in 1979 and 410 in 1978. The cutoff has fueled speculation that the Soviets may have put some stocks into direct deals with oil-producers.

Another reason for the Consolidated Goldfields trip may be to sidetrack Soviet collaboration with the Franco-German-centered European Monetary System (EMS). In his July 8 "Lombard" column, *Financial Times* columnist David

Marsh expressed relief that the Venice summit participants were "preoccupied with backfire bombers and Cruise missiles rather than the currency stabilization scheme involving Euro-rubles which they had earlier thought would be dished up by President Giscard." Marsh was referring to a five-year-old scheme to internationalize the Soviet ruble as a means of financing expanded trade among the East Bloc, Western Europe, and developing countries. The gold-backed "Euro-ruble" could act as an interface with the gold-backed ECU.

Fearful that such a development might eclipse the already waning influence of the City of London, Marsh wants such "grandiose schemes" shelved in favor of a "piecemeal" gold remonetization. Marsh's formulation was quite similar to that of Consolidated Goldfields' senior analyst David Potts, who spoke at a New York press conference on July 7. Potts, who had just arrived from Johannesburg and was due to depart for Moscow the following day, predicted a slow evolution in gold's monetary role through the increased use of gold-collateralized loans.



## Volcker lifts credit controls

*Protest in the United States had something to do with it.  
It was Europe that did the rest.*

**F**ederal Reserve Board chairman Paul Volcker's announcement July 3 that he will disband his credit controls program in the United States over the next several weeks occurred sometime after their failure was clear.

Volcker's measures, which invoked the 1969 Credit Control Act, limited new bank lending to 9 percent while giving himself top-down control over virtually every transaction in the economy. Inflation responded to Volcker's clamps on credit by shooting up to the annual equivalent of 20 percent, and is still rattling around above 10 percent.

It is clear to most analysts that Volcker never did get inflation under control. But his July 3 disbanding of credit controls came because of factors beyond his power of manipulation.

A Franco-German offensive to slash interest rates and channel credits into Third World industrialization has forced the retreat. Working in tandem, German and French banks over the last two months invaded the U.S. markets with dollars from abroad to capture customers who were usually the clients of American banks, offering lower borrowing terms, and in effect, creating a two-tier credit market.

In past weeks, the French and Belgians lowered key lending rates. Not wanting to lose their own business, the British followed suit and

dropped the Minimum Lending Rate last week to 16 percent.

Taking a cue from the British policy circles that influence him, Chairman Volcker did the only sensible thing and junked the credit controls.

Volcker simply saw that French banks are now offering an impressive array of loans at attractive prices. For example, the French banking giant *Crédit Lyonnais* managed a \$75 million loan to *Electricité de France* at 0.36 percent over LIBOR on dollar markets. This has set a precedent that will allow other prime borrowers to get lower rates.

Since four out of the world's 10 largest banks are French—the United States only has two—they have the resources to provide the loan volume needed to enforce a low-interest rate policy.

But it is not just the size or terms of the loans that is worrying *Lombard Street* and Lower Manhattan. The French and Germans combined are taking over both the East-West and the Arab petrodollar recycling concessions and have left the U.S. in the dust.

The U.S. banks which must do battle with the continental Europeans are in no shape to do so. As a result of Volcker's "anti-inflation" moves the economy is collapsing around their ears.

In June, for example, the number of unemployed rose by 500,000

and only a statistical quirk in the BLS unemployment statistics—the labor force simultaneously shrank but at a faster rate—led to the national unemployment rate holding to the 7.7 to 7.8 percent range. The sole success Volcker can claim is that the steel industry, which is operating at only 58 percent of capacity, was forced to announce last week a 4.5 percent slash in prices. But then, that is the only way the industry can find buyers for its product.

Moreover, this has led to growing domestic opposition to credit controls. The U.S. Savings and Loan League is suing Paul Volcker for trying to put them out of business. It would be naïve to think that Volcker's backdown is intended to boost Jimmy Carter's political fortunes, but it is true that Volcker belongs to the *Ditchley Foundation*, one of the Anglo-American strategy centers bent on "stabilizing" the administration.

The full extent of the impact of the European initiative to break Volcker's credit-rationing policies is apparent in the editorial of the July 14 issue of *Business Week* magazine. *Business Week* had supported Volcker's measures, but its editorial reports that "At the recent Summit meeting in Venice, West German Chancellor Helmut Schmidt and other world leaders voiced their fear that the United States would drag down the rest of the world by failing to recover soon enough. . . . If the United States is going to check the economy's downward swing, it must relax monetary policy. . . ."

For Volcker a domestic consensus for lower rates and the continental European offensive formed a difficult combination to resist.

## Fact and fancy in Reagan's script

*Reagan not only puts his foot in his free-market mouth, but defends Butz's pratfalls.*

**T**he Reagan campaign has lately put into circulation the candidate's support for, as the slogan goes, "100 percent of parity—in the marketplace." The interesting thing is not so much that the slogan is a self-contradictory nonsense phrase.

What is significant is the fact that the severity of the economic crisis in the U.S. farm sector—the worst since the 1920s, with bankruptcies right and left, markets in disarray, net income plunging, and our livestock industry prostrate—is creating conditions of near desperation that may impel producers to grasp for just the kind of straws Ronald Reagan is holding out.

Under such circumstances, it is appropriate to clearly distinguish fact from public relations ploy in the former movie star's pronouncements on farm policy.

Early on Mr. Reagan created the impression that he did not, in fact, know what parity is. In Kansas, in late March, Reagan was asked his position on parity. He said: "I wish I could answer the question for you that I know is a technical question. I have to confess to you that I am not as familiar with some things as that." Later, as the *New York Times* reported, he told journalists that he actually did know what parity was, but didn't want to talk about it "until I had talked more to both sides of the issue."

After Mr. Reagan had presumably "talked to both sides of the

issue," he promptly began talking out of both sides of his mouth. "I support 100 percent of parity," he told a Wisconsin audience in April, "in the marketplace." In other words, so long as the government doesn't get involved.

Parity, it so happens, is not a "free market" concept. Mr. Reagan is believed to be a good actor, but he's not that good. Parity refers to the federal government's explicit commitment to intervene to enforce orderly markets in agricultural products such that the necessary price level is maintained; the price level is established on the basis of full cost of production plus net profit for required rates of reinvestment.

Furthermore, Ronald Reagan's free-market advisers have stated publicly and explicitly their opposition to any, even existing, federal farm programs. The Committee to Fight Inflation, headed by former Federal Reserve Chairman Arthur Burns, has written a position paper acknowledged to be consistent with Mr. Reagan's views. The paper states in black and white that laws such as those on farm price supports and minimum wages should be dismantled. The committee, constituted in the past month, prominently includes former Treasury Secretary William Simon, named among the possible Reagan Vice-Presidential candidates.

As indicated in the farm policy statement released by the Reagan campaign last week in connection

with the Republican platform discussions in Detroit, Mr. Reagan is leaning heavily on the record and reputation of former Agriculture Secretary Earl Butz, the steward of the Nixon-Ford "free-market agriculture" program. Under examination, that record doesn't hold up very well.

Under Butz, the Reagan people like to say, federal farm subsidies went down and net income went up 16 percent, while under the Carter-Bergland administration it was the opposite. What is omitted is the fact that after farm income went up, it came right back down—from 1973 to 1977, well before Mr. Butz exited, net farm income dropped \$10 billion and production costs soared.

That fact is by no means surprising. While Reagan apologists like to complain about the Carter grain embargo—and in fact routinely resort to tough invective on the embargo whenever they are pressed on the actual content of Mr. Reagan's farm policy—it should be remembered that it was none other than Earl Butz who implored farmers to plant "all out" and then presided over not just one, but three successive embargoes.

There are further indications that Mr. Butz's judgment may not be very reliable. In August 1977, he could be found complaining to a UPI reporter that hardly anyone in Washington was smart about agriculture—with the exception, Mr. Butz emphasized, of Jimmy Carter, whom Earl Butz described as having both the farm knowledge and practical political skills to accomplish the job. Earl Butz called Jimmy Carter "the most skilled politician who has been in the White House since Franklin D. Roosevelt."

# Fusion torch can create resources

by Marsha Freeman

In the next 20 years the need for new technologies will be more in raw materials extraction and processing than in the production of energy. The economy of the 21st century will depend upon the development of these technologies to redefine the resource base of the globe and open up new horizons for producing and using raw materials.

Fusion energy and plasma techniques coupled to fusion power reactors have a vital role to play in materials and chemical processes. Traditionally the energy, mainly heat, from the combustion of fossil fuels has been the method of raw materials extraction, reduction and processing. In 1968 a proposal was put forward by two scientists, William C. Gough and Bernard J. Eastlund, to use the unique properties of fusion to meet the tremendous energy, materials and fuel needs of the next millennium.

In a report prepared for the U.S. Atomic Energy Commission in 1969, Gough and Eastlund state that their concepts "evolved from strong belief on the part of the authors that controlled fusion should not be viewed solely as another means of providing heat to generate electricity via the conventional steam turbine cycle. Rather, controlled fusion should be investigated as a new *prime energy source* with potential inherent advantages uniquely suited for direct conversion of energy into forms useful for society."

Gough and Eastlund's concept, termed the fusion torch, outlines two major uses for the unique properties of the fusion plasma.

First, the ultra-high-temperature plasma produced in the fusion reaction can be used to reduce *any* material into its basic elements. Second, the energy in this ultra-high-temperature plasma can be used to produce a full field of electromagnetic radiation to permit chemical processing to take place in the body of a working fluid.

The basic concept of the fusion torch is the transfer of plasma from the region where it is generated in the fusion reactor through a connecting region which isolates it from the plasma source to an interaction region.

There the high temperature plasma is ready for torch applications. Any solid material, including scooped-up sections of the earth's crust, oxidized ores already mined, or solid urban waste, can be fed into the interaction region.

The high thermal conductivity and large energy flux of the torch plasma produces a shock vaporization, from the propagation of shock waves in the plasma, which ionizes the solid. Lower-temperature plasmas created by shock tubes or electric arcs cannot produce the shock waves, and the solid material merely cools the plasma.

### Separation techniques

In the fusion torch, when the solid material has been ionized and broken down into its constituent elements, a separation technique must be used to recover the elements. A number of such separation techniques have been proposed and tried experimentally. They include electromagnetic separation, which first separates the electrons in the plasma from the plasma itself, and then separates the ions of differing mass.

Quenching, or quick cooling of the plasma will produce the simplest molecules and prevent different atoms from recombining, such as in the reduction of ferrous oxide into iron and oxygen. Quenching can be done by injecting a cooler gas, flowing the plasma over a cold surface or expanding the plasma flow.

If the temperature and density of the plasma are held constant in a set of conditions favorable to the recombination of a desired species of material, this selective recombination will allow the accumulation of the desired materials on the walls of the torch.

Other methods of separation, including charge exchange, plasma centrifuges, plasma accelerators and curved magnetic fields, have also been investigated.

Gough and Eastlund estimate that by the year 2000, an all-electric city of 10 million people would need an electrical capacity of about 140 gigawatts. If 10 GW of this total were used in the fusion torch, the municipal solid waste alone could generate 27,000 tons of materials which could be recycled for use.

Low-grade ore which is not economically exploitable by conventional methods would become attractive, and eventually, with fusion power commercial and widely available, whole sections of the earth's crust could be processed to extract important raw materials.

Without developing this direct plasma application to solid raw materials processing, there is no possible way to meet the economic development requirements of either the advanced countries or the developing countries in the next century. On the other hand, if we do carry through fusion torch R&D, the very notion of "raw materials" will be transformed in the most expansive way.



# R & D overhaul

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## *Mary Gilbertson's exclusive account of the new hard line on funding*

*Fusion magazine correspondent Mary Gilbertson attended the latest conference of the American Association for the Advancement of Science in Washington, D.C. on June 19-20. This installment of a report she wrote especially for EIR describes the June 19 morning and luncheon sessions of the conference.*

The conference was jointly organized by the AAAS and the Brookings Institution. The other 300 in attendance, representing industry, universities, and other research centers were even more surprised than I was to find that the event was devoted to laying out a policy of reorganizing the entire manner in which U.S. research and development is funded and organized. The idea was that inflation and budget constraints necessitate cuts in total R&D and a shift from long-term to short-term R&D, along with tight government control of university and industry research through the Office of Management and Budget and the National Science Foundation (NSF) as the most "out front" managers. The Federal Emergency Management Agency is to play a strong background role, later discussions confirmed.

The "Conference Overview" was delivered by Willis Shapley, consultant to the AAAS for the R&D Budget Analysis. Shapley flatly said: "We used to believe that long-range planning in R&D was important, but that perspective has been derailed by the budget. We have to learn to operate now under new conditions that have been determined by the budget. The question facing you is how the scientific community can help to implement this new perspective. . . . After federal R&D, there's industry R&D. We've gone from an inflationary environment for R&D to a recessionary environment, that's it, that's reality. Now the question is how industry will cope. Then we've got to start thinking of new ways to control the R&D work of state and local governments. . ."

Frank Press, director of the President's Office of Science and Technology Policy, opened the speeches on federal R&D by insisting that even though the budget

cuts were "traumatic," "we still have a strong commitment to R&D. Even with reductions, the budget is the highest since 1972. There will be a 9.6 percent growth in basic R&D, except for NASA. The NSF will be stressing computer science. . . . The NSF and National Institute of Health used to give long-term grants. Now they will give multi-year grants—this will take over long-term funding. We will stress defense, energy and agriculture.

"For instance, under [Defense Secretary] Harold Brown, a director of basic R&D within the DOD was recently established. We haven't had that since 1973. This will ensure a strong Defense-university relationship. The EPA will stress regulation, but with a scientific basis. We'll have special centers, we'll set up cooperative auto programs with industry. We'll work on open market drilling programs with the universities. . . .

"Now, we've got to completely change the way federal, state and local governments operate with each other. [Presidential assistant] Jack Watson and [OMB chief] McIntyre have established a plan for the R&D program impacting state and local governments. . . this will be done through the federal government under a special edict Watson and I recently signed.

"As for our energy R&D policy, we've made headway in conservation and in coal-for-oil substitution. The Energy Mobilization Board will get us synthetic fuels. We put out \$750 million for solar in the fiscal '79 budget. Our high-technological society should take the lead in biomass work.

"As for international affairs, China is the key. We've opened up vast potential for joint research around industry and science, and this is already moving ahead. . . ." (Representatives of the People's Republic of China attended conference events.)

At that point I looked around to get the audience's reaction. They seemed completely cowed. I went to the microphone: "Mr. Press, I'm from *Fusion* magazine. We think we've got to have a nuclear-based economy. But I have only one question to ask you: how the hell are we supposed to run this nation on the kooky stuff you just laid out?"

Somewhat to my surprise, the audience burst out into laughter and clapping. Frank Press came running back to the microphone: "No, no, you don't understand. Listen—we're going to have lots of nuclear power and breeders and—" Then he stopped, looking as if he had said exactly what he shouldn't have, and abruptly sat down.

There was a stir in the audience, and a man rose to ask, "What about Russia getting way ahead of us in military R&D?" Press got up, still looking stunned, and said, "The largest increase in our federal budget is in defense." After more questions on the year-by-year authorization for R&D, someone inquired about "the Watson memo." "Yes, it was signed a month ago," Press

replied. "We've had millions authorized for state and local governments under this—we're going to monitor it." (Later, OMB told me the memo is unavailable to the public.)

The next speaker was Congressman Robert Giaimo of Connecticut, chairman of the House Budget Committee. After stating that R&D must be a national priority, he expounded: "The problem the government has is to control things, because people don't want their taxes raised. The new phenomenon you'll have to get used to is 'if they get, you lose.' But I think it's healthy to compete. . . . We've got to cut unemployment compensation. If a worker has compensation, he won't look for another job.

"We've got a whole new concept of a spending-saving bill on the Hill now [approved June 30 by the Senate, 89-0—ed.]. After every committee comes up with their plan for savings in veterans benefits, school lunches, etc., the \$6.5 billion bill will be voted on as a package, as a savings bill. R&D competes with school lunch. No long-term payoff activity makes sense now. Massive amounts of capital investments are needed to solve the energy crisis—that's another problem of competition. . . ."

In reply to a question about the military budget, Giaimo said the increases have to come from social programs.

"If you guys want money for R&D, you'll have to consider the aged budget . . . it's chewing up to half the federal budget." I was next: "I have a question, Congressman. We have no steel industry, we are not graduating scientists and engineers, and our youth are on drugs. But you haven't mentioned any of this. Who, Congressman, wants us to get into a war and lose it?"

There was the sharpest silence yet in the room.

Giaimo went to the microphone, with his tough "competitive" demeanor left behind. Faltering, he said: "I don't think we're going to a war footing. I can't answer any more questions."

After this question period, the moderator announced that there would be a new format, prohibiting questions until all pre-luncheon speakers were finished. This chiefly made the audience more doubtful about some speakers' credibility.

From the Office of Management and Budget, the next speaker was W. Bowman Cutter, associate executive director. He explained that the OMB is meeting with Frank Press's office, "program by program," to determine "federal investment" in R&D. The question of protecting basic research, he said, is "ambiguous. It's so uncertain as to the nature of its return. The economy is so volatile. There's no control over it. The only way to control it is to make fiscal policies tighter. . . . In the short run R&D won't get supported, but in the long run it will . . . we've got to be careful so the government doesn't take over private affairs. . . ."

Joseph Pechman, director of economic studies for the Brookings Institution, began by stating that, "I'm going to stress fiscal policies we have to operate under. A balanced budget won't cut inflation but it will create savings. As demand declines, interest rates will decline. We don't need to alter the tax structure. A tax change to stimulate investment might be good but it wouldn't result in an increase in productivity, or the growth rates. . . . I wish I had something to say about R&D [here Pechman was startled by moans and titters from the audience]. There are tax breaks, and that's enough. . . . We need lower and stricter rules on wages; we don't want to overstimulate the economy."

After several other questions, someone asked: "I'm one of that vanishing species of engineers the *Fusion* representative referred to. Mr. Pechman, investment in R&D has created more jobs; why not do this?" Pechman answered: "Well, we've got expanded health care, education for everybody, we have to look at where we get the best returns, from R&D or social services? We've put a lot into redistributing income. I don't see a distinction between creating wealth and redistributing wealth."

At this point, the moderator interrupted to announce "Lunchtime." The luncheon address was given by the Honorable John C. Sawhill, Deputy Secretary of the DOE and a member of the AAAS board of directors. Sawhill began by repeating a call for "budgetary discipline," then listed the R&D areas "we should stress": "oil shale in situ, MHD systems, photovoltaics, catalytic breakdown for coal gasification." "Synfuels is the key," he said. "We're beginning field testing. We have a federally supported investment bank for synfuels. Our goal is 2 million barrels of oil a day by 1990. . . . This synfuels program must be carried out with the support of the banks and the scientists. We don't have the technology for this program yet. . . . The science and technology community has to provide what's needed. . . . Inefficiency and waste won't be tolerated. The synfuels program will be mobilized like the space program."

There was silence in the huge banquet room. The moderator asked, "Are there any questions?" People turned to look at me. When I stood up, Sawhill said, "I was hoping you wouldn't be here." I said, "Mr. Sawhill, all morning long we've been told there's no money for R&D, you'll have to fight the old and the poor to get it. Then lo and behold, you come to lunch and tell us there's money everywhere, new investment banks are set up especially for R&D in synfuels, just come and get it. How dumb do you think the people in this room are? Why didn't you mobilize this magic money for the development of nuclear power? In whose interests are you pushing this ridiculous, totally uneconomic boondoggle?"

Sawhill sat down, as the audience laughed and clapped. End of lunch.

# 'Technology versus jobs' is a swindler's hoax

by Lyndon H. LaRouche, Jr., Contributing Editor

Each day President Jimmy Carter remains in office, the worldwide crime rate seems to continue spiraling upward. Hardly had proper authorities stopped David Rockefeller's scheme for peddling phony SDR-money, than we are besieged by a new confidence-man's swindle. Now, there is a gang of scoundrels peddling once again the old fraud, "technology destroys jobs."

One would have thought that this hoax had gone into the history books, along with the bit about selling the Brooklyn Bridge to New York City visitors fresh off the cattle boat. In a world which would consider giving Jimmy Carter the 1980 Democratic Party nomination, any degree of stupidity is clearly possible. Under such circumstances, there must certainly be a significant number of persons dumb enough to be taken by the threadbare "technology destroys jobs" swindle.

So, it is time to dust off the old public-service announcement warnings again, "Mothers, please don't let Junior swallow the contents of the iodine bottle. And, mothers, please remind your husband not to bet his paycheck on the swindle which begins: 'technology destroys jobs.'"

## The perpetrators

Investigation shows that the swindlers peddling the "technology destroys jobs" hoax most frequently use one of three disguises. Some use the old favorite, passing themselves off as a militant labor-union official. Others prefer tiptoeing, while holding a Jesuitical index finger against the upper lip—the familiar "college professor" or "economic expert" disguise. In approaching the sort of sucker who will believe almost anything, the lowest grade of confidence man pushing this swindle passes himself off as a "newspaper columnist."

One should not be disarmed by the carnivalman-like picaresque roguishness of these swindlers. This is no W.C. Fields comedy. The work of these swindlers is evil, almost as evil as the thugs who push drugs to children or the "drug decriminalizers" who do their public relations work.

At the moment, the principal target of these evil swindlers appears to be the labor-union membership of Western continental Europe. A glance at Britain, Canada, or the United States' economy ought to be sufficient to reveal the malignant purpose and cruel consequences of a population's being taken in by the hoax in question.

The citizens should notice that among all the capitalist and industrialized nations of North America, Western Europe, and Japan, all but three continue to experience modest but sustained rates of economic growth and relative prosperity. The three wretched exceptions are Great Britain, Canada, and the United States. As of April 1980, the U.S. economy was experiencing a plunge of 18 percent per year in real economic terms, as compared with a current 3 percent rate of growth for France, and higher for the Federal Republic of Germany and for Japan. The British economy leads the way in the downward plunge, but Carter's United States is well on the way to overtaking Sir Keith Joseph's British pile of rotting industrial wreckage.

Curiously enough, what leading British and U.S. circles object to in this arrangement is not the decline of the British, Canadian and U.S. economies. They are enraged at Japan, Ireland, and continental Europe for refusing to collapse as President Carter demands. That is the motive behind the present peddling of the "technology destroys jobs" hoax in Europe.

## The United Auto Workers, for example

European members of the International Metalworkers Federation should look closely at the current condition of a leading U.S. member of that association, the United Auto Workers—now suffering a recent loss of an estimated quarter-million jobs, and the layoffs are still continuing to increase.

Recently, officials of the UAW in Detroit purchased some secondhand automobiles of Japanese manufacture. These vehicles they situated outside plant gates of automobile factories, offering workers coming to work

an opportunity to take a few swings at the vehicle with a sledgehammer, free of charge. The point was to indoctrinate workers facing unemployment with the evil, false dogma that the recent abrupt collapse of the U.S. auto industry was solely the result of the activities of Japan and West Germany. In this case, the emphasis was directed against Japan.

There is no doubt that Japan's automobile exports have been taking a consistently larger percentage of the domestic retail automobile sales market. However, it is worse than a lie to blame Japan's automakers for the recent collapse of the U.S. retail automobile market. It is an evil, chauvinistic lie, directed against a U.S. ally. It is the same sort of chauvinism directed otherwise against both West Germany and Japan.

The immediate cause for the collapse of nearly all categories of manufacturing, mining, construction, and transportation in the United States is the series of austerity measures which the Carter administration and the Federal Reserve System Board of Governors put into operation last October. It happens that the United Auto Workers leadership is committed to the nomination of President Jimmy Carter. Therefore, instead of attacking Carter, the real cause of unemployment, the UAW leaders diverted auto workers' anger into a lynch-mood of symbolic murder of the United States' ally Japan.

Apart from the triggering of the present U.S. slide into depression by Carter and Federal Reserve Chairman Paul A. Volcker, the deeper, structural causes for the collapse-potential of the U.S. auto industry is a combination of the Carter administration's so-called energy policy and a long trend of deemphasis on capital-intensive productive investment in auto, steel, and a host of other basic U.S. industries.

It is true that the United States government will probably have to negotiate a new round of trade agreements with its Japanese and Western European partners, a cautious use of new quotas for the purpose of helping industries such as auto and steel through a massive retooling of basic productive capital. However, the fact that such new arrangements may be needed now has nothing directly to do with the past causes of the present mess in the U.S. economy.

The principal responsibility for the mess lies with government and with the collection of major financiers controlling the Federal Reserve System. Since most U.S. industry has been reduced to little more than a collection of captive tax- and debt-service farms for Manhattan-centered rentier-financier interests, the mismanagement of auto and steel firms is not so much a reflection of incompetence of the industrial-management side of such firms, but a reflection of the policies which the Manhattan-centered rentier-financier interests have imposed upon their captive industrial holdings.

To the best of our knowledge, neither President Carter nor Paul Volcker has the least drop of Japanese blood. The UAW's sledgehammering of Japan-made cars is simply an evil way of keeping political doors open between the UAW leadership and the hopeful Mr. Carter.

### **The longer view**

Over the first postwar decade, the percentile of the U.S. labor force employed in directly producing tangible wealth ranged between 63 percent and 55 percent. After the 1957-58 recession, there was an acceleration in the rate of decline of the percentile of the U.S. labor force productively employed. Currently, if true figures are used to measure the total U.S. labor force, the portion productively employed is currently dropping to about one-third of the total.

Since U.S.—and most European—universities no longer offer training in economics, a bit of summary review of the significance of the cited data is necessary. (What the universities teach under the false label of "economics" is not economics at all, but a branch of mere financial accounting most commonly labeled "monetarism.")

Only the portion of employment dedicated to the production of output of useful, tangible wealth represents the actual production (output) of wealth. The productive component of the labor force includes farmers plus industrial operatives in manufacturing, mining, construction, energy production, and transportation. This covers the entirety of the production and essential transport of the physical wealth produced by an economy.

The other categories of employment (and unemployment) are aggregated as either waste, administration, or services. Although public and private administration and services, such as health services and teaching, may be categorically necessary for the population and economy, the economic benefits of administration and services are mediated through the productivity of the labor force. So, to count payments for administration and services as wealth produced would be double-counting of the productive output whose productivity incorporates the contributions of useful administration and services.

The combined waste, administration, and services of an economy are paid out of the national gross profit earned through production of useful forms of tangible wealth. This point is readily demonstrated by constructing the sort of input-output table which traces the consumption of tangible output by both productive and non-productive forms of employment-related activity centers. The margin of net profit remaining after deducting waste, administration, and services from gross profit is the margin available for growth of the economy in terms of combined expansion of scale and increase of capital-intensity.

Hence, the standard national income accounting procedures associated with gross domestic product statistics represent the wildest sort of incompetence in reporting and national economic policy-making practices. A report which premises a showing of economic growth on gross domestic product figures is intrinsically incompetent.

Not only has the postwar U.S. economy increased its ratio of nonproductive overhead costs and expenses, (waste, administration, services), but the increase of productivity of productive labor has not even approximately kept pace with the rate of increase of the overhead costs per productive worker. The substantial increases in productivity experienced during the early 1960s were swallowed up by an acceleration in growth of employment in categories of waste, administration, and services.

It happens that the correlative of increases of productivity is capital-intensity of investment in productive capacity. This capital-intensity is best measured by the rate of current true depreciation of productive capacity per productive operative. This calculation must reflect the fact that the rate at which capital investment truly depreciates describes an exponentially declining time-scale, such that the largest chunk of depreciation of an investment occurs in the earliest period of the investment. Hence, substantial increases in the average age of productive capital investments mean corresponding levels of relative economic productivity-obsolescence.

A McGraw-Hill survey conducted in the late 1950s showed a dangerous obsolescence in productive capital stocks then. Except for the NASA-centered high-technology investments, and their contributions, effected chiefly during the first six years of the 1960s, the obsolescence of basic U.S. industry has been growing almost consistently since 1966-67, and has worsened overall since 1957-58.

Since 1972-74, as labor-intensive employment has been substituted marginally but increasingly, for energy-intensive (capital-intensive) employment, the rate of increase of productivity has fallen below zero—the productivity of the U.S. economy is dropping at an accelerating rate. Unless drastic action is taken to effect forced-draft capital-intensive industrial investment beginning in January 1981, and unless at least a 3 percent rate of real economic growth is introduced to the economy during 1981 as a result of such measures, the economy will reach a point of no return, at which point economic recovery in the conventional sense will have become virtually impossible.

### **“Post-industrial society”**

There was nothing “objective” in the causes for the pattern of U.S. economic decay we have just summarily described. Following the 1957-58 recession, there was launched immediately an energetic effort to impose a

“post-industrial society” policy. It was at this time that James R. Schlesinger, for example, first publicly presented himself as a dedicated “neo-Malthusian.”

The fight over this policy issue centered around NASA, and was reflected in a most important way into the transatlantic sociological experiment of that period known as the “New Left” project. The leading expression of this effort at brainwashing youth toward the rock-drug counterculture and the “environmentalist” insurgency launched in 1969 was the “Triple Revolution” dogma issued by Bertrand Russell accomplice Robert M. Hutchins, and the correlated dogma issued during the same period by Russellite André Gorz (Michel Bosquet) of France.

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*There was nothing “objective” in the causes of the pattern of U.S. economic decay. Following the 1957-58 recession, an energetic effort was immediately launched to impose a “post-industrial society” policy.*

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The leading point to be emphasized is that Jean-Baptiste Colbert, his protégé Gottfried Wilhelm Leibniz, and their heirs of the Ecole Polytechnique and turn-of-the-19th-century Göttingen rightly insisted that there was no line of separation between basic scientific research and technology, and no line of separation between those interconnected two and the development of a national economy. This point of view was also expressed in the founding doctrine of the American system of industrial capitalism, Treasury Secretary Alexander Hamilton’s 1791 Report to the U.S. Congress “On the Subject of Manufactures.”

As Hamilton proved afresh in that document, the sole source of all wealth of societies is not “natural resources,” the “average labor-time of production,” or any of the other superstitious nonsense peddled by Physiocrats, monetarists, and Marxists. The sole source of the wealth of societies is advances in the productive powers of labor.

What is viewed as a relatively finite “natural resource” is nothing but a misleading echo of the fact that any level of technology defines only certain aspects of man-altered nature as economical sorts of primitive resources. If mankind were to halt technological progress, then, indeed, such ostensible forms of relatively finite economical resources would tend to be depleted. Societies which survive overcome such apparent “limited resources” by technological breakthroughs which define in a sweeping way what constitutes economical forms of primitive resources.



*Punching out at Ford Motors' Mahwah, New Jersey plant for the last time.*

*Carlos Wesley/NSIPS*

Therefore, no "raw material" could represent the measure of wealth, nor could simple labor-time of production represent in itself a source of wealth. It is only the qualitative transformation of the productive powers of labor that enables a society's labor force to produce at least as much wealth as is required to maintain both that population and any existing mode of production.

These advances in the productive powers of labor correlate with a three-phase increase in the amount of energy consumed per person. Without this three-phase increase in consumption of energy, a society is doomed to collapse, a civilization is doomed to die.

The first facet of the required increase in energy consumption is an increase in total energy throughput per capita.

The second facet of the required increase in energy consumption is an increase in the energy flux density (the analogue of an increase in the temperature level of energy production).

The third facet of the required increase in energy consumption is a rise in the ratio of "free energy" to "total energy."

The three-faceted increase in energy consumption is not merely a matter of increase from one level to a higher level. The ratio of free energy to total energy must be increasing in correlation with increases in both the energy-throughput and energy flux density. This continuing increase in the free energy ratio is properly defined as negentropy.

The neo-Malthusians prevailed decisively in 1967, as the British Psychological Warfare Executive, centered

in the London Tavistock Institute, exerted its influence through both captive elements of the U.S. intelligence-establishment institutions, and through such captive agencies of the United Nations Organization as UNESCO, UNITAR and UNCTAD, as well as the Club of Rome cult. The past decade's accelerating decline of the U.S. economy is the direct consequence of this influence.

Four arguments have been used most prominently to promote the accelerating industrial collapse of the U.S.

The first, as represented prominently in the "Triple Revolution" hoax, is the argument that "technology destroys jobs." This was used to justify the willful shift away from productive employment toward a "services community." This is the same recipe now being vigorously promoted in Europe, as part of the effort to induce European governments to bring their economies into the condition of rotting wreckage displayed by the British and U.S. economies today.

The second argument was the fraud that "technology pollutes." On the contrary, it is backwardness and obsolescence which pollute, and only advances in technology which enable us to clean up garbage economically. The extension of this fraudulent argument against nuclear energy production has been the single greatest cause for the decline of the Western capitalist economies. The same policy, proposing to impose "environmental controls" investments on obsolete plants, rather than investing in modern, less-polluting productive capacity, has been the second principal cause for the accelerating decline of the U.S. economy.

The third argument has been the feudalist, anti-technology cult dogma "small is beautiful," the present rallying cry of drugged hordes of countercultural "freaks" focusing the forces of "citizens' initiatives" against one branch of "big business" after another.

The fourth argument, which has become prominent more recently than the other three, is the nonsense-dogma which asserts that economic growth can be sustained without increasing energy consumption. Any industrial economy which adopts that delusion has elected to commit national economic suicide.

Against this background, we must recognize that the spread of the "technology destroys jobs" cult dogma in Europe today is nothing but a propaganda effort dedicated to bringing France, Germany, et al. into the same state of rotting wreckage presently characteristic of Britain.

### **Basic economics**

It is astonishing that even in France and Germany one finds otherwise well-informed circles sharing Karl Marx's delusion that the British discovered and developed "political economy." This delusion is aided by the fact that the 17th- and 18th-century French and German authors of scientific political economy did not generally employ the term "political economy" as the British did, and as modern universities use the term in teaching the sort of incompetent mishmash listed as "economics" in their catalogues. In Germany, for example, the 18th-century term for scientific economics was "cameralism."

This negentropy, associated with the increase of the ratio of total energy used to raise man above the ox-like dependence upon muscle-labor, is focused upon production through what Hamilton terms "artificial labor," or in modern usage, productive capital.

This increase of the ratio of "artificial labor" to muscle-exertion correlates with both a rise in the capital-intensity of production, and with the incorporation of basic scientific advances in such increasing capital-intensity.

If the rate of advancement of energy-consumption and technology is sufficient, technological progress so increases the productivity of labor that real wages and reinvestible-profit rates increase simultaneously. The rate of reinvestible profits produced determines the rate of employment in terms of the average capital-intensity of the state-of-the-art productive technologies available for investment.

Thus, it is the rate of investment in advanced productive technologies which determines the potential rate of total productive employment. Any contrary view of the matter is clearly a cultish form of absurdity.

How then, is an otherwise sensible citizen, such as a member of a labor union, ever hoodwinked into accepting the delusion that "technology destroys jobs"?

The duped citizen retorts angrily. He "knows" many cases in which the introduction of "labor-saving" new technology caused a reduction in the number of productive operatives required to produce previous levels of total output. "See," he thumps the table angrily, "technology does destroy jobs."

### **Mobility or unemployment**

The duped citizen has ignored the difference between shifts in productive employment from a former position to a new one, and reduction in *total* productive employment. He has confused a true statement, that technology forces changes of employment, with a false statement, that technology causes a reduction of total employment.

In fact, a lack of introduction of new technology directly causes a reduction in total employment, by contracting the scale of production relative to the growth of the total population.

The key points are these.

Under conditions of relatively fixed technology, the most economical "raw materials" sources are depleted, forcing increased emphasis on less economical resources. This adds to the cost of production, lowering the rate of profit, and thus lowering the rate at which productive workplaces are created. To maintain rates of profits, then, marginal production is closed down, causing an absolute reduction in productive employment.

Under conditions of relatively high rates of profitability of production, employment rates decline only if credit is either too highly priced, or if credit is simply not available to promote investment of surplus product and productive capacity into expansion of productive workplaces.

Under conditions of high rates of technological progress, combined with "dirigist" credit policies, there is a relatively high rate of job-changing, but also a high rate of growth of total productive employment. Moreover, if the rate of technological improvement is sufficiently high, the average real wage of the total productive labor force will increase at significant rates.

So, to repeat the key point: one must distinguish between the rate of change of total number of productive workplaces filled and the rate at which members of the labor force are changing employment under conditions of high rates of technological change. A high rate of job mobility is not a rate of loss of total number of jobs.

However, if trade unions are foolish enough to oppose technological progress under the delusion that technology reduces the number of jobs available, then stagnation and depression will soon enough destroy increasing proportions of the total number of productive workplaces filled.

## Mont Pelerin's hatchetman: Milton Friedman

by David Goldman

Except in Keynes's Bretton Woods heyday, no twentieth-century economist has attained the influence Milton Friedman currently wields over several major governments, including America and Great Britain. That is a principal reason for the divergence of the world economy into a relatively prosperous European Monetary System zone on one side, and a plunging "Anglo-Saxon business cycle" on the other, in the phrase of self-described Friedmanesque economist Paul McCracken.

Friedman's supremacy among Reagan's economic advisors was unchallenged as of last week's Republican Party platform discussions, when Friedman's supposed antipode, Rep. Jack Kemp, embraced the Friedman formula of reducing both taxes and the absolute size of government spending. The policy constellation around Governor Reagan is now composed exclusively of the men who brought off the economic disasters of the Nixon Administration, including ex-Labor and Treasury Secretary George Schultz, SEC and Eximbank chief William Casey, and Ford senior officials William E. Simon and Alan Greenspan.

With Nixon Treasury Undersecretary Paul A. Volcker in the Federal Reserve slot conducting a monetary program based on Friedman's formula, the circle is closed between both parties. Both party platforms will defend the present depression, if Carter and Reagan are the nominees. Novel as this approach is for the Democratic Party, it is no less astonishing that the Republican Party should retain the policies that account for most of its policy and electoral disasters during the past 30 years.

American politics does not make sense without a look behind Milton Friedman's public relations image as presented on the public television series "Free to Choose," or in Friedman's book of the same name. The man's partisans, e.g., Lindley Clarke in the July 8 *Wall Street Journal*, argue that Friedman's theories are in danger of being abandoned before they are given a fair chance of success. That is another way of saying that Friedman's leading role in the economic disasters at home during the Nixon administra-





tion, and abroad in Britain, Israel, and Chile, have forced the early abandonment of his policies wherever adopted previously.

But Friedman's old mugging-mate and publisher, *National Review* editor William F. Buckley, summed up the entire problem with some accuracy after Nixon dumped Friedman as White House advisor. Buckley wrote after the dollar devaluation package of Aug. 15, 1971, "Mr. Friedman can absolutely be counted upon to say that his theories were not given an adequate exercise. There is no doubting that he is correct. But it is possible that his theories suffer from the overriding disqualification that they simply cannot get a sufficient exercise in democratic situations."

### **Friedman's leverage**

We will demonstrate in some detail that Buckley's judgement is accurate, although not for the reasons Buckley would cite. Friedman's role as the *controller*—not the mere theoretician—of the fascist Chilean junta's economic policies is more significant than the moral atrocity his opponents have cited. Since its 1947 founding, Friedman has been a member and more recently the Vice-President of an Austro-Hungarian Empire secret society, the so-called Mont Pelerin Society. Founded by Friedrich von Hayek and Ludwig von Mises at Mont Pelerin on Lake Geneva, the Mont Pelerin group was the economic policy arm of Count Coudenhove-Kalergi's (and later Otto von Hapsburg's) Pan-European Union, the recentralization after World

War II of leading Nazi collaborators in Europe. The world headquarters of the Mont Pelerin group is in Madrid, at Otto von Hapsburg's Center for Documentation and Information. William Buckley has, for years, made thrice-yearly visits there.

This seemingly arcane information is, in fact, of the greatest relevance to understanding the current shape of American policy. Friedman's influence in the Reagan campaign has nothing, properly speaking, to do with economics. He is a member in good standing of the Austro-Hungarian mafia that currently runs most of Reagan's policies. Its base is Georgetown University's Center for Strategic and International Studies, the Jesuit institution founded by Father Walsh, a vocal partisan for the return of Europe to Hapsburg dominion until his death. Former Treasury Secretary William Simon is currently the Chairman of the Board of Trustees of Georgetown University. The Hapsburg circuit includes:

- Reagan foreign policy advisor Richard V. Allen, who works out of Georgetown CSIS.
- Foreign policy advisor Robert Strausz-Hupe, a Viennese emigré of the 1930s who now heads the Philadelphia-based Foreign Policy Research Institute.
- The Hoover Institution at Stanford University, where Milton Friedman is Senior Research Fellow. Hoover president Glenn Campbell, like Friedman, is a Mont Pelerin Society member.

All this could be read too simply. Dr. Edward Teller, one of the nation's most respected physicists, is also at

Hoover, and a number of well-intended individuals, including the late French economist Jacques Rueff, found their way at different times into the Mont Pelerin Society. However, Friedman—apart from his performance in Chile—stands out in a striking fashion. The core thinking of the Hapsburg Empire remnants has been that Hitler botched what was, in their final analysis, the right direction to take. Friedman's contribution to this has been an explicit defense of Nazi monetary policies, published in 1956 in the "classic" *Studies in the Quantity Theory of Money*. Friedman's leading argument is that Hitler—contrary to the objections of his finance minister Dr. Schacht—was successful in controlling wartime inflation, despite the huge costs of war preparations. Friedman arrived at this conclusion by reducing his index of German money supply every time Hitler conquered new populations.

In essence, Friedman endorsed Hitler's statement, as reported in *Hitler's Table Talk*: "Even to Schacht, I had to begin by explaining this elementary truth: that the essential cause of the stability of our currency was to be sought for in our concentration camps." There is no reason to suspect Friedman of innocence in the matter of the Chilean junta. He and his friends have been dealing with Latin American Nazis for some decades.

### **The Mont Pelerin crew**

Otto von Hapsburg and his friends are not merely intellectual terrorists, but terrorists in fact—something that will become more relevant when we discuss Milton Friedman's relationship to the Chilean dictatorship. Apart from Skorzeny, whose association with his father-in-law Hjalmar Schacht persisted through their escapades in Egypt during the early 1950s, Hapsburg's Center for Documentation and Information housed some of the most despised ex-Nazis in Europe throughout the 1950s. One was Leon Degrelle, the Belgian quisling who joined the Waffen SS in 1943, an action which forced him to seek asylum in fascist Spain in 1945. While Degrelle was associated with Hapsburg in Madrid—according to reports published in the West German weekly *Der Spiegel* in 1959—he collaborated with a putschist movement in Germany centered around Josef Goebbels' old propaganda chief Werner Naumann.

Another Hapsburg contact was the Nazis' puppet Prime Minister in wartime Hungary, Ferenc Nagy, who later founded the terrorist organization Permindex. Permindex—as Kalimtgis, Steinberg and Goldman documented in the book *Dope, Inc.*—was booted out of Europe by Charles de Gaulle after discovering that the supposed trading company had conduited the funds to his would-be assassins. Nagy personally handled the money transfers through White Russian sub-agents based out of New Orleans. In New Orleans District

Attorney Jim Garrison's investigation of the Kennedy assassination, Nagy figured as a principal suspect; he had been in Dallas immediately before Kennedy was killed and was in close touch with all the principal suspects in the Garrison investigation, including Permindex New Orleans representative Clay Shaw. When Nagy conduited funds to the Secret Army Organization (OAS) generals for a projected hit against de Gaulle, Skorzeny was in collaboration with the coup plotters.

Leader of the Latin American contingent in Hapsburg's Madrid Center is the chief of Colombia's drug lobby, Alvaro Gómez Hurtado, who wrote in his daily newspaper *El Siglo* in August 1977:

"Colombians must think very seriously about legalizing marijuana immediately, first, because it will yield us foreign exchange. And second, because we have proven that to prohibit it, to help a country that is not interested in its promotion, is damaging to the morals of those charged with enforcing the law." Buckley's and Friedman's endorsement of marijuana legalization dates from the same year.

Gómez' paper *El Siglo* was founded in 1936 by his father, Laureano Gómez, who had just returned from Germany after a stint as Colombia's ambassador. In a founding editorial, Laureano echoed what could pass as the credo of the Mont Pelerin Society:

"Hitler has proven that it is possible to wage a long, difficult and immensely costly war without money. The Jews thought they could boycott Germany by removing all the gold and transferring it to the U.S. They were mistaken. The Führer has made a truly miraculous discovery: he has found that he and his people can get along on the work standard."

Laureano Gómez used the Nazi salute in public. He became President in 1950, and launched the series of massacres known as *La Violencia* (The Violence)—in which 300,000 Colombian men, women and children were systematically murdered in an attempted "purge" of "heretics" and "liberals," including newborn infants. His son Alvaro took over the paper's editorship in 1952—at the height of his father's massacres—the same year that he became a member of Hapsburg's Center in Madrid.

Another Latin American member of the Center for Documentation and Information is Andrés Marcelo Sada, a former graduate student of Ludwig von Mises. As head of the Mexican Employers Confederation in 1977, Sada attempted to bring down the Echeverría government in response to the Mexican President's aggressive land reform program. Documents introduced into evidence in the Mexican Parliament on Sept. 7, 1978 indicate that Sada had tried to persuade the CIA to join in a plan to overthrow the Mexican government, along with Spanish right-wing terrorists and agents of the fascist Chilean secret police.

Otto von Hapsburg's operation is a barely cleaned-up version of Count Coudenhove-Kalergi's Nazi support organization, integrating sections of the old Nazi machine itself. The Mont Pelerin Society is merely Hapsburg's economic thinktank. The monarchist terror network affiliated with Otto von Hapsburg in Madrid is composed of men trained personally by Ludwig von Mises and Count Coudenhove-Kalergi at their New York University Seminar in the 1940s. One of these is Andrés Marcelo Sada. Another is Gustavo R. Velasco, professor and founder of the Free School of Law in Mexico City. Velasco, head of the Mont Pelerin Society in Latin America, dates back to the Hitler sympathizers in the old Mexican National Action Party, who funded his "Free School" in 1944.

Velasco's student at the Free School, Luís Pasos, is Milton Friedman's closest personal contact in Mexico, arranging Friedman's speaking engagements in that country. The author of several books praising Friedman, Pasos was a founder of what Mexican intelligence sources call "a rightwing shock troop and terrorist unit," the Spanish-American Unification Guard, or *Guía*—"Führer" in its Spanish acronym. Pasos is director of the "Institute of Interamerican Integration."

When Milton Friedman's old University of Chicago students in the junta that seized Chile in 1973 proceeded to butcher the Chilean population, Friedman's personal role in the affair drew attention internationally. To the detriment of clear thinking, the furor over Friedman's support for Chilean fascism became a silly back-and-forth over Friedman's actual relationship to the Pinochet junta. This is all wasted breath. The point is not *merely* that Friedman got his hands—and possibly his elbows—dipped in blood in Chile, but that he has been part of a neo-Nazi movement since 1947. Worse, he is an officer of a Nazi organization, vice-president of the Mont Pelerin Society. Milton Friedman is not sullied by contact with the Chilean Nazis. He, Pinochet, Alvaro Gómez Hurtado and the rest are part of a fascist machine that has been in place for 35 years.

All this helps to clarify why a mediocrity like Friedman won an international reputation, and why he is so fond of the economic policies of Adolf Hitler.

### **Not an economist**

Friedman's lengthy public television discussions of "free enterprise" and libertarianism should not be taken any more seriously than face-cream commercials. The most important thing about these books and broadcasts for popular audiences is what is missing: the subject of economics. Friedman strings together numbers of interesting criticisms of government stumbling, but never discusses what makes economic growth possible. Indeed, in his theoretical writings, he insists that his theory is one of "nominal income," i.e., monetary

income, and explicitly excludes the real economy, i.e., the tangible economy, from consideration.

Of course, once you define economics to exclude the economy other than the monetary system, you can explain away virtually anything, including the Nazi or Chilean junta's economic performance.

Personally, Friedman is a synthetic man. The much-vaunted theoretical brilliance that won him the Nobel Prize—or provided the excuse for it—is much less impressive on inspection. His supposed contributions are first in the area of "price theory," the most-abstruse and least-applied branch of Marshallian economics, used by no one but Friedman's graduate students. Friedman's receipt of a scholarship to the University of Chicago in 1932, arranged by National Bureau of Economic Research founder Wesley Clair Mitchell, was a minor feature of the buildup of the university, under Robert Hutchins, as the depot for the emigrating University of Vienna. Friedman's brand of "conservatism" is not American, but rather a retreaded version of Austro-Hungarian Empire monarchist-restorationism. Widely regarded as a kook, Friedman gained national prominence only by virtue of the Mont Pelerin connection during the Goldwater campaign. He came on board along with Strausz-Hupe, Viennese economist Gottfried Haberler (now at the American Enterprise Institute), William Buckley, and others. Friedman's brand of conservatism is pure Viennese import, as much as Georgetown's "geopolitics" is the product of the Wittelsbach court at Munich which sponsored the early sprees of Adolf Hitler.

Friedman's prestige as the losing spokesman on economic policy for Barry Goldwater gave him sufficient momentum to influence the first year of Nixon administration economic policy, long enough to provoke the 1970 recession and the events that led to Aug. 15, 1971.

Ironically, it is possible that Friedman's influence may diminish rapidly in the near future, if only because the mafia that sponsored him no longer has use for his formulas or for his services as public relations man. The next American President will have to address the problem now subject to great publicity under the slogan "reindustrialization," namely, the collapse of America's international position in world markets and defense capabilities with respect to the Soviet Union. Friedman has done a marvelous job of wrecking both industrial and developing sector economies. But that is not a viable policy objective for the United States, if only because Friedman's sponsors cannot prevent Western Europe from leaving the U.S. to its self-inflicted miseries. They require something better than Friedman's "theory of nominal income" merely to survive. And Friedman, who at bottom is a jumped-up graduate student, is expendable.

# Friedman's Nazi economics: turning inflation inward

EIR is pleased to present excerpts from the forthcoming book *The Two Faces of Milton Friedman*, by Contributing Editor Lyndon H. LaRouche, Jr. and Economics Editor David Goldman. These selections are taken from Chapters 1 and 6 of the volume, which will be published in the fall in paperback form by the New Benjamin Franklin House Publishing Co., New York. The excerpts begin with a discussion of Friedman's favorable analysis of Nazi financial practices.

## Friedman's Nazi economics

We define "Nazi economics" to mean the combination of "fiscal austerity" and diversion of all national resources to the investment requirements of war autarchy.

Volcker's objective is to repeat Schacht's achievements, as described by Milton Friedman in *Studies on the Quantity Theory of Money*: to maintain gigantic nonproductive expenditures while preventing inflationary collapse of the monetary system. Inherently, war production, especially "Blitzkrieg" production in width at a stagnant level of technology, is violently inflationary.

Production of energy at costs several times in excess of the cost of nuclear-generated electricity, and several hundred times the estimated cost of fusion-generated electricity, is also inflationary.

The collapse of industrial efficiency throughout the economy due to Schachtian investments lets loose a hyperinflationary tendency.

Despite the *tendency* towards hyperinflation under fascism, it is possible to suppress inflation, as Milton Friedman proved in his now-classic study of Nazi economics, at least for some period of time. In a 1976 discussion with LaRouche, the great French economist Jacques Rueff, who died last year, proposed an alternative definition of fascist economics as "inflation turned inward against the economy," leading to the same conclusion as LaRouche's different approach.

Instead of absorbing the consequences of massive nonproductive spending through increasing price levels,

the Nazi economy absorbed these consequences by cannibalizing the economy's own flesh and bone, "turning inflation inward." Rueff's definition is precise and correct, and stands in striking contrast to Milton Friedman, who leaves the consequences for the real economy out of his analysis altogether.

In a somewhat horrifying way, Milton Friedman takes real economic resources into indirect account, by factoring in the slave populations of Nazi-conquered Europe to "adjust the money supply figures." But he insists that real economic resources had nothing whatever to do with the problems of the Nazi economy, by arguing that the Nazis permitted civilian economic activity "to operate in a leisurely, semi-peace fashion," and failed to "restrict civilian consumption" until efficiency expert Albert Speer took over.

One critical instance of lying by omission must be cited in Milton Friedman's account of Nazi economics. Jacques Rueff pointed it out, with some bitterness: "Contrary to general belief, Dr. Schacht did not invent Hitler's monetary policy." Germany's British and American creditors, Rueff reported, "advised Germany to suspend its foreign commitments and authorized it to put into effect, with the blessing of its creditors, the system that was to enable Dr. Schacht and Hitler to finance war preparations and finally unleash war itself."

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## Through the looking-glass

If, as an intellectual exercise, we asked the reader to construct an "economic theory" that could describe Nazi economics as a possibly "successful" system, he would probably start this way: the first condition of this new economic theory would have to be that the real economy never had to be taken into account, and the second condition would have to be that the theorizer can define "reality" to be whatever he wanted it to be wherever he wanted it to be that way.

You have now grasped the essence of Milton Friedman's economic theory. . . .

In his published output, Friedman carefully distinguishes between his “popular” books such as *Capitalism and Freedom* or *Free to Choose*, and his technical work, including *Studies in the Quantity Theory of Money*, *Essays in Positive Economics*, *A Monetary History of the United States*, and *Milton Friedman’s Monetary Framework*.

They are unreadable academic jargon. Virtually no one reads them.

One of Friedman’s old Chicago School colleagues, Prof. Arthur Laffer (now at the University of Southern California), was asked by the authors to suggest a method of proving to a wide audience that Friedman was a fascist. Laffer replied, “Quote him.”

Friedman’s early notoriety as a “theorist” sprang from an essay published in 1953 in *Essays in Positive Economics*, entitled, “The Methodology of Positive Economics.” He insisted in this essay that his approach was “positive,” which he said meant “objective,” while everyone else’s was by implication “normative,” i.e. cooked up to fit preconceived conclusions. Let us quote what Friedman had to say on the subject:

In so far as a theory can be said to have ‘assumption’s at all, and in so far as their ‘realism’ can be judged independently of the validity of predictions, the relation between the significance of a theory and the ‘realism’ of its ‘assumptions’ is almost the opposite of that suggested by the view under criticism. Truly important and significant hypotheses will be found to have assumptions that are wildly inaccurate descriptive representations of reality, and, in general, the more significant the theory, the more unrealistic the assumptions (in this sense). The reason is simple. A hypothesis is important if it “explains” much by little, that is, if it abstracts the common and crucial elements from the mass of complex and detailed circumstances surrounding the phenomena to be explained and permits valid predictions on the basis of them alone. To be important, therefore, a hypothesis must be descriptively false in its assumptions; it takes account of, and accounts for, none of the many other attendant circumstances, since its very success shows them to be irrelevant for the phenomena to be explained.

This is an unabashed defense of irrationality. . . . In a later chapter we will review Friedman’s career and note, in passing, that he has the worst predictive record in the economics profession, itself notorious for failed predictions in general. But that is not the important point here. Friedman is making a statement in the general tradition of the Bertrand Russell-Ludwig Wittgenstein positivists, restricting the pursuit of knowledge to some abstract juggling of empirical data.

But none of the most extreme Vienna positivists would ever argue that some simple extrapolation of a tendency one chances to hit upon in a data series proves any hypothesis, merely because some other data collected in the future happen to fit into the linear extrapolation trend. In any event, Friedman never succeeded once in explaining anything in this fashion, as readers who have puzzled through “A Monetary History of the United States” well know.

## Money, prices and output

What precisely is it that Friedman claims to have achieved as a theoretical economist? In a “debate with his critics” published by the University of Chicago in 1970, Friedman stated his claim to fame to be a method of describing economics *in monetary terms only*, without reference to the problem of real economic growth. As we guessed earlier, something like this must have stood behind Friedman’s assertion that the Nazi economy was “successful” from the standpoint of monetary analysis. Waspishly, Friedman accused his critics of misunderstanding him by assuming gratuitously that he was talking about real economic growth, whereas the “quantity theory of money” has nothing to do with anything but money and prices.

“We have always tried to qualify our statements about the importance of changes in M [Friedman’s symbol for money supply] by referring to their effect on *nominal* income [original emphasis]. But this qualification appeared meaningless to economists who implicitly identified nominal with real magnitudes. Hence, they have misunderstood our conclusions. . . .” he wrote in *Milton Friedman’s Monetary Framework*. “I regard the description of our position as ‘money is all that matters for changes in *nominal* income and for *short-run* changes in real income’ as an exaggeration but one that gives the right flavor of our conclusions.”

Friedman correctly points out that neither he nor the Keynesians have got what he calls the “missing equation” that tells us what the relationship might be between prices and real economic activity. That is very true; the “Phillips curve” that the Keynesians proudly hailed in 1970 said that prices went up when unemployment went down and prices went down when unemployment went up. In the years of combined depressed real economic activity and high inflation, the “Phillips curve” has disappeared from the academic journals and the financial pages, and retired to the closet with other similar skeletons.

The remedy Friedman proposes to the terrible predicament of the economics profession, which admittedly could not find any relationship between prices and output, is breathtakingly simple: ignore the problem altogether. . . .

Friedman proposes “*bypassing* the breakdown of

nominal income between real income and prices and using the quantity theory to derive a theory of nominal income rather than a theory of either prices or real income." This works out nicely, Friedman discovered. . . "Nominal quantity of money" means how many dollars are sloshing around, and "nominal income" means how much money individuals get, regardless of how much this money can buy. Friedman says that there is a "close and dependable" link between these two things, a conclusion that does not seem particularly striking.

Note that he says that the relationship between money and prices and money and output is *not* so dependable—although he does not say so in his *Newsweek* columns or his television programs. "If you are a yokel, he gives you a hokum answer," Paul Samuelson said.

Where his peers in the academic world were concerned, Friedman's famous assertion that changes in the money supply cause changes in prices actually fell by the wayside on the last page of his *magnum opus*, *A Monetary History of the United States*. Friedman could not find any consistent behavior for what is called the "velocity of circulation" of money during the entire post-war period. The way the "Quantity Theory of Money" is supposed to work, Friedman reports, is according to a turn-of-the-century formula penned by Yale professor Irving Fisher, now best-known for a prediction in mid-1929 that the stock market rise proved that the United States would have permanent prosperity.

The formula reads  $MV=PT$ , where M is money supply, V is its velocity (how fast people spend it), and P is the price level, T is the amount of goods available per unit of time. It says that if there is more money and people spend it faster, prices will rise.

The "bogey" variable is the "velocity of circulation," or V. Monetarists from Jevons and Marshall a century ago to Friedman now have put tomes of statistics through analysis in an attempt to explain why it goes up or down, without measurable success, as Friedman admitted in the volume we started with, *Studies in the Quantity Theory of Money* and later in his 1963-published monetary history, finally giving up the attempt in 1970, in the "debate" cited earlier.

In conclusion, that leaves us with a theory that says if there is a lot of money about, individuals are likely to have a lot of it, the "theory of nominal income." If this sounds like gibberish, that is not our fault; our responsibility was to present to the reader exactly what it is that Friedman says. It should not be a surprise that Friedman's academic opponents do not come outright and say that all of Friedman's theories are irrelevant, boring nonsense, considering the quality of their own opposing theories.

## Setting up Nixon for August 1971

Americans defeated Goldwater by a landslide margin, which he richly deserved, more than the country deserved Lyndon Johnson. Friedman, whom any person in his right mind would recognize as "utterly irresponsible," led Goldwater all the way down the garden path.

This makes even more astonishing Richard Nixon's decision to make Friedman the Administration's chief, if unofficial, economic advisor, after his election in 1969. Journalist Leonard Silk, who chronicled the tortuous route of Nixon economic policy with partisan glee, suggested it was because Nixon and his colleagues were stupid.

Nixon, in any event, had been a wartime pal of Friedman's at the Office of Price Stability at Treasury, and learned his economics at the White House at Arthur Burns' knee. Burns now moved back to the White House from Columbia as Counselor to the President. The next year, Burns replaced the aging William McChesney Martin as Chairman of the Federal Reserve's Board of Governors.

During the first half of 1969, the Federal Reserve held the rate of money supply growth to 4.4 percent per year, right in the middle of Friedman's recommended range of 3 to 5 percent. Prices rose by an annual rate of 5.8 percent, faster than they had during what Nixon considered a period of monetary laxity under Lyndon Johnson, when they had risen by 4.6 percent per year. This did not upset Friedman, who believed that monetary policy operated with a six-month lag. He wrote, however, in August 1969, "If the rate of price rise has not begun to abate by the fourth quarter of this year, it will be time to ask us for an explanation."

But the rate of price inflation did not abate. It continued at 5.8 percent per year through the second half of 1969, and showed no signs of improvement.

Friedman prescribed more of the same medicine, and the Federal Reserve under Nixon's imprimatur obeyed. Monetary growth stopped dead in the half-year from June 1969 to December 1969, and the economy collapsed. Industrial production fell starting in the summer, and unemployment rose from 3.5 percent in 1969 to 5 percent in May 1970. Despite the deterioration of economic conditions, inflation did not fall. During the first half of 1970, inflation was *higher* than it had been the previous year. Leonard Silk summed up, "Interest rates had climbed to levels not seen in a hundred years, with

devastating effects on housing. The federal budget was dropping into deficit, aggravating pressures on money markets. The stock market went into the worst decline it had experienced since the Great Depression."

Friedman nearly brought the American economy through a repetition of the 1929 crash, by identical methods. In May the Penn Central Railroad went bankrupt, leaving hundreds of millions of dollars in short-term commercial paper outstanding. The entire structure of American short-term credit, which depended on tens of billions of dollars in short-term promissory notes secured only by the faith of the borrower, was in danger. Bankers sat in their offices deciding whether or not to panic, and Arthur Burns made a series of frantic phone calls to New York and Chicago promising that the Fed would provide as much money as needed as soon as they needed it. From dead zero, the rate of money supply growth jumped to 13 percent. Penn Central did not lead to a general panic in the American credit markets. However, the sudden lurch from monetary strangulation to a postwar extreme in monetary laxity sent the American dollar skidding down towards the great debacle of August 1971. The first big dollar crisis of the Nixon administration broke out almost as soon as Burns opened the floodgates in May 1970.

Nixon was stupid, but not that stupid. On the next moonless night he buried Milton Friedman's reputation in the White House back lawn. Immediately after followed Nixon's great recantation, "We are all Keynesians now," meaning, "We are no longer Friedmanites!" That didn't get either the White House or the United States out of the hole that a year of Friedman's medicine had put it in. By August 15, 1971, Nixon caved in to the demands of Rep. Henry Reuss and Paul Volcker, de-linked the dollar from gold, and placed the wage-price controls on the American economy that would, within two years, lead to double-digit inflation.

## The case of Chile

As it turned out, Friedman did not have long to cool his heels at the University of Chicago. The overthrow of the Allende regime in September 1973 gave Friedman's students, known locally as "the Chicago boys," a semi-industrial country to experiment with.

It is not merely that the Pinochet regime, staffed by Friedman's University of Chicago trainees, engaged in torture on a scale that disgusted the civilized world. They took a country that had the makings of industrial republicanism—with or without the help of overthrown Presi-

dent Salvador Allende—and broke its industry, turned it over to raw materials extraction, and bled it dry for debt service. The economics of the Pinochet regime were no different from those of a loan shark's heavy who does business with brass knuckles.

This is the unfortunate nation which, Milton Friedman told *Business Week* magazine Nov. 26, 1979, "will be regarded as one of the economic miracles of the twentieth century."

Friedman represents Chile as a nation of "free trade." This is an outrageous lie. Chile has become a creditors' dictatorship. Between the coup in 1973 and the beginning of 1979, Chile's annual payment of debt service to international banks rose from \$200 million annually to \$1.6 billion—an eightfold increase, unparalleled in modern history. And this stupendous increase in debt service payments occurred while the economy had collapsed to production levels barely half of what they were under the deposed Allende regime. At the time of the coup, debt service consumed about 10 percent of all export revenues. By 1979 two-thirds of exports went to debt service.

A few fortuitous factors, such as an increase in the world market price of Chile's major export, copper, helped pay some of the debt burden. But the Pinochet regime did the bulk of it by eliminating food imports, reducing average caloric consumption in 1975 to less than 1200 calories per day.

Friedman was in this one up to his ears. Friedman's reaction to being caught in the act was about the same as that of a four-year-old who has drowned his baby sister in the bathtub. For example: *Business Week* magazine—whose economics editors are professed Friedmanites—reported as a bland matter of fact on May 11, 1976, "The Chilean coup that overthrew Salvador Allende in late 1973 replaced one set of economic ideologues with another. The Marxists who strove for total regulation of the economy have been succeeded by a group of policymakers known as the 'Chicago Boys.' Reason: they ardently embrace the free-market teachings of University of Chicago economist Milton Friedman, who visited Chile for six days last year to counsel them."

*Business Week* squeamishly reported that the Chicago boys had taken their toll: "Despite the fearful repression, people still cautiously complain. In Conchali, a northern district of Santiago, the families are decidedly lower middle class—taxi drivers, mechanics, seamstresses. Over the years they had hauled themselves out of poverty. Now unemployment and recession have pushed them back again. 'My husband drives a cab from curfew to curfew,' says one housewife, 'but still he does not make enough to feed us all.'"

Friedman blew up at the staid magazine that usually supports his views. "I have no regrets except for the utter irresponsibility of American publications, including

*Business Week*, in dealing with this," he said a few months later. But he frantically tried to disassociate himself from the practices of the closest thing to the Hitler regime now in power. "I did not then and do not now condone the regime in Chile," he said. "I had no contact with people in Chile prior to the visit, and have had none since."

Considering that Economics Minister Sergio de Castro and Central Bank President Pablo Barahona were personally trained by Friedman at the University of Chicago, Friedman's disclaimer is astonishing. The truth is that Friedman took a more extreme stand on cutting consumption than any of the military junta. When he traveled to Chile in early 1975, at the absolute nadir of economic collapse, Friedman "chided the Chileans for not cutting their spending enough," according to *Business Week*.

He did more than make such demands in private: he issued them in Spanish-language public press in Latin America. In one particularly egregious example, he warned the Chileans not to take any measures to relieve the genocidal conditions of mass impoverishment brought on by his economic policies, in the Peruvian daily *La Prensa*, Jan. 16, 1977:

"Whenever social programs either in the United States or in Chile have been initiated on the basis of 'helping the poor,' they have ended up hurting the poor and helping middle and upper income people. It is not possible to maintain healthy prosperity by this route. . . . We must not be equivocal: the end of inflation will not be achieved without costs."

He continued in the same essay, "I have been informed that the government of Chile has adopted many measures which are in agreement with the orientation that I affirm and defend. It has been a force for the return of economic activity to the private sector. It has taken measures to reduce government expenditures and the government deficit. . . . All this is positive. I am confident that Chile will have the courage, the strength and the wisdom to accelerate this process and to get past this initial difficult period." So much for Friedman's hypocritical attempt to distance himself from the junta's malnutrition economics.

The statistics for Chile's economic performance tell a horror story. All categories of consumables produced domestically fell by drastic amounts, while food imports—on which Chile is still dependent—fell from \$500 million in 1974 to \$300 million in 1977.

Unemployment, which reached 20 percent by the official numbers and more than 40 percent by unofficial calculations, was still 14 percent (officially) in 1978 and 21 percent by University of Chile estimates. Gross Domestic Product never recovered from the 13 percent fall during the worst year, 1975. Real wages fell during 1974 to barely *half* their 1971 level, and are still a full third below the 1971 level. By the 1978 harvest, agricultural production was off by 27 percent.

The one "success" of the Chicago Boys was to reduce government expenditure from 15.8 percent of national consumption in 1972 to 12.1 percent of national consumption in 1977, a figure that understates the real decline, because total consumption fell sharply over



*Chile's brass knuckles*



the period. However, the decline in the budget deficit was achieved by laying off hundreds of thousands of state employees, virtually eliminating public health and education services, and by auctioning off 454 enterprises owned by the state at about 10 cents on the dollar.

In 1979, *Institutional Investor* magazine reported, "The de Castro economic policies have their spiritual roots in the so-called Chicago School of economic thought pioneered by Nobel Prize-winning economist Milton Friedman. In fact, one Chilean critic of those policies, successful banker and industrialist Orlando Saenz, cracks that 'what's happened here is as if Jimmy Carter had appointed Milton Friedman and then left him to get on with the economy just as he pleased.' "

*Institutional Investor* published this encomium in March 1979, six months before Jimmy Carter and Paul Volcker did precisely that.

## The case of Israel

... Friedman avoids talking about his role as chief economic advisor to Israel's now-failing Begin government, which began the week after Begin was elected in the Spring of 1978. It is hard to say at this writing which will go first: Begin or the Israeli currency. Now suffering a 120 percent annual rate of inflation, and devalued on the international markets by several percent per month, the Israeli currency of legal tender since Independence is scheduled to be withdrawn from circulation in September. At that time, the battered Israeli lira will cease to circulate, and will be traded in for a new Israeli "shekel" at ten shekels for every lira.

The Israeli government, after two years of Milton Friedman's economic program, does not have much choice but to call in the old money and issue new. From 1978, when Begin invited Friedman to Jerusalem for consultations, to February 1980, inflation tripled from 40 percent to 120 percent. Begin's first finance minister Erlich took Friedman's advice and eliminated government subsidies and price controls on consumer goods, producing a 25 percent across the board increase. In a country where a cheap two-bedroom apartment costs \$50,000, and a small car costs \$16,000, that was a brutal exercise. It provoked a short-lived general strike by the Israel Labor Federation, controlled by Begin's Labor Party opponents.

Erlich lasted barely a year. Last fall, Begin dumped the unpopular minister for Yigal Hurvitz, because of "the finance minister's inability to make any dent in the inflation figure, and (because of) the gaping balance of payments deficit created by his own policy," the London *Financial Times' World Business Weekly* reported April

14. Hurvitz's "prescribed medicine" was more of the same Friedman formula, according to *World Business Weekly*: "tight credit restrictions, savagely pruned subsidies on basic consumer items, warnings of unemployment, and a promise of a no-growth budget." Hurvitz flopped as badly as Erlich had before him. . . .

Of course, Friedman's role in Israel's Begin government cannot be cast in the same light as his relationship to Chile's Pinochet. In the view of most of Israel's supporters abroad, Begin is much, much worse. He has transformed Israel into a model Schachtian state, where military expenditures consume one-third of all government expenditures. The nightmare of the Zionist movement is that Begin will adopt Goebbels' solution to the Schachtian economic paradox. Despite the "savage" cuts in social expenditures under his government, Begin has had to increase military expenditures even further, pushing Israel into hyperinflation. Since debt service already consumes one-quarter of the Israeli budget, Begin's failure to find a peace settlement, or rather his attempt to use the Camp David agreement with Egypt as flank-covering for an overt territorial expansion policy on the West Bank and possibly Lebanon has produced the same results that Schacht's did in the great 1938 crisis.

Friedman's role in the matter is somewhat ironic, because Israel's hidden source of export strength—the compensation for the greatest military and debt-service dependencies of any country in the world—is a special kind of old-fashioned "free trade." More than one-third of total Israeli exports is polished diamonds, a trade established by emigrés from South Africa and encouraged by De Beers, the Oppenheimer cartel that controls 85 percent of world diamond marketing. Marketed through Amsterdam, Antwerp, and New York, the diamond trade is not only the most secretive of any major commodity—all transactions in the diamond exchanges are verbal and unreported—but also the most untraceable. Next to pure refined heroin, diamonds are the most easily concealed high-value medium of exchange, and about half the trade in diamonds runs into illegal, including narcotics trade, channels. That figure is surprising only out of context; Consolidated Gold Fields of South Africa estimates that half of world gold production as well flows into illegal operations. In consequence, Israel's market has been the Mont Pelerin Society circuit of Latin American dictatorships, and whatever other countries find it uncomfortable to purchase weapons directly from either the United States or Western Europe, including South Africa and the Soviet Union. Until last year Israel's biggest customer in Latin America was deposed dictator Anastasio Somoza, whose military forces—which made the Chilean junta look like Peace Corps volunteers—were largely Israeli-equipped.

# International Intelligence

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## ***Iraq proposes 'Development Decade'***

The Iraqi government presented a proposal for Arab economic development at this week's meeting in Amman, Jordan of the ministers of foreign affairs, economics and finance from 20 Arab nations. According to Iraqi foreign minister Saddun Hammadi, Iraq foresees a multibillion dollar fund for industrializing the Arab world, including those countries that do not have oil. According to reports, Saudi Arabia supports the plan. The meeting, called by the Arab Economic Unity Council of the Arab League, included all Arab countries except Egypt, which has been expelled.

Hammadi called his plan the "Arab Development Decade." The meeting approved a pan-Arab economic blueprint for the next two decades, whose details are not yet known.

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## ***Israel threatens nuclear blitzkrieg***

According to the pro-Israeli West German newspaper *Die Welt*, a "significant shift" is occurring in the Israeli armed forces' strategic doctrine. The key spokesman for this shift, the paper reports, is Agriculture Minister Ariel Sharon, a top backer of the ultranationalist Gush Emunim "settlement" movement. Sharon recently declared that "Israel is a small country which can only afford a small amount of military forces, tanks, infantry, air force, etc.," and therefore must rely on quick-strike nuclear capability.

Sharon has been leading the fight in the Cabinet to trim the military budget, to undermine Israel's in-depth conventional ability to achieve military security and to force reliance on a nuclear option that Israeli governments until now have always officially renounced.

Among the Begin-linked military strategists and propagandists, the "nu-

clear blitzkrieg doctrine" is being justified through a massive scare campaign about the imminent deployment of an "Islamic atomic bomb" by Libya, Iraq, or Pakistan.

Last week, Israeli Foreign Minister Yitzhak Shamir threatened that the flow of advanced weaponry to the Arab states could lead Israel to "ignite a local war or even World War III." Shamir was echoed by the New York *Jewish Press*, which singled out France for its relations with the Arabs and threatened that country "along with every other nation in this world [with] the possibility of losing their entire oil supply from the Arab nations."

In a recent speech in Tel Aviv, Yuval Neeman, father of Israel's nuclear bomb, declared that Israel has in its arsenal 12 bombs ready for use.

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## ***Suzuki chosen as compromise premier***

Rather than face an open fight among the leading contenders, the ruling Liberal Democratic Party of Japan (LDP) chose the relatively unknown Zenko Suzuki as the "compromise" choice for Prime Minister to succeed the late Masayoshi Ohira. Despite Suzuki's succession to leadership of the Ohira faction, the consensus character of his government is likely to hinder his administration from proceeding headlong into the policies of fullscale remilitarization, unqualified alignment with Washington and Peking, and support of international austerity that characterized the Ohira administration.

Ohira had soundly defeated his policy opponents, former Premiers Takeo Fukuda and Takeo Miki, in open battle and thus could ignore their objections to his subservience to the Carter administration. Suzuki, on the other hand, came to power through a compromise arrangement with Fukuda, in addition to support from the Ohira and Tanaka factions. Suzuki's cabinet will include high posts for Fukuda's heir, Shinaro Abe, as well as Prime Ministerial contenders Toshio

Komoto, the heir of Miki, and Yasuhiro Nakasone. It will resemble a traditional all-faction consensus cabinet rather than the lopsided affair under Ohira.

Suzuki himself has been portrayed by Japanese sources as a party machine fixer and mediator with few known policy stands of his own. He was never expected to become Prime Minister; his major trait is that he had made few enemies. The business community, rather than risk continued divisiveness in the LDP through trying to force a Komoto premiership, hopes to restabilize the party through Suzuki, who has held few major cabinet portfolios but has served as Japan's Executive Director of the International Monetary Fund and has held many party executive posts. Perhaps the decisive factor in bringing him the premiership was his close friendship with former Prime Minister Kakuei Tanaka, still on trial for the Lockheed bribery scandal.

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## ***Soviets blow whistle on Iran terrorism***

The Soviet Union issued an official warning last week to the Khomeini government in Iran against a planned seizure of the Soviet embassy in Teheran. "There is information to the effect that elements hostile to the Soviet Union intend to carry out provocations against the U.S.S.R. embassy in the Islamic Republic of Iran, up to its seizure," the Soviet statement read. It came in response to increasing signs that the Muslim Brotherhood has begun to zero in on the U.S.S.R. to try to stir up insurrection among its large Muslim population.

Last week, Iranian Foreign Minister Ghotbzadeh charged the Soviets with spying in Iran and told the Soviets that they had to pull out 75 percent of their embassy staff from Teheran. Although Ghotbzadeh has given his "assurances" that "all necessary steps had been taken" to secure the Soviet embassy in Teheran and prevent its occupation, *EIR's* sources

have presented evidence that the Soviet Union is being targeted for a wave of Muslim Brotherhood-sponsored terrorism, kidnapping, and assaults against Soviet installations.

### ***Fujitsu announces semiconductor 'superchip'***

Japan's largest computer manufacturer, Fujitsu, announced at a U.S. press conference two weeks ago its introduction of a new electronic semiconductor chip, made from gallium arsenide. The invention could revolutionize the electronic chip industry and give Japan a crucial lead in markets for this product.

Fujitsu's chip, the company claims, solves previous problems of gallium arsenide chips by mixing aluminum into the gallium arsenide base and then bringing the chip crystal's temperature down to -196 degrees centigrade, the temperature of liquid nitrogen. At this temperature, the new chip is six times faster than a normal gallium arsenide chip—which is itself four times the speed of a normal silicon semiconductor, the standard in the field.

### ***Soviet specialist wants Saudi tie***

In the current issue of the weekly newspaper *Literaturnaya Gazeta*, Soviet journalist Igor Belyayev writes that the time may have come for the reestablishment of diplomatic ties between the U.S.S.R. and Saudi Arabia. Belyayev, a Middle East specialist, has written in the past about the cordial relations that existed between the Soviet Union and the Saudi king during the 1930s. Belyayev pointedly noted that the Saudis have exhibited "disillusionment" with American policy toward them.

G.A. Trofimenko, an analyst at the Institute of U.S.A. and Canada Studies in Moscow, makes the same point in a current article on American foreign policy. Writing in the East German monthly *Deutsche Aussenpolitik*, Trofimenko cites the Saudis' "distancing" from the United States as an instance of the failure of National Security Adviser Zbigniew Brzezinski's plan to tie the entire developing sector and Europe to the American camp and use the increased leverage so gained for confronting the U.S.S.R.

In Trofimenko's view, today's international crises result directly from the failure of Brzezinski's efforts. Where Brzezinski sought points of influence, he has created his "arc of crisis" instead, concludes the Soviet thinktank.

### ***Terrorist Piperno attacks PCI***

Celebrating his release from jail at a "freedom party" thrown by Giacomo Mancini, the Italian Socialist Party "godfather" from the Calabria region, suspected Red Brigades terrorist Franco Piperno warned that those responsible for his arrest "must pay. . . . They have let me out of jail but they must pay." "They," he specified, include judges and journalists, but most of all "the Italian Communist Party [PCI]," which he termed "responsible for the campaign of repression from the beginning."

While Piperno was singling out the PCI, the PCI was busy launching an investigation into the notorious mafia connections of Mancini. PCI official Ugo Pecchioli told the Rome daily *La Repubblica*: "There is a strong political criminality" in Calabria, "no matter what Mancini says. Don't forget that a terrorist hideout was found in the province of Casenzo." Observers report that this is the beginning of a major PCI campaign to expose the connections between the Socialist Party and organized crime.

## ***Briefly***

● **WORLD ZIONIST** leader Nahum Goldmann granted an interview to the Dutch paper *Allgemeine Dagblatt* in which he charged Israeli Prime Minister Begin with living "in an illusion" and attacked him for pursuing "a fanatical line . . . just like the policy of Khomeini of Iran." Goldmann stressed that peace is "impossible" as long as Begin remains in power in Israel and praised the European Middle East peace initiative at Venice. Camp David, he declared, is blocking the road to peace.

● **IENG SARY**, the "Deputy Premier" of the mythical Pol Pot regime, appeared in Tokyo for the funeral of the late Japanese Premier Ohira. The convergence of Chinese Premier Hua, their puppet Sary, the Thai Premier Prem and Carter at the Tokyo funeral was clearly intended to lend weight to reports of a Southeast Asia strategy session there.

● **ALVARO GOMEZ** Hurtado, a leading advocate of drug legalization and ally of Europe's black nobility, recently traveled to Paris to meet with terrorist controller and anthropologist Jacques Soustelle, according to Colombian sources. The outcome of the meeting, also attended by economists from Brazil, Chile, Uruguay and Argentina, was the formation of a Latin American Organization for Economic Cooperation (OLCE), whose French president is Soustelle.

● **INDIA'S RECOGNITION** of the Heng Samrin government in Kampuchea apparently shocked some circles in Washington who question why the Indians did it so soon after the ASEAN meeting which condemned the Vietnamese. Delhi sources say the Indians were angry over the way the Thai border incidents were blown up at the summit, viewing this as sheer "provocation" from the Thai side.

## Giscard in Bonn foresees 'European renaissance'

by Susan Welsh

As French President Valéry Giscard d'Estaing concludes the third day of his first official state visit to the Federal Republic of Germany, he has already set off a profound transformation in the psychology of the German population. Europe must regain its influence in world affairs, it must forge a policy of peace for all mankind, he said in speeches throughout the country. The visit continues for two days of more intensive political discussion with West German Chancellor Schmidt, followed by a television address to the nation.

The wartime wounds which have divided France and Germany for 35 years are now healed, Giscard declared in Bonn. "Yesterday was the time of reconciliation. Today is the time for deeds, to regain Europe's influence in the world." Giscard praised the Germans as "this great people, which in all areas of science, culture and art have made extraordinary contributions to our civilization." When Giscard then left the podium to shake hands with the citizens of Bonn, a shout went up: "Vive la France! Vive la France!"

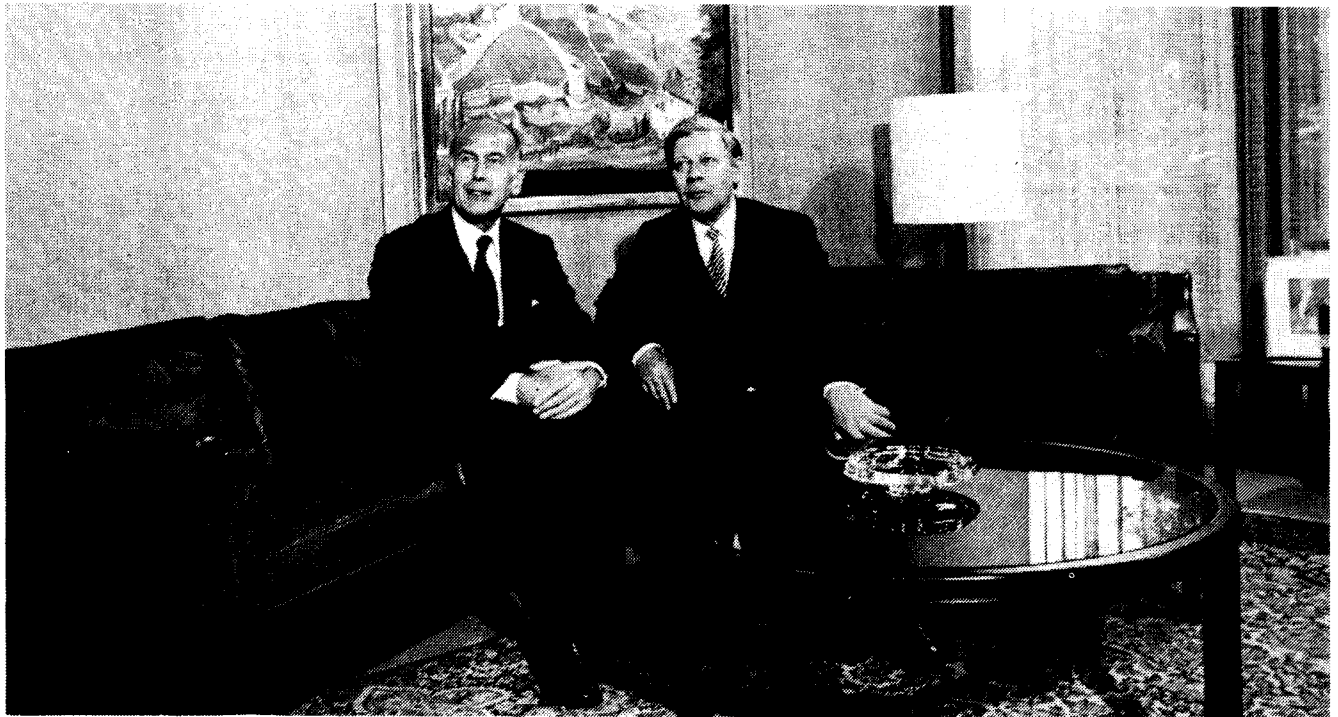
Thirty-five years ago, the people of the Federal Republic were told by the Anglo-American occupation powers that they—even the Germans yet unborn—bore the collective guilt for Hitler's crimes. This message has been dinned into the heads of a new generation of Germans by the media, which to this day is blacking out Giscard's visit and attacking West German Chancellor Helmut Schmidt for his alignment with France.

Giscard is challenging the Germans to break free of this brainwashing and assert German nationhood in the

interests of world peace and progress. "I wish for the great capabilities of the German people to be combined with the great characteristics of the French people, in order to lead, in today's world, the most glorious and vital civilization that mankind has ever produced," he told the newspaper *Bild-Zeitung* July 7. Solidarity with the Atlantic Alliance "is by no means a synonym for submission," he said to the *Frankfurter Rundschau*. "In a union of sovereign states and free peoples like the Western countries, solidarity is based upon mutual principles, solidarity in action requires consultation and coordination, not subordination."

On the goals of the Franco-German alliance, Giscard said at a banquet in his honor in Bonn that "if we succeed we will have rendered a great service to peace and the balance in the world which, as we see every day, needs an independent and strong Europe. . . . Never have our countries been so bound together. Never have we been so close. . . . What I am saying is that our two peoples, reconciled and friends, could together give impulse to the renaissance of European influence."

Giscard has repeatedly located his own trip within the historical tradition of the 1962 visit of General Charles de Gaulle to West Germany, at the invitation of Chancellor Konrad Adenauer. Those leaders "established decisively the common destiny of our nations," he said in Baden-Baden July 8. But the Franco-German alliance that has emerged over the last two years goes far beyond what de Gaulle and Adenauer were able to create. "The idea that Europe can play a special role in



President Giscard and Chancellor Schmidt in Bonn

Photo: Sygma

world affairs is something which Germany did not perceive a few years ago and which it now accepts," Giscard told reporters.

### **No policy to deal with Washington**

The Franco-German alliance has emerged in its current powerful form out of an effort to counteract the manic war-confrontation policies of the Carter administration. Since the founding of the European Monetary System in 1978, West Germany and France have tried to shape a war-avoidance policy around the principles of economic development of Europe and the Third World and detente with the Soviet Union and Eastern Europe.

Schmidt and Giscard are trying to create a kind of "safety net" to contain the dangerous follies of the Carter administration. But the Europeans have no policy for reversing the moral and political collapse of the United States itself, to draw America into their own "grand design" for peace.

Disgusted by both frontrunners Reagan and Carter, the European leaders view the prospects for the U.S. presidential elections with deep pessimism. Failing to believe that the ferment in the Democratic Party for an "open convention" provides new openings for a genuine shift in American foreign and domestic policy, Chancellor Schmidt has even agreed to meet with the new empty-headed front-man for the Trilateral Commission, "independent" John Anderson, who arrives in Europe

this week. French Foreign Minister Jean François-Poncet will also receive the candidate. At least Giscard will not.

### **Military cooperation**

The disaster of U.S. military policy—based on confrontation backed up by nothing—has contributed to a qualitatively new aspect of the Franco-German alliance. For the first time, military cooperation between the two countries is being openly discussed as the only way to ensure both independence and security for Europe. This probably does not mean that West Germany will leave NATO as France did in 1966—partly because membership in NATO is seen as offering some possibility of leverage with Washington.

Chancellor Schmidt was unusually frank in an interview to *Le Figaro* newspaper July 7: "since France has taken some distance from the Alliance on the level of military integration since the time of Gen. de Gaulle, it is normal that Germany's influence, even though we are a non-nuclear power, is much greater within this Alliance. On the other hand, France's freedom to maneuver is much greater than ours." The complementarity of the two countries in this as well as in economic respects is one basis of their alliance, Schmidt said.

Giscard rearranged the itinerary of his visit July 8 to include joint inspection with Chancellor Schmidt of a French military parade in Baden-Baden. "My presence among you, alongside the Federal Chancellor, bears witness to the confident and friendly cooperation which

has been built up between our two commands and two armies," Giscard told the troops. "The service of many French soldiers in the Federal Republic enables them "to know the daily life of the principal partner with whom we are building Europe, so that its world role and influence are restored."

Schmidt in reply stressed that the Franco-German alliance includes defense. "Your security is indivisible from ours and our security is also yours. Both France and the Federal Republic have made a contribution to the balance of power, which is the precondition for collaboration and peace. . . . Germany and France are a factor of stability in Europe and in the whole world."

As *EIR* reported last week, President Giscard's recent announcement that France has successfully tested a "neutron bomb" is part of the emerging Franco-German defense policy. Giscard said that if a decision is made to produce and deploy the weapon, it would be done with the security of "neighboring countries" prominently in mind.

### 'Containment' of Carter

While shoring up their own defenses, the continental Europeans are increasingly outspoken in their opposition to the foreign policy of the Carter administration. Chancellor Schmidt in an interview to *Der Spiegel* magazine July 7 rejected out of hand the geopolitical premise of Carter's policy: the Soviet leaders are "not adventurers," he said. "Brezhnev and his colleagues fear a war as much as we do here." On the contrary, it is those who try to "isolate" the Soviet Union who are "adventurist," he said.

The French meanwhile have sharply criticized the Carter administration's plans to bolster U.S. forces in the Indian Ocean and the Persian Gulf. Following a meeting between Giscard d'Estaing and U.S. Defense Secretary Harold Brown, a French government official gave a press briefing recalling the statements made by Giscard during his trip to the Persian Gulf earlier this year, calling on both superpowers to stay out of the area. "There are certain regions of the world where we don't think the reinforcement of security is helped by Western military presence. We don't think the American presence is an element of stabilization," the official said.

Giscard is considering issuing a call for the demilitarization of the Persian Gulf and Indian Ocean, the *Washington Post* reported July 6. He is rumored to be planning a trip to the Indian Ocean soon and "the French President has a history of using such distant countries for dramatic diplomatic statements, usually designed to refurbish France's image as the Third World's best friend in the West," commented the *Post* with evident distress.

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## Documentation

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### 'Union of sovereign states'

*The following is excerpted from Giscard's interview with the Frankfurter Rundschau newspaper July 7:*

General de Gaulle's visit to Germany 17 years ago meant a change in the history of both our peoples. . . . The reconciliation is today an accomplished fact. It was the necessary foundation for future joint undertakings, based on our feelings of solidarity on the European continent, but also on our relations to the rest of the world, where our joint efforts must strengthen Europe's role. Franco-German relations have developed on all levels. They have experienced an upswing and have reached a quality that surpasses without a doubt all that anyone could have hoped for in 1962 [the year de Gaulle and Adenauer signed a Friendship Treaty—ed.].

My visit confirms this reality, and the solidarity of Franco-German cooperation is a testimony to the level that has been achieved in the activities of our states, and therefore is a basic dimension.

For France, independence is a natural given, rooted in history and self-evident to the overwhelming majority of Frenchmen. It is not the result of pressure, as it has appeared to be. Independence and solidarity are placed alongside one another, so that when one is excluded the other is also. Solidarity is by no means a synonym for submission, in our view. In a union of sovereign states and free peoples like the Western countries, solidarity is based upon mutual principles. Solidarity in action requires consultation and coordination, not subordination. . . . France attributes the highest possible significance to consultations with its allies, especially Bonn. When France takes a position or carries out an initiative, it does so in such a way that its actions agree with the general interests of the West.

### 'A will to cooperate'

*Below are excerpts of an interview Chancellor Schmidt granted Le Figaro appearing July 7, as President Giscard's trip to West Germany got underway.*

**Q:** Can we talk about "Helmut Schmidt and Valéry Giscard d'Estaing" today the way we used to talk about "Charles de Gaulle and Konrad Adenauer"?

**A:** Yes, I think so. There is a continuity here which must be stressed. Ever since the Elysée Treaty which is associated with the names of Adenauer and de Gaulle, Franco-German cooperation has substantially developed, and is not simply based on the friendship that unites President Giscard and myself. This cooperation embraces the broad areas of French policy, German policy, the French economy and the German economy, as well as the cultural life of the two countries. . . . I think it can be said that never in European history has the will to cooperate been as great as it is now. Since you have made the comparison with de Gaulle and Adenauer, I would say this is particularly true in the field of foreign policy.

**Q:** Do the French overestimate Germany's power?

**A:** The French know that the weight of France and Germany differs according to the area in question. . . . In the field of economics, Germany might appear particularly well-placed to certain Frenchmen. However, the French must not forget that they have an extremely wealthy economy, and that their technology ranks very high throughout the world. Nuclear plants, computers, but also traditional industries like auto or naval construction attest to this fact. France is a first-rank industrialized nation, like Germany. Both suffer from the handicap of not having their own raw materials. The two are forced to feed themselves through their brainpower and their labor.

There are three significant differences in France's favor. France is a military nuclear power, Germany is not and does not want to become one. . . .

Second, even if this point is less important, France has veto rights in the U.N. Security Council while we have neither a permanent seat, nor veto rights.

Third—and this is much more important—we Germans depend on the guarantee of other states for the freedom of Berlin. . . .

But I would also like to stress that . . . because, since the days of Gen. de Gaulle, France has taken some distance from the alliance on the level of military integration, it is normal that Germany's influence, even though we are a non-nuclear power, is much greater within this alliance. On the other hand, France's freedom to maneuver is much greater than ours. . . .

We both want to maintain the balance of power in Europe in front of the enormous power of the Soviets. I want to stress that.

I also want to stress that there is another point of convergence: a mutual will to support, on the basis of balance, with the Soviet Union and the Eastern European states, in other words, to practice what we call a policy of detente. . . .

**Q:** Following your trip to Moscow and Giscard's trip to Warsaw [to meet Brezhnev—ed.], French public opinion is asking: Didn't Brezhnev dupe you both?

**A:** President Giscard d'Estaing is too well-advised to be anyone's dupe in international affairs. And I venture to believe that the same goes for me. I would add that Leonid Brezhnev and the other Soviet leaders are also too well-advised to think that they could fool Giscard or Schmidt. . . . Neither France nor Germany think that it is a good idea to insult a world power like the Soviet Union, which must maintain its respectability. While we speak clearly and firmly, we remain polite. . . .

**Q:** Some fear that Germany would try to obtain its reunification at the price of neutrality.

**A:** . . . I think that this is a task for the coming century. I cannot see further ahead; I am neither a prophet nor a meteorologist. . . . I think rather that progress will take place in cooperation within all of Europe, which will make the present division of Germany felt less acutely.

## 'The task of the century'

*West German Chancellor Helmut Schmidt's June 30-July 1 trip to Moscow produced agreement with the Soviet leaders on the need for joint East-West development of the Third World as a primary war-avoidance measure. We present here excerpts from Schmidt's speech at a Kremlin banquet in his honor June 30, as an illustration of the policy basis upon which the new Franco-German "superpower" is operating.*

This is my fifth visit to Moscow. Because of the present serious international situation I attach much importance to this visit. Mr. General Secretary, we can continue the tradition begun by your visit to the Federal Republic of Germany in 1978 and the various subsequent high-level conversations. . . .

The preamble of the Helsinki Final Act speaks about "the universality of detente" and the recognition of "close relations between peace and security in Europe and in the whole world." On May 6, 1978, we expressed ourselves jointly in Bonn for the "indivisibility of peace and for security in all parts of the world."

The disquieting direction of international relations during recent months has clearly demonstrated the significance of this pronouncement.

The Afghanistan crisis casts a broad shadow on East-West relations in Europe. It creates deep concern and great disturbance, especially in the countries of the Third

World, the non-aligned, and above all the Islamic countries.

In the Afghanistan crisis, the Federal Republic supports, in unison with France, with its partners in the European Community, and with the participants of the June 22-23 Venice summit and the overwhelming majority of the community of peoples, the resolution of the United Nations dated January 14, 1980, as well as the position of the Islamic conference at their latest two sessions.

The common goal of these resolutions and initiatives is the reestablishment of an independent, non-aligned Afghanistan, free of foreign troops, an Afghanistan which satisfies the wishes of the Afghan people and the legitimate interests of Afghanistan's neighbors.

I am sure that you, Mr. General Secretary, would substantially contribute to defusing this dangerous crisis, if you could explain that the announced pullback of Soviet troops from Afghanistan is the beginning of a continuous movement leading to complete withdrawal.

Mr. General Secretary, it is not long ago that you pointed out in a preface to the German edition of your speeches and interviews that today, crisis situations in part of the world affect international relations as a whole. I share this view.

Regional conflicts whose peaceful solution we should seek are complemented by world-scale tasks with which we can cope only by joint effort.

The necessary evening-out of interests between the North and the South, between industrial and developing states, is becoming increasingly complicated and increasingly pressing as a result of tremendous population growth in Third World countries and the soaring oil prices.

We are called upon to work on this task of the century for moral reasons and by force of our joint responsibility for peace in the world—Western industrial states alongside Eastern states, major oil-exporting countries as well as developing countries themselves. He who is concerned about peace on earth should refrain from imposing on the Third World countries his own concepts of a political, social or economic order. The Third World countries have a right to a diversity of forms, a right to internal and external self-determination, a right to freedom from hegemony.

Prime importance should be attached to the efforts to ensure sufficient energy supply on a world scale. Otherwise, a ruinous world struggle for the division of energy resources becomes imminent. Industrialized countries, oil-producing countries and developing countries which do not produce oil should come to terms with one another if they want to use their potential for economic development and prosperity. We can achieve much

through cooperation between our two countries. Mr. General Secretary, from the very beginning I welcomed your idea of holding a European conference on questions of energy, and I shall continue to come out in its favor. . . .

Unfortunately, there has been a continuing development in the area of medium-range nuclear missiles systems which jeopardizes the gains in stability from the SALT 2 treaty. Minister Genscher and I have repeatedly pointed out this dangerous development, publicly as well as in discussions with the Soviet leadership. No one could be unclear about our concern.

The Western Alliance had to prepare concrete steps, beginning in 1978, to correct an imbalance of forces in this decisive area. The result of long, very responsible deliberations is known: the NATO resolution of December 1979 contains, first, a defense decision and second, an arms limitation proposal. I appeal to our Soviet hosts not to dismiss these negotiation proposals.

We have read the May 15 declaration of the Warsaw Treaty countries. This document also speaks of readiness to negotiate on all weapons systems. This readiness would be made concrete, if you would agree to preliminary talks on medium-range systems without any preconditions.

The German and the Soviet people remember well the horrors of war: death, persecution, devastation. Mr. General Secretary, both of us have more than once spoken of the special responsibility of the generation to which you and I belong, which experienced the entire war.

We Germans, living in the center of Europe, can lose everything and gain nothing in a new war. The people in my country know this. Therefore, they unanimously share the main line of our policy, and it is precisely this which gives our political course consistency and clarity: Our course is a course of peace. . . .

It seems to me that our bilateral relations are a good example of how, given readiness for negotiations and desire for balancing the interests involved, it is possible to settle problems, remove conflicts and reduce tensions. . . . That is why I welcome the present opportunity to talk directly with you.

At the same time I would like to know the viewpoint of the Soviet leadership. I hope that, transcending the framework of our bilateral cooperation, we shall make a contribution to the solution of problems which concern us and our partners.

Mr. General Secretary, I raise my glass and drink to your health, to the health of the Soviet leadership, to good relations between the Soviet Union and the Federal Republic of Germany, to a peaceful solution of conflicts and to peace in Europe and throughout the globe, which we all need so much.



# China's dilemma in East Asia

by Daniel Sneider

The memorial service for the late Japanese Premier Masayoshi Ohira in Tokyo has turned into a mini-summit meeting on the present strategic situation in East Asia. Gathered in Tokyo are President Carter (accompanied by Brzezinski, of course); Chinese Premier and Party Chairman Hua Guo-feng; Thai Premier General Prem; Australian Prime Minister Malcolm Fraser; Khmer Rouge "Deputy Premier" Ieng Sary; and the Japanese themselves, who are still officially between governments.

The Hua-Carter meeting, taking place as we go to press, has rightfully occupied the greatest attention. While official sources have gone to great lengths to emphasize the "symbolic" nature of the almost two-hour meeting, the White House listed areas for discussion as Afghanistan, relations with the Soviet Union, bilateral relations, and the Southeast Asian situation. However, as one top member of the New York Council on Foreign Relations put it: "Sure, they will exchange views on the Soviet Union and Afghanistan, but the real item of importance is Southeast Asia. They will be probing each other for their intentions in that situation."

The "probing" takes place under conditions of great tension in the Southeast Asian region, the greatest since the February 1979 Sino-Vietnamese war. The constant political-diplomatic warfare between those two countries threatens once again to erupt onto the military plane, with telltale signs of direct fighting along the northern Vietnam-China border, Chinese charges of "violations" by Vietnam, and threats to teach Vietnam a "second lesson."

The danger of this situation is not simply a return engagement of the Chinese invasion of Vietnam—the last time that show played town it came perilously close, closer than most people knew, to a U.S.-Soviet showdown, with the Soviets intervening in support of allied



Vietnam and the United States in support of "ally" China. While Carter administration spokesmen and State Department desk officers are fond of the nuance of difference between "alliance" and terms like "parallel strategic interests," the fact remains that present U.S. policy is committed to a strategic alliance with the People's Republic of China.

The content of that alliance has been gradually evolving, passing recently into open defense and military cooperation; but it has yet to be really tested in a full-blown strategic crisis. How far will the U.S. go in defense of Peking? Is there a divergence between Peking's interests and those of the U.S.? What does Peking really want out of this relationship? These questions in one way or another will underpin the probing in Tokyo. Certainly the U.S.-China alliance is at a crucial turning point.

The present strategic crisis in Southeast Asia then must be examined from multiple viewpoints and policies. For now we take a brief look at the situation from the standpoint of the three basic sides of the "triangle"—from Peking, from Washington, and from Moscow and Hanoi. (We leave out a lesser but important side, the views of the other nations of the region itself.)

## 1 The view from Peking

It is Peking that faces the greatest problems in the present situation. The objective of Chinese policy, when looked at stripped of camouflage, is to carry out a long-term economic and military buildup which looks to a point sometime in the next century when China has the muscle to act as a real "superpower" in a bid for world domination. Aside from the continued problems of internal instability and the desperate weaknesses of the Chinese economy, the success of this Han ambition depends on securing (again) Chinese hegemony over the south-

ern rim of Asia as well as its position regarding Korea and Japan.

The immediate key to that is Southeast Asia although the Chinese remain deeply entwined in the affairs of South Asia as well. The Pol Pot regime in Kampuchea (Cambodia), which murdered almost half the population, was the Chinese foothold in the region, combined with the influence wielded to great effect in countries like Thailand and Singapore by the millions of the Overseas Chinese community. The greatest obstacle to Chinese domination was and is the nation of Vietnam, a dynamic people with a centuries-long history of resistance to Chinese expansion in the region.

The maintenance of the diplomatic fiction of the deposed Khmer Rouge regime and the continuation of Chinese-backed military operations inside Kampuchea since the January 1979 Vietnamese-backed overthrow of that regime have been the primary objective of Chinese policy. These in turn have served Chinese influence among the non-communist nations of ASEAN (Thailand, Singapore, Indonesia, Malaysia, and the Philippines). Peking's nightmare is the consolidation of the Indochinese alliance of Laos, Kampuchea, and Vietnam, a breathing space to allow them to begin to realize the considerable economic potential of that grouping, and the establishment of some kind of entente and economic cooperation between Indochina and ASEAN.

While there have been ebbs and flows during the past year and a half, the trend of events has gradually moved out of Peking's control. The situation within Kampuchea has been stabilizing, although massive problems remain; and more importantly, despite continued public opposition to Vietnam's military presence, some of the ASEAN nations have begun to acknowledge the necessity of accepting the status quo and abandoning the fiction of recognition of the Pol Pot regime. Over the past few months Vietnamese diplomatic overtures toward ASEAN have intensified as Foreign Minister Nguyen Co Thach, a highly able diplomat, toured the region and sought to reassure the governments of Vietnam's desire for stability in the region.

There is no doubt that these efforts were bearing fruit, particularly with Malaysia and Indonesia. Peking, of course, had deployed its own representatives, including Foreign Minister Huang Hua, on "counter-journeys." But it is well known that among many in the region who have viewed the Overseas Chinese communities within their own countries with great suspicion it is China, not Vietnam, that is considered the real threat. The Indonesians characteristically see Vietnam as a "buffer" between themselves and China.

Recent events have not really helped Peking's situation. The Thais, who are closest to Peking, staged a neat provocation on the border, and continue to allow Peking

free access and assistance in maintaining the anti-Vietnamese armed forces. Thailand did manage to induce a setback to Vietnamese diplomatic efforts at the recent ASEAN ministerial meeting. However, such setbacks are of lesser concern compared with the military reality—which is that the Vietnamese have successfully smashed a long-planned rainy-season reinforcement of the Khmer Rouge and are now delivering heavy blows to their foes along the border region.

The successful crushing of the Pol Pot remnants in Kampuchea and the disruption of the staging areas in Thailand threatens to wipe out Peking's immediate assets. The entire infrastructure, including the flow of food into the Khmer Rouge carried out through Thailand with the aid of the international relief agencies, is collapsing with every passing day. Consolidation of this situation will, with the passing of some months, bring opportunities for Hanoi to renew its diplomatic offensive in the region. The announced Indian recognition of Kampuchea will considerably aid those efforts.

This, then, is Peking's strategic dilemma. They can of course adopt last year's course, as they have been threatening to do over the past days; that is, to directly assault Vietnam, at the least "bleed" the Vietnamese and set them back. The problem with that is that the Vietnamese are even better prepared than before to meet Chinese aggression, and such a course runs a great risk of inviting Soviet intervention—an intervention that could set back Peking's 21st-century dreams by decades at least.

They must do something or lose either way. Peking's classic answer is to maneuver the Carter administration into bearing the brunt of the confrontation, positioning the U.S. into confrontation with Moscow and minimizing the direct risks to China. The stepped-up U.S. arms aid to Thailand, potential U.S. military intervention in "defense" of Thailand, deployment of U.S. naval and other forces into the region, and escalation of U.S. defense technology and potentially arms sales deliveries to China—all these are likely to be on the Chinese agenda with Carter. Thailand remains the key point because, most of all, it is the rear base for the Chinese operations into Kampuchea. This does not rule out other actions, including a Chinese attack on Vietnam (and/or Laos), in which the clear impression is given that Washington stands behind Peking's actions.

## 2 The view from Washington

Perhaps the most difficult aspect to assess is just what the Carter administration thinks it is doing in this situation. Increasingly the policy of the administration has been one of pure propitiation of Peking's desires and objectives. U.S. interests and policy in East Asia have

been identified almost totally with those of China. Benchmarks of that policy in the recent period included Chinese defense chief Geng Biao's visit to Washington and the lifting of restrictions on sale of defense-related technology to China, followed by the much-publicized speech by Assistant Secretary of State Richard Holbrooke, which declared a public end to the policy of U.S. "even-handedness" toward the Soviets and China.

An interesting signal of prevailing views on the eve of the Tokyo meeting is the visit by Holbrooke to Peking this past week. While the visit has been described by State Department officials as a "routine" one scheduled in advance, it clearly took on new importance. Very little has been reported from the visit, but one item, reported by Japan's *Kyodo News Service*, is indicative—Holbrooke reached an agreement with the Chinese to hold regular "consultative meetings" of the two countries' "working-level defense officials" at regular intervals every three to four months. Holbrooke had flown to China from the ASEAN meeting; he was joined in Peking by Senate Majority Leader Robert Byrd, who apparently sought to reassure Peking about the continuity of U.S. policy in the context of the election-year situation.

The common use by Washington and Peking of a formula linking the issue of Afghanistan with that of Kampuchea is evidence of how far U.S. policy has gone in placing the United States behind Peking's plans, including of course the maintenance of their Pol Pot assets. Within ASEAN, the U.S. has deployed its considerable remaining influence in support of the Chinese view of events. All this suggests, taking into account Brzezinski's well-known obsequious attitude toward Peking, that Washington will be all too ready to "aim to please" the Chinese. Interviewed on Japanese television just before his meeting with Hua, Carter openly called for a triangular U.S.-Japanese-Chinese axis as a "means by which we can share our long-range strategic concern to minimize the threat of the Soviet military buildup."

### **3 The view from Moscow and Hanoi**

The last crucial element is Vietnam and its Soviet allies. While the views of Hanoi and Moscow are not necessarily identical, there is clearly a great degree of closeness under the present circumstances. The top Vietnamese leadership, led by Vietnamese Communist Party General Secretary Le Duan and Premier Pham Van Dong, met with their Soviet counterparts in Moscow last week. The Soviet leadership delivered a clear statement of support for Vietnam and a warning to Peking not to attempt an escalation of the present tensions.

On the official level, the final communiqué gave a clear statement of their views on the situation in South-

east Asia. It states: "They noted that with the support of the United States, Peking wants to destabilize the situation in the area of Indochina, is organizing for this purpose military demonstrations on the Sino-Vietnamese border, is encouraging provocations by the remnants of the Pol Pot bands against the People's Republic of Kampuchea, and is exerting undisguised pressure on ASEAN member states. The recent complications on the Thai-Kampuchean border are also directly connected with Peking's hegemonistic policy. Assertion of an atmosphere of peace and stability in that region would accord with the vital interests of the countries of Southeast Asia. The Soviet Union displays understanding and approval of the actions and initiatives of the Socialist Republic of Vietnam, Laos, Kampuchea and also other countries of Southeast Asia directed at the attainment of this aim."

Neither Moscow nor Hanoi is in any mood for compromise regarding Peking. It is known that during the last war with China, the Vietnamese made it clear that they did not want direct Soviet intervention, and Vietnamese diplomatic officials would not comment on the possibility of Soviet attack on China. Sources in the Indian capital of New Delhi now report a changed attitude on this question, with the Vietnamese clearly acknowledging that Soviet retaliation against a Chinese attack is a serious possibility.

At the same time, neither country desires such a situation. Despite their military prowess and their readiness to battle the hated Chinese, the Vietnamese have paid a heavy price—particularly in setbacks to their economy and postwar reconstruction plans as a result of the Chinese war and the burden of their present defense requirements in Vietnam and Kampuchea. The Vietnamese seek a period of some stability, perhaps without a diminution of the Chinese threat, to tackle their severe economic problems. Moscow is providing large-scale economic aid to the Indochinese states, and seeks stability in the region to pursue its own diplomatic-political inroads among the ASEAN states; the Soviets are therefore likely to share this desire.

The now legendary toughness of the Vietnamese leadership suggests that they will not go out of their way to seek accommodation with Peking. They are also wary, as is Moscow, of the U.S.-China relationship; on July 7 the Vietnamese Army daily *Quan Doi Nhan Dan*, commenting on Holbrooke's visit to Peking and the Carter-Hua meeting, cited a "new plot" by the two against Vietnam. In short, the Vietnamese are ready for war but will look to avoid it. They will also seek to press home to ASEAN that the path of alliance with the U.S.-China axis will be fruitless, and that eventual detente and even cooperation with Indochina can provide stability for everyone in the region.

# Church radicals organize 'Chicano violence'

by Tim Rush

In the wake of the mid-May Miami riots, the word spread fast across the country, not without a little media prompting: will the Chicano *barrios* of the Southwest be the next to go up in flames?

Yes, said a group of Chicano radicals meeting in San Diego May 25. It was like the late 1960s again. The list of San Diego speakers was headed by Rodolfo "Corky" Gonzales, emerging from a decade of relative obscurity—the Corky Gonzales who authored the "Aztlán Manifesto" in 1968, one of the triumvirate of media-built Chicano leaders, along with José Angel Gutierrez of La Raza Unida and Reyes Tijerina of the New Mexico "Courthouse Raid."

A month later, the League of Latin American Citizens (LULAC) president Rubén Bonilla was grilled by the press on the same topic at his national convention. His answer was no.

And in between, Attorney General Civiletti was asking the Justice Department's Hispanic Advisory Committee to "keep him informed of any possible future Miami incidents."

The possibility of violence on the U.S.-Mexican border is no sudden awakening. It represents the maturation of fifteen years of "special operations" implanted from outside. Emerging in the lead, both in terms of support operations and ideological underpinnings, is the "liberationist wing" of the Catholic Church.

"The Chicanos must not become another minority," proclaims the draft document now circulating for the mammoth "Theology of the Americas" conclave in Detroit at the end of this month. The conference will bring together all the big names of "left" Jesuit subversion in Latin America with their respective counterparts in the U.S. With the slogan, "no minority," the liberationists state that they mean the eradication of any "Mexican-American" or "Hispanic-American" identity tied to the process by which other minorities sought assimilation

into the ideas of "America." Instead, Chicanos must turn to "Aztlán"—the invented Chicano "homeland"—and "autonomy of homogeneous political units."

This represents a full-scale relaunching of a cult-ridden separatist identity, capable of being directed into riots and terrorism and enmeshed in border drug- and arms-running networks.

Though the development of "Chicano Power" has not been accorded headlines since its initial flowering in the 1960s, it has been minutely profiled by top thinktank strategists throughout the last decade and built into policy options studied at the highest levels of government.

The basic context of these scenarios: Chicano militancy in an environment of crackdowns against "illegal aliens" and the gradual sealing of the U.S.-Mexico border. The policy options: a weapon for destabilization of Mexico, and only slightly less powerful weapon for terrorist disruption of the U.S.

The most famous of these studies is the 1975 report of immigration expert Arthur Corwin, "America's Illegal Alien Dilemma." After conducting confidential seminars at the State Department and the U.S. embassy in Mexico during 1974 and 1975 on what he termed "emerging Chicano Quebecs," Corwin submitted the written report on the topic—complete with maps showing a Southwest balkanized between Indian and Chicano reservations—to the Domestic Council on Illegal Aliens, chaired by then-Secretary of State Henry Kissinger. It is reported that Labor Secretary Ray Marshall circulated the study again at the beginning of the Carter administration.

More recent policy planning has tied border unrest into scenarios for the "Iranization" of Mexico. As Richard Fagen, a top Council on Foreign Relations analyst, has written, "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. . . . 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.”

As we document below, the development profiled as the principal trigger for widespread unrest in the borderlands and Mexico itself—a crackdown on undocumented Mexican workers in the U.S.—is now fast becoming reality. Attorney General Civiletti, a member of the Select Commission on Immigration and Refugees, is in the thick of this hardline push.

As this happens, a vast apparatus of “migrant rights defense” groups on both sides of the border is ready to go into action. One of the leaders of the May 25 San Diego gathering, Hernán Baca, heads just such a defense committee. On the Mexican side, over 80 organizations, reaching as far as the giant labor umbrella group, the Labor Congress, joined forces in April to promulgate a “Migrants Rights Charter.”

At the same time, the “police brutality” issue is as hot in the Hispanic communities as in the black communities, and is being made still hotter by Department of Justice action itself.

Civiletti asks his Hispanic Advisory Board to “inform” him if any Chicano *barrios* are about to explode. Maybe Mexican-Americans should ask *him* for the advance warning?

## Tightening up on immigration

“You will notice that Attorney General Civiletti, speaking to the national LULACs [League of United Latin American Citizens], edged up to two or three very, very significant points that would have to be considered [for an effective crackdown on illegal immigration], including the possibility of a universal work card. A lot of things like that are now being discussed openly. Some of them, over the past year and a half, have been very sensitive to the Hispanic-American community, or to employers, or to the humanitarian groups. To have all these things aired out now to the detail that they are is extremely useful from a public policy standpoint within the United States. . . .”

This is Richard Rubottom speaking, chief border policy adviser to Gov. Bill Clements of Texas. This was the “timely context,” Rubottom told a reporter this

week, in which Clements had presented a comprehensive program to control undocumented labor from Mexico to a June 26-27 meeting of U.S. and Mexican border state governors.

There was every reason for Rubottom’s stress on how “sensitive” some of these taboo topics are. Work cards, no matter what their pretext, can turn into a means of worker regimentation as they did in Nazi Germany—especially under the kind of profound economic dislocation now hitting the U.S. Other proposals re-emerging, after rejection in a first round of public discussion at the time of Carter’s ill-fated August 1977 anti-illegal immigration package, are sanctions against employers who hire undocumented workers; strengthened border patrol; and elimination of any temporary work permits, especially in the agricultural area.

The highlights of the new barrage of anti-immigration agitation:

- The decision by the Select Commission on Immigration and Refugee Policy to “go public” with its hardline, heretofore private, year-and-a-half deliberations.
- The amendment Kentucky Sen. Walter Huddleston put through the Senate at the end of June specifying that total legal immigration to the U.S. for the fourth quarter of 1980 cannot pass 100,000—a reduction of at least 30 percent in currently mandated levels and the first time ever that a house of Congress has acted to set a ceiling in this manner.
- The 15 percent hike in border patrol personnel voted up by the House just before the July 4 recess, along with a \$22 million supplemental appropriation to the INS.

### Approaches to the problem

Two ways of viewing the issue of illegal immigration are at issue here.

One, presented by Democratic Presidential candidate Lyndon LaRouche to the same LULAC convention where Civiletti spoke, seeks to end the abuses and exploitation of foreign workers, particularly Mexicans, that are possible precisely because they are “illegal.” The focus of this approach is how to restart the U.S. economy as a whole, and within this climate of expanding demand for skilled labor in the U.S., build a legal framework for incorporating foreign laborers heretofore drawn in without provisions for giving them legal status.

The other approach is to view the current U.S. depression as a heaven-sent opportunity to shut down the entry of foreign labor under any arrangement; and the entire controversy over “illegal aliens” as a way to introduce previously impossible regimentation of the work force as a whole. Top planners in this group repeatedly told *EIR* that the ugly incidents which erupted around resettlement of Cuban refugees two months

## The nation's most candid planner of genocide

In 1976, one of the leaders of the zero population growth movement in the U.S., agronomist William Paddock, told an interviewer that the "Mexican population must be cut in half. The way to do this is by closing the border. Close the border and watch them scream." When the interviewer asked how closing the border translated into the deaths of over 30 million Mexicans, Paddock replied calmly, "The usual way. Through famine, war and pestilence."

Paddock is not, unfortunately, an isolated homicidal Malthusian. He is at the center of a nexus of Washington lobbying groups—including Zero Population Growth, the Environmental Fund, and FAIR—which are coordinating the renewed drive toward a crackdown on undocumented workers.

In a recent interview made available to *EIR*, Paddock had this to say:

**Q:** What's your view of the current situation in Central America and Mexico?

**A:** I think Central America is down the tubes. In a reasonable amount of time the same can be said of Mexico. If you look at the recent rate of population growth, there is no, absolutely no logic that will show that stability is going to remain there. Take Mexico City. How can you visualize Mexico City not exploding over the next five, ten, fifteen years.

Development is impossible with the current rate of population growth. Unless you let everyone into the U.S.—and [in that case] there's going to be a reaction in the United States. It's coming, and it should. One of these days, there's going to be a very violent reaction toward Mexico. Look at the Cuba thing [the protests against Cuban refugees].

**Q:** Isn't there a possibility of economic growth rates to keep pace with the population growth?

**A:** Well, I don't think that's a very mature question, really, for someone who's knowledgeable about the area. Some problems there are no solutions to. Maybe 25 years ago, something could have been done. Now the problem is here. Even if you stopped all births, they're here, they're eating, they're walking around the place. . . . I believe there is no country on earth that is not overpopulated.

ago demonstrated that the temperature of public opinion is now right for a major crackdown program.

The second view is the predominant one in the new flurry of debate. And the Select Commission is definitely the "big boy on the block" in shaping this debate.

### Hesburgh and Co.

The Commission was created in October 1978 on the initiative of Sen. Edward Kennedy, with the concurrence of Congress and the White House. The Commission was structured for maximum "blue-ribbon" prestige. The 16 members are drawn one quarter from leaders of the Senate, one quarter from the House, one quarter from the Executive Branch—the secretaries of State, Human Services and Labor and the Attorney General—and one quarter from private life. There is a careful mix of Democrats, Republicans and "independents." Among the individuals from "private life" are Jack Otero, the AFL-CIO's leading Hispanic lobbyist, and the Commission's chairman, the ubiquitous Father Theodore Hesburgh. Hesburgh is also chairman of the Rockefeller Foundation and a director of the New York Council on Foreign Relations.

Though the final report is not due until March 1981, the statements of members of the Commission such as Civiletti, press leaks, and reliable private sources, reveal the following composite of the Commission's hard-line recommendations:

- Some form of worker ID system;
- Federal sanctions against employers of undocumented workers;
- A specified total of legal immigration per year, perhaps 750,000;
- Some form of amnesty for undocumented workers currently residing in the U.S. with a job history;
- Additional resources for the border patrol;
- No program for a seasonal work pass system, called by some a "guestworker" system.

Despite the inclusion of an amnesty provision, the thrust is toward "turning off the spigot" in an atmosphere of heightened labor controls across the country.

### The hard core

Working in parallel with the Commission is the hard core of rabid zero-growth ideologues, based in an interlocking nest of lobbying groups in Washington. These include the Zero Population Growth organization, the Environmental Fund, and the Committee for Fair Immigration Laws, generally known as FAIR.

The mentor of the group is William Paddock, an agronomist who *explicitly* states that he sees shutting the border with Mexico as a required measure for the elimination of half of Mexico's population through "famine, war and pestilence." (See box.)

Paddock, who used to be on the board of ZPG, is

currently on the boards of both FAIR and The Environment Fund.

According to sources in FAIR, confirmed from Sen. Huddleston's office, the Huddleston amendment lowering the limit for legal immigration in the fourth quarter was entirely the result of collaboration between Huddleston's office and FAIR. It is not known if Huddleston is aware of the Paddock connection.

FAIR is similarly serving as the direct consultant to House Republicans Ham Fish and Clair Burgenor, both deeply involved in immigration control efforts. Fish is a member of the Select Commission, and FAIR has testified numerous times to the Commission directly.

Illustrative of FAIR's media influence, an upcoming Roper poll will show that "91 percent of Americans" favor an all-out campaign against illegal immigrants. How does FAIR know already? Bud Roper shares a spot on the Environmental Fund's board of directors with Paddock.

Extensive direct media exposure has included the McNeil-Lehrer Report, *Newsweek*, and the *Washington Post*; even more significant, FAIR officials boast of "planting all the recent *New York Times* coverage of the issue, particularly the stories by their new Justice Department reporter, Robert Pear. That's entirely us, telling them what's going on."

In its latest move, FAIR is attempting to publicize the research of Texas professor Ronald Grenness as a counter to the currently hegemonic work of San Diego specialist Wayne Cornelius. This is much more than a war of academic pens.

Cornelius's research showed that most Mexican undocumented workers came on a seasonal basis, generally tied to agriculture, and were not seeking permanent work. His studies have served as the basis for several major "guestworker" proposals, most notably those of Sen. Harrison Schmitt (D.-N.M.) and Clements.

In the minds of at least some adherents, such a guestworker program would allow Mexico a continuing, substantial "safety valve" arrangement, and reduce some of the abuses of the current "illegal" status for such workers. The proposal is not the same as LaRouche's, which aims at eliminating agricultural "stoop labor" through mechanization and creating job openings in other, higher skill areas; but it nevertheless tends away from Paddock's "shut the border" crusade.

Grenness' research reportedly shows that a large and increasing proportion of Mexican immigrant workers come from urban areas, not rural, and already have significant skills. They come to the U.S. seeking permanent, skilled employment.

The implication, especially in a time of shrinking skilled employment in the U.S.: shut the border down tight. And that's the direction the Select Committee is moving in.

## Civiletti proposes work cards

*Backing and filling and sweating over every word, this is how Attorney General Civiletti broke the news to the nation's Hispanic community that he is working with the other members of the Select Commission on Immigration to legitimize the hated concept of a work card for all American workers. He was speaking to the national convention of the League of United Latin American Citizens (LULAC) June 27 in Washington, D.C.*

"... Legislation in the area of employer responsibility has been considered by Congressional committees since the early 1950s. However, recent efforts to penalize employers who knowingly hire undocumented aliens have been strenuously opposed by Hispanic civil rights organizations because of the legitimate fear that employers would cautiously but discriminatorily prefer not to hire persons who look Hispanic or would ask *only* Hispanics if they had proof of citizenship or permanent resident alien status. To counter these fears, some proposed to the Select Commission [on Immigration and Refugee Policy] a national work authorization card or permit, the theory being that since every person regardless of race or nationality or ethnic background entitled to work must possess a card when he or she applies for a job, employers will not be tempted to exercise discretion which might discriminate against Hispanics and other minorities regardless of their residency, their lawfulness, or their citizenship.

I personally am not concerned about adding another card similar to my driver's license or my Social Security card to the many which I already carry. However, I am very sensitive to the fact that many Americans are concerned and are fearful of what is sometimes erroneously referred to as a national identification card and the invasion of privacy and freedom implications of such a document. Finally, as a law enforcement official, I am not convinced of the potential for success of an overly broad employer responsibility law. If an employer responsibility law becomes a part of the Select Commission's recommendations, and I think there is some good support for that concept, I will urge that such a law be

designed so that it is fair and reasonable and has a good prospect for being obeyed and enforced. . . . Also, in order to protect against unequal enforcement or intrusions into privacy, I would recommend a very simple identification or work card; that is to say, one which contains a limited amount of information—

[No! No!—audience]

I'm saying *if* that was the route chosen by the Commission. I'm not saying that I'm recommending the card at all. In fact, I'm very sensitive to the fact, as I've expressed earlier, that people are absolutely opposed, lots of people of all kinds and varieties, to any kind and that sentiment has been expressed to the Commission. But consistent with the view of many Hispanic leaders, an employer bill is acceptable, of any nature and kind, only if everyone is subject to the same—everyone, citizens, aliens and those not—is subject to the same pre-employment request whatever it may be and whatever the formula that is worked out. . . ."

## ***New York Times* backs I.D. system**

*Without blinking an eye, the "liberal" patrician New York Times swung in behind the Civiletti call in a lead July 6 editorial:*

"The issue is how to stem the tide of illegal immigrants crossing the border from Mexico. The proposed solution is to give all Americans a forgery-resistant Social Security card and require that it be shown to employers in order to get a job. But [some] recoil from use of such a card. It would, they fear, lead to national identity papers and police state-ism. We're inclined to think, 'No, it won't.'"

True, the *Times* notes, "Americans no longer seem so concerned about the dangers of a police state; . . . they would rather be searched at airports than hijacked in the air." Also true, that "the FBI, for instance, might wish authority to ask people for their cards in the course of trailing fugitives. In the wake of an assassination, say, or a shocking terrorist episode, could Congress resist yielding such authority?"

However, "It is no more sensible to reject the identification idea because of potential problems than to ban telephones because they can be tapped."

# **Liberation theologians prime terrorism**

by Carlos de Hoyos

At the top levels of the Chicano separatist movement leadership today are found, not the "Chicano radicals" of the late 1960s, but the priests of the Jesuit-inspired Roman Catholic dissident movement known as the "Theology of Liberation."

"Resistance to Americanization is not to be considered a sign of Hispanic backwardness," proclaims the draft document of the Liberationists' upcoming "Theology of the Americas" conclave in Detroit. It is "a badge of strength and courage."

This is an extraordinary manifesto, one that should send chills down the spines of American readers. The same Theology of Liberation which, under Jesuit direction, is building terrorism and fratricidal polarization throughout Central America has established an entrenched position in our own Southwest—and is openly identifying with the cause of "Aztlán"—a Chicano Tehran.

The Hispanic section of the Detroit document was authored by officials of PADRES, the organization of Hispanic priests founded by Archbishop Patrick Flores of San Antonio, the leading "liberationist" figure in the U.S. Catholic hierarchy. When *EIR* attempted to reach him in mid-June, we could not be put through; he was involved in private meetings with the Peruvian liberationist priest, Gustavo Gutierrez. Gutierrez is considered the "father" of Liberation Theology, coining the term in a 1968 work. He was the "grand presence" at the 1975 Detroit I conference; he has been integral to the planning of that conference's sequel.

And just as in Central America, the Jesuit role is decisive. The executive director of PADRES, an organization controlled by the liberationists, though it includes more traditionalist factions, is Trinidad Sánchez, S.J. Seed money for the PADRES newspaper, *Entre Nosotros*, came from the Jesuits. Archbishop Flores is now establishing a network of special schools for children of undocumented workers with a \$75,000 grant from Jesuit headquarters in Rome.

## **'Cops' and la Raza Unida**

The close interaction of Flores and the Chicano radicals of southern Texas is longstanding. A special



guest at Patrick Flores' 1970 investiture as bishop was José Angel Gutierrez, the Chicano radical who founded the La Raza Unida Party together with Denver's Corky Gonzalez, founder of the "Crusade for Justice."

La Raza Unida's paramilitary arm, named "Brown Berets," was suspected of arms and drug running operations across the border with Mexico. LRUP's founding principles were explicitly those of "Aztlán" separatism. Its Washington, D.C. coordinator, Frank Shaffer Corona, stated two years ago that "We're linking up with the PLO and the Quebec separatists. . . . What would the U.S. do if faced with coordinated action between Belize, the PLO, Quebec, Aztlán and Puerto Rico?"

For the previous decade, Flores had been a driving force behind the Church-run activist organization, Citizens Organized for Public Service (COPS). In the late 1960s, it joined activities and personnel with the then-emerging "Chicano Power Movement" bankrolled by the Ford Foundation, which also set up a laundering

agency, the Mexican American Unity Council, to funnel money to José Angel Gutierrez' Mexican American Youth Organization (MAYO). The base of MAYO's operations: St. Mary's College in San Antonio, opened by Flores.

One touchstone for understanding the Liberationist operation is the case of Mário Cantu.

Cantu, a small-time restaurant owner in San Antonio, served four years in jail in the mid-1960s for heroin smuggling. While in prison he was "radicalized." In 1976, when he was convicted on charges of hiding undocumented workers, he was already in touch with the most experienced terrorist controller in America, William Kunstler, best known for his defense of Weathermen, FALN terrorists and the Baader-Meinhof gang.

Given four years' probation, Cantu established personal liaison with one of Mexico's scattered mountain guerrilla bands active at that time, the United Proletarian Party of the Americas, declared his affiliation with the party, and insisted that Chicano liberation was

## 'Theology of the Americas'

*The following are the "Hispanic Community" subsections of the working document circulated in preparation for the Detroit II conference, "Theology of the Americas," July 31 to August 6, 1980.*

. . . 60. It is no longer possible to classify Hispanics as either an immigrant group or a racial minority. Moreover, like the Native Americans, Hispanics do not have to turn their eyes to a distant continent to find their homeland. The majority of Mexicans and Puerto Ricans have never become a part of the United States—they only belong to it [definition of Supreme Court of Puerto Rico's status]. The resistance to Americanization is not to be considered a sign of Hispanic backwardness, as some sociologists would have us believe: rather the persistence of a distinctive culture, music, dance, and religion is a badge of strength and courage.

. . . 61. However, Hispanics are divided as to the best way to respond to the future. There is one tendency to define Hispanics as a new kind of "minority group" within the United States. Being a minority group entitles Hispanics to participation at all levels of the present society. By the use of affirmative action and racial quotas, such a strategy ensures a rapid and sudden expansion of Hispanic presence into areas

where few, if any, Hispanics had previous access. But this strategy does not change the system—it only supplies different managers. This points up the necessity for immediate steps to confront the adverse consequences of the "minority group mentality." This is a challenge to Hispanic leadership.

62. Rejection of a future within the United States by Puerto Rico, and increased solidarity of Hispanics with Latin America, would necessitate a new economic order in the Americas. Such a change would require a regionalization of production and energy consumption. Moreover, this kind of shift would likely favor the autonomy of homogeneous political units in which the environment would be preserved and citizens could establish collective social goals instead of being victims of consumerism. The cohesiveness of the Hispanic people becomes a linchpin of the future of the entire United States. There are some Hispanic leaders who visualize the creation of Aztlán from parts of conquered Mexico in the Southwest. They do not necessarily aspire to the creation of a new republic, free and independent from the United States, but they do urge the reinsertion of their people and lands into the cooperative reality of a new hemisphere in which the Latin American peoples work as equal partners with Anglo-America.

63. To be or not to be a minority of the United States? Most of Hispanic theological reflection will hinge upon this question.

possible only on the basis of violent revolution in Mexico. Mexican authorities in Monterrey sought him on gun-running charges.

Cantu fled to Europe for a year of mysterious wanderings through Europe's terrorist circuits in late 1978. The only recorded stops were with Amnesty International in Paris and in the Basque separatist region of Spain. His return a year later was prepared by a highly publicized "Defense Committee," including Kunstler; "Red Bishop" Méndez Arceo of Cuernavaca, Mexico's best-known terrorist controller; and Patrick Fernandez Flores.

Patrick Flores and his PADRES organization have moved on to become major backers of Cantu's latest project, an "international tribunal," Bertrand Russell-style, to expose human rights crimes against Chicanos.

## Test-tube radicals in the Land of Aztlan

by Dolia Pettingell

Over recent decades, the creators of cultural relativism and the drug counterculture have constructed a synthetic belief structure for the Mexican-American population, the second largest ethnic group in the United States. The message is that Mexican-Americans are a state within a state, an alienated minority with their own "roots," wholly opposed to "Western values."

This contrived ideology has been hammered into Mexican-Americans to the point that subgroups of this population can now be used to destabilize against both the United States and Mexico, with credibility as a "sociological phenomenon."

An appropriate operational plan for this purpose was assembled by top U.S. policymakers and elaborated at London's Tavistock Institute, a branch of British intelligence. The plan is to induce Mexican-Americans to fight for their liberation, as defined by "their own name, their own language, and their own nation." In this way they can regain their "historical roots," which must be traced back to the period before any foreign force came to "impose" its culture—that is, back to the bestial Aztec civilization of pre-Columbian Mexico.

In order to incubate the radicals required for this package, Tavistock launched an operation to revive the use of ancient Mexican hallucinogens, in the form of peyote or mescaline, employed in pseudoreligious rituals. Simultaneously, intelligence outlets like the Institute for Policy Studies and the Ford Foundation began to develop within Mexican-American radical groupings the

needed infrastructure for this new combination of drugs and cultural relativism. The most notorious of these groups were those originators of the "Chicano movement" who agitated for a nation to be named Aztlan, the mythical fatherland of the Aztecs.

One base of the operation was the MK-Ultra project set up in Zihuatanejo, Mexico by Timothy Leary, who had been purged from Harvard University for his rampant drug experiments. Leary and his mentor, British intelligence operative Aldous Huxley, chose this isolated Indian resort for further experiments with LSD and peyote. Huxley's American research group included the late Gregory Bateson, husband of Margaret Mead; it was Mead who devised the term "cultural relativism" to provide a cover for her racist studies of blacks and Indians, whom she considered inferior creatures unsuited for anything but neocolonial existence.

### An 'Aztec' version of *The Doors of Perception*

Before 1963 was over, the Mexican government had thrown Leary and his group out of Mexico. Five years later, at the peak of the countercultural student-radical movement throughout the world, Tavistock launched a broader offensive that summed up years of experiments with drugs and ethnic manipulation techniques.

The project was a book titled *The Teachings of Don Juan: A Yaqui Way of Knowledge*, supposedly written by one Carlos Castañeda. Though widely played up for the U.S. counterculture as a whole, the book was specifically aimed at testing the "Aztec" version of the drug counterculture among Mexican-American radicals. It soon became an effective recruitment tool.

Many have raised doubts about the actual existence of Castañeda, a supposed Mexican-American anthropology student. The book's resemblance to Huxley's benchmark drug advocacy in *The Doors of Perception* in any case marks it as a spinoff of an MK-Ultra operative or team of individuals. The style and content of both books is virtually identical; Huxley's is the "Western" version of how to find a "different," "non-ordinary" reality through LSD and other drugs. Castañeda translates the line into "Aztec." "Peyote" is presented as a person with feelings who will keep its users "pure," not contaminated by progress or urban society.

In the Chicano movement, the combined efforts of the Institute for Policy Studies, the Ford Foundation, and British intelligence have significantly accomplished what Aldous Huxley first proposed in 1934, when he wrote:

To industrialize and civilize primitives may be impossible. But to introduce a salutary element of primitivism into our civilized and industrialized way of life—this, I believe, can be done.

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## The Israeli connection

*The press has taken little notice of organized crime's rise in Israel, and even less of a new book exposing it.*

**T**he *Israeli Connection: the Mafia in Israel*. That is the title of the book written by a French journalist for *L'Express* magazine, Jacques Derogy; he is well-known for his sympathies for the Zionist state. In his introduction, Derogy indicates that it is precisely these sympathies that have forced him to write such a book at this time.

Israeli society is "ill, corrupted, degenerated," Derogy claims. "There are only a handful of journalists, judges and policemen who have been fighting that social illness, the mafia. Israel is at a crossroads and new winds have to blow."

If "new winds" don't blow, Derogy warns, Israel will either become a Bahamas-style Sodom-and-Gomorrah refuge for criminals or will in effect self-destruct.

The consequences of the proliferation of crime are already grave, he reports. The addict population of Israel has reached over 100,000—alarming for a country whose population is under four million and which depends on a highly mobilized citizenry for its self-defense—and at least 30 percent of the addicts are in the crucial age range of 16 to 18 years old.

The situation has degenerated in this way, Derogy charges, because top-level Israelis and Zionist supporters of Israel abroad have collaborated with criminal elements.

Israel's first Prime Minister David Ben-Gurion, for example, refused to crack down on the drug-running activities of Mordechai Serfati (known as "Mentsh") during the period of Israel's fight for statehood in the 1940s, the book documents.

Also implicated in Derogy's account are former Foreign Minister Moshe Dayan and former Defense Minister Ezer Weizman. Both, he claims, have supported the arms smuggling and related criminal activities of Samuel Flatto-Sharon, the man whom French courts have indicted in absentia for real estate swindling.

Flatto-Sharon escaped extradition by buying his way into the Israeli Knesset (Parliament), but is under new French pressure.

Derogy also exposes certain U.S. Zionist leaders. One such figure is Samuel Rothberg, a top fundraiser for Israel bonds and the United Jewish Appeal and director of the Chicago-based American Distilling Company.

Derogy alleges that Rothberg has maintained links for four decades with top mobster Meyer Lansky and has been involved in smuggling both whisky and drugs.

The Rothberg story echoes the account in the 1979 book *Dope, Inc.* of how the Bronfman liquor-magnate family and associated Zionist interests are linchpins in international drug traffic. That book cre-

ated substantial controversy in the U.S. and Europe, and drew shrill accusations from the B'nai B'rith Anti-Defamation League that its authors are "anti-Semitic."

Derogy is bitter about this cheap-shot use of "anti-Semitism." He reports attempts by Israeli officials and Zionist leaders in America last year to quash investigations into a drug-running "Israeli mafia" operating in California, noting bitterly that "anyone in the U.S. who goes after the Israeli mafia is called 'anti-Semitic.'"

Possibly because of such pressure, *The Israeli Connection* has been largely ignored by the press. But one prominent Zionist publication, *Tribune Juive* in France, this week utilized Derogy's findings to warn of the drastic and irreversible consequences if Israel proceeds on its current path. Editor J. Gruenewald, a political ally of Zionist dove Nahum Goldmann, warns in a feature, entitled "Explosion of Violence in Israel," that "political violence is linking itself to criminal violence."

Outlining Derogy's arguments, Gruenewald emphasizes the responsibility of Jews outside Israel—the Diaspora—to intervene and prevent the violent disintegration of Israeli society.

It is quite possible, moreover, that Gruenewald is speaking for a powerful European Zionist faction centered around Rothschild family interests, a faction that is seeking at this point to shift the situation in Israel away from internal collapse and external adventurism.

In this connection, it is also noteworthy that *L'Express* owner Sir James Goldsmith, Derogy's boss, is related to the Rothschilds by marriage.

## Communists back church powerplay

*Marxists and Mariolators are combining against industrial development—it's an old Jesuit method.*

**F**or the third time in the López Portillo administration, and the second time in less than five months, the Mexican Church has thrust itself into the center of the political stage to demand what is historically and constitutionally prohibited to it—direct participation in political activities. This time, the Church is being actively supported by the Mexican “left,” in particular, the Communist Party.

Government officials in the capital this week talked about an earlier historical parallel, the “Cristero Rebellion” of the 1920s. Then, the most reactionary layer of the Church, which was closely tied to the Society of Jesus in Mexico and the United States, took up arms to try to overthrow two key elements of the 1917 Constitution: Article 130, which explicitly stipulates that the clergy is prohibited from participating in politics; and the constitutional decree which makes the Mexican State the owner of the nation’s “soil and subsoil”—including petroleum.

The “Cristero Rebellion” temporarily drowned in blood the republican efforts to reconstruct the nation after the 1910 Revolutionary War. Today, 50 years later, the same sector of the Church, strengthened through new alliances, is trying to delay or halt the industrialization program of President José López Portillo.

The public spokesman for the

Church’s latest foray is no less than the head of the Chamber of Deputies, Luis M. Farías, who reopened the debate over clerical political participation by informing the press that a commission of the Chamber of Deputies was planning to invite Cardinal Ernesto Corripio Ahumada to present the Church’s position on legalized abortion. Seasoned Mexican politicians told *EIR* that it was obvious that Farías, twice a deputy, once a senator, and an ex-governor of the state of Nuevo León, was involved in a far-reaching power play.

Who is behind the Church move? Powerful financial interests tied to a handful of important Mexican banks are known to be involved. At least one minister in the López Portillo cabinet is known to be both closely linked to the church hierarchy, and have visible presidential ambitions. And during a recent stopover at the Mexico City airport, the international head of the Society of Jesus, Father General Arrupe, held private conversations with a number of well-connected businessmen and bankers.

Although Farías’ invitation apparently caught the López Portillo administration off guard, they regained their composure quickly and issued directives through Interior Minister Olivares Santana. In classic “Mexicanese,” Olivares told the press: “I want to affirm that we will be very respectful of the deci-

sions taken by one of the branches of government, in this case the legislative branch. But I don’t think there is any debate on the matter . . . I know that the authorities of the Chamber of Deputies have decided not to formulate or concretize that invitation.” In short, the Church apparently decided to stage a strategic retreat.

Its allies in the Mexican left, however, quickly came out in support of the Jesuits. In a new magazine published by the country’s “leading leftist intellectuals,” “ex-Jesuit” Kuri proclaimed himself a “Guadalupan Communist”—that is, both a communist and a follower of the fanatic cult of the Virgin of Guadalupe. He argues that the image of the Virgin has served as a rallying symbol throughout Mexican history. Of course, intelligence specialists know that when one encounters a mix of Marxism and Mariolatry, one has encountered a Jesuit agent.

The close links between the Church and the left can also be seen in a recent document published by the Communist Party (PCM) which will be discussed by the party’s upcoming Central Committee plenary meeting. Known as “Thesis 14,” the document—which is endorsed by the PCM leadership—calls for destroying various expressions of so-called “bourgeois ideology”. 1) support for the State; 2) the ideology of nationalism; and 3) above all, the ideology of anti-clericalism. In this regard, the PCM notes that there is a new progressive current of liberationists in the Mexican Church, and that the left cannot continue to “deny political participation to this important sector, which leads the majority of Mexicans.”

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# National News

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## Byrd touts Reagan in Peking

Senate Majority Leader Robert Byrd, in Peking this week, astonished observers by going out of his way to sell the Chinese on Ronald Reagan. Byrd assured them that if and when the California Republican is elected, the U.S.-China alliance will continue to coalesce. "We are not going to turn back the clock and negate all the progress we have made together," Byrd said.

The West Virginia Democrat's reassurance was much appreciated in Peking, whose leaders, currently meeting with Carter, have little confidence in agreements struck with the lame duck.

Byrd is known to be close to Senator Henry "Scoop" Jackson. It is widely rumored in Washington that in exchange for guaranteeing a Carter nomination and thereby a Reagan election landslide, Jackson and his allies have been offered ranking positions in a Reagan administration. "Democrats and Independents for Reagan" founder Midge Decker confirmed the reports, off the record, this week.

The *Baltimore Sun* reports Byrd's visit to Peking was celebrated by a formal banquet which featured Byrd playing "Turkey in the Straw" on his fiddle. At the banquet, Byrd reportedly toasted the Chinese for allowing him to visit one of their missile launching sites. China's missiles, for which Washington is discussing possible supply of guidance systems, are capable of hitting targets in the western United States.

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## Rostow boosts coal cartel

University of Texas professor Walt Rostow, former adviser to Presidents Kennedy and Johnson, told the National Conference of State Legislatures July 9 that the way to force nations to bow to U.S. policy is to make them dependent

on U.S. coal exports. "All kinds of dependencies would emerge on us if we exported coal," he said.

Citing the fact that Mexico has refused to go along with the U.S. proposal for a North American Common Market, on the grounds that it would impede Mexican development, Rostow declared, "Nothing will change on this until we become an exporter of coal and have something to offer them."

Rostow went on to detail the restructuring of the American economy that would be required to implement his coal export program by 1990. "The world will require massive coal as a substitute for oil. This requires conservation. We have to have the Executive make decisions necessary to do this. LBJ and JFK would have done it, but Carter has not. It may be necessary to declare a state of emergency—not military emergency—to do it. Then the President should establish a board that will implement this policy. We need a 'Hundred Days' perspective for the new President."

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## New Jersey Democrats oppose rules changes

New Jersey Democrats are lining up to sign the following statement, circulated by Citizens for LaRouche: "We, the undersigned, condemn in the strongest terms the set of so-called rules changes adopted by the Rules Committee for the Democratic National Convention. As members of the Democratic Party, we are horrified to see its absolute disdain for the deliberative powers and conscience of the delegates. The idea of 3300 sheep crowding into Madison Square Garden in mid-August to rubberstamp a series of dictatorial decisions is appalling.

"No gag rule.

"We call for an open Democratic Convention in which delegates are free to vote their conscience for the man best qualified to lead America—and beat Ronald Reagan in November."

As of July 11, signatories included George Collins, business agent, Carpenters District Council, Passaic County;

Gerald Ford, business agent, Tapers Local 1976 (statewide); Warren Jones, business agent, Painters Local 301, Trenton, and vice-president, New Jersey AFL-CIO; Robert Giese, Teamsters Local 867; Lorenzo Oakly, CAP director, United Autoworkers District 9 (tristate); Richard Joyce, president, Steelworkers Local 3913, Paterson; Harold Willard, business agent, Painters District Council 10; Felix Melendez, president, Machinists Local 2130, Cresskill; Rocco LaConti, president, IBEW Local 2013, Newark; Robert Fassi, president, Printers Local 11, Newark; Ed Pertil, president, International Chemical Workers Local 51, Edgewood; John Falconeri, business agent, Bricklayers Local 14, Plainfield; John Grant, former membership chairman, Monmouth County Democratic Party, former chairman Freehold Democratic Party, and legislative director, New Jersey Disabled Veterans Association; Rev. Charles Martin, president, Newark African Methodist Episcopal Ministerium (27 churches); Rev. Shellie Sampson, New Calvary Baptist Church, director, Northern Baptists School of Religion.

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## Is Fraser ready to deal?

Doug Fraser, United Autoworkers president and the leading supporter of Senator Edward Kennedy in the labor movement, has apparently struck some kind of deal with Jimmy Carter. Democratic Party sources report that Fraser, who has blustered about abandoning the party for John Anderson should Carter receive the nomination, is prepared to back Carter and call for party unity against "the right-wing threat" of GOP candidate Ronald Reagan.

Fraser certainly behaved last week like a man who has struck a deal. First he stood beside the President in Detroit as Carter announced his patchwork plan to help the sagging auto industry. The UAW president, who has blamed Carter policies for the collapse that has laid off nearly 300,000 auto workers, now said that the President was waking up and that his program was a major step in the right direction.

Later in the week, Fraser traveled to the Democratic Party Rules Committee meeting in Washington. He called for a commission to be established to force Democratic candidates to adhere to the party platform. The Carter people, who had not let a single Kennedy resolution be voted up, somehow allowed the Fraser-backed proposal to be adopted. The UAW president, who still says he affirms loyalty to Senator Kennedy, "all the way through the convention," also stated that he did not support a Kennedy-backed proposal to unbind the convention delegates, and that he does not want an "open convention."

In the corridors of the rules committee meeting Fraser was overheard telling people that "the convention battle is all over." There will be a few roll call votes, and then everyone would get behind the nominee—Jimmy Carter—including Doug Fraser. UAW sources, however, say they don't know how many of their members will follow Fraser's lead. "Jimmy Carter is hated around here," one UAW local official said. "Doug Fraser can't give him a clean bill of health."

## Felix the Fixer revives RFC

"In looking at the next decades to the year 2000, we must have an industrial policy that restructures our basic industries while encouraging our growth industries, Lazard Frères investment banker Felix Rohatyn told the National Conference of State Legislatures on July 9. Rohatyn declared that if the restructuring "is to be effective, it will be painful." He proposed to concentrate on war production, coal exports and certain specific high-technology industries, including computers and semiconductors.

In order to finance this restructuring, Rohatyn plans to take the money out of "consumption" and to garner OPEC funding. "For that purpose of restructuring I have argued for the creation of a 1980 version of the Reconstruction Finance Corporation of the 1930s. Only an

independent organization will be able to negotiate the difficult long-term changes that are absolutely necessary," declared Rohatyn.

The architect of New York's Big MAC told reporters after his speech that he has had a favorable response from several Senators on his RFC proposal. Rohatyn said that he had met the week before with Senators Robert Byrd, Russell Long, and Henry Jackson, and that they want to move on the proposal.

Rohatyn also repeated his call for a bipartisan "Temporary National Economic Commission" with members from business, labor, academia and government, which by Inauguration Day could recommend "an economic strategy for the U.S. for the next two decades."

## Mexico's campaign for Reagan

The Mexican press reports that Republican presidential candidate Ronald Reagan is now vacationing in the Mexican state of Sonora, at the ranch of Diego Redo. One of the few such tribes to survive the 1910 Mexican revolution, the aristocratic Redo family made its fortune in land speculation and in the liquor industry, and is apparently now actively campaigning for Reagan. Last week the magazine *Impacto*, allied with anti-government Redo circles, published two lengthy articles praising Reagan as a "young" and "vigorous" politician.

Reagan, refusing to grant any personal interviews while at the Redo ranch, has sent Diego out to speak for him. Wearing a Reagan campaign button, Redo told reporters that Reagan feels that "Mexico, like Canada, is part of our way of life." The Mexican press interpreted these remarks as a promotion of Reagan's proposed raw materials-based North American Common Market plan, a proposal vigorously rejected by President López Portillo. Redo is related to the Sánchez Navarro family, among whom are leading members of the Mont Pelerin Society in Mexico.

# Briefly

● **THE ENERGY** Department placed a distraught call July 11 to New Solidarity International Press Service, publishers of *EIR*. A staffer at the Department of Energy's (DOE) Technical Information Center in Oak Ridge, Tennessee, had received an urgent request from a department official who had read an NSIPS article in the biweekly newspaper *New Solidarity* on the DOE's release of the Buchsbaum panel report on nuclear fusion power. The caller wanted to know which report this was and how to obtain it. NSIPS explained that the report came from DOE and suggested that the DOE person contact the DOE for a copy.

● **TOP SOURCES** at the London-based Ditchley Foundation are saying that the first priority of the current international situation is "to restabilize" Jimmy Carter, whom they consider "unstable." The Ditchley Foundation is generally associated with the so-called "realists" in military intelligence circles who are seeking to avoid an immediate war with the Soviet Union. One high-level source connected with Ditchley was recently reached for comment by an investigative reporter. Asked why, since they consider Carter-Brzezinski unstable, they didn't just go for Reagan, the source replied, "Look, they are concentrating on putting a tremendous pressure on Carter for stability. They want stability. They prefer the devil they know. Reagan would be much more difficult."

● **NATIONAL GAY** rights organizations have launched a campaign to seek sponsors for the homosexual Cuban refugees. A member of the State Department Task Force in charge of placing the refugees, asked to comment on the "gaysano" problem, replied, "I don't call it a problem. . . . I see it simply as an opportunity."

## Will Carter start a July missile crisis?

by Warren Hamerman

All over Washington these days—in Senate parlors, cocktail parties, reporters' clubs, union headquarters and the proverbial “smokefilled rooms” of every political grouping in both the Democratic and Republican parties—the talk is that a Brzezinski-controlled Jimmy Carter, in a last desperate binge to save his collapsed candidacy, is going to provoke a foreign policy crisis and get the United States into a military showdown in early-to-mid-July.

One nationally known reporter for the *Washington Post* commented at a recent party that the Democrats are headed for their worst defeat in history under Carter. He added that “it’s almost certain that Carter will create a big foreign crisis in July to try and restore his campaign.”

The word among the very top AFL-CIO leadership concurs: “If the election were today Carter would lose badly. There’s no way to improve Carter’s standing. There’s no way labor can deliver for Carter. The only thing Carter could hope for is a Cuban missile crisis, maybe in the Persian Gulf, in July.”

Someone close to the conservative Democratic grouping in the U.S. Senate around Senators Byrd, Jackson, Bentsen, Long and others recently observed:

“Carter disgraced our nation at the Venice Summit and humiliated himself personally. Even Carter knows this. Carter is going to create a huge military showdown in July before or during the Republican National Convention to try to ‘rally around the flag and the President’ the country which otherwise views him as an incompetent bum. Of course, Carter will probably botch it after he gets us into the crisis.”

Several political advisers to Ronald Reagan have been reporting recently that everyone in Republican circles is convinced that Carter is going to create “a missile showdown, probably in July, to shore up his campaign.” A foreign policy adviser to Reagan remarked:

“In the last month it has spread like wildfire that the U.S. is falling fast. The helicopter landing in Iran helped this perception grow. Carter knows, and in fact his wife reminds him, that the polls go up if he does something in foreign policy. I have warned that Carter will allow a war situation to develop and that a military response will happen and he will hope to contain it.”

In a recent private poll conducted among 14 Democratic Party state chairmen nearly a dozen of the group thought that Carter, if nominated, would lose the election in their states, and that since the President is so weak and incompetent, they personally hoped that the election would split three ways and go into the House of Representatives where an “ABC Democrat” could be selected for President. An “ABC Democrat,” of course, is for “Anyone But Carter.”

Many of the state chairmen thought that only if Carter could appear presidential in a big foreign policy crisis before the Democratic Convention in August, could he reverse his standing.

### **The President-makers chart their options**

The New York Council on Foreign Relations (CFR) and Trilateral Commission crew who put Carter into



office in 1976—Averell Harriman, Cyrus Vance, George Ball and the Aspen Institute crowd—are currently playing around with several games:

*Game #1:* The Anderson Option or Constitutional Crisis scenario, which also includes the feature of up to 60 percent of the Democratic delegates for Kennedy bolting the Democratic National Convention for John Anderson.

*Game #2:* The Mondale or Muskie Option or “Substitution Scenario”—switching one CFR puppet (Carter) for another with the same policies. Operations are already in place through Rosalynn Carter and the Carters’ psychiatrist to convince him to resign while ahead rather than being thrown to the dogs between August and November.

*Game #3:* Keeping Carter, but trying to “stabilize” his administration by ousting Brzezinski et al. Most concede that this option is virtually impossible because of the unfeasibility of “stabilizing” Carter. However, in order for the Anderson game to work, Carter must be stabilized enough to get the Democratic nomination, because Game #1 only works if it is Carter, Reagan, and Anderson in the race. Hence, the concurrence around the July military showdown.

*Game #4:* The Democratic power brokers make a deal with Ronald Reagan, while writing off the Democratic Party. In the estimate of some leading Democrats, they could lose as many as 50 congressional seats to Republicans if Carter got the nomination.

In addition to the moves of the Council on Foreign Relations crew, a group of conservative Democratic Senators representing the high-technology industries— aerospace, computers, nuclear, agricultural implements—have grouped around the potential candidacy of Henry Jackson, who, however, has apparently decided not to run. Jackson’s grouping in the Coalition for a Democratic Majority (CDM) is now in extensive negotiations with Ronald Reagan and, in fact, it has already been publicly rumored that Senator Jackson may be offered the post of Secretary of State in a Reagan cabinet. Jackson has profiled himself by adopting the thrust of the domestic economic policy programs of Lyndon H. LaRouche, grafted onto a confused foreign policy of his own concoction.

### **How the Anderson game works**

The Anderson or Constitutional Crisis scenario is the most dangerous game in town. The quickest way for an already weakened United States to succumb to a dictatorship would be for an independent President not linked to a major political party to get in office.

It is for exactly this reason that evil and seditious men like Douglass Cater of the Aspen Institute and Samuel Huntington are advising Anderson and working out the implications of using him to “restructure the American political system *and* change the American

Constitution,” as they put it.

The Democratic elite who sold Carter to the nation like a new brand of toothpaste are lining up in the Anderson camp. George Ball and Felix Rohatyn are Anderson advisers on foreign and economic policy respectively. Anderson has had a big influx of money lately from Laurence Rockefeller, Atlantic Richfield chairman Robert O. Anderson, Andrew Heiskell of Time-Life, Inc., New York City real estate heavy and Roy Cohn colleague Alan V. Tishman, Texas department store magnate Stanley Marcus, Lehman Brothers advisory director Ben Buttenweiser, Phillips-Van Heusen president Lawrence Phillips, Leon Levy of the Oppenheimer Fund, A.N. Pritzker, John Hay Whitney, Charles H. Dyson, and Richardson Dilworth, the manager of the Rockefeller family assets.

Timed with the probable outbreak of Carter’s stage-managed military crisis, John Anderson has made a tour abroad, where doors opened to him as the hand-picked “alternative” of the Council on Foreign Relations and Trilateral Commission.

On July 8-11 Anderson is in Israel meeting with Prime Minister Begin, Foreign Minister designate Shamir and Jerusalem’s Mayor Teddy Kollek; July 11-13 he will meet in Egypt with President Sadat, Hassan-Ali and Boutros Gali; July 13-15 he will be in West Germany where he is scheduled to meet with Chancellor Schmidt, Foreign Minister Genscher and opposition candidate Franz Josef Strauss; July 15-16 he will be in France meeting with Foreign Minister François-Poncet, Socialist Party leader Mitterrand and others; July 16-18 he will be in London meeting Prime Minister Thatcher, Foreign Secretary Lord Carrington, and others.

For the cynical and traitorous Council on Foreign Relations crew, whether or not Anderson actually becomes President is secondary at this point. An Anderson-Carter-Reagan race is intended to trigger a constitutional crisis. The Electoral College ballots are counted on Jan. 6 before a joint session of Congress, and if no one receives a majority of the Vice-Presidential ballots then the Senate must choose a Vice-President from among the top two contenders. If no one receives a majority of the 538 electoral votes, then the House of Representatives is instructed to choose the next President from among the three top individuals.

From this point forward, the many intricate steps are in legal dispute and the nation could remain in total chaos for months pending court decisions. Is it the old or the new Senate and House which chooses? Or further, if by Inauguration Day (January 20) no President or Vice-President is chosen, nothing in the Constitution says explicitly that the line established by the Presidential Succession Act—Vice-President (Mondale), Speaker of the House (Tip O’Neill), President Pro Tem of the Senate (Magnuson), and Secretary of State (Muskie)—automatically comes into force.

Congress appears to have the carte blanche under these circumstances either to invoke the Succession Act or to vote for an "Emergency Government of National Unity" or whatever. Of course, under such circumstances, Douglass Cater and the Aspen Institute would surface their well-researched operation to change the *Constitution*.

In the words of one political insider, if the election were between Carter, Anderson and Reagan, the United States, in the fall and winter of 1980-81, would make what's gone on in Iran over the last year appear to be a model of a well-functioning democratic republic in comparison!

The Anderson game doesn't work if the Democratic Convention selects another candidate besides Carter. The talk inside Democratic political circles, therefore, is that this is why Ted Kennedy is not responding to his delegates' strong sentiment for an open convention.

A grouping in the Kennedy camp, probably around Ted Sorensen and the "McGovernites" directed by Averell Harriman, Arthur Schlesinger and the World Bank's Robert McNamara, is thought to be leading the sabotage of the open convention from within the Kennedy camp. This is also, of course, the same crowd now promoting the Anderson option and opening doors for him.

The "shrewd" gamesters of the Anderson scenario are most probably involved in helping Carter have his July missile crisis to ensure that he can be held together to get the Democratic nomination. Some have even suggested with glee that Carter will certainly botch the job on his "war confrontation," which could then activate the Reagan or Mondale-Muskie scenarios. (Even some self-styled "cool thinkers" in the Jackson camp and elsewhere in the Democratic Party, as well as the advisers to Reagan, are letting Carter go ahead and get the nation into a mess from which we may not exit, for the same considerations.)

### The Mondale-Muskie option

It has been observed that all the major presidential decisions for the last 20 years in America have been determined by the small group of psychiatrists treating Lady Bird Johnson, Pat Nixon, Betty Ford and Rosalynn Carter.

One can almost imagine Rosalynn whispering to Jimmy: "If you step aside now, after having beaten Kennedy in the primaries, you will look good in history. If you get the nomination, the New York and Washington boys in the back room will throw you to the dogs in August, September and October. Let's get out now, Jimmy."

In much the same way, it is known that Betty convinced Gerry on election night in 1976 not to contest the massive vote fraud of the Trilateral Commission

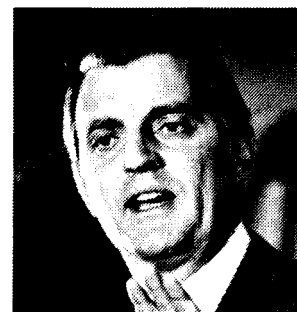
that put Carter into office. In 1968 it was Lady Bird who lovingly counseled Lyndon Johnson to announce that he would not seek renomination. One wonders at Pat's role in convincing Nixon to step aside.

One month ago the Mondale-Muskie option was in high gear, motivated by the powerful sentiments of especially the American labor movement. The major impediment to this scenario is that both Mondale and Muskie have demonstrated that they don't have what it takes to run with the ball when it's given to them. Mondale has a propensity, on librium, to run into walls instead. Muskie, it will be recalled, is wont to cry in public.

Furthermore, Muskie and Mondale are nearly as discredited as Carter abroad and have broken too many promises to constituencies in the United States to go very far.



**GAME 1:**  
"The Anderson or  
'Constitutional Crisis'  
scenario is the most  
dangerous game in  
town"



**GAME 2:**  
"The Mondale or  
Muskie option or  
'Substitution Scenario'  
—switching one CFR  
puppet for another"

Of course, they enjoy the flattery of being considered, and therefore have their own private motives for watching Carter take a nosedive in a July missile showdown from which they would emerge looking rational by comparison.

### The Reagan game

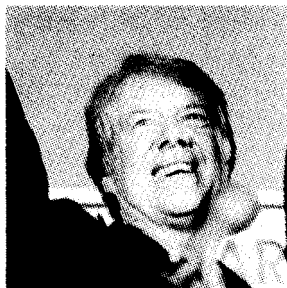
"Who's Flirting With Ronald Now" may well be the theme song of the *Democratic* Party. For the Coalition for a Democratic Majority (Richard Pipes, Moynihan, Jackson, Wright of Texas, ex-Admiral Zumwalt) the question was never "Carter or not Carter"; the question was always "Reagan or not Reagan."

In the words of one source, "Remember back 20 years ago. Fred Iklé was at the RAND Corporation

with Schlesinger at the same time that Kissinger was acting as a RAND consultant. These three men are the fathers of U.S. strategic deterrence. ... Reagan has been close to RAND for a long time."

The media have publicly speculated that Alexander Haig is being considered for a Reagan post because of his usefulness in bridging the gap between Kissinger and Reagan. The men behind the scenes in the Reagan camp on a policy level include Eugene Rostow, Richard Pipes (CDM), Elmo Zumwalt (CDM), Paul Nitze and others who would normally be associated with the circles around Henry Jackson.

It is also well known that certain leading labor officials are even going so far as to indicate privately that if Reagan were to preannounce as Secretary of Labor someone like John Dunlop, then the AFL-CIO would not endorse anyone publicly for President and



**GAME 3:**  
"The 'Stick With Carter Game'— making Carter 'look good' during a July crisis"



**GAME 4:**  
"The 'Who's Flirting With Ronald Now?' game, writing off the Democratic Party"

thus ensure the defeat of Carter.

It is generally conceded in most Democratic circles that Reagan would deliver a defeat to the Democrats worse than that suffered by the Republicans under Goldwater in 1964.

However, Reagan's acceptability in Europe is dubious, to say the least. The advisers around him are viewed as ideologues who are likely to respond in even more knee-jerk and inexperienced fashion than the Carter crew to any international crisis.

### Stick with Carter game

The nearly impossible task of stabilizing Carter and reelecting him President depends on removing Brzezinski and others of his advisers, shifting some of his

policies, and various other cosmetics. As with the other games, however, the Democratic nomination for Carter could only be fixed under the circumstances that he "looked good" during a July showdown crisis. Virtually everyone concedes that Carter would most likely bungle the crisis.

Here lies the basic point of *reality* which cuts through all the "shrewd" thinking of the gamemasters. In the next weeks Carter may very well enter an apparently "staged" military crisis, say in Iran, with what he thinks are prearranged agreements to keep the conflict contained.

Once a fire is started, however, there may be no fire department. Through bungling and miscalculation, the conflict could rapidly escalate into an eyeball-to-eyeball confrontation no matter what pre-arranged deals were struck.

The Soviet Union is not about to play electoral games to aid Carter. History is replete with examples of such "Frankenstein" monsters. In this century, two world wars were fought because the British Empire miscalculated when its arrangements broke down.

*The basic self-interests of the United States as a nation must take priority over the electoral theater of presidential game-scenarios.* A staged crisis could mean the obliteration of the weakened United States in World War III.

It is known to every parent that little children like Carter are not to be allowed to play with fire under any circumstances.

### The open convention

Despite a strong consensus among conservative Democratic Senators that Carter, Anderson, Kennedy and Reagan are unthinkable Presidents, Henry Jackson apparently has decided not to move for an open convention. Large sections of the labor movement and the high-technology band of American industry (aerospace, computer, agricultural implements and machine tools) agree with the domestic economic policy package that Jackson shares with Lyndon LaRouche.

The essential features of LaRouche's program define the only real option for our nation to avoid calamity.

The next American President, the Democratic candidate, must recommit our nation to a course of high-technology industrial, agricultural and scientific production and development with a full-scale orientation to a massive *export* program.

In particular America must reverse the disasters imposed on our military, industrial and scientific capabilities through mobilizing for a commitment to nuclear energy development again. The commitment to nuclear energy—as demonstrated in the recent period by the success of France's rise to world leadership—must encompass the full spectrum from bringing nuclear

fission reactors back on line and into operation through reinvigorating the breeder program and ensuring ample funding of scientific research for the early commercial development of fusion energy systems.

Finally, the next American President must listen to the wise counsel of France and Germany to restore gold-backing to the dollar and embark upon creating a new world monetary system. Together with our European allies and allies in Mexico, India and other developing nations, America's economic growth must be based upon a commitment to the industrialization and development of the Third World nations.

This program is the only *reality* which avoids World War III.

The overwhelming sentiment in the Democratic Party is to dump Carter and have a truly open convention committed to selecting a candidate who conforms to the policy program above. The overwhelming majority of the entire nation would be horrified to know that political gamesters and camps are all agreed on letting Carter deliberately ignite a fire somewhere in the world in the next few weeks and "handle" it by going in for a military showdown. Reality must intervene into the scenarios if our nation is to survive.

In his soon-to-be-released Draft Platform for the Democratic National Convention, Lyndon LaRouche Jr. remarks in his circulating letter:

"Now that Senator Henry 'Scoop' Jackson has apparently resolved not to continue his tentative 'dark horse' candidacy, I am the only acceptable candidate remaining in the race. Whether or not you resolve to nominate me, the fact remains that I am now the only existing rally-point for rescuing the Democratic Party from the contempt and humiliation to which the Carter mis-administration and the thuggery of his nomination campaign have degraded the party.

"In truth, knowing the structure of the Reagan campaign and the nightmare resulting from Mondale's becoming Acting President through a House of Representatives debacle next January, I foresee no clear way this nation could survive degradation to a third-rate power or worse results, unless I can gain your support for the Democratic nomination. Yet, even in face of the dismal uncertainties to be seen, I shall not cease fighting, whatever the outcome of the August convention and November elections. ..."

At this time, LaRouche is the only candidate who can serve as a rallying point for the nation to dump Carter—before his July missile crisis—and proceed to have an open convention.

Many may now think that LaRouche is not credible as a candidate to take the nomination at the August Convention. They would agree, however, that LaRouche is the only credible candidate to go out front and act as a catalyst to ensure that the convention is

open.

Recently, Lyndon LaRouche has emphasized repeatedly that he has a better chance for getting the Democratic nomination and becoming President than the nation does of surviving.

The agreement among all other political camps, their differences notwithstanding, that it would be tactically useful for Carter to stage a mid-July missile crisis underscores that reality with an urgent necessity.

The gamesters operate with impunity in concocting their "shrewd" scenarios and options because they rely upon the American media, the most corrupt band of liars and manipulators, to mesmerize the population into confusion and cynicism. Through psychological control techniques they therefore will smugly lead the American population like sheep to the slaughter. With everyone in Washington discussing day and night the likelihood that our country is about to have a pre-planned military showdown, the news media are deliberately keeping the wraps on the story until they orchestrate the theater of commentary for the credulous.

Aside from media manipulation, the political gamesters rely upon outright thuggery. For example, the notoriously petty crew around Carter is fixing a closed convention which will very likely include a prearranged deal with Ted Kennedy.

Les Francis and John White are essentially running a two-man Democratic National Committee (DNC) operation which is trying to lie, cheat, bribe and intimidate its way into forcing Carter down the throat of an unwilling Democratic Convention. Unprecedented in recent American political history was a special meeting last week of the chairmen of the state Democratic parties with White and Francis. After White and Francis explained how the DNC, now run by former operatives of the Carter Campaign Committee, would take over the state parties and control all money, staff and decisions before the convention, one state chairman after another rose to denounce the DNC as a not-so-covert plumbers' unit to "Reelect the President."

Through organized crime czar Benjamin Civiletti at the Carter Justice Department, massive investigations and indictments are launched against any political figure, unionist, or industrialist who is committed to an open convention, while Ted Kennedy and his national staff look the other way, or in some cases abet Carter.

Despite the media manipulation, "shrewd" tactics of the political gamesters, and the Carter thug operations, the American nation must now assert itself on behalf of reality. The vast majority of the Democratic Party and of the nation at large want an open convention. Those forces in agriculture, labor, industry, urban machines and the military who want to get Carter out and a real candidate in must act now, before our country is in the middle of a nuclear missile countdown.

# Carter's gangsters make the rules

by Vin Berg

There shall be no debate at the Democratic National Convention. Only Jimmy Carter and Edward Kennedy may be nominated; Jimmy Carter will win the nomination for President. And if you don't like it, you will be thrown out.

Those are now the official rules of the Democratic National Convention. They were just voted up in Washington D.C. at the Mayflower Hotel. The convention rules committee meeting there July 8 passed Rule 11-H, which forbids anyone pledged to Carter to vote otherwise on the first ballot.

Of course, the convention delegates themselves must approve 11-H, but there is a "Catch-22"—anyone seeking to violate the rule by talking of an "open convention" can be removed, during the voting itself, and even before the convention.

According to Rule 11-H, you can't vote against Rule 11-H.

Plenty of thuggery was required to get this passed, obviously. But just as clearly, in the back rooms, a deal was made involving at least Edward Kennedy, who dropped his challenge to the Carter rules.

Kennedy, Senator Henry Jackson and other Carter opponents who had talked much of an "open convention" in past months allowed the measures to pass without debate. And the following day, a Kennedy caucus decided to drop a challenge "minority report" against Carter's rules, challenging only 11-H, and expecting to lose.

As a result, the Democratic Party now appears committed to suicide. Behind a national ticket featuring the worst President in American history, the Democrats face loss of the White House to a probable Reagan landslide, and loss of majorities in both houses of Congress on Carter's "coattails."

One dark-horse candidate has not capitulated. "Look to the walls of the convention in New York City," writes Lyndon LaRouche in his alternative draft platform for the party. "If you permit rule-change 11-H to be rammed through by Carter's gangsters, recall the biblical account of Belshazzar's Feast, and thus see in your mind's eye the

moving finger writing upon that wall, 'Mene, Mene, Tekel.' . . . Of such immoral cowardice comes the dishonorable doom of not only political parties, but whole empires, nations, and civilizations."

## The rules

Carter gangster Donald Fowler of South Carolina, chairman of the rules committee, forced a vote which rejected a weak Kennedy proposal to retain the rules of the 1976 Democratic National Convention. He then forced a vote passing the Carter rules. As of now, they include:

- All delegates are bound to vote on the first ballot for the candidate in whose name they ran in the primaries. Thus "Rule 11-H" reads: "Delegates who seek to violate this rule may be replaced with an alternate of the same presidential preference by the presidential candidate or that candidate's authorized representatives at any time up to and including the presidential balloting at the National Convention."

- The number of delegate signatures needed on a petition to place a candidate's name in nomination are increased from 50 to 330, or 10 percent of all delegates; however, since delegates may sign only one petition, and the ceiling limiting signatures for one candidate has been removed, Carter gangsters may force delegates to sign only his and Kennedy's petitions—there will be no third candidates; LaRouche, Senator Robert Byrd, Secretary Muskie and Senator Jackson can be kept out.

- Debate at the convention will be drastically restricted, allowing only two spokesmen for and two against any resolution. Each spokesman is allowed to speak for only 10 minutes. In the past, there was no limit on speakers, and anyone recognized could speak for 20 minutes.

- Delegates' right to call for a one-by-one "roll call" vote on all issues except the nomination itself is eliminated—total power goes to the Carter-dominated state delegation chairmen.

Carter officials have already begun the "reign of terror" that Rule 11-H empowers them to conduct. "Any unfaithful delegate can be weeded out before being seated at the convention," Carter-Mondale Delegation Selection Director Tom Donilon told the press yesterday.

Carter-Mondale General Counsel Tim Smith told the press that "We want to ensure a political media event in New York, without somebody screwing it up."

It was a LaRouche spokesman, however, who summed up the meaning of the new rules, when he told the July 9 rules committee session: "A Carter candidacy is being created here," he said, "and a Carter candidacy means a landslide defeat for the Democratic Party and the nation by the incompetent Ronald Reagan in November."

## **Eximbank funding cut from appropriation bill**

In the waning hours of the July 2 pre-recess session, the House of Representatives knocked out funding for the Export-Import Bank from the supplemental appropriation, freezing the bank's lending ability until the Fiscal 1981 foreign aid appropriation is passed or Congress takes special action.

Exim got caught in a legislative squeeze play. Funding for Exim had been raised by the Senate from its current \$3.75 billion to \$5 billion under the Fiscal 1980 foreign aid appropriation, under which Exim falls. The entire foreign aid bill was placed into the supplemental appropriation (usually reserved for additional funding beyond already appropriate Fiscal 1980 levels) by the Senate in an effort to speed the sometimes controversial foreign aid bill through.

But in the conference committee, the Exim funding was first knocked down to \$4.105 billion, and then the entire foreign aid bill was struck from the supplemental appropriation, despite protests from Senate members of the conference committee. On the House floor, the decision to strike the foreign aid bill was pushed by House Appropriations Committee chairman Jamie Whitten, who did not like the idea of placing an entire bill into the supplemental appropriation, and by Republicans such as Bob Bauman (R-MD) who are ideologically opposed to the foreign aid bill. The House concurred, and the supplemental went back to the Senate with no foreign aid funding, and hence no Exim funding.

Although great concern was expressed on the Senate floor about

what had happened to the Eximbank, Senate advocates were forced to settle for a promise from the House to pursue special legislation for the Eximbank as soon as Congress reconvenes on July 21. Until then, Exim is frozen at its Fiscal 1979 level of \$3.75 billion, all of which is currently committed.

## **Banking dereg committee under fire**

The House Banking Committee's subcommittee on financial institutions and regulations began a series of hearings on July 2 to examine whether the Depository Institutions Deregulation Committee (DIDC) has overstepped its authority. At the same time, Rep. Frank Annunzio (D-Ill.) announced that he plans to introduce legislation to abolish the DIDC entirely.

Established by the Financial Institutions Deregulation Act of 1980 to phase out the regulated differences between savings and loan institutions and commercial banks over the next six years, the DIDC has thrown the savings and loan and thrift institutions into a "cold turkey" deregulation by accomplishing their mandate to phase out regulation in only six weeks.

Savings and loan institutions who are suing the DIDC, Annunzio and other members of Congress such as Sen. Robert Morgan (D-N.C.) of the Senate Banking Committee are charging that the DIDC actions are crippling the housing industry by drying up mortgage money and making the purchase of housing too expensive. The savings and loans say that they can only attract money for mortgages if they

can continue to pay a quarter percentage point more on savings accounts than commercial banks can, something the DIDC has already phased out.

Annunzio charged that "in our history, only termites have done more damage to the building industry than has the deregulation committee." Annunzio and Morgan were two of the handful of members of Congress who opposed the original legislation which established the DIDC.

Faced with this mounting dissatisfaction and the savings and loan banks' suit against the DIDC, financial institutions subcommittee chairman Fernand St. Germain (D-R.I.) initiated hearings to review DIDC actions, noting that "the Deregulation Committee is required to take into consideration the impact of any of its actions on housing production."

The subcommittee heard from Financial Trade Association witnesses on July 2, and plans further hearings after the July recess.

## **Senate urging refusal of arms sales**

A bipartisan group of Senators has sent a letter to President Carter urging him not to sell Saudi Arabia the extra equipment the Saudis want to beef up the range and firepower of the U.S.-built F-15 fighter planes they have ordered. Sixty-eight Senators have already signed the letter.

Two years ago the United States agreed to sell the Saudis 60 F-15 fighter planes. The planes were to be delivered this fall. The Saudis have now requested special fuel tanks, bomb racks and aerial refueling capabilities for the aircraft,

which would extend the range of the jets from 450 miles to 1,000 miles.

The Zionist lobby has attacked the sale of this equipment on the grounds that the F-15s would allow Saudi Arabia to reach Israel.

Saudi Ambassador to the United States Sheikh Faisal Alhegalan warned that the Senators' letter indicated that narrow U.S. concerns about Israeli security were jeopardizing Saudi Arabia's ability to defend itself against threats from "all directions." He added that the equipment is available from other sources without restrictions or conditions, and suggested that Saudi Arabia might look elsewhere for it.

## **'Reindustrialization' bill passes Senate**

The Stevenson "Technology Innovation Act of 1980," marked up as bill S.1250 in both the Senate and House, passed the House Science and Technology Committee July 2. The bill passed the full Senate by voice vote on May 28 and is now ready to go before the full House.

The chief sponsor of the Technology and Innovation Act of 1980 is Democrat Adlai Stevenson of Illinois, who chairs the Senate Science and Technology Subcommittee of the Senate Commerce, Science and Transportation Committee.

The bill is one of the leading pieces of legislation intended to promote what is broadly called the policy of "reindustrialization." It is reported to be motivated by the following findings:

- Technology and industrial motivation are central to the eco-

nomie, environmental, and social well-being of citizens of the United States.

- Technology and industrial innovation offer an improved standard of living, increased public and private sector productivity, creation of new industries and employment opportunities, improved public services and enhanced competitiveness of United States products in world markets.

- No national policy exists to enhance technological innovation for commercial and public purposes.

The Act proposes that the Secretary of Commerce establish and maintain an Office of Industrial Technology, which, after identifying technological needs, shall set up centers for industrial technology. These centers will fund university-affiliated or nonprofit institutions that engage in generic research that "is important for technological advance and innovative activity."

The bill would fund \$19 million for the Office of Technology for the 1981 fiscal year, and gradually increase funding up to \$60 million for the 1984 and 1985 fiscal years.

The movement of S.1250 out of the House committee occurs as other key bills for reindustrialization are introduced into the Congress, including the Accelerated Depreciation Recovery Act (sometimes called "10-5-3") which is sponsored by Rep. Conable (R-N.Y.) and Sen. Bentsen (D-Tex.); the Research Revitalization Act (HR.6632 and S.3353) to increase tax credits for basic university implemented industrial R&D, sponsored by Rep. Vanik (D-Ohio) and Sen. Tsongas (D-Mass.); and a bill to increase tax credits for increased industrial levels of R&D of all

types, S.2906, sponsored by Sen. Danforth (R-Mo.).

## **Senate warns: Carter RDF subject to War Powers Act**

By a vote of 54 to 39, the Senate sent a warning to President Carter in the form of an amendment warning him that deployment of the Rapid Deployment Force (RDF) falls under the provisions of the 1973 War Powers Act and that Congress must be notified prior to the enactment of such an act.

"I have heard too that Carter might try something in the Middle East," declared one aide to Senator James Exon (D-Neb.), involved in drafting the amendment. "I have heard he might try to take Karg Island. That's why we got the ball rolling on tying the use of the RDF to the War Powers Act."

The amendment, added to the military procurement bill, does not statutorily change anything—it simply reaffirms that the RDF deployment falls under the War Powers Act. The House has yet to act on a similar amendment. But since it is an affirmation of existing law, House passage is not crucial.

The most surprising statement of support came from Senate Armed Services Committee chairman John Stennis, further indicating that regular military layers are concerned about a Carter adventure. On the floor on July 1 Stennis said, "I believe that the main purpose of the [War Powers] act served as a reaffirmation of the old declaration of our forefathers, that under this system of government, Congress has the authority to declare war. I believe that reaffirmation will live and shine for decades. . . ."

## Campaign 1980 by Kathleen Murphy



### **GOP proclaims 'down with Europe'**

The Republican Party put the final touches on its 1980 platform in Detroit this week—and it is a bomb. Expected to be approved almost unanimously at the GOP's nominating convention, which opens July 14, the platform is bound to convince our NATO allies, particularly the West Germans and the French, that Ronald Reagan is as great a threat to world peace as they thought.

The foreign policy/defense planks of the platform don't simply feature the anticipated shibboleths about "Soviet expansionism" and the relative decline in U.S. military strength under the Carter administration; they contain language that can only be interpreted in Bonn and Paris as a declaration of war against Europe. The platform harshly criticizes French President Giscard and West German Chancellor Schmidt for meeting with the Soviet leadership on the grounds that this is a step in the direction of the "neutralization" of Europe.

It also attacks the two European leaders for their attempt to find a workable solution to the Mideast deadlock, terming their recent call for the PLO to be included in the autonomy talks a sign of capitulation to Soviet pressures.

It goes on to demand that Europe back a massive rearmament program including the extension of NATO into the Persian Gulf and

the Indian Ocean; support a "growing relationship" between the U.S. and the People's Republic of China; and denounce U.S. sales of nuclear fuel to India.

Despite appearances, the platform is not the child of pure stupidity. When informed by one observer that it would completely alienate Europe from Reagan, William Van Cleave, a key Reagan adviser and architect of the foreign policy plank responded: "So what? It has to be done, that's all. Europe has got to learn who's giving the orders."

The platform's domestic aspects are just as awful. Under the cover of encouraging "job creation" and "economic growth without inflation," the GOP program promises to replicate in the U.S. the devastation wrought on the British economy by Iron Lady Maggie Thatcher. A plank proposed by New York Congressman Jack Kemp, contender for the vice-presidential slot, is a case in point. Modeled explicitly on a pilot project devised by Thatcher's Chancellor of the Exchequer Geoffrey Howe, Kemp's so-called jobs enterprise zones proposal will try to stimulate investment in ghetto areas by rescinding zoning laws, safety and pollution requirements, rent controls, most business and property taxes, and Social Security taxes on both employees and employers. For tactical reasons—the Republicans are planning to exploit Carter's unpopularity by courting traditional Democratic constituencies like labor and minorities—Kemp's plan does not mimic the British model in lifting minimum wage requirements.

### **Dope king endorses Reagan**

Max Fisher, a leading Zionist lobby figure and reputed international illegal drug magnate, is helping to steer the Reagan bandwagon.

During a recent trip to Israel, Fisher—who tried to get a "Draft Jerry Ford" movement off the ground several months ago—told the *Jerusalem Post* that he can now "enthusiastically endorse and support" Reagan's candidacy. "Reagan's much more moderate than he is perceived," he said. "He'd be much better for Israel than Carter," because he understands Israel's importance to the U.S. as a reliable ally in a vital strategic area.

Fisher's endorsement has a few strings attached, though. He wants Reagan to nominate "my great friend" Alexander Haig as his Secretary of State. "That would be just wonderful," said Fisher, who knows from the inside how Haig worked to undercut the President during the final days of the Nixon administration.

### **Court rules for Anderson**

John Anderson's "independent" presidential candidacy got a major leg up July 9 when a federal circuit judge in New Mexico overturned the state filing deadline, which had prevented Anderson from getting on the ballot there.

The ruling is expected to help Anderson get on the ballot in another five states, where he is also challenging the legality of filing deadlines.

Meanwhile, NBC-TV is also doing its bit to boost the blue-haired Congressman from Illinois. The network—which employs Henry Kissinger as a guest commentator—plans to run exclusive interviews with Anderson twice daily during the Republican Convention. The interviews will be aired from Europe, where Anderson is currently meeting with heads of state and other leaders in an attempt to palm himself off as the alternative to the much-despised Carter and Reagan.



## Congress passes 'oil backout' law

*You're not going to believe this one, folks. . .*

**T**he "Power Plant Fuels Conservation Act of 1980," commonly referred to as the "Oil Backout Bill," became law several days ago when the Senate passed the \$4.2 billion "Phase I" package sponsored by Illinois Republican Senator Chuck Percy. What are we getting for our money in this one? Hold on to your hat.

This new piece of government agency lunacy prohibits future oil burning in some 80 utility powerplants east of the Mississippi River. Of the \$4.2 billion, \$3.6 will go toward grants from our sagacious Department of Energy to electric utilities to convert some 21,654 megawatts of power capacity at 107 generating units by 1985.

The political hype on this is that it will save the nation some 400,000 barrels per day of nasty OPEC-imported oil of the current total burned by utilities of 1.4 million barrels per day.

This will require the additional burning of 40 million tons per year of coal. To help offset the expected wave of protests over the resulting pollution from the burning of high-sulfur coal, \$600 million is provided to help the utilities install costly scrubbers to remove the sulfur.

This will most severely affect the industrial Northeast—most strongly, the states of New York, Massachusetts, and Connecticut—where alongside nuclear sources, imported residual fuel is a major power source.

In many cases, we are talking of reconverting plants that years ago switched from burning coal to residual fuel for economic reasons. The original grades of coal used in these cases may be unavailable, requiring use of softer, high-sulfur coal which could be prohibitively costly for cash-strapped utilities. Many utilities could end up closed.

One engineering consultant who has studied the problems warns that the forced shutdown of such a major chunk of the region's power-generating capacity could pass the danger line. Especially with the only new facility in the region, the Seabrook, New Hampshire nuclear plant delayed by endless environmental harassment and legal and financial pressures.

"The region's reserve margin will drop way below acceptable levels," according to the estimate prepared for the Engineering Societies' Commission on Energy. Here are just a few of the problems they foresee.

The delivery of 40 million tons of coal into the region will bring with it major increases in air, water and noise pollution. Waste disposal of coal fly and bottom ash as well as scrubber sludges will be a major problem. Land for such waste dumping, even if environmental restrictions are waived, is at a premium. Add to that large land space for coal handling and storage at plants that now burn oil. In many cases, new or refurbished rail lines

from the coal fields of Pennsylvania or West Virginia, or port links for barge delivery must be added to the cost calculations. Present coal-handling facilities at East Coast ports are "jammed to capacity" and the decrepit rail system in the Northeast "is just not suitable for handling the capacity of coal that is expected," according to a source at Dravo of Pittsburgh.

Now utilities such as Long Island Lighting Co. are faced with the prospect of converting 10 of its units with a total capacity of 2,391 Megawatts at an estimated toll of \$3.2 billion. This includes a \$1 billion price tag just for cost of scrubbers. Not surprisingly, they would prefer to begin new nuclear construction. It's far wiser environmentally and economically than converting these oil-fired plants to coal.

Indeed, the only way the Percy bill makes sense is when you realize that faceless bureaucrats such as DOE Deputy Secretary John Sawhill, a staunch supporter of the high-cost energy strategy and an ardent opponent of nuclear, are not bungling for lack of an overall strategy. I recommend you purchase a study commissioned by a small, but highly influential, group known as the New York Council on Foreign Relations.

It is their blueprint for the decade of the 1980s. In the volume titled *Alternatives to Monetary Disorder*, they propose "controlled economic disintegration" of the U.S. economy as the only effective way to stop man's tenacious tendency to advance through scientific progress. Both John Sawhill and his friend Charles Percy are members of this elite collection of fools in the Council.

# Down the garden path with Hua

Jimmy Carter's meeting in Tokyo with Peking's Chairman Hua Guofeng proves once again that the Chinese have no problem leading this administration on a leash. Administration spokesmen, from Carter and Muskie on down, were all too happy to provide the Chinese with the appropriate statements of support the People's Republic sought. They went so far as to suggest the existence of a triangular alliance of the U.S., Japan, and China.

Such statements of deathless love, now backed up by exports of defense technology and other hardware, are given freely, with nothing required in return. Nobody ever seems to ask just what the interests of the United States have in common with those of the Chinese, except of course our presumed mutual adversary in Moscow.

We have now been subject to years of media whitewash of Communist China—turned overnight from the devil to Snow White with a wave of Henry Kissinger's wand. The stated Chinese intention to gain world power through their facilitation of the mutual destruction of the U.S. and the Soviet Union, something they have never disavowed, is swept out of sight. The obvious Chinese game of milking the U.S., and Japan and the West in general, of every piece of technology they can get their hands on in order to build up the power of China into the next century—this is viewed as an "opportunity for trade."

The worst of our acts of obsequiousness before the mandarins of the unchanged Chinese dynasty is the active support given China's hideous policy of genocide and expansionism in Southeast Asia. No one in the State Department can honestly deny that it was Peking which directed and controlled the Pol Pot regime in Kampuchea, a regime that carried out, with Chinese advisers on the spot, the most incredible act of genocide against any one people in this century. Yet it is a fact that the U.S. role in the region is aimed solely at assisting Peking in returning that regime to power, under the guise of

opposing Vietnamese aggression.

It is Chinese aims, Chinese interests, that we are serving in Asia and elsewhere—not those of this nation. There are many in Southeast Asia who do not look on China as their protector. The Indonesians and others are well aware of the long historical record of Great Han expansion south, of the role of the overseas Chinese community in serving as conduits for Peking's money, Peking's subversion and not least, Peking's heroin.

The Chinese ask that we take the risks of confrontation with the Soviet Union, risks they themselves will not take for fear of the kind of Soviet attack that would set back their "modernization" plans for a very long time. The current talks in Tokyo are clearly in that direction, focused on U.S. assistance to Thailand, which (due in no small part to the enormous power of the Chinese dope-running networks there) has unfortunately lent itself as a base for Peking's activities.

The Chinese have not confined their aggression to Southeast Asia. In Northeast India Chinese-armed tribal rebels are staging acts of guerrilla warfare and separatist rebellion against the Indian government. They have been doing the same thing in Burma for years, and not incidentally maintaining control of the opium traffic from the Golden Triangle and China's Yunan province.

It is time for the China Card to be turned over and exposed. And it is time that we served notice to the Peking regime that American interests in Asia will not be served through supplication at the court of the Middle Kingdom. While Governor Reagan—or his "advisers"—seems to have retreated at the first sound of gunfire from a call to restore U.S. diplomatic recognition to the Republic of China on Taiwan, we think this is an important principle to stand on. Restoration of full diplomatic relations would not only erase a wrong done to a loyal ally in pursuit of illusory gains, but would notify Peking that we reject their evil designs.