EIR

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IMF demands advanced-sector consumption cuts
Carter and Israel try to salvage Khomeini
Regional banks slated for phaseout

The Justice Department assault on America's spokesmen for growth

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From the Editor

A purge is going on in this country that dwarfs the scope of the Palmer raids or the Moscow trials. The purge is being carried out by the Civiletti Justice Department against a clearly defined list of "enemies" of the Carter administration. But it is not a simple list of the personal opponents of James Earl Carter. The scope of this witchhunt, the biggest in the nation's history, goes beyond mere corruption in the White House. It is a purge of the enemies of the Trilateral Commission and the Council on Foreign Relations. Targeted for entrapment and trial by the media are labor leaders and elected officials who represent the urban-based constituency machines that have ensured economic progress in this nation.

The pattern is similar to the first three years of Hitler's rule when terrorists and thugs were given free reign while "legal" campaigns were waged against trade union, religious, and other opponents for "tax evasion," "corruption," or "morals charges." Though the analogy may startle or anger you, this is, unfortunately, no exaggeration.

This week's special report, "The Justice Department Assault on America's Spokesmen for Growth," provides you with the evidence on the criminal activities of the Justice Department, who has been targeted, and why.

Scott Thompson, who wrote the first three sections of the report, presents his ongoing investigation into the Abscam/Brilab purges. Legal expert Felice Merritt reports on the way the methods now being employed by the Justice Department were put in place.

We also have a special on-the-spot report from the annual meeting of the International Monetary Fund in Washington.

Finally, I'd like to announce to our readers the opening of *EIR* offices in Monterrey, Mexico, and welcome on board our new bureau chief there, María Luisa Gomez del Campo. This expansion will mean more in-depth coverage of the booming economic potential of our southern neighbor.

Robyn Quijano

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U.S. Attorney General Benjamin Civiletti.
Photo: UPI

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Out in the open

President Carter is trying to keep alive the Ayatollah Khomeini regime in Iran—at least until the U.S. elections in November.

That shocking fact, now documented in the international press and well known in the corridors of the United Nations, represents nothing less than an act of treason against the American republic. Rather than support the Iraqi campaign to destroy the Khomeini regime, rather than encourage the Iranian exile groups to put together a credible opposition to Khomeini's Dark Ages clique, Carter is publicly declaring his support for Khomeini!

Carter's Khomeini connection, now out in the open, has been documented by *EIR* since the overthrow of the Shah. We have presented the evidence week after week demonstrating the roots of the mad Ayatollah's Islamic fundamentalism in the dark ages strategy spawned by British intelligence and carried out by the Carter administration.

After a few days of editorials in the nation's major eastern establishment media warning of the dangers of an Iraqi victory over Iran, Secretary of State Muskie openly admitted the alliance with Iran. The press had prepared the U.S. population for such an outrage. The *Baltimore Sun* was the most blatant: "We cannot retreat into neutrality. . . . The United States should be prepared to use its influence and leverage to prevent the disintegration of Iran, the one nation that can challenge Iraq's efforts to dominate the Gulf. The spectacle of this country even indirectly aiding a regime that has . . . held hostages . . . would be galling. . . . Nevertheless. . . ."

Three days later, on Oct. 3, Muskie made the policy clear: "There is absolutely no substance to any accusation that we were involved in collusion with Iraq in connection with this current fighting. There has never been any basis for it; as a matter of fact, there is a lot of basis for the opposite conclusion."

In fact, the United States, Israel and a handful of other nations are engaged in a massive international effort to prop up the Khomeini dictatorship and to strengthen Iran's defenses against the Iraqi offensive. By all accounts, of course, it is too late for Khomeini. Given the present military situation, for all intents and purposes the Khomeini regime is already doomed. But President Carter—whose pious human-rights slogans and cynical geopolitical strategists like Zbigniew Brzezinski helped to topple the Shah and install the Khomeini gang—is now desperately anxious to prevent the collapse of Khomeini in the weeks remaining before the election.

In doing so, Carter is giving aid to a regime that is technically at war with the United States, a regime that is controlled by terrorist fanatics who still hold 52 American hostages. Even by the strictest definition, that is treason.

And the U.S. and Israeli support for Khomeini is not hidden. Writing in the *New York Times*, columnist Flora Lewis, reflecting official U.S. policy briefings, says: "Americans understandably would like to see the fall of an Iranian regime which holds our citizens hostage and proclaims unmitigated hatred for the United States. But the collapse of Iran would not be in America's interest.

"Israel has made the same assessment, despite the enmity of Khomeini's Iran. For Israelis, a strengthened Iraq remains by far the greater menace."

There is convincing evidence that the U.S.-Israeli alliance has crossed the threshold into direct outside intervention already. From all reports, the air raid that struck at the Iraqi nuclear power plants earlier this week was not launched from Iran—but from Israel! The Iranian army command has denied the attack, whereas Israel for months has been threatening to hit Iraq's nuclear facilities. The French daily *Le Monde* has already reported the suspicions of French intelligence that the Sept. 30 bombing was "made in Israel." If such reports are indeed true, it means that President Carter and the Israelis have already blundered terrifyingly close to the bring of World War III.

Other reports indicate that the United States

and Israel are shipping large quantities of military supplies and spare parts into Iran. Military sources in Washington believe that Israel may already be supplying unmarked Israeli jet fighter-bombers to Iran, while Israeli state-controlled radio says that during his visit to Washington, Pakistan's General Zia and Carter agreed to use Pakistani routes to resupply Iran.

As always, Carter's timetable reflects the election. Should Khomeini collapse before the November vote, the resulting debacle would fall on Carter's head—and probably give the election to Mr. Reagan. At the very least, Zbigniew Brzezinski's "Islamic card"—which relies on the power of the secretive Muslim Brotherhood as a weapon against the Soviet Union—would collapse. For these and other reasons, Carter will try to postpone the inevitable collapse of the insane mullahs until after Nov. 4.

That date is incidentally the first anniversary of the taking of American hostages in Teheran.

Embedded in this ploy is more than just bad policy and international crimes. By supporting Khomeini, the Carter administration may be getting in over its head. Carter and Brzezinski are playing an extremely dangerous game. Iraq intends to win its war—and if Carter and Brzezinski will do anything to stop them, they might find themselves running smack into the Soviet Union in the world's most sensitive piece of real estate.

The IMF demands advanced-sector consumption cuts

The following report was prepared by EIR*'s Economics Editor, David Goldman, and by our special correspondent, Dr. Michael Hudson, an economist formerly with the Hudson Institute, Arthur Anderson, and Chase Manhattan. The report reflects extensive off-the-record background discussions with economic and monetary officials at the IMF-World Bank meeting.*

1980's annual meeting of the International Monetary Fund and World Bank, the two most influential international institutions in world economic affairs, proposed to prolong the current world downturn into a five-year depression, as a matter of official policy. IMF Managing Director Jacques de Larosière told the opening session of the world convention for financial officials and international bankers, "Three problems dominate the state of the world economy: inflation, energy, and the plight of the non-oil developing countries." He proposed to deal with these problems in the following way:

- to suppress inflation through the discredited monetarist policies that have brought about both depression and double-digit inflation in Britain and the United States;
- to concentrate all available international resources on investment in *high-cost* forms of energy production, assuming an $80 per barrel oil price by 1990;
- to finance next year's $80 billion dollar payments deficit of the world's developing sector under "conditionalities" that have already produced mass starvation in Zaire, near civil war in Jamaica, and a military coup in Turkey after these countries accepted IMF dictates.

"In effect, the IMF is proposing to finance the Third World deficit"—equal to the debt service these countries must pay to banks on $350 *billion* of accumulated debts—"through a world depression," a senior European central bank official told *EIR*. The logic is brutally simple. If the economies of the leading industrial countries remain depressed, their banking systems will not be called on to lend heavily for economic growth at home. Instead, their financial resources can be applied to papering over the huge payments deficits of developing nations. Rather than mobilizing the productive resources of the industrial nations to export means of development to the southern hemisphere, the IMF wants to loot the industrial economies to merely refinance debts of the poor nations—which is in the interest of neither group.

A besieged institution

Although communiqués issued by the IMF steering committee, the Interim Committee, were carefully phrased to give the impression of consensus, no such policy could possibly bring forward a consensus from nations who cannot survive without economic growth. On the contrary, the IMF is a besieged institution, barely able to maintain political leadership over the world economy. Still, it remains in command by default, largely because Western Europe has postponed implementation of the projected European Monetary Fund for at least 15 months.

Opposition to the IMF program is so intense the strategy may collapse, because nations may deny the money required to bring it off. A former chairman of the IMF's Interim Committee, Sir Jeremy Morse of Lloyd's Bank, told *EIR* that to prevent a world payments collapse next year, the IMF, World Bank and other official institutions must be able to provide 40 percent of the total financing requirements of the developing countries, with private banks providing 60 percent.

However, neither the U.S. Congress nor the oil-rich Arab nations, the most important "hits" for additional IMF funding, are ready to bankroll the hated institution.

Funding blocks

First, the Saudis and Kuwaitis, whom Managing Director de Larosière asked for $10 billion, are blockading the IMF and World Bank, nominally because the fund refused a Saudi request to allow the Palestine Liberation Organization to attend the annual meeting as an observer. The fact is that the Saudis do not want their $200 billion in resources to be misspent in refinancing debts for the benefit of U.S. banks, although they are prepared to give money for actual development. Several top bankers interviewed at the meeting, including Richard Debs of Morgan Stanley and Robert V. Roosa of Brown Brothers Harriman, both former top U.S. officials, insisted the Arabs would have to ante up. But it is not certain that a U.S. administration, which has thrown its support toward Khomeini-style Islamic fundamentalism will be able to convince the Saudis to come across. The Saudis have not forgotten a stream of State Department leaks predicting the overthrow of the monarchy.

Even more damaging to the IMF's standing was action this week by Senate Republicans to block America's contribution to the current round of IMF funding. The IMF raises funds by drawing "quotas" from its 140 members, paid in the members' own national currencies. The member can draw its own quota as a loan, but if it wants to draw more, it must invite the IMF to run its economic policy, with disastrous results. For the IMF's operations the American quota contribution paid in U.S. dollars is more important than that of Brazil, paid in soft Brazilian cruzeiros. Under IMF rules, the members having 75 percent of all quotas (which are assigned by economic weight) must pay up before all the money can be collected. If the U.S. declines to pay, it will scuttle the entire $25 billion funding operation.

The Senate move, which blocks an appropriation bill for the IMF worth $5.5 billion until the end of the present recess and possibly until the next session of Congress in March 1981, caused consternation among U.S. and IMF officials. "Right now the IMF has enough liquid resources to keep going," a top Treasury official told *EIR*. "But in terms of confidence that resources will continue to be available, it's very bad." Even with the $25 billion increase under the present seventh review of quotas, the IMF would come up $10 billion short for 1981, officials calculate—a gap the IMF must make up one way or another from the Arabs. If Congress continues to balk, the entire world payments system will go on the skids.

In a speech to the House of Representatives two weeks ago, Cong. Jack Kemp attacked the handout to the IMF on the grounds that Congress should not fund an institution whose policies topple governments. This objection, and the political motive of embarrassing President Carter before the election, is responsible for Utah Senator Jake Garn's derailing of the appropriation bill in the Senate Banking Committee.

There is unfortunately not much to prevent these raids on the IMF from simply making an uncontrolled global payments crisis more likely than the murderous, orderly world depression the IMF proposes to conduct. No one has yet offered a replacement to the institution. The bottom line, British Chancellor of the Exchequer Sir Geoffrey Howe bragged to *EIR*, is that Britain's own monetarist program, is taking over the international institution. Asked how long Britain's 20 percent inflation would have to persist before he admitted Friedmanite monetarism was a failure, Howe replied, "It is now recognized that monetary policy has a crucial role to play, and monetarism has become the dominant discussion among the finance ministers and at the International Monetary Fund." Britain's disastrous policy has become IMF policy for the world.

IMF energy policy

In his opening address, Managing Director de Larosière warned against a "shift toward expansion" in the industrial countries, threatening that greater energy consumption would produce "upward pressures on the price of oil." Retiring World Bank President Robert McNamara, Lyndon Johnson's Secretary of Defense, backed up this threat with a "prediction" that oil prices would continue to rise at an accelerating rate to almost $80 a barrel in 1990. McNamara's recommendations could be summarized as, "burn people, not oil." There is no reason for oil prices to double again—McNamara cited no evidence for this—especially if the industrial nations offer the oil producers a stake in a nuclear-energy future in return for restraint on oil prices in the medium term. McNamara's dictum that "the price of oil . . . is likely to continue to rise in real terms by perhaps 3 percent per year," or the inflation rate plus 3 percent, is based on a British-authored draft paper handed to the Organization of Petroleum Exporting Counnries. The premise of the paper is that oil prices must rise this fast to make monstrously expensive synthetic fuels "economical." The U.S. and Britain have *opposed* Saudi Arabia's efforts to hold down oil prices on the ground that this will undermine the synthetic fuels program!

If McNamara's prediction bears out, the Third World will have to pay $280 billion a year for oil by 1990, "a level that would be difficult to finance by any conceivable expansion of exports, or increase in external borrowing," the World Bank president said. Therefore "the oil-importing developing countries should establish efficient import substitution in energy as one of their principal tasks for the 1980s," absorbing every dollar of external resources that do not already go to debt service. In sum, the World Bank—in combination with the British and U.S. governments—wants to continue the upward push of oil prices and force a "structural adjustment" on developing countries which will destroy all investment *except* in the energy sector. If the World Bank seriously wanted to reduce developing nations' dependence on imported oil, it would finance nuclear power plants—an alternative that McNamara specifically excluded from his list of possible energy sources.

Europe's waiting game

According to top-level European officials, France and West Germany went to Washington to wring out two concessions from the Anglo-American leadership, and achieved their extremely limited objectives. Otherwise, the Franco-German strategy is to hang on to economic health by their fingernails for the next 15 to 18 months when the new European Monetary Fund can be put on line—an extremely hazardous delay.

The concessions were the following:

First, the French succeeded in forcing through a change in the definition of the "conditionality" with which the IMF lends money, which amounts to giving troubled countries more money and more time to adjust their economies. At a Sept. 29 press conference, de Larosière alluded to the compromise position that as an "experiment" the IMF is easing terms of conditionality in some cases, and that the matter would be kept under day-by-day review. Whether the tiger will change its stripes as the French wanted is entirely questionable—as questionable as the IMF's obtaining the money to lend out in the first place. In his speech Sept. 30, de Larosière indicated that the basic Friedmanite character of IMF conditionality would *not* change, only that "it must be recognized that correction of disequilibria will often need to be extended over a longer period than that considered normal in the past."

Second, Anglo-American efforts to transform the IMF into an all-powerful world central bank, issuing its own currency, the so-called Special Drawing Right, were shunted aside yet again. British minister Sir Geoffrey Howe proposed, in his speech to the meeting, a virtual World Bank takeover of international lending, drawing the OPEC countries into "Joint Lending Programs" with the World Bank. Again, U.S. Treasury Secretary G. William Miller called for steps to make the Special Drawing Right an international currency, to "expand the use of SDR-denominated instruments by the private sector," and to create a "substitution account" to replace the role of the U.S. dollar as a world reserve currency by the supranational SDR. Both these plans will get nowhere.

One of France's top monetary officials, an adviser to President Giscard, talked frankly in a background discussion of Europe's slim hopes of avoiding economic disaster. In January 1980, France's President promised a dramatic new initiative to transform the world monetary system, an alliance between Europe and the oil-exporting countries on the basis of a new gold-backed monetary system. "It did not happen," the official said, "because when President Giscard made his speech, the price of oil was $20 a barrel, and by June the price of oil was almost $30 per barrel. France suddenly faced a payments deficit due to the oil price increase, of about $5 billion a year, Germany of about $15 billion." With their economies weakened, the French and German leaders did not dare adopt a broad monetary initiative. The launching of the European Monetary Fund, an alternative source of international credit to the IMF, will be postponed past the March 1981 implementation date to late 1981 or early 1982.

Retrenchment on leadership

The French official put forward a cold-blooded appraisal of the most optimistic scenario for the next 18 months. At best, Europe's big industrial nations will retrench and prepare for expanded exports to correct their oil-induced payments deficits. The middle tier nations, Portugal, Spain, Greece, and Turkey, will have to accept zero growth for the interim period, he said. And if the flow of money from the private banks, the IMF, and other sources can somehow be maintained, the world may just manage to avoid a collapse of international trade. He grimly noted that Federal Reserve Chairman Paul Volcker's interest-rate policy, which has brought the American prime interest rate back up to 13 percent, is a grave threat to the stability of the European Monetary System, the currency bloc that has sheltered Europe's economy from the worst effects of the Anglo-American depression.

By 1985, the official added, half of France's electricity will be produced by nuclear-power plants, reducing that nation's dependence on Mideast oil. But getting through until then depends on a set of "ifs"—continued refinancing of massive Third World deficits, stable oil prices, and Europe's ability to resist interest-rate warfare by the British and American central banks.

"It is extremely difficult for us to take the mantle of leadership of the West," said a well-placed West German banker attending the meetings. "The German economy is in trouble. The Japanese are much more competitive than we are on world markets. And because of our payments deficit the German monetary authorities will make it difficult for us to lend money to export our goods."

These economic problems acknowledged, the real problem is political. "Chancellor Schmidt is a good manager," the German banker continued, "but he is no politician." Until West Germany's elections Oct. 5 and France's Presidential elections in May 1981 are over, the French and West German leaders will bow to the authority of the IMF, even if the IMF is leading the Western economies into disaster.

Europe cannot accept the IMF's indefinite depression. "We have a young population," said the deputy central bank chief of one European country. "We have to give them employment, and we need growth of 4 to 5 percent per year at least."

But there is about an even-money chance that a disaster will overtake the financial system before Europe has time to put its affairs in order. In fact, this is Britain's last card to play against the Europeans. One journal circulating at the Annual Meeting, *International Currency Review*, is closely allied to the Keith Joseph wing of the present British government. It expressed unofficial British policy in an Armageddon scenario story. "Faced with a rapidly growing Third World debt crisis—underscored by Brazil's warning of possible debt-servicing difficulties next year, Turkey's unexpected demand for the rescheduling of $3 billion of debt incurred in 1979, severe imminent problems in Zaire and the clear prospect that Poland could default on its $20 billion worth of hard currency debt at any time—bank regulators are desperately seeking to protect their own domestic banking systems from a global financial crash." The Tory journal further predicts that "the central bankers' safety net will be found to be full of holes."

Britain's Conservative government is fully aware of the consequences of the global monetarist program that Sir Geoffrey Howe took credit for at his IMF press conference. Ultimately, the result will be the breakup of the world financial system and the retreat of nations behind exchange control barriers, as in the early 1930s. The appearance of the *International Currency Review* story at the IMF meeting should be sufficient warning that Britain is prepared to use a "Hayekian stabilization crisis," as the journal put it, as a weapon against the European Monetary System.

De Larosiere calls for restraint on demand

The following is an excerpt from the annual report to the International Monetary Fund meeting in Washington, D.C. Sept. 30, delivered by Jacques de Larosière, the Fund's managing director.

It must be recognized that many countries have noticeably tightened their economic policies since we met in Belgrade last year. These countries have given top priority to the fight against inflation, and elimination of negative real interest rates in most industrial countries is a sign of this awareness. But the member countries that have taken this firm stance against inflation now face a crucial test. Activity is weakening and unemployment is rising in most of the industrial countries; there is a danger that great pressure may now be exerted on national authorities to relax demand management policies. . . .

Assume first the industrial countries persist in their fight against inflation. Given the present very high rates of inflation in quite a few of these countries, this implies that they accept for some time a reduction in the growth of their nominal demand. It may be expected, on this hypothesis, that inflation in the industrial world gradually decreases, that the average rate of growth of real GNP advances from a low level, and that the recycling problem proves manageable. This scenario is certainly not ideal, and it could entail an increase in economic slack. It would, however, restore by the mid-1980s an environment conducive to sustained long-run growth. . . . Several years would have been lost in the fight against inflation. . . . Demand management policies and supplementary measures to restrain the growth in incomes need to be accompanied by measures to improve productivity and efficiency. In many countries, growth has been affected by structural problems, including poor productivity records and rigidities arising from the widespread quasi-automatic adjustment of wages and special benefits to rising prices. In some countries, the adjustment of relative prices to changes in the world economy has been restrained or prevented. Subsidies have been directed to the maintenance of outdated production methods and of industries in decline. . . . Through adjustments of tax structures and government spending programs, it is important to shift resources from consumption to investment without sacrificing overall fiscal restraint. . . .

Brazil looks to the East bloc

by Mark Sonnenblick

The Third World's single largest debtor nation is turning to the East. Brazil, which enjoys a well-deserved reputation for its strident anticommunism, has decided that ideology must take a back seat to economic reality, and will reportedly soon send a high-level delegation to the Soviet Union to negotiate the purchase of approximately 30,000 barrels of oil per day, in addition to encouraging Moscow to participate in risk contract exploration for oil inside Brazil.

It is the *political* impact of sending Brazil's "superminister"—Development Minister Antônio Delfim Netto—to Moscow that has bowled over official Washington. "Why send Delfim?" one upset State Department official complained to *EIR*, "when anybody else could have done the job?" The Delfim trip, scheduled for the end of this year, will be the first to the Soviet Union by a Brazilian minister since the military seized power in that country in 1964.

Why are the Brazilians doing it?

If anyone, or anything, has driven Delfim and the Brazilians east, it is the International Monetary Fund. Over the past months, Delfim has been in a pitched battle with that monetarist institution over its demands that Brazil entirely eliminate its growth plans. Although hardly a booming industrial economy, Brazil *has* managed to maintain a 7.9 percent growth rate, which the IMF has strenuously objected to as a bad example for other less developed countries (LDCs). Washington and City of London policy circles have also tried to force Brazil to go to the IMF for its financing this year, and in that way subject it to the antigrowth "conditionalities" which the IMF is notorious for.

Delfim has so far refused, seeking instead commercial bank loans from Europe, in particular, as a politically preferable option. In mid-September, for example, he traveled to continental Europe in search of the vast credits needed to roll over Brazil's mammoth $55 billion total debt. Outraged by such behavior, Her Majesty's foreign office took the unusual expedient of issuing Brazil the following orders through the pages of the London *Financial Times*:

> There is scant sympathy in Whitehall for the official Brazilian view that the country's economy has to continue to grow quickly in order to create jobs for the unemployed and consequently to keep social discontent to a minimum. . . .
>
> Britain is expected to press the Brazilian Government to adopt strict policies of austerity and cutbacks in public spending if Brazil seeks large-scale international aid for the management of its foreign debt, estimated to be some $55 billion.
>
> According to senior Whitehall officials, Britain would expect to see the Brazilian authorities go to the International Monetary Fund and accept the policy recommendations given to them there.

Brazilian officials responded with equal vehemence. Finance Minister Ernane Galvâes told the press that "no foreign government has any right to make that kind of recommendation to the Brazilian government. It's all part of some kind of intrigue." And Brazil's press attaché in London angrily explained to *EIR*: "We do not borrow from Whitehall. We borrow from banks. . . . Jamaica was crushed by the IMF's conditionalities, but we have emerged from Third World status without any help from these so-called international organizations."

But the London group is not taking no for an answer. The *Financial Times* retaliated in an editorial which ominously warned that Brazilian President J. B. Figueiredo was so badly trapped between economic and political problems that his government "may not be around for long." Figueiredo's six-year term ends in 1985! There are, in fact, growing indications that London is willing to deliberately destabilize Brazil and even topple the Figueiredo government—if it does not buckle under.

Brazil's strategy

Brazilian leaders have, over the past few years, systematically diversified Brazil's international partners so as to free their country's growth potential from blackmail by the British and the Americans, united today in pushing Brazil to the IMF.

Brazil has entrusted West Germany with the development of its nuclear energy sector, a commitment reaffirmed with the successful floating of $56 million in deutschemark bonds for Nuclebras by German, Kuwaiti and other banks while Delfim was recently in Frankfurt.

In Paris, he arranged France's biggest loan ever to Brazil: $500 million to finance French exploration and drilling equipment for Brazil's state oil company, Petrobras. There is also talk of $1 billion French financing for Brazilian coal expansion.

Delfim also plans a week in Japan in November. But most important is the Moscow trip. Delfim apparently met with his Soviet contacts while in Paris, and they agreed to fill part of the vacuum left by the Western banks. In addition to the oil discussion, the Soviets will provide Brazil with two huge hydroelectric dams, including powerhouses, cement and electric cables—all on favorable terms.

The one place Delfim won't go is the IMF, whose meeting he is boycotting.

The economy

Last year, as the signs of coming crisis became unmistakable, Delfim Netto consecrated the economy to crash programs for: 1) a "super-harvest"; 2) increasing exports; and 3) bringing on line domestic substitutes for imported oil. He can now show significant "success" in all three priority areas, but at the cost of dangerous reductions in levels of consumption by the work force, and of doubling inflation from the 45-50 percent range of the late 1970s to 100 percent today.

Agriculture: Abundant, highly subsidized credit increased overall production by about 17 percent over last year's weather-plagued harvest. But here, Delfim's priorities come into conflict with each other. Focus on export crops and the wasting of 2.5 million hectares of the best farmland (80 percent of it in São Paulo) on growing sugar cane for fuel alcohol, has caused food shortages. The result is inflation, the need to import almost $2 billion worth of food per year, and shortages of staples which are fueling social discontent.

Exports: Delfim succumbed to pressures from Carter envoy C. Fred Bergsten, and hit Brazil with a 30 percent devaluation last Dec. 7. The added competitiveness helped bring a dramatic 46 percent increase in exports of manufactures during the first half. But, while exports soared, imports increased even faster, bringing a trade deficit of $2.5 billion during the first eight months and possibly $4 billion for the year. Domestic prices also leapfrogged. Delfim is now again under pressure to abandon his current restrained rate of "mini-devaluations" and listen to the IMF crowd's demand for another "maxi-devaluation."

Energy: Thanks to the doubling of gasoline and diesel fuel and the quadrupling of fuel oil prices over the last year and the expensive alcohol program, Brazil has finally managed to cut overall oil consumption by 1.1 percent. The costs, however, have fed inflation, and Brazil can't go much further on this route without increasing the damage. Budgets for genuine energy-saving transport (railroads, ports, and subways) have been savaged in recent years. Billions of dollars are needed to put coal on stream, even for use at the pitmouth. The alcohol program for which Brazil is world-famous requires billions more in government giveaways and millions of hectares of additional farmland. And the electrical sector is having difficulty raising the $5 billion it needs annually for dam, transmission line, and nuclear construction.

Industry: The statistics show an impressive 7.9 percent increase in industrial output in the first seven months over the identical period last year. Most of the increase, however, comes from the 17 percent expansion in domestic oil and iron ore extraction. Manufacturing performance varied widely by sectors, with plastics up 8 percent and vehicles down by 6 percent. Future prospects for industries not focused on exports or fuel substitution are bleak. They will be increasingly trapped between usurious credit rates of 150 percent and more, "anti-inflationary" price controls, still higher energy costs, and inability to obtain needed production inputs.

Labor: Since wages make up only 10 percent of manufacturing costs, according to First National Bank of Boston, stepped up wage-gouging will hardly save beleaguered manufacturers. The IMF crowd, however, is insistent on this point, and demands, in the words of one U.S. bank, a "180 degree turn, à la Argentina." Almost all experts concur that this would detonate a social explosion in Brazil and put an end to Figueiredo's cherished policy of *abertura*, or political opening, through which Brazil is being gradually returned to democratic rule. Brazil's more far-sighted military officers are also anxious to avoid a social explosion that would have to be violently repressed.

By no means all the military share this outlook. Coinciding with the July visit to Brazil of Pope John Paul II, right-wing paramilitary groups began a series of what are now 60 violent attacks on the Marxist left and "liberation theology" agitators.

According to one of President Figueiredo's military advisers, the security officers who practiced torture and ran death squads during the darkest days of the Brazilian coup today fear that the democratic opening will result in their exposure and punishment. They had expected, the general continues, that Brazil's economic crisis would "automatically" bring a return to dictatorship. However, when they saw Delfim and Figueiredo buck the bankers' pressures, they knew that only by provoking a "leftist" terrorist response to "right" violence could they force an end to the *abertura*.

Figueiredo has vowed to stop the terror, without wiping out his cautiously engineered political opening. Thus far, however, powerful troop commanders have protected the new death squads. An extraordinary meeting of the Army High Command held in Brasilia Sept. 25 reportedly fought out these vital questions concerning Brazil's political and economic future, although the outcome is not yet known.

Regional banks face phase out

by Kathy Burdman

The Carter administration is already in the midst of legislative and regulatory action to entirely restructure U.S. credit allocation.

The Carter administration has put into effect a far-reaching program for a national banking system in the United States that will phase out America's regional banks. Legislation already in Congress, and regulatory actions already under way at the Federal Reserve, are aimed at a top-down restructuring of the U.S. banking system far more dramatic than the 1910-14 measures that created the Federal Reserve.

The administration's current actions follow the predictions made by *EIR* in its May 1980 report, "Restructuring the U.S. Banking System: The Citibank Strategy for the 1980s." The pace of these actions may well advance *EIR*'s prediction that the nation's banking system will be consolidated into the hands of fifty to a hundred money center banks by the decade's end; significant consolidation could occur within the next two or three years.

The national interest?

The move toward a national banking system is the unanimous action of the 12 New York Clearing House banks led by Chase Manhattan and Citibank, along with the Carter White House, the Federal Reserve, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, Senate Banking Committee Chairman William Proxmire and House Banking Committee Chairman Henry Reuss. They intend to consolidate control over the entire U.S. banking system by the great multinational banks, which count the national interest of America as a purely secondary question.

The destruction of the dual U.S. banking system will seriously undermine the U.S. economy, precisely the effect intended by Carter administration planners, who openly espouse zero economic growth and call for the phasing out of regional basic U.S. industry such as steel, auto, and housing.

The nation's smaller 14,600 regional commercial banks account for 55 percent of American industrial, agricultural, and housing loans, and the U.S. savings banks and savings and loans threatened with them account for 80 percent of the rest of all housing mortgages. The bankruptcy or buy-out of these regional banks by the top 100 money center banks will result from the cutthroat competition fostered by administration deregulation, and leave whole sections of the U.S. economy deprived of credit, as the money center banks concentrate their activity on more speculative and profitable national and international lending.

Indeed, as *EIR* will show in subsequent studies, the regional banks probably account for far more than 55 percent of *productive loans* that actually foster growth in the U.S. economy.

The legislative and regulatory agenda

The administration's legislative and regulatory agenda is explicitly aimed, as Comptroller of the Currency John Heimann told the House Banking Committee this week, at "lifting the barriers to interstate expansion of domestic institutions." Major ongoing *legislative* initiatives include:

Report on the Douglas Amendment to the Bank Holding Company Act and the McFadden Act. Written by President Carter's Domestic Policy Adviser Stuart Eizenstat, the report calls for a "modification" of the Douglas Amendment to allow money center banks to buy smaller banks or set up *subsidiaries* across state lines. It would relax McFadden prohibition on interstate *branching* within Standard Metropolitan Statistical Areas, allowing, for example, major New York banks to branch into New Jersey and Connecticut. It would also relax McFadden for unspecified Electronic Funds Transfer banking interstate, such as Citibank's proposal to accept credit card deposits outside New York.

Status: Now being written into legislation to be introduced in the post-election "lame duck" Congress with probable support by House Banking Chairman Henry Reuss (D-Wisc.).

Emergency Bank Acquisitions Bill, S. 2575. Introduced by Reuss and Senate Banking Committee Chairman William Proxmire (D-Wisc.) with the advice of the Federal Emergency Management Agency, this bill allows abrogation of McFadden and Douglas in case of bank failures so that money center banks may go interstate to purchase them. Seen as a major precedent breaking of McFadden Act.

Status: Still in House and Senate Banking Committees. Comptroller Heimann expects to have the bill passed in the new January Congress on the basis that in is the administration's "minimum demand."

Export Trading Company Act, S. 2718. Introduced by Sen. Adlai Stevenson (D-Ill.), the bill gives banks the ability to set up trading company subsidiaries which can operate across state lines and make loans and take deposits for the bank. The ETCs will also engage in a full range of non-bank commercial activities for the bank such as investments and outright ownership of shipping and other export-related corporations (see Congressional Calendar).

Status: Passed by the Senate, the bill will be up for hearings in the lame-duck session by House Financial Institutions Subcommittee Chairman St. Germain (D-R.I.). Senator John Heinz (R-Pa.) this week endorsed the bill, giving it a major boost. Could be law by January.

Open Market Committee Amendment to Federal Reserve Act of 1914, H.R. 7001. Rep. Henry Reuss has introduced a bill into the House Subcommittee on Domestic Monetary Policy to abolish the Federal Open Market Committee, which Reuss claims is too responsive to the banks that elect its members. Monetary policy would be made by the Fed Board of Governors, who under the bill would be constrained by law to follow a thoroughgoing monetarist policy of fixing the monetary base M-1B down from the present Fed target of 7 percent per year to 2.5-3.5 percent by 1984, regardless of how high this would force interest rates. It would put regional banks and especially thrift institutions at tremendous competitive disadvantage.

Status: Has not yet been reported out of House Banking; could come up for House vote in January but is regarded as a protest measure to pressure the Fed to continue high interest rate policy.

Federal Reserve regulatory actions

Without the need for any legislation whatever, the Federal Reserve is already undertaking the following far-reaching actions:

The Fed's Depository Institutions Deregulation Committee (DIDC) which implants the March 1980 Omnibus Bank deregulation bill, has phased out the usury ceilings on interest rates for savings banks so fast that this week U.S. League of Savings Associations Executive William O'Connell charged the Fed with creating "near chaos in the financial markets" which will during the rest of 1980 cause the transfer of $17-$20 billion out of thrift institutions into the money center commercial banks. The DIDC wiped out the thrifts' competitive interest rate market over the commercials in 60 days instead of the six years mandated by law, he said.

Status: The League is suing in Federal court and introducing legislation to curb its excesses, which should be in Congress during its coming lame-duck session.

International Banking Facilities (IBFs), the banking "free zone" proposal of the New York Big 12 Clearing House banks, may be enacted this month. The Fed under Regulation D would lift all reserve requirements from designated branches, called IBS's, allowing Eurodollar-market business to be brought back to the U.S., causing a speculative bubble in the United States and giving major money center banks who could afford to operate such facilities a vast competitive edge in profits.

Status: The Fed board could vote IBFs into existence as early as this month, after the Chicago, Boston, and California money center banks made a deal with the New York banks to force it through.

National CHIPS payments system, a national version of the New York banks' Clearing House International Payments System (CHIPS), will be allowed to form by the Fed Board. Its new members will be the top 100 money center banks outside New York, led by the Chicago, Boston, and California banks who have agreed to the IBF plan. This is their payoff. "U.S. CHIPS" would be a de facto national electronic banking system which would put members of the system at a tremendous competitive advantage over the rest of the 14,600 banks outside the system, in terms of their ability to clear international funds cheaply and quickly.

Status: Limited membership in CHIPs will be extended to the non-New York money center banks when the IBFs go into operation after the Fed ruling. Phase-in to full memberships, forming a U.S. CHIPS, will take two to three years.

Edge Act liberalization is now being planned by the Fed. Staffers are writing a new liberal version of its Regulation K, which limits Edge Act branches of banks currently to only small amount of financing only for international transactions. Fed liberalization will allow Edges to make loans across state lines to any phase of the export production cycle, including building plants in the U.S. and financing domestic commercial business of exporters, putting Edges into direct competition with domestic U.S. commercial banking.

Status: Fed to report out a proposal for public comment on Reg K this month.

Farm credit law set for approval

by Susan B. Cohen

Despite a strenuous lobbying effort by the American Bankers Association (ABA), the trade association for the nation's larger commercial banks, legislation amending the laws governing the Farm Credit System and significantly broadening the system's ability to serve the credit needs of the nation's agricultural economy was reported out of the House Rules Committee and scheduled for action with provision for two hours of debate on the House floor this week.

While spokesmen for Cong. Ed Jones (D-Tenn.), sponsor of H.R. 7548, doubt that the bill will actually get acted on in the remaining days before the Oct. 4 recess, they intend to bring it up in November during the lame-duck session and see "no big problems" in its approval, swift passage through conference, and enactment by the President. The Senate version of the bill, S. 1465, has already been passed and the two bills do not differ greatly.

Leading features of the legislation, the first serious revision of the Farm Credit Act of 1971 which governs the Farm Credit System, are as follows. It would:

- Allow the banks of cooperatives to finance agricultural exports which benefit a U.S. cooperative, including the provision of all financial services involved, such as receiving and holding credit balances from banks and borrowers, and trading bankers' acceptances associated with international trade, including the ability to make loans to associated parties when a member co-op stands to benefit;
- Authorize Federal Land Banks and Production Credit Associations to finance processing and marketing undertakings directly related to an applicant's farm, ranch, aquatic operation, etc.;
- Allow Federal Land Banks and Production Credit Associations to finance processing and marketing undertakings directly related to an applicant's farm, ranch, aquatic operation, etc.;
- Allow Farm Credit System institutions to invest and participate in loans of other institutions;
- Allow the Federal Intermediate Credit Banks (FICBs), the discount banks for the Production Credit Associations, to discount the agricultural loans of other financial institutions.

The legislation would also lower from 80 percent to 60 percent the proportion of a cooperative's membership that must be "farmers" to entitle that co-op to Banks for Cooperatives financing. With the numbers of practicing farmers declining significantly, this provision is essential to prevent a cutoff of funding to, for instance, the Rural Electric Cooperatives and Associations that supply power to rural communities.

The provision for export financing by the System and the relationship of so-called other financial institutions to the System have been the most controversial aspects of the legislation. Financing capability is one of the principal roadblocks to any of the several large farmer cooperatives marketing their own grain internationally in direct competition with the five major grain companies that now totally monopolize the trade. Efforts to discover the grain companies' stand on the legislation yielded the standard "no comment"—often in the form of unreturned phone inquiries—that the secretive giants are known for. Sources say that there is no way to tell whether the companies helped finance the opposition to the legislation, but surmise that a decision was probably made that the ABA should carry the ball for all the opponents.

In its capacity as an independent source of funds outside of the Federal Reserve System, the Farm Credit System is eyed jealously by large commercial banks like the Bank of America and the Northwest Bank Corporation of Minneapolis, who have led the charge to gain access to System discount facilities to cash in on interest rate differentials and generally give their own money management operation more flexibility at a cheap price. Many of the smaller commercial banks and their affiliates, as well as credit corporations formed by production associations, on the other hand, that have no access to money markets themselves, rely on the Farm Credit System on a fairly regular basis in addition to their special needs in periods of tight credit such as this past spring.

At any given time from 3 to 5 percent of total FICB discounts are for a total of about 250 other financial institutions. But as a spokesman for the System's regulatory body, the Farm Credit Agency, explained, the System is strictly guided in the initiation and continuation of these relationships, which are permanent, by the needs and interests of the farm and rural economy as opposed to the speculative designs of money center banks.

The 1979 legislation provides for the application of four criteria on considering establishing a discount relationship with another financial institution: 1) the institution must have at least 25 percent of its business in agriculture; 2) the institution must show a demonstrated, continuing need for funds; 3) that institution must show that it has limited access to alternative sources of liquidity; and 4) the institution is prohibited from using the discount funds for the purpose of expanding non-agricultural lending. While there is nowhere specified any size limitation on an applicant bank, these parameters tend to rule out the Banks of Americas absolutely, and effectively place a serious "burden of proof" on any bank with more than $100 million in capital.

As recently as one month ago, ABA spokesmen told this writer that they were "very doubtful" that the bill would escape from the Rules Committee without penalties. More than a year ago when the Senate bill was proposed the ABA mounted a full dress campaign to prevent what they have portrayed as "unfair competition" and "encroachment" on banking activities "outside the farm sector" by the FCS. Since that time, however, the FCS has assembled powerful support, winning both the Independent Bankers Association—representing the smaller commercial banks in the country—the several-million-member American Farm Bureau Federation and the Independent Insurance Agents of America to defense of its critical role in the farm economy.

The ABA's claim of "unfair competition" and unfair tax breaks enjoyed by the FCS is belied by the facts. While the FCS's lending activities tend to fluctuate with the cost of money in national money markets, its expanding share of the farm lending market in recent years has not come at the expense of the commercial banks principally concentrated in the operating loan category. Rather, expansion has been by the Federal Land Banks arms of the FCS, as primarily insurance companies and individuals pulled out of the real estate financing market. And, as one spokesman for the System put it, with regard to the tax breaks charge "they couldn't be too substantial because opponents of the System haven't been able to attack the subject directly."

What is the Farm Credit System?

With an annual loan volume of approximately $50 billion, the Farm Credit System is the largest single lender to American agriculture—traditionally splitting operating lending with the commercial banks, and expanding real estate financing significantly in recent years. The System consists of four arms: the Federal Land Banks, the Banks for Cooperatives, the Federal Intermediate Credit Banks, and the Production Credit Associations.

Originally launched by the federal government, the System is now a wholly member-borrower-owned institution. The System has direct access to national money markets, floating its own bonds to raise funds. Farm Credit System bonds are among the highest-rated financial instruments in the nation.

The System was built up piecemeal between 1916, when the Federal Farm Loan Act authorized the establishment and initial capitalization of the 12 Federal Land Banks, and 1933, when the Production Credit Associations and the 12 Banks for Cooperatives were authorized. In 1933 the Farm Credit Administration was created by executive order of the President, and the various farm credit institutions were placed under its supervision. By 1953 all government capital was repaid, and the independent System presently functions under the authority of the Farm Credit Act of 1971, which superceded all previous legislation governing System entities.

An excerpt from the 1971 Farm Credit Act—which the present legislation is amending—outlines clearly the explicit purpose vested in this unique institution:

> It is declared to be the policy of the Congress, recognizing that a prosperous, productive agriculture is essential to a free Nation and recognizing the growing need for credit in rural areas, that the farmer-owned cooperative Farm Credit System be designed to accomplish the objective of improving the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit and closely related services to them, their cooperatives, and to selected farm-related businesses necessary for efficient farm operations.

With a stabler rate structure, the FCS has acted generally to shield the farm sector from the violent short-term fluctuations in financial conditions—for instance, this spring the System experienced a boom in lending demand when Volcker's credit policies squeezed off credit to the commercial banking system. Ultimately, of course, since it raises money in the national markets, the System is dependent on the health and conditions of capital flows in the economy generally.

American output and the NICs

by Renée Sigerson

Top international policy groups are suggesting that the United States could begin to import an ever growing portion of its manufacturing requirements from a select group of "Newly Industrialized Countries," now dubbed NICs.

If U.S. basic industries, such as auto and steel, continue to reduce output even further under programs that discourage financing of "sunset" or antiquated industries, U.S. imports from a group of six countries in the NIC category will soon top U.S. imports from the European Community.

These are preliminary conclusions from a number of current studies of the NICs' impact on U.S. trade patterns. Earlier this year, the London-based International Institute for Strategic Studies (IISS) and the Washington-based German Marshall Fund commissioned a U.S. group to examine tendencies on the part of U.S. multinationals to "integrate" their domestic production with subsidiaries in the more advanced countries of the Third World.

The group commissioned to perform the study was the National Planning Association (NPA), which dates back to the 1930s when it helped design the New Deal. The study, which will be released later this year, has not been publicized. Clearly, in choosing NPA, London's IISS is demonstrating that it considers current moves to "restructure" U.S. industry to be on a par with the dramatic changes that took place in the U.S. economy under the New Deal.

NPA's study breaks the U.S. economy down into five sectors: auto and auto components, steel, chemicals, consumer electronics, and textiles/clothing. It then examines the level of "production integration" introduced by U.S. firms in these sectors between their domestic operations and subsidiaries in Southern Europe, South Korea, Mexico, Brazil, Argentina, Taiwan, Singapore, and Hong Kong.

Relocation of U.S. industry

Preliminary summaries of NPA's work show that U.S. multinationals would like to relocate growing margins of industrial capacity to the NICs, but a barrier is protectionist legislation in the NICs themselves.

It is remarkable that such a study should be commissioned by leading non-American think tanks. Britain's IISS is an institution devoted to strategic policy formulation for all countries which are members of the North Atlantic Treaty Organization. In this connection, there is growing evidence that U.S. links to industries situated in the Third World is increasingly considered an issue that merits top strategic attention.

In a forthcoming book entitled "The United States and World Development, Agenda 1980," Father Theodore Hesburgh, chairman of Notre Dame University, and a member of the New York Council on Foreign Relations, addresses this question in his capacity as chairman of the Overseas Development Council (ODC), another policy planning group that has issued public studies on U.S. economic ties with the NICs.

In a press release announcing the book, Hesburgh is cited as saying that "exclusive policy attention to the strategic balance between the United States and the Soviet Union neglects a set of problems involving the developing countries that could seriously threaten the long-term security and well-being of the United States."

In a November 1979 study by Hesburgh's ODC which compares six advanced Third World countries with postwar Japan, it is shown that by 1977, the United States took 12 percent of total imports from the following group of countries: Brazil, Mexico, Taiwan, Singapore, South Korea, and Hong Kong. This 12 percent import share nearly matched the 15 percent import share on the U.S. market of the nine industrialized countries in the European Community.

UNCTAD study: same results

A 1977 study by the United Nations Council on Trade and Development (UNCTAD) showed similarly that by 1976, for 50 leading export items from the Third World, the United States ranked second only to Japan in dependency on these items from Third World as opposed to industrialized nations.

In discussing future potential to expand U.S.-Third World industrial integration, Hesburgh's ODC proposed in 1979 that an international forum be created to coordinate these growing trade ties. This forum, the ODC suggests, should be to advise nations on how to relocate workers displaced by cheaper imported goods and how to refurbish companies pushed off their domestic market by imported manufactures.

Domestic Credit by Richard Freeman

A short fuse under interest rates

With interest rates heading up again, the depleted U.S. economy may not recover.

Citibank's increases in its prime lending rate to 14 percent on Oct. 2, a full day before the bank's normal Friday announcement of increases or cuts, marked a further explosion in the U.S. interest-rate increases of the past month. Since the last week in August, the prime rate has jumped 325 basis points, a far greater increase than the combined hikes of last October and November, when Federal Reserve Chairman Paul Volcker first began to tighten credit.

The surge in interest rates will take immediate effect on the U.S. economy, which is far more depleted than it was in October 1979. And the interest-rate now is far steeper than the ones last year. The economy cannot withstand such a deep shock after 12 months of recession without permanent damage.

The immediate cause of the depleted state of the U.S. economy is the fact that it has been through two credit shocks already. As a result of Volcker's placing of a 9 percent ceiling on new bank lending and raising the discount rate in October of 1979 and the March, 1980 imposition of credit controls, the production level of key sectors of the economy fell by 10 to 40 percent. This meant two developments: first, that no new capital formation of any significance occurred during this period; second, industries were not generating the cash flow to store up for future capital formation. In the case of U.S. industries suffering from massive obsolescence, such as steel, and housing stocks, this means that they were pushed further from a position of recovery. A third interest rate shock will cut right to the bone.

The prime-rate increases will probably not stop short of 14¾ or 15 percent. There is no guarantee that rates will stabilize even at that plateau; it would take another blip in U.S. inflation and inflationary expectations for rates to go much higher, but that can't be ruled out.

The most immediate cause for the rise is Paul Volcker's incompetent handling of monetary policy. His "anti-inflation" program has led to a recession that widened the federal budget deficit and increased businss costs, in turn boosting borrowing needs.

Corporations have taken bank loans in greater volume recently, largely for inventory financing and for "bridge" financing, that is, for project costs committed by corporations months or years ago.

However, according to Wall Street analysts, there is now a panicky rush for short-term borrowing because corporations fear being shut out of the long-term bond market.

"With the long-term side of corporate bonds moving higher, corporations are scrapping their corporate bond issues, which they held off the market for a while hoping rates would fall, and are now going toward borrowing from the banks," stated Robert Synch of Bear, Stearns investment bank. It should be added that the pileup in loan demand is selective; not everyone can afford to borrow.

Federal funds traded at 13¼ to 13½ by Oct. 2, and the payout of more than $100,000 on certificates of deposit, which are sensitive to the fed funds trading range, is currently at 13 percent. Because of reserve requirements on CD deposits, the actual cost of funds for commercial banks on CD deposits is 13¾ percent. Since banks generally try to maintain a 1 percent spread, if Fed funds and CD rates stay at their current levels, the prime rate will have to rise to 14½ to 15 percent within the next week and a half.

With mortgage rates at 14 percent at leading savings and loan associations in California, new homes are once again being priced out of the range of the consumer. In New York City, for purchase of a cooperative apartment, the buyer is being asked to put up 25 percent of the purchase price in a down payment, plus 14 percent interest, plus 2 percent good will.

Another key sign is the 6.6 percent drop in capital goods orders reported by the Commerce Department for the month of August, which led the overall 2.3 percent drop in new durable goods orders for that month. Machine-tool orders plunged 47 percent in August. Machine tools had been one of the most buoyant sections of the economy.

The decline signals that capital formation is being axed, a signal that corresponds with the short-term panic borrowing of bank funds by corporations rather than their long-term borrowing on the bond market.

Gold by Alice Roth

Lifeboat economics?

An increase in gold-collateralized loans, sanctioned by the U.S., serves as a debt prop.

The use of gold by governments as collateral in obtaining loans is becoming an increasingly frequent and widely accepted practice, my sources report. According to Thomas Wolfe, a Washington consultant, leading financial institutions, including the New York money center banks, are pressuring Third World governments to turn their gold reserves into "useable money," either through gold-collateralized borrowing or by swapping gold for foreign currency.

The growth of gold-collateralized lending constitutes a de facto remonetization of gold, which has occurred under the watchful, and apparently complaisant, eye of the U.S. Federal Reserve. The Fed's tolerance is not so surprising when one considers that gold represents one of the last remaining "hard-commodity" props beneath the international debt structure.

British bankers, in particular, increasingly advocate the use of gold as means of settling payments imbalances. In a Sept. 30 editorial, the London *Financial Times* warned the International Monetary Fund that the rollover of Third World debts through overly "liberal" lending would be a "potentially highly inflationary . . . solution." The *Times* recommended that the IMF consider "the mobilisation of gold in settlements as an alternative to pyramiding banking claims."

It should be understood that the new system presently emerging has little to do with the gold-based system envisioned by Charles de Gaulle or present French monetary strategists. French officials, in their better moments, think of gold as a means of mobilizing liquidity to expand world trade and put capital to work in industrializing the Third World sector. New York and London think of gold merely as an asset to get one's hands on before the Eurodollar market sinks.

The method by which gold-collateralized loans or gold swaps are conducted is as follows: most banks will insist that the gold be kept on deposit in one of the major international money centers, such as New York, London, Zurich, or Frankfurt. Most of the world's central banks hold their gold at the Federal Reserve Bank of New York, so it is a relatively easy matter to transfer the gold from the borrowing country's account at the Fed to that of Chase Manhattan or Citibank. Out of official world reserves totaling 930 million ounces, the Fed holds 370 million ounces.

If a swap arrangement is used, the country can arrange to reverse the swap by buying back the gold within a prearranged time period. In this way, there is never any change in the level of the country's reserves, but the bank has the gold in the event of default.

Until recently, the Fed reported all transfers from accounts held by foreign customers to those of New York banks as an "import" of gold into the United States. Two months ago, the Fed ceased all such reporting, ostensibly on the grounds that the countries involved had requested greater confidentiality. This indicates that the practice may have become much more widespread.

The U.S. government itself may have begun to take a fresh look at gold as a possible safety net should a severe dollar crisis erupt. Apart from the Soviet Union, the United States is still the largest government holder of gold. In an interview with *Euromoney* this month, Dresdner Bank managing director Hans-Joachim Schreiber reports that the U.S. Treasury discovered earlier this year that, when valued at $850 an ounce, its gold reserves are sufficient to cover all dollar balances held by foreign central banks. The Treasury may also be considering the seizure of foreign-owned gold and other assets held in the United States in the event of a breakup of the Eurodollar market. West Germany still holds the bulk of its reserves with the New York Fed, but the French shipped theirs back to Paris during the 1960s as a national security precaution.

One New York precious metals trading firm suggested that the reason for gold's recent weakness may have been sales by Iraq or Iran to finance their war. As Mr. Wolfe pointed out, this is highly unlikely since either country could have obtained a gold-collateralized loan easily enough on European markets. The actual reason for gold's weakness was the Fed's hiking of dollar interest rates, which may have been anticipated by some market participants. This period of weakness should soon pass as gold's de facto remonetization gains further ground.

Trade Review by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Financing	Comment
NEW DEALS				
	Brazil from U.S.S.R.	Xingu and Ilha Grande dams. Soviets are expected to provide the portion of the turbines, copper cables, and cement which cannot be made in Brazil. The Soviets have offered Brazil 300,000 tons of oil for delivery this year.	Soviets expected to give soft terms.	Will be negotiated during reported visit of Brazilian planning minister to Moscow.
$300 mn.	Colombia from U.S.S.R.	Trolley-bus systems for 19 Colombian cities. Cost includes overhead wiring, terminals, and 2,000 cars. This is part of Colombia's effort to use hydroelectricity to replace imported oil.	Payment will be largely in Colombian coffee.	Contract will be signed soon with Colombian Coffee Federation and Colombian government.
$560 mn.	Iraq from France	Dumez has signed an agreement with Iraq for construction of 4,000 housing units.		
$310 mn.	Czechoslovakia from France/Austria	200,000 ton per year paper pulp plant in Moravia. Contract won by consortium led by subsidiaries of Kreditanstalt and Creusot-Loire.		
UPDATE				
$500 mn.	Brazil from France	Petroleum equipment deal reported last week. Banks are linked to major suppliers, Schneider and Usinor.	$410 mn. at 8.5 percent for 10 years; $90 mn. at 3 percent for 20 years.	
CANCELLED DEALS				
	Germany and Netherlands from Algeria	20-year liquefied natural gas export deal signed in March 1979 and due to begin in 1983 canceled by Sonatrach, Algerian gas company.	Difficulty financing LNG plant part of problem.	Germany will make up shortfall with Soviet gas.
$250 mn.	China from U.S.A. and others	China has canceled plans to construct foreign trade center in Peking. Construction consortium of Turner, Gerald D. Hines and Raymond International notified.	Future tenants refused to invest $500,000 each. Chase Manhattan could not make up difference.	*Wall Street Journal* warns that Chinese may cancel many projects.
$350 mn.	Egypt from Italy	Egypt has dropped plans for Montedison to build a polyethylene plant. It will instead open bidding on a simpler $220 mn. PVC facility.	Montedison and Italian government were unable to provide expected soft credits.	

Steel consumers next in line

The revised trigger price means trouble for American industry and European steel.

The Carter administration's steel industry revival program, unveiled at a Sept. 30 press conference, is likely to be of little benefit to the industry. But the program could be a major blow to steel-consuming industries, such as auto and machinery, which will experience sharp price increases as a result of the reinstitution of the trigger pricing mechanism for steel imports.

The key components of the Carter plan are: 1) A proposed amendment to the Clean Air Act allowing the Environmental Protection Agency (EPA) to extend deadlines for meeting pollution control standards for up to three years on a case-by-case basis. To qualify, a steel producer would have to show that the money saved would be used for modernization. Steel industry sources say that this is not much of a change from current EPA policy. 2) Tax breaks, including a 40 percent liberalization of depreciation schedules, an extra 10 percent credit for investment in depressed areas, and refundability of investment tax credits to companies which are not making profits. These tax cuts were already proposed by Carter as part of his August "reindustrialization" message and apply to all industry.

The steel industry requires at least $5 billion a year to replace its obsolete plant and equipment. The $150 million a year which they are likely to gain as a result of the proposed liberalization depreciation is a drop in the bucket.

The most important feature of the Carter plan is 3) the reinstatement of the trigger pricing mechanism, which establishes floor prices for imported steel. The system was suspended last March when the U.S. Steel Corporation filed an anti-dumping suit against European producers.

Trigger prices will be raised by 12 percent in exchange for U.S. Steel's dropping of this suit.

The reinstatement of trigger prices may reduce steel imports in the short run. The main effect of the program, however, will be to permit U.S. companies to raise their prices—by as much as 25 percent, according to some specialists. Japanese and other foreign steel companies are able to produce steel much more cheaply than the major American firms because they have invested in new facilities employing the most advanced technologies.

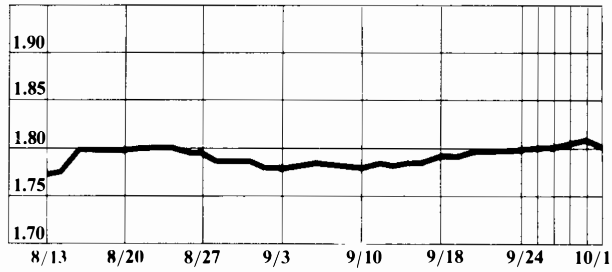
In the view of Joseph Wyman, a steel analyst with Shearson Loeb Rhoades, the trigger pricing system will merely "displace the import problem from steel to auto" and to other steel-consuming industries. Using the Japanese steelmaker Nippon Steel as an example, Wyman noted that Nippon Steel would gladly sell steel to Ford Motor Company at the higher prices mandated by the trigger price mechanism but it would sell to Toyota at Japanese prices. Can Ford then compete with Toyota? The next area in which Japan will pose a challenge to American industry, he predicted, will be machine tools and other types of sophisticated machinery. Japanese firms' investment strategy for the 1980s deemphasizes direct steel exports—since these have evoked a protectionist response and have also faced competition from producers in the newly industrialized countries—in favor of steel exports in the form of high-technology capital goods.

The reestablishment of trigger pricing has come at an inauspicious moment for European producers, many of whom have serious obsolescence problems, though not on the scale of the United States. In recent years, European Community (EC) exports to this country have been surpassed by exports from Canada and other (largely South Korean, Taiwan, and other Third World) producers employing more modern plants.

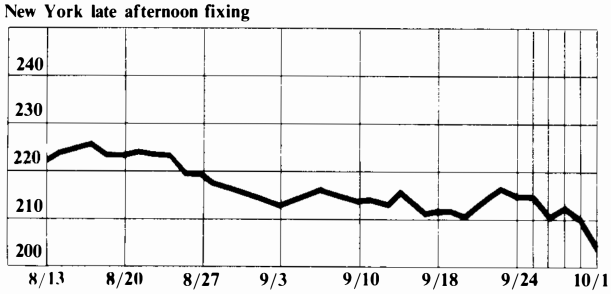
Meanwhile, the recession has unleashed a pricing war among European steel producers, which the *Financial Times* estimates will yield a collective 1980 loss for the industry of between $3 to $5 billion and could result in layoffs of 15 to 20 percent of the industry's 655,000 workforce. Viscount Étienne Davignon, the EC's Industry Commissioner, is attempting to convince the leading industrialists to agree to a 13 percent production cutback in the fourth quarter. West German and Italian producers have rejected this, however. As a result, Davignon is threatening to declare a state of "manifest crisis," in which he could impose mandatory production quotas and controls on prices and imports. Davignon has been urging European steelmakers to scrap so-called excess capacity for many years.

Currency Rates

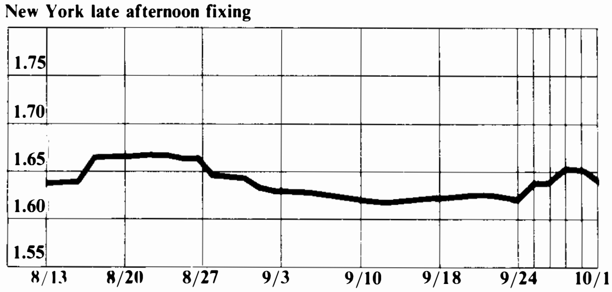
The dollar in deutschemarks
New York late afternoon fixing



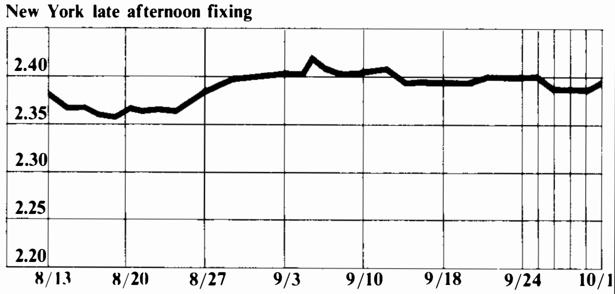
The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



Business Briefs

Oil Strategy

IEA may cut off France and other Iraq buyers

The International Energy Agency may be used to exclude France, India, Brazil, and other countries heavily dependent on Iraqi oil from oil import relief if the Middle East war continues. Aides to Henry Jackson, chairman of the Senate Energy Committee, said this week that while the IEA's oil-sharing plan goes into effect upon a reduction in oil supplies to 7 percent of all IEA members, those three nations—who import roughly a third of their oil from Iraq—could be left out because they are not members of the IEA, established by Henry Kissinger during the 1973-74 oil crisis. "In fact, most of Iraq's oil production could be shut down and not even trigger the IEA plan," the Jackson sources noted.

Jackson himself held closed top-security hearings on the possibility of another Middle East oil embargo (see National). "The Senator's main concern," aides said, "is for the allies to devise a collective strategy for IEA control over world oil markets and inventories to mitigate any possibility of panic buying. The IEA has to ensure market stability and coherent oil allocation."

Banking

Federal Reserve rules on commercial paper

The U.S. Federal Reserve ruled on Sept. 29 that commercial banks may now compete directly with securities brokers and investment bankers in selling commercial paper. The Fed was responding to an A. G. Becker lawsuit against Bankers Trust of New York, and an SEC charge that this new privilege could mean "unsafe and unsound banking practices."

The SEC argued that the Bankers Trust sale of commercial paper violates the 1934 Glass-Steagel Act. The Fed ruled that commercial paper is not a security as defined under the act, which separates commercial and investment banking. Citibank and Morgan Guaranty have already announced plans to move into the commercial paper market, at a time when business is forced to skew its borrowing short-term because of the new upward jag in interest rates.

In a related development, the Fed is said to be winking at Citibank's Oct. 1 announcement in the *Washington Post* that the bank will now accept deposits across state lines. "Citibank is making another end run around the McFadden Act," said a source in the Comptroller of the Currency's office, "and they're paying 8 percent on the deposits, much higher than savings banks."

Euromarkets

U.S. inflow designed for loan contraction

The Federal Reserve, joined by the Bank of England, has renewed pressure on continental European central banks and private banks for "prudential controls on the Euromarkets," New York banking sources said this week. According to the London *International Currency Review*, the Fed wants to "gain control of the Eurodollar market . . . as a threat both to its own independence and to the stability of the multinational banking system." The Fed wants world banking cut back, plain and simple, *ICR* concludes.

Stalled by a French refusal to consider the Fed's plan for reserve requirements on the Euromarkets, Paul Volcker has come up with a proposal to bring Eurodollar lending back to the U.S., "where he can control it," Treasury sources told *EIR*. The Fed's sponsorship of banking "free zones" in the U.S., sources say, is meant to "nationalize the Euromarkets," as *ICR* put it.

Pressures for Euromarket controls are also noted by the Brussels-based European Research Associates, which has just published a report entitled "Euromarkets: Supervision or Self-Control?" The group concludes that since certain central banks will not stand for reserve requirements, the U.S. and other countries ought to instead unilaterally impose "capital controls."

Military Aid

Carter reschedules Pakistan's debts

Emerging Oct. 3 from a one-hour meeting with Pakistani dictator Ziaul Haq, President Carter pledged that the United States will honor its treaty commitments to defend Pakistan if its "freedom and security . . . should be endangered." The *Washington Star* reports that Carter and Zia worked out a scheme whereby the U.S. will reschedule Pakistan's debts in lieu of shipping direct arms aid; this will free up funds to allow Pakistan to buy U.S. arms.

Carter again denounced the Soviet military presence in Afghanistan, and Zia urged Carter's reelection. Afghanistan, where Pakistani artillery has shot down Soviet-supplied helicopters, was the main subject of the talks. The administration has attempted to play down its support of Zia's international role, however, primarily out of fear that India will move closer to the U.S.S.R. Soviet President Leonid Brezhnev visits New Delhi in December.

Foreign Exchange

U.S., British rate rise hits Western Europe

Soaring U.S. interest rates and the coordinated stringent monetary policy of the Bank of England made for a strong dollar and pound sterling this week in spite of the Mideast war.

At the same time, a 14 percent U.S. prime forced three-month Eurodollar interest rates up close to the 15 percent level, while the Bank of England maintained its 16 percent Minimum Lending

Rate (MLR), with the British prime at 17.5 percent.

The Italian lira came under particularly heavy attack. The Bank of Italy was forced to follow the New York-London move, lifting its bank rate Sept. 28 to 16.5 percent from 15 percent. The attack on the lira came after the resignation of the Cossiga government and the subsequent collapse of Cossiga's proposed severe austerity program. The Bank of Italy announced that although it has $57 billion in reserves including gold at market prices, it will not defend the lira unless the government implements the austerity policy. The Bank's rate move will probably force the economy in that direction.

The French franc also came under pressure despite heavy Banque de France intervention, causing speculation that an interest rate rise will become necessary.

Britain may soon increase its MLR, rather than lower it as industry has been demanding. The Bank of England huddled Sept. 28 with 40 top City monetary experts to write a new strictly monetarist policy, under which interest rates will be totally disregarded and strict limits to the monetary aggregates maintained. The aggregates are soaring, and rates can only rise.

International Monetary Fund

Quota increase stalled in Senate

The IMF Quota Increase Act of 1980 has been "indefinitely stalled" in the U.S. Senate Appropriations Subcommittee on Foreign Operations by Jake Garn, the Utah Republican's aides claimed to *EIR* this week. The bill would increase America's contribution to the International Monetary Fund by $5.5 billion. A stall could hold up the pending $26 billion IMF quota increase until March, Treasury officials say, depriving the Fund of liquidity. "We're very disturbed," said Deputy Assistant Secretary Thomas Leddy. "It won't help our standing at the IMF at all."

Even if the U.S. fails to ratify its quota share, currently 21 percent of the total, it is possible that by January the Fund will muster the 75 percent of members needed to pass the quota increase. Currently ratification stands at 56 percent. Passage is difficult but not impossible without the U.S., Treasury officials say. It would end the United States' current veto on the IMF board, because the U.S. share in total quotas would fall below 20 percent.

The Treasury is worried that Senator Garn is holding out for a major increase in Eximbank financing, which the Carter administration has cut back.

Agriculture

Reagan and Yeutter talk about parity

Ronald Reagan delivered what his advisers dubbed "probably our definitive farm speech" in Nevada, Iowa on Sept. 30. The GOP candidate outlined his plan for "aggressive expansion" of agricultural exports and the Food for Peace PL-480 program, the development of "fuel farming," and the repeal of estate taxes. These programs, Reagan said, will ensure a "vigorously strong marketplace" where farmers can "work toward the goal of achieving full parity." Reagan hastened to add that there were "some who didn't think I'd use that word."

A week earlier, in Nebraska, Dr. Clayton Yeutter, a Reagan farm adviser, former DOA official, and one of three being considered for Secretary of Agriculture in a Reagan administration, addressed a breakfast meeting. Asked about his stand on parity, he replied, "These are meaningless numbers. I would like to get parity out of the vocabulary of agriculture totally. It does nothing but cause trouble. To suggest parity pricing is sheer nonsense." Astonished at Yeutter's candor, a farmer asked Yeutter to comment—putting the word "parity" aside—on how he thinks farmers are doing economically. "As well as we should be," Yeutter responded.

Briefly

● **WORLD TRADE** for 1980 will stay flat or grow by 2 to 3 percent at most over 1979 levels because of the downturn of the world economy, according to projections by both the IMF and the GATT staff. First-quarter figures' preliminary estimates of world trade for the first six months of 1980 show no growth, adjusted for inflation, of trade volume. Leading the downturn in world trade was the recession in both the U.S. and British economies. The U.S. accounts for a large share of world trade, and its import drop hurt world trade volume. If Germany and France go deeper into recession, the second-half global trade figures may actually show a decline.

● **FRENCH AUTOMAKERS** warned of government action against Japanese car imports in statements on Oct. 2. Renault President Bernard Vernier Palliez termed the Japanese surplus in auto exports "intolerable."

● **MARGARET THATCHER** summoned Chancellor of the Exchequer Sir Geoffrey Howe back from Washington's IMF meeting ahead of time for an emergency review of British monetary policy. British monetary growth has run out of control, and observers speculate that the British government may be preparing to introduce credit controls.

● **FRIEDWARDT** Winterberg a pioneer in the application of nuclear energy to space flight, will address an Oct. 15 Los Angeles conference on U.S. industrial policy sponsored by the Fusion Energy Foundation. The physicist, who studied under Nobel scientist Werner Heisenberg in Germany, is considered the father of impact fusion, the ignition of thermonuclear explosions by particle beams. The conference will also hear a spokesman for the Ralph Parsons engineering company, who will discuss a plan for expanding North American water supplies.

Justice Department assaults America's growth spokesmen

by Scott Thompson

In 1976 the Justice Department began a campaign to destroy parts of the nation's regional leadership in the name of combating "white-collar crime," "organized crime," and "labor racketeering." The annual reports of the U.S. Attorney General show that over 100,000 victims have been claimed in this manner through Abscam, Brilab, Pendorf and over 150 other undercover operations. This number far exceeds the political purges carried out in the Soviet Union in the 1930s.

There has been nothing random, and nothing criminal, about the Justice Department's targets. They are part of the leadership of the constituency-based political machines who have built and run the nation's urban industrial centers in accordance with the American System of economic progress. Nuclear power; a national transportation grid second to none; and a construction industry that can build anything, anywhere, in record time; these are among the achievements of these American political machines.

An end to constituency politics

On the eve of the 1980 presidential election, spokesmen for all three candidates have issued statements that because of the present economic crisis, the United States can no longer afford the inflationary demands of this system of constituency-based politics.

William Simon, former Secretary of the Treasury and now a top adviser to Republican candidate Ronald Reagan, stated in a mid-September speech to the Mont Pelerin Society that: "the realities of the political process still dominate the course of economic events and historically have forced the growth of money and credit needed to accommodate inflationary pressures to contribute to the reelection of incumbent officials."

Bob Walker, chief domestic adviser to Rep. John Anderson, bragged in an interview with *EIR* on Sept. 15 that his candidate's lack of any constituency was an advantage. "Unlike the two major parties," Walker said, "John Anderson doesn't have any constituencies to speak of. There-

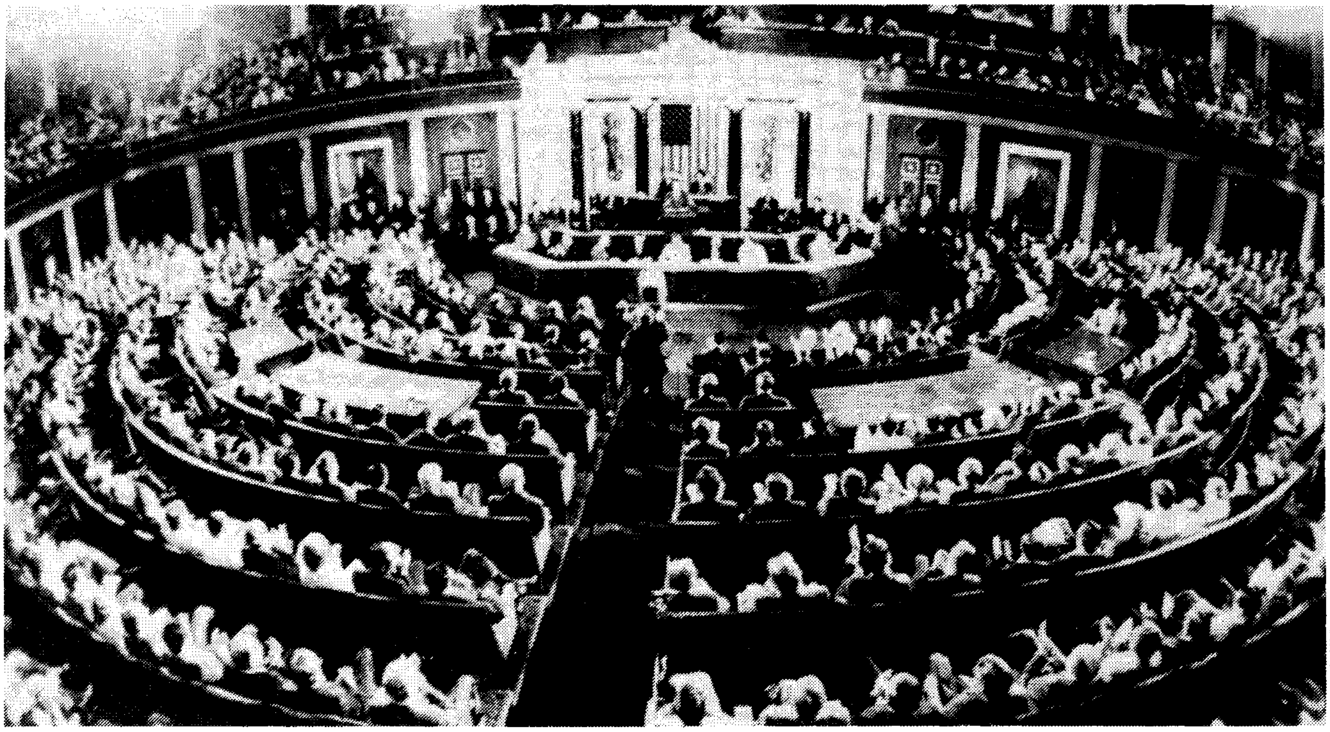


Photo: NSIPS

The House of Representatives—under political fire.

fore, he can call for the hard sacrifices that the American people are going to have to make without having to worry about constituency pressure or his own popularity."

Lloyd Cutler, chief counsel to Jimmy Carter's White House, called for an end to constituency politics through sweeping changes in the U.S. Constitution. In the Fall 1980 issue of the Council on Foreign Relations' *Foreign Affairs,* Cutler argued that only by adopting the British parliamentary system could sufficient economic contraction be imposed.

The fact that such statements could be made on the eve of a presidential election reflects a benchmark for a long process of subversion against the U.S. Executive and Judiciary branches of government that has made mass political purges like those in Abscam, Brilab and Pendorf possible. Plans for this virtual coup d'état against the American System were laid over a decade ago by special study groups of the Trilateral Commission, a task force of 300 figures from North America, Western Europe and Japan that is dominated by the Anglo-American elite.

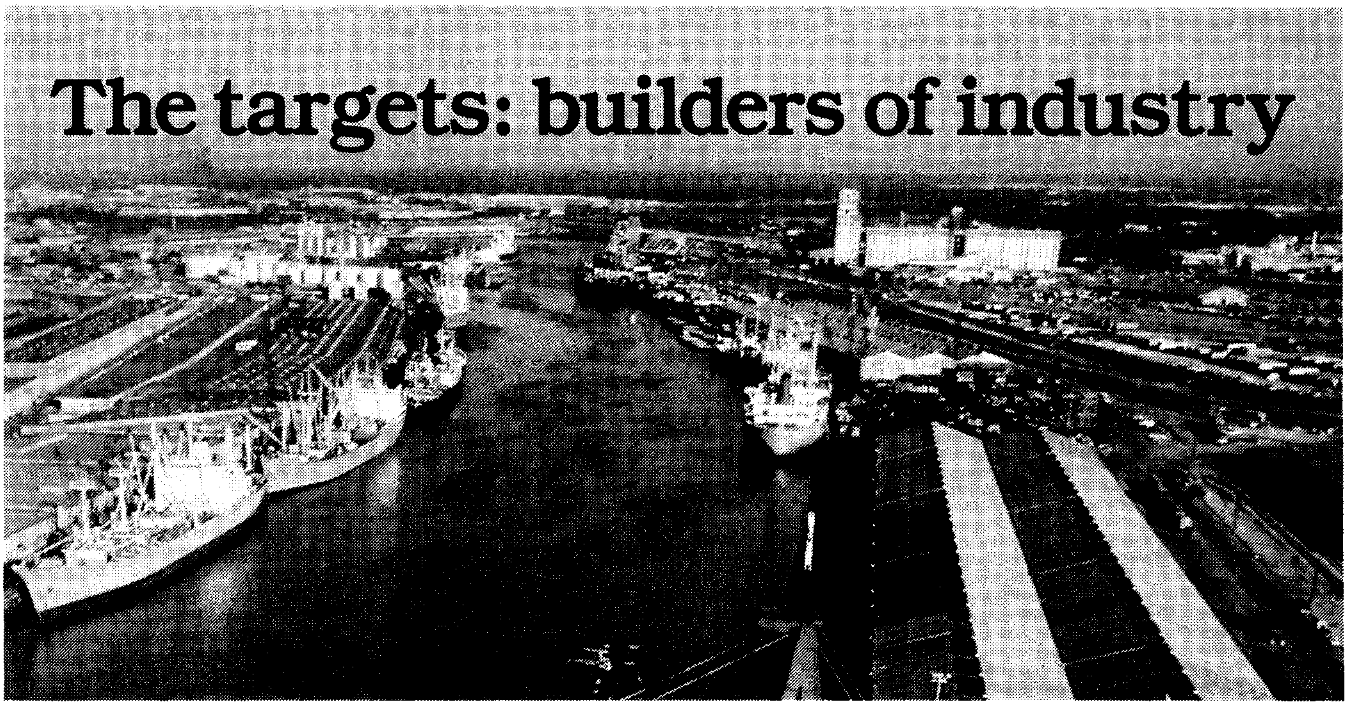
In 1975 Samuel Huntington, a former Harvard government professor who now serves on the National Security Council, drafted a study for the Trilateral Commission entitled *The Crisis of Democracy* that is the common root of the above statements: "We have come to recognize that there are potentially desirable limits to economic growth. There are also potentially desirable limits to the indefinite extention of political democracy," Professor Huntington concluded.

Huntington's attack upon America's constituency-based political system and its pro-growth outlook expresses the goals of the Trilateral Commission as it consolidated control over the U.S. executive branch in 1976, when it rigged the election of commission member Jimmy Carter as President. It was in 1976 that the Justice Department began its purge of strategically placed regional business, labor, and political leaders.

This was also a purge of actual law enforcement. In the fiscal year 1979 Attorney General's Report, which boasts about the Justice Department's success in uncovering white-collar crime, the department ends its 60-year practice of publishing a statistical breakdown of the types of federal crimes prosecuted. This obscured a dramatic drop in prosecutions of murderers, drug traffickers, armed robbers, and other hard-core criminals who were once the major responsibility of federal law enforcement.

While crime of this sort was steadily rising in the second half of the 1970s, the Justice Department devoted its efforts to 81,000 separate white-collar crime investigations, on top of the 100,000 indictments already charged. Whereas in 1975—the year before the white-collar crime category was added to the dictionary of federal offenses—Justice prosecuted 2,626 cases of bank robbery, in 1978, the total was only 1,613. In the most telling cases, the number of federal prosecutions of drug or "controlled substance" cases was being halved from 8,135 in 1975 to 4,299 three years later.

The targets: builders of industry



The Justice Department under Attorney General Benjamin Civiletti has used political purges to transform the leadership of whole regions of the country. In Philadelphia, for example, the chairman of the city council and over half the local congressmen have been indicted through Abscam ("Arab-scam"). Across the river in Camden, N.J., Mayor Angelo Errichetti—the principal spokesman for regional nuclear energy development and for a project to modernize local port facilities—has had his political future ruined in the same "sting" operation.

In the Southwest, where economic progress has been maintained to some extent despite the policies of the Carter administration and Federal Reserve, another "sting" was launched, codenamed Brilab ("Bribery-labor"). Among those hit by the Civiletti Justice Department in this region are Texas Speaker of the House Billy Clayton and L. G. Moore, head of the Operating Engineers union in a five-state area that includes Texas.

Both Moore and Clayton have been openly critical of the disastrous economic policies of the incumbent administration. In Brilab, we see the Texas speaker indicted by the Justice Department for the crime of trying to save the state of Texas $1 million on its insurance policy. Bringing the indictment against Speaker Clayton is U.S. Attorney Tony Canales, a man who built his legal career defending heroin smugglers before he became Carter's 1976 campaign coordinator for south Texas. Federal Judge Robert O'Conor has already reprimanded the Justice Department for violating Speaker Clayton's constitutionally guaranteed right to due process.

This process reflects the economic strategy of Federal Reserve chairman Paul Volcker, the Carter administration, and their controllers, who have methodically used Federal Reserve credit facilities to divide the American economy into two tiers, the "sunset" industries, which include heavy manufacturing, trucking, mining, construction; and the so-called "sunrise" industries of telecommunications, computers, services.

Trucking deregulation was rammed through a Congress that had been broken by the terror tactics the Justice Department developed with Abscam and Pendorf. Among those named in Abscam were many close political allies of labor with responsibility for oversight on aspect of deregulation, including: Sen. Harrison Williams (D-N.J.), chairman of the Senate Labor and Human Resources Committee through which all labor legislation must pass; Rep. Frank Thompson (D-N.J.), number two man on the Education and Labor Committee, the House parallel to that of Williams's; Rep. John Murphy (D-N.Y.), chairman of the Merchant Marine and Fisheries Committee which will handle forthcoming legislation on maritime deregulation.

Sen. Howard Cannon (D-Nev.) was implicated in Justice Department "leaks" on Pendorf—"Pension Fund-Dorfman," a massive probe into the Teamsters' Central States Pension Fund—when there was a question over whether his Commerce Committee or Sen. Kennedy's (D-Mass.) Judiciary Committee would have oversight on trucking deregulation.

The International Brotherhood of Teamsters (IBT) and International Longshoremen Association (ILA), two of the most important unions linked to the transportation sector, have been among the first and hardest hit by the Justice Department.

Literally hundreds of IBT and ILA officials have been indicted over the last four years in the name of combating "labor racketeering." Grand juries dealing with aspects of Pendorf are now underway in four cities—Chicago, Kansas City, Milwaukee, Las Vegas—and the first indictments are expected to begin within the month. But Pendorf itself is merely the first salvo of a barrage of indictments against top trade unionists throughout the Midwest. In addition to Pendorf, at least 15 major criminal investigations are now being carried out by the Justice Department into the Central States Pension Fund.

According to sources at the Senate Permanent Investigations Subcommittee under Sen. Sam Nunn (D-Ga.), these undercover operations are to culminate in "super-McClellan Committee" hearings after the January inauguration. William Goodwin, the staff director of the Senate Subcommittee, stated in an inverview with *EIR* that "Congress will come in and mop things up. We intend to break the power of the Teamsters, the Laborers and the Longshoremen all over the country."

The Justice Department argues that unions like these are targets because they are corrupt and do not serve their rank-and-file members' interests. Yet, where the members of the Teamsters, Longshoremen, and Laborers have gained a quadrupling of wages in many cases in the last 20 years, in just four years the Trilateralist economic policies of the Carter administration have managed to devastate these "sunset" areas of industry. According to the American Transportation Association, trucking traffic has plummeted 25 percent from last year's level, while new housing sales fell over 50 percent from 750,000 last August to 350,000 this April. It is clear from this record who has best served the interest of American labor.

Targeting the Fortune 500

It is not only labor and its political allies who have been targeted for "sting" operations like Abscam, Brilab, and Pendorf by the Justice Department. Phase two of the operation calls for the same tactics developed in these areas to be applied very shortly upon the Fortune 500. Two Justice Department studies profiling industry have just been completed by the Criminal Division and the Law Enforcement Assistance Administration (LEAA). These studies, which cite manufacturing and energy-related firms as especially dangerous "repeat offenders," are intended to identify weak points for concentrating the Justice Department's 19 "white-collar crime" units.

Two examples suggest how this will work. Last spring the Justice Department established a special

Photo: Wide World

Texas Speaker of the House Billy Clayton leading a Brilab hearing July 11. Clayton's crime: trying to save the state $1 million.

Toxic Waste Strike Force, on the basis of "organized crime penetration" of firms handling chemical waste. Shortly after New Jersey Governor Brendan Byrne approved a state-level toxic waste unit for similar reasons, mysterious arson fires broke out in chemical dumps. Spokesmen for the Federal Emergency Management Agency sought to use this "emergency" as grounds to force the evacuation of Staten Island before anyone analyzed the "toxic clouds" caused by these fires. Once this was done, it was found that the fires were harmless. The incidents have been used, however, to demand costly new measures for dealing with toxic wastes by the U.S. chemical industry.

In the coal fields of Ohio, West Virginia, and Pennsylvania, the Justice Department has just finished the first phase of "Project Leviticus," a $2 million investigation of "organized crime penetration" of the coal fields funded by the LEAA. Targeted in Leviticus are both coal owner-operators and the United Mineworkers Union.

Working closely with the FBI, which has reportedly blanketed rural areas with special teams, is former FBI Assistant Director Neil Welch, who is today in charge of the Justice System in Kentucky. Welch, who oversaw the pilot project to shift the FBI into the new areas of "white-collar crime" and "labor racketeering," was reportedly dismissed from the Bureau for leaking the names of those targeted in Abscam three months before there was a single indictment. Welch's involvement in aspects of Leviticus is believed to mean that the entire coal-mining industry is being set up for reorganization.

Civiletti's Brilab operation: how the 'entrapment' works

The target of Brilab ("bribery-labor") is the leadership of the political machine that has kept the Southwest a bastion of progress despite all efforts to destroy what was once the mightiest of industrial nations. It is the city builders who head this machine, men like Texas Speaker of the House Billy Clayton and Southwestern labor leader L. G. Moore, the head of the Operating Engineers for a five-state region, who have been the victims of indictable criminal offenses carried out by the Justice Department in Brilab.

The conspiracy starts with Joseph Hauser, a con artist and insurance salesman who has bilked hard-working people out of millions, and a man who was named one of the four most dangerous criminals in the 1979 annual report of the U.S. Attorney General. It was this man who was hired under the Justice Department's Federal Witness Protection Program and paid $65,000 plus expenses with U.S. taxpayers' money to entrap Speaker Clayton, L. G. Moore, and others in positions of power in the Southwest who did not agree that the United States should become a second-rate power.

Who is Joseph Hauser?

In courtroom testimony, Joseph Hauser has stated that he came to the U.S. in 1948 from Poland, where he had been imprisoned in a concentration camp. He attended a Talmudic academy in New York, then entered the insurance business.

By the mid-1960s he branched out on his own, opening a business in California which sold insurance contracts to unions. After the sale, Hauser would skip out with the premiums. In 1971 he was charged and convicted of defrauding employees of the Pomona school district of $5,000 in this manner. By this time, however, he had already undertaken a higher level of confidence operations.

Hauser set up a number of shell companies which enabled him to sweep through eight Southwestern states, collecting an estimated $32 million in premiums from insurance policies he sold to trade unions, especially locals affiliated with the Laborers International Union. Hauser ultimately funneled these premium payments through a maze of dummy corporations. In 1973 these swindles brought him to the attention of the Los Angeles Organized Crime Strike Force, the California State Attorney General's Office, and the California Department of Insurance, who hounded him out of the state with indictments in hand.

In 1976 Hauser was ready for bigger game. In that year he created a new series of corporate shells as part of his efforts to land the $2.6 billion insurance contract of the Teamsters' Central States Health and Welfare Fund, which pays annual premiums of $23 million. Hauser actually succeeded in landing the contract, and he bilked the Teamsters out of $7 million in premiums before the IBT canceled his contract.

Again, Hauser made a last-ditch effort to flee.

In August 1976 he wrote a check for $1 million to a front company, Zeevco, Inc. of Switzerland. By December, all his U.S. shell companies were placed in receivership.

What is incredible is that throughout 1973-76, while Hauser was involved in stealing millions from the Laborers and Teamsters unions, he was under intensive surveillance by the Justice Department, which did nothing to stop him! The reason became obvious in March 1977, when Hauser was finally indicted on charges of labor racketeering to ensure that he would be a willing witness in hearings planned by the Senate Permanent Investigations Subcommittee (SPIS) that laid the basis for Brilab.

Congressional treason

The 1977 hearings of the Senate Permanent Investigations Subcommittee became a witchhunt against the very victims of Hauser's swindles. IBT President Frank Fitzsimmons, Allen Dorfman, a Teamster-linked investment counselor, and former Attorney General Richard Kleindienst and others were dragged before the public to explain their dealings with Hauser.

These hearings followed less than a year after Donald Fitzsimmons had been forced to testify before SPIS in a similar case involving a convicted insurance swindler Louis Ostrer. The press leaped upon both hearings to justify the Labor Department's demand that the Central States Funds be placed in receivership. Yet the Justice Department knew that Hauser was a con artist and could have easily warned the Teamsters.

In a recent interview, Peter Sullivan, the SPIS staff member reportedly in charge of anti-Teamster operations, revealed that there was a hidden purpose served by the Hauser hearings—namely, to give law enforcement a "how-to" course for setting up "stings":

"I think the idea for Brilab ... I gotta be careful how I phrase this.... From what I understand ... the Subcommittee's investigation of Hauser prompted official law enforcement interest in labor union racketeering.... When you read the material [from the hearings—ed.] you'll see readily how law enforcement people may have gotten the idea to try a Brilab out...."

SPIS staff director William Goodwin was even more explicit on another purpose served by the hearings. According to Goodwin, SPIS staff members helped the Department of Justice "pick their targets.... We identified the weak points, Teamster and ILA [International Longshoremen's Association—ed.] leaders who could be hit.... We had the profiles of the people who could be broken. Now the FBI goes in and sets them up. It's like a duck shoot."

After the hearings Hauser was himself selected to be the decoy for the Justice Department's Brilab. Hauser and two FBI agents set up a phony insurance company in Beverly Hills called Fidelity Financial Consultants. They were vouched for in their dealings with targeted victims by Prudential Life Insurance. One source, believed reliable, reports that Prudential actually underwrote bargain-basement policies knowing full well that the Justice Department was using their firm to entrap people. Prudential has obtained a letter from FBI Director William Webster denying this.

Prudential, a subsidiary of the Anglo-Dutch Unilever Corporation, has a long record of support for efforts to subvert constituency-based political machines in America. Operatives working out of Prudential's headquarters helped topple Newark Mayor Hugh Addonizio through riots provoked by Imamu Baraka (also known as Leroi Jones), the prototype black nationalist.

According to the April 26 issue of *The Washington Building Craftsman,* Prudential, "which manages billions and billions of dollars in union pension fund assets," has become involved in an apparent union-busting scheme "using a number of non-union contractors to develop and build income-producing properties for its own account." The Building and Construction Trades Council further charges in its paper that: "The National Right to Work Committee's headquarters in Springfield, Virginia was financed by Prudential and was, of course, built non-union by Wayne Construction Company."

In the case of Texas Speaker of the House Billy Clayton, it is questionable if he was ever really even entrapped by Hauser, who approached the speaker as a salesman for Prudential. A careful review of the taped conversation between Clayton, L. G. Moore, and Hauser reveals no evidence of any crime whatsoever, except that of a criminal conspiracy to lure Clayton into a felony carried out by the Justice Department.

A case of entrapment?

When Hauser offers Clayton on the tape a $5,000 campaign contribution, the speaker thanks him, then adds: "You know those things have to be reported." Hauser acknowledges this stating: "Well, I don't care what you do with it. I'll be very honest with you. You follow me?"

Hauser then states that he has been authorized by the Prudential Insurance Co. to offer Texas a policy that will save the state $1 million in premiums over its current policy. Hauser asks Clayton for an opportunity to present his Prudential policy's merits. After discuss-

The scope of Brilab

Over the last four years, the Justice Department has convicted 17,000 trade unionists, entrepreneurs, heads of ethnic groups, and political leaders. These are the leaders of the constituency-based political machines that have built and run America's cities. For each conviction, at last a half-dozen others have had their lives destroyed through groundless indictments and their reputations ruined through trial by slander leaks to the press. The over 100,000 victims targeted by the Justice Department in this manner far outweigh the number purged during Stalin's Moscow Trials.

In the United States, this purge has been carried out in the name of combating "white collar crime," "organized crime," and "labor racketeering."

According to the annual reports of the U.S. Attorney General, the following breakdown shows victims who have been claimed since this campaign was launched in earnest in 1976:

Year	White Collar Crime	Organized Crime & Labor Racketeering Section
1979	3,300	628
1978	3,072	883
1977	4,439	1,000
1976	3,100	1,028

ing the details of how to arrange a public hearing for the Prudential offer, the following exchange concludes the substance of the meeting:

Clayton: Our position is we don't want to do anything that's illegal or to get anybody in trouble and you don't either. . . .
Hauser: No, no, God no. That's the last thing in the world that I need.

Clayton: . . . This is just as legitimate as it can be because any time somebody can show me . . . how we can save the state some money, I'm going to go to bat for it.
Moore: If we can save a million dollars, that ought to be enough, shouldn't it?

Clayton: You bet. . . .

It is obvious from this exchange that the Justice Department has simply lied about any criminal wrongdoing.

Who accuses?

The man who fought for Speaker Clayton's indictment nonetheless is U.S. Attorney Anthony Canales—the son of one of the most powerful political families in South Texas, the Garcias. Canales, his friends say, is ambitious for higher office. His name has been mentioned as a replacement for Attorney General Civiletti, or possibly even as the first Mexican-American President.

Canales has shown himself to be in full agreement with the new Justice Department priorities which target white collar crime, while offering leniency to narcotics traffickers and terrorists. Since he has taken office drug prosecutions dropped off dramatically, despite the fact that almost half of all heroin entering the United States is still produced in Mexico, across the South Texas border.

This leniency toward drugs is perhaps explained by Canales's background as an attorney. Canales built his legal career defending "mules" (drug smugglers) carrying marijuana and heroin across the Mexican-American border. Starting out with 50-pound marijuana cases in 1969, Canales soon began to handle major conspiracies involving top heroin traffickers.

There is evidence that Canales's relationship with the drug trade went a good deal beyond that of an attorney to his client. In one notorious case, Canales showed up to defend a "mule" arrested in Laredo, before the "mule" had made any calls for an attorney. Canales was slapped with a contempt citation when he refused to tell a federal judge how he knew of the arrest. Canales made news again when he was exposed having received a $50,000 "loan" from a top Miami drug runner, Fred Bruloth, who was later arrested by Drug Enforcement Administration (DEA) officials and the FBI.

One top DEA official in South Texas who carried out an extensive investigation of Canales became convinced that he and many of his political associates were heavily involved in the drug trade. This DEA official was transferred out of the state shortly after President Carter was elected. It was also at this time that Canales, who had used his family's political ties to be named Carter's 1976 campaign manager for South Texas, was named U.S. Attorney.

Canales was sponsored for the post by Texas Democrat Lloyd Bentsen—an ally of Canales's father. Senator Bentsen has distinguished himself as one of the foremost enemies of the American System in Congress. It was Bentsen who fought for putting criminal provisions in the Employees Retirement Insurance Security Act that has been used repeatedly against major unions like the Teamsters, and he was also a sponsor of congressional legislation to divide U.S. industry into two tiers so that "sunset industry," including most heavy manufacturing, could be gutted. Political observers in Texas report that before Clayton was named by Canales in the Brilab indictment, he was considering a challenge for Bentsen's Senate seat.

Trial by slander

When the first sensational leaks from Abscam ("Arab-scam") and Brilab appeared on the front page of newspapers across the country last February, there was such an outcry about "trial by slander" tactics that Attorney General Benjamin Civiletti promised to appoint a special prosecutor to root out the leakers.

In Abscam it was discovered that key press conduits—including *Newsday,* the *New York Times,* and NBC—were prebriefed by Assistant FBI Director Neil Welch on when and how to break the story, even though none of the Abscam targets would be indicted until three months later. In the case of Brilab an even greater travesty of justice was perpetrated to leak the story. Using its main Brilab resource, Joseph Hauser, the FBI deliberately impeached the integrity of Federal Judge Harry Pregerson, working on an unrelated organized crime case in Los Angeles.

Hauser was instructed to induce friends of the accused, who were also Brilab targets, to suggest that the judge be bribed. When the FBI broke the story of this planned bribery, it forced the judge, who became a target because he had refused to sanction any misconduct by federal prosecutors, to place everything in the public record in order to clear his name, including

The Justice Department's federal witness program

The Federal Witness Protection Program (FWPP) was established by Congress in 1970 through the Organized Crime Control Act. Its stated purpose was to provide protection and new identities for witnesses in organized crime cases. In reality, under the FWPP 500 convicted criminals—ranging from confidence men to contract assassins—have been added to the federal payroll each year to construct elaborate "stings" like Abscam and Brilab to entrap those in the nation's leadership who are on the Justice Department's "enemies' list."

Among the members of the FWPP at present are James Aldena Fratianno (alias the Weasel) and Joseph Hauser, two of the four most dangerous criminals in the 1979 attorney general's report. Under guidelines drafted by Attorney General Edward Levi in 1976 for use of informants in "sting" and other undercover operations, informants in the FWPP are literally given a license to kill!

These guidelines state that it is unlawful for informants to commit acts of violence or other criminal felonies *"except insofar as the FBI determines that such participation is necessary to obtain information needed for the purposes of a federal prosecution* (emphasis added—ed)".

The Fratianno case

The case of Fratianno, an admitted hit man who has claimed 11 contract murders and is now a star member of the FWPP, illustrates how this license has been used.

Since he went on the FBI payroll in 1970, Fratianno has orchestrated two assassinations: the gunning down of another FBI informant, Frank Bompensiero, and the auto bombing of Cleveland businessman Danny Greene. To ensure his enrollment into the FWPP, Fratianno was only charged with obstruction of justice in the Bompensiero slaying, and he was given a five-year sentence on reduced charges in the murder of Greene.

Fratianno has stated in courtroom testimony that he was promised by federal agents that he will never serve a day in prison for these two murders as long as he continues to testify!

Similar liberties have been permitted the informants in Abscam who used the shell companies, bank references, and other facilities provided by the Justice Department to carry out their own swindles at taxpayer expense.

Joe Meltzer, for example, is believed to have used Abdul Enterprises (the government-funded front used for the phony sheikh in Abscam) to swindle more than $150,000. His victims include California businessmen and one elderly woman from New Jersey who allegedly lost her savings. Melvin Weinberg, the main Abscam informant, is likewise alleged to have been promised by federal agents that he could carry out his own flimflam operations without fear of government prosecution, so long as he continued to line up victims in Abscam.

The costs of this federal employment service for convicted criminals are astronomical. Joseph Hauser, the main Brilab informant, is reportedly paid an annual salary of $65,000, an even larger expense account, and perquisites that include a new house and 24-hour-a-day security. Weinberg reportedly collected $93,000 over four years, plus over $100,000 in expenses, as well as whatever he made on the side in his own federally protected swindles during Abscam.

Salaries for the 17 Federal marshals whose full-time assignment is to protect Joey Teitelbaum, the main informant against 21 indicted longshoremen in Florida, amount to $55,000 a month because Teitelbaum refused to change his identity. Teitelbaum agreed to join the FWPP after he was caught conspiring to murder a rival in the shipping business from Honduras; he was fined $1,000 and placed on probation for this crime.

More striking even than the costs of this program is the fact that frequently, the professional con men on the FWPP's payroll are used merely to set up the appearance of corrupt or racketeering practices. Doctored testimony presented by these informants—many of whom have been promised lenient sentences on outstanding convictions—is then used to obtain the indictment of targeted victims, whose reputations and finances are ruined by protracted legal battles whether or not they are convicted.

materials pertaining to Brilab and Hauser.

Bob Rawitch of the Times-Mirror Corporation's *Los Angeles Times* subsidiary and two associates at its Dallas subsidiary, the *Dallas Times-Herald*, had been prebriefed by Strike Force personnel on Brilab. This bribery maneuver, however, gave them a cover to break the story safely.

State Rep. John Bryant, one of the opponents of Texas Speaker of the House Billy Clayton in a forthcoming speaker's race, has also admitted that he was informed about Clayton's probable indictment in Brilab by a reporter at the *Dallas Times.* This reporter, who has since left the paper, denies that he was the source. He said that instead the tip-off may have come directly from the White House so that Bryant could declare early for the race against Clayton!

The trial

During pre-trial motions in the Texas Brilab case against Speaker Clayton, U.S. District Judge Robert O'Conor asked Joseph Hauser's co-conspirator, FBI undercover agent Michael Wacks:

> You do understand the due process rights, don't you, to be free from government-induced criminality? . . . The problem that I have is when you have Mr. Hauser continually pushing the money on these people. . . . Did it ever occur to you that perhaps you were violating the Speaker's due process rights by going forward with the con? . . . It appears to me what you did was kind of unleash Joseph Hauser without guidance from the FBI.

This expression of Judge O'Conor's concern at the Justice Department's suspension of Speaker Clayton's constitutionally guaranteed rights dominated the beginning of Clayton's trial. Federal prosecutors were even further shaken when Judge O'Conor, in another effort to assure Speaker Clayton a fair trial, granted limited immunity to labor leader L. G. Moore, who was to be a key witness in Clayton's defense. Moore was slated to testify that he had been bragging in his tape recorded statements to FBI informant Joseph Hauser about his ability to influence the Speaker.

On Sept. 7, in an unprecedented move, federal prosecutors called for an emergency Sunday session of the Appeals Panel in New Orleans to deny Moore limited immunity. The speed with which the writ was signed suggests that pressure was brought upon the three-judge panel from high levels of the Carter administration. Perhaps Tony Canales, whose political future may depend upon Speaker Clayton's conviction on the fraudulent charges he brought against him with the Justice Department, knows the answer. On Sept. 2, Canales told the *Dallas Morning News* that he wants "to drive a stake through Billy Clayton's heart."

Ripping up the U.S. Constitution

by Felice Merritt

If the current round of Abscam and Brilab trials is decided in favor of the Department of Justice, it will be more than just a crippling loss for the trade-union and urban-based political machines which have formed the backbone of American constituency-based politics. Victory for the Abscam-Brilab method means gutting the Constitution itself.

Specifically, it will cancel the First, Fourth, Fifth, Sixth and Fourteenth Amendments to the Constitution, removing the traditional protection of the rights to free association, free expression, due process of law, and freedom from unreasonable search and seizure and from incriminating oneself.

The foundation for this shift in the law of the land was laid in 1970 with the passage of the Organized Crime Control Act. Before the passage of that bill under the joint leadership of Democratic Senators John McClellan of Arkansas and Joseph Tydings of Maryland, federal law, based on constitutional principles, protected citizens from all the practices now commonplace in Abscam and Brilab.

Federal law did not permit federal agents to abet crimes;

it did not permit the U.S. government to finance criminal enterprises;

it did not permit informants to commit crimes without threat of prosecution;

it did not allow the use of evidence obtained in violation of the Fourth Amendment;

it forbade entrapment (except under very limited circumstances);

it limited federal jurisdiction over local crimes;

and it prohibited the creation of a special class of criminal defendant.

Gradually, with the aid of the Supreme Court, Attorney General Edward Levi, the Law Enforcement Assistance Administration (LEAA), and the Eastern Establishment media and federally financed law-enforcement training programs, all of these unconstitutional practices have become widespread. The takeoff point occurred after Jimmy Carter's election. Convictions and indictments of "organized crime figures" using these techniques rose from an average of 800 per year before 1976, to *more than 4,000* per year from 1976 through 1979.

A special class of people

The fundamental deviation from the Constitution newly codified in the Organized Crime Control Act was the creation of a special class of individuals, identified as "organized crime," to whom a whole series of constitutional protections was to be denied.

"Organized crime" is not even defined in the bill. Moreover, the bill does not aim to stop the criminal *activities* of individuals associated with "organized crime," but justifies stopping legitimate business because it is carried out by individuals labeled as part of "organized crime." Its target is a class of "undesirable" individuals, not illegal activity.

A law review article quoted by the National Association of Attorneys General accurately criticized the bill:

> The federal legislation enacted to deal with organized crime is somewhat of a sham because most of its provisions are not restricted to organized crime and the few that are do not adequately define the term organized crime. That the application of these laws is left to discretion is unfortunate because it is too easily subject to abuse which may be within the literal wording of the statute but not within its purported purposes.

Yet the bill proceeds to condone and recommend the use of special grand jury procedures, wiretaps, informants, and entrapment to rid society of "organized crime"-linked individuals.

By contrast, the Levi guidelines of 1976 *prohibit* federal prosecutors from using any of these measures in pursuing an investigation against groups like the Weathermen, Yippies, or FALN that publicly declare their intention to carry out violence. Even where surveillance, informants, or wiretaps are allowed in these domestic security cases, the FBI is carefully admonished not to interfere with civil rights like confidentiality between an attorney and his client.

Equally remarkable is the contrast between the treatment given to "organized crime" figures and individuals involved in what the LEAA, and increasingly the Justice Department, have labeled "victimless" crime. So-called victimless crimes, as identified by New Jersey Governor Brendan Byrne in 1976, are "gambling, certain drug offenses, and prostitution, just to name a few. . . ." These have been assigned a low priority under the argument that "the criminal code should not be used to enforce moral standards of the community that affect only private persons."

The fact that both avowed terrorism and drug-pushing, in particular, have been allotted protection should raise questions about what the authors of the Organized Crime Act considered crime. While they cite an emergency epidemic of murder, kidnapping, bombings, and gambling as justification for the act, its special provisions as codified and applied allow the federal government to use its augmented powers against anyone it politically targets as a member of "organized crime."

Violating due process

The Organized Crime Act empowers the federal government to violate the constitutional rights to a fair and speedy trial, to confront prosecution witnesses, and generally to enjoy due process of law.

This violation is encouraged by convening special grand juries who are empowered to hear evidence and issue reports on organized crime conditions and the non-criminal conduct of appointed officials "involved in organized criminal activity." But no public official named in such reports or investigations has the opportunity to confront witnesses, or to present evidence. Technically, he is not being accused of any crime. He is being smeared with public reports charging guilt by association.

While many prosecutors have been reluctant to use these unconstitutional methods, such a grand jury was convened this spring in Kansas City. Its results are still being used in the Senate Permanent Investigations Subcommittee, and the Justice Department's "Pendorf" witchhunt against the Teamsters.

No limit to entrapment

The federal government was traditionally restrained in the practice of entrapment by two standards. One was the necessity of demonstrating that the entrapped individual had an intention, or predisposition, to commit the crime. The second was a prohibition against federal informants' participation in criminal acts. Both of these have been weakened to the breaking point over the past decade.

The heart of American criminal law is the requirement to demonstrate criminal intent in the commission of any criminal act. In other words, a citizen is held responsible for acts he demonstrably intends to carry out, or that he could have prevented by deliberate action—not for accidents. The punishment is tailored to fit the mind of the criminal, because in a republic it is recognized that it is the mind and morality of the citizenry that determines its actions. This concept is best understood in the case of distinctions among the various degrees of intent in manslaughter and murder, as well as in the proper use of the insanity plea.

But this standard is irrelevant to the prosecutors of Abscam and other operations targeting politicians or

Photo: New York Public Library

Benjamin Franklin addressing James Madison and George Washington at the Constitutional Convention in 1787.

The Abscam-Brilab method cancels the First, Fourth, Fifth, Sixth and Fourteenth Amendments to the Constitution. Before 1970, federal law protected citizens from all the practices now commonplace. The take-off point occurred after Jimmy Carter's election.

labor leaders labeled "organized crime." Tapes have already been made public, and convictions achieved, in cases where FBI informants vigorously argue the defendent into taking a "contribution" that the defendant is not demanding as a condition for passing legislation, or granting a contract. Such convictions have put into practice the explicit changes contained in the revised criminal code now before Congress which says it is not necessary for an individual to have a predisposition to commit a crime. The burden of proof falls not on the accusers, but on the defendant to show that the entrapment efforts were unreasonable—again a total reversal of the fundamental principle of the assumption of "innocent until proven guilty."

There has also been a shift in government policy on the activities allowed to informants and the character of the informants. The Organized Crime Act provided new regulations on the use of the Fifth Amendment that allowed a sweeping recruitment of hardened criminals enjoying immunity as members of the federal witness protection system.

Under former practice, a witness could waive the Fifth Amendment in return for immunity from prosecution. Now this immunity has been restricted, giving the prosecutor the option to prosecute if he finds independent corroboration, or takes civil action, or merely finds contradictions in sworn testimony.

Federal prosecutors have thus been able to turn thousands of reluctant witnesses into undercover informants who are under intense pressure to produce results the prosecutor can use for indictments. Several prominent examples of the character of these informants are available in the Abscam and Brilab cases already in the public domain. James Fratianno, a key government witness against the Teamsters, is a confessed murderer of 26 people; Joseph Hauser and Mel Weinberg are both confessed swindlers.

But no matter to the government. They have dished out \$4 to \$6 million a year for witnesses like these, in pursuit of so-called organized crime. Given the nature of the informants, it is not surprising that FBI guidelines have also been reshaped to allow informants and agents themselves to take part in criminal acts.

The RICO statutes

The RICO (Racketeering-Influenced and Corrupt Organization) statutes are part of the same package. These statutes, which have already been interpreted quite broadly, ban the investment of profits derived from organized crime in legitimate business under penalty of civil forfeiture. They also permit the designation of business enterprises as racketeering-"influenced" and subject to sanctions.

RICO defines racketeering as any threat or act involving murder, kidnapping, gambling, arson, robbery, bribery, extortion, or dealing in narcotics or dangerous drugs. Court decisions, as well as the proposed recodification of criminal law, have both redefined bribery to include such a broad range of activity that no public official can carry out the duties of his office without running the liability of prosecution and hence, designation under the RICO statutes. Business, particularly government contractors, face the same problem.

Extortion has also been redefined. One labor negotiator was found guilty of extortion when he suggested to employees at his firm that they accept a labor contract offered to them—because the press and rumor mills claimed he had a reputation as a mafioso!

Civil provisions of RICO can force an individual to divest himself of any business interest if he is shown to have been involved in a "pattern of racketeering activities." Such a "pattern" is defined as two such acts within a period of 10 years. Anyone found to have engaged in a "pattern of racketeering activities" can also be sued for treble damages by anyone he has done business with.

The reasoning behind the RICO statutes is, in fact, to give the prosecutor the right to shut down any business involved with his prosecution "targets"—legitimate or not—by imputing "racketeering activities" to it. Certain LEAA planners have made the intention even clearer by proposing the statutes be expanded to permit corporations to be charged with racketeering when any officer or manager, with the knowledge of the president and the majority of the board of directors (or in circumstances where they should have known) engages in organized crime, or is connected directly or *indirectly* with criminal societies engaged in organized crime.

John Moore, Special Investigations Division counsel in Oregon, put it this way: "While in most cases criminal statutes are adequate, there are various problems in getting judges to apply them to their full effectiveness. They are not adequate deterrents as used. Administrative rulings have the benefit of putting an organized crime figure *out of business*." (emphasis added—ed.).

If the government could prove that the individual being put out of business was actually guilty of a definable criminal act, this might be an understandable goal. However, it is precisely proof of such criminal intention and guilt that the statutes are designed to get around. Prosecution is completely discretionary and, not surprisingly, largely fits into a few selected categories—political categories. Thus, the *New York Times Magazine* of Sept. 21, 1980 reports that major drug dealers are known to *own* several Miami area banks. Have these individuals been prosecuted under RICO? No. The businesses targeted for RICO prosecutions are simply political targets of a well-controlled prosecutorial network.

Federal takeover

The fact that most of the targets of the campaign against "organized crime," "white collar crime," and the like are successful *local* businessmen, politicians, or labor leaders provides a natural obstacle for the Justice Department. To get the indictments they need, they have to put the cases under federal jurisdiction.

In 1976 the Supreme Court provided the Justice Department with the precedent it needed. It ruled in *U.S. v. Hall* that the federal government could take jurisdiction over a bribery trial on the ground that a bribe could be "extorted" from the person who offered it. Although bribery of anyone other than a federal official is not a federal offense, extortion, insofar as it involves interstate commerce, is a violation of the Hobbs Act and is within federal jurisdiction.

Within months of this case, hundreds of local officials had been indicted for extortion by the federal government, and the courts stretched the definition further and further. We have already cited the case of the labor negotiator who was charged, on the basis of his recommendation of a contract and his reputation as a mafioso, with extorting the employees' vote. One city official was convicted of extortion on the basis that he was offered a bribe to provide material concerning bid specifications—despite the fact that the information was already public. The court found that if the bribers' bid had been accepted, it might have involved interstate commerce.

The Public Integrity Section of the Justice Department was created in 1976 to further this same kind of federal intervention in state and local government. By using all the unconstitutional techniques of entrapment, provocation, and intimidation described above, it has fostered investigations of "public corruption," turning upside down local political machines like the Texas Democratic Party.

There are no new crimes on the scene in the United States that require the bending of the Constitution for their successful prosecution. The methods being imposed by the Department of Justice, methods expected to be codified in the revised federal criminal code, are nothing less than the legislation of dictatorship.

For a decade the law has been shifted so as to make drug-dealing and terrorism legal while outlawing the pursuit of the business of government and productive industry. In summary, two classes of citizens have been created—the criminal with a full complement of rights, and the businessmen or labor leader who has to fear prosecution every time he lets some money change hands.

Carter and Israel try to salvage their Iran card

by Robert Dreyfuss

Well into the second week of the fighting between Iran and Iraq, the Carter administration seemed prepared to risk even a U.S.-Soviet direct confrontation to prevent the Iraqi government from defeating the Iranian regime of Ayatollah Khomeini.

The deployment of four AWACS radar and communications planes to Saudi Arabia on Sept. 30, and statements from leading officials of the Carter administration, underlined the readiness of Washington to up the ante in the Persian Gulf fighting to a superpower level. Deputy Secretary of State Warren Christopher said on Sept. 28 that the United States "would not condone" the seizure of Khuzestan in Iran by Iraq's forces, and the following day in Alabama Zbigniew Brzezinski declared that the U.S. "supports the territorial integrity and sovereignty of Iran," and he added that the U.S. "has the ability to project its military power into the Gulf."

The tough talk from the administration, and the AWACS mission, ran counter to explicit requests from Iraq that the conflict be kept limited without superpower involvement; from the West Europeans, who also opposed the introduction of U.S. and Soviet forces; and from the U.S.S.R. itself, which warned against Washington involvement in the crisis. It is not clear exactly why Saudi Arabia, which earlier this year pledged its support to an Iraqi-proposed Arab Charter for nonalignment, accepted the AWACS.

But since the fighting began Washington had been scrambling for some opening in a situation in which most analysts agree the United States has few levers. At a series of White House meetings that began on Sept. 26, the only agenda item was: how could the United States prevent the defeat and toppling from power of the Khomeini regime?

By the end of the first week of the war, the situation on the ground was overwhelmingly favorable to Iraq, which had effectively seized control of the oil-rich province of Khuzestan in Iran, and, according to the Iraqis themselves, had achieved virtually all of Baghdad's initial military objectives. Immediately, Iraq accepted the United Nations ceasefire proposal and pressed for an end to the fighting.

Exactly at that point, Iraq launched its second, political program. That program, informed sources say, involves the establishment of an Iranian government-in-exile, possibly to be based in the areas of Iran liberated by Iraqi troops. Then, during the period of the ceasefire, Iraqi officials hint, Baghdad will encourage the rebellion of Iran's tribes and ethnic groups, particularly the Iranian Arabs and Kurds, against the Khomeini regime. Perhaps a majority of the Iranian armed forces will be prepared to support the exiles.

Intensive negotiations are reportedly underway among various Iranian exile factions concerning the mooted exile government. The forces of Shahpour

Bakhtiar, the ex-premier based in Paris; the Crown Prince Reza Pahlavi, in Cairo; and Iranian military officers associated with General Bahram Aryana, also in Paris, are discussing the eventual shape of the regime that will follow Khomeini.

IMF makes policy for Iran

The coming to power of a regime in Teheran linked to France and Iraq, with the support of Saudi Arabia, would deal a fatal blow to the strategy of the Anglo-American financial faction in control of the Carter administration. In that case, Iran would form a bloc within OPEC with Iraq and Saudi Arabia allied to the Franco-German European Monetary System.

The state of mind of the Anglo-American financial elite was revealed perhaps most clearly at the ongoing meeting of the International Monetary Fund in Washington this week. Speaker after speaker there, including Jacques de Larosière, Robert McNamara, and U.S. officials, warned OPEC to drop its plans for high-technology economic development and instead to funnel their petrodollars through the IMF. That plan—which coheres completely with the antidevelopment bent of the Iranian regime of Khomeini—would then allow the IMF to impose draconian austerity "conditions" for IMF credit on developing nations like Brazil, Turkey, Zaire, and so forth.

In addition, a victory by Iraq over Iran, if it should stand, would represent a major setback to Washington's plans for building a new military pact linked to NATO in the Middle East and South Asian region.

For that reason, Washington has moved into almost overt support for the Khomeini regime—and, as the excerpts on page 39 show, has carefully mobilized the press to that end.

At a Sept. 30 meeting between Secretary of State Ed Muskie and Iraqi Foreign Minister Saadun Hammadi, the possibility of a U.S. "tilt" toward supporting Khomeini was raised, according to informed sources. After the meeting, Hammadi said that Iraq was worried about rumors that Washington might begin supplying spare parts and ammunition to the Iranian armed forces in exchange for the release of the U.S. hostages. When reminded that Muskie had earlier said the U.S. was "neutral," in the conflict, Hammadi replied: "He was speaking of the past. We are talking about the future."

Iraqi strategy: Iran collapse

The question of American resupply of Iran is critical because the Iraqi strategy is based solely on whether or not the Iranian regime will collapse internally after a certain duration of the war.

According to many reports, the Carter administration is orchestrating a worldwide bailout of the Khomeini regime. With American coordination, spare parts for Iran's American-made weapons are reportedly coming from Israel, South Korea, Italy, Pakistan, Turkey, Japan, Great Britain, and the United States itself.

In addition, despite heavy losses and strategic defeats that in a normal war situation would require Iran to sue for peace, the Khomeini regime is desperately refusing all pleas of a ceasefire and pledging to fight to the bitter end. Inside Iran, a mobilization of all men aged 12 to 18 is underway, and each mosque in Teheran is required to send 22 men to the battle front. In this way, Iran is hoping to be able to prolong the war until the Anglo-Americans can somehow "internationalize" the conflict and prevent their defeat.

From all available evidence, however, Iran will simply be unable to carry on the war against Iraq indefinitely. Iran is desperately short of food and fuel already, and its armed forces are fighting with "hand guns and Molotov cocktails," in the words of Premier Rajai. The Iranian air force has been conspicuously absent in the current fighting, and from Sept. 27-29 almost entirely halted its raids on Iraq, reportedly due to shortages of maintenance personnel and spare parts. What Iranian strikes have occurred are largely confined to targets designed for maximum publicity and propaganda value.

But there is also mounting evidence that, when backed against the wall, Iran may consider what one U.S. military source called "lunatic raids" against Saudi Arabia and other states of the Arabian Gulf. Iran has officially accused the Arab states of the Gulf of providing support and refuge to Iraq in the war, and the Iranian foreign ministry has called eight Arab ambassadors to warn them against further aid to Iraq. One Iranian official even declared that Iran would "blow up the Persian Gulf oil fields" if the Iraqi advance was not halted.

In so doing, Iran may calculate that such attacks will force the United States to display its muscle in the Gulf more visibly. Then, the Iranians hope, the resulting U.S.-Soviet crisis will so alarm both big powers that they will intervene to halt the fighting and even force an Iraqi withdrawal. That is a scenario actively under consideration in Washington, according to Iranian sources.

Meanwhile, there are also signs that the internal situation in Iran is deteriorating fast. Rumors in Europe say that the U.S. administration is seeking to push Khomeini aside, perhaps into semi-retirement in favor of an alliance between President Bani-Sadr and the military. Other possibilities involve the crumbling of Iran completely under the Iraqi pressure. So far, there is no one willing to state unequivocally what will be the final result inside Iran of the Iraqi offensive.

Israel allies with Khomeini's Iran

by Mark Burdman

As the fighting between Iraq and Iran goes into its third week, there is a growing danger that Israel might take military action to provide flanking support to the Khomeini regime against Iraq, in coordination with U.S. National Security Council policy. Washington-based intelligence sources report that an Israeli military move could involve limited attacks on Lebanon or Syria, or even strikes against Iraq itself.

From evidence in the public record, it is apparent that Israel is already deeply involved in supplying Iran with defense capabilities, including strategic intelligence and advice, spare parts, and, according to some intelligence insiders, aircraft and personnel. Statements from leading Israeli government officials only serve to underscore the scope of this involvement.

One of the first signs of Israel's alliance with Khomeini came from Gen. Mordechai Hod, former chief of the Israeli air force. In an interview with the Israeli daily *Maariv* on Sept. 25, General Hod expressed his concern over the possible disintegration of the Iranian air force. "It is perhaps the occasion," Hod suggested, "for an Israeli initiative toward a rapprochement with [Iranian President] Bani-Sadr to offer him the aid which we alone are capable of furnishing to him."

Two days after Hod called for Israel to aid Khomeini, Israel's Deputy Defense Minister Mordechai Zippori made the first explicit offer of assistance. In another *Maariv* interview, Zippori said that Israel is prepared to offer "logistical aid" to Iran if Iran breaks from its current anti-Israel posture. "Iranian gunboats use Gabriel missiles as well as artillery shells provided by Israel and bought during the time of the Shah," said Zippori.

Zippori is the closest aide to Prime Minister Begin, who is currently acting as Israel's defense minister.

Other Begin aides are being just as open in their expressions of support for the Khomeini regime. Foreign Minister Yitzhak Shamir has offered military assistance to Iran in exchange for a "gesture"—for example, a break by Iran of its close relationship with the Palestine Liberation Organization. In a meeting with West German Foreign Minister Genscher at the United Nations, Shamir described Iraq as "the most dangerous enemy of Israel;" and asserted that the future of the Middle East would center around an eventual showdown between Israel and Iraq.

Begin himself, in a Sept. 23 speech, warned of the "great danger" contained in the Iraq-Iran war, and demanded that the United States intervene militarily to contain Iraq. In another speech several days later, Begin publicly revealed Israeli intentions to stir up the Kurdish minorities in the region against Iraq. Stressing the historic ties between the Kurds and Israel, Begin gave away Israeli complicity in last week's bombing by the Kurds of Iraq's oil pipeline that runs through eastern Turkey.

Iraqi nuclear center bombed

Israel's readiness to ally itself with Iran against Iraq stems from Israel's fear that Iraq will emerge from its conflict with Iran as the leader of the Arab world. The Israelis are particularly distraught about Iraq's cooperation wth France over the construction of a nuclear research center in Iraq.

Last weekend, in an interview on Israeli television, Gen. Yehoshua Saguy, the head of Israeli military intelligence, expressed his "amazement" that Iran had not yet bombed Iraq's nuclear facilities. He then offered the Iranians "urgent" advice: he presented detailed instructions—complete with map—on how the facilities could be bombed, noting the center's precise location on the outskirts of Baghdad.

"If I were Iranian," said General Saguy referring to the map, "I would keep this picture before me at all times."

Picking up the cue, Iranian planes bombed the nuclear center several days later, failing, however, to hit the reactor.

According to syndicated columnist Jack Anderson last week, the U.S. Defense Intelligence Agency had just completed a report outlining "the prospect of a preemptive Israeli strike ... against the Iraqi reactor. . . ."

"Prudently," the DIA report estimated, "we must assume that Israel is considering some sort of action to forestall Iraqi acquisition of a nuclear capability, and we must consider the implications of such actions."

DIA-connected sources in Washington have also put forth the likelihood that Israel is sending Iran jet fighters whose Israeli markings have been removed. "I would not put it past the Israeli Defense Forces to be doing this sort of thing," said one DIA source, noting Deputy Defense Minister Zippori's proposals for sending missiles and artillery shells to Iran.

To hammer out the finer details of Israel's alliance with Khomeini, Deputy Secretary of Defense Robert Komer, the "godfather" of the U.S. Rapid Deployment Force, met in Israel with Prime Minister Begin. Also present at the meeting with Komer, who strongly advocates using military force in the Persian Gulf as a "deterrent" to the Soviet Union, were Begin's pro-Khomeini advisers Zippori and Saguy. After the meeting with Komer, Begin emerged to announce "a positive change" in the "strategic relationship" between Israel and the United States.

Stopping the Iraqis

In an interview with the British Broadcasting Corporation last week, Chaim Herzog, the former Israeli ambassador to the United Nations, stated that from the Israeli standpoint the worst possible outcome of the Iraq-Iran war would be an Iraqi victory. He added that while Israel had at first wished on Iraq and Iran "a plague on both your houses," Israel now prefers to recall its long friendship and cooperation with Iran—especially the Iranian military—in the interest of preventing an Iraqi victory.

Why is the Israeli government so intent on allying with Khomeini? The answer may lie in a closer look at some of the proponents of the alliance.

Gen. Mordechai Hod, for example, was commander of the Israeli air force during the June 1967 war in which Israel launched a preemptive strike and demolished the regime of Egyptian President Nasser, the Arab leader then most committed to the region's industrial development. Hod's associates in this enterprise were the two architects of the Israeli air force capability, Ezer Weizman and Gen. Dan Tolkovsky.

Tolkovsky is today the only Israeli member of the Club of Rome International, an organization dedicated to reducing the world's population and to keeping the developing world in a state of "permanent primitivism." He is also the head of the Israeli branch of the Israeli Discount Bank, an offshoot of the British Barclays Bank.

Both Barclays and the Club of Rome International are among the sponsors of the Muslim Brotherhood, the secret fundamentalist society that put Ayatollah Khomeini in power. Barclays is a funder of the Center for the Advancement of British-Arab Understanding, the London-based organization that "deploys" the Muslim Brotherhood. Thus, Ayatollah Khomeini and Israeli generals like Hod are two arms of the same British intelligence capability in the Middle East—a capability threatened by Iraq.

Significantly, the Israeli Labour Party opposition is taking issue with Begin's flirtation with Iran. Last week, Labour Party leader Shimon Peres declared that Israel should stay out of the feud between Iraq and Iran. Earlier, the Labour Party-linked daily *Davar* published an analysis suggesting that an Iraqi victory might be the best thing for Israel and the United States, since it could, if the United States maneuvered correctly, reinforce U.S. influence in the Middle East.

Israel's alliance with the Khomeini cause could, according to intelligence sources, backfire right in Israel's face. Any further Israeli move to back Iran could force Egypt, which has endorsed Iraq in the conflict, to scrap Camp David altogether, thereby clearing the way for a European initiative toward an overall settlement.

U.S. Press calls for aid to Khomeini

After background briefings to the press by Carter administration spokesmen, the major American newspapers last week issued virtually identical editorials denouncing Iraq. Excerpts from the editorials of main East Coast dailies—the New York Times, *the* Washington Post, *and the* Baltimore Sun*—appear below.*

The New York Times

Despite its lack of affection for Iran, the United States has wisely removed any doubts about its attitude to the dismemberment of Iran, either by Iraqi legions or by a Soviet thrust. That, in the words of Deputy Secretary of State Warren Christopher, would be a matter of "the utmost gravity" to Washington. Americans can expect no gratitude in Teheran for this warning. . . .

The Washington Post

American policy has been more a matter of words than deeds, but the right words have not always been used. "Neutrality," for instance, has dulled the emphasis the United States ought to be putting on Iraqi aggression. The United States, an official says all too mildly, "couldn't condone" Iraq if Iraq grabbed the Iranian oil province of Khuzestan. The American interest lies in seeing that the inevitable disputes in the Persian Gulf are settled peaceably. The United States should be losing no occasion to say so.

The Baltimore Sun

We cannot retreat into neutrality. . . .

The United States should be prepared to use its influence and leverage to prevent the disintegration of Iran, the one nation that can challenge Iraq's efforts to dominate the Gulf. The spectacle of this country even indirectly aiding a regime that has . . . held hostages . . . for 11 months would be galling. Nevertheless . . . the United States will have to play its full role as a world power capable of preventing disaster in the Gulf.

ITALIAN GOVERNMENT

How Cossiga was ousted from power

by Margaret Bardwell

The uneasy balance of power in Italian politics that has been in effect since Francesco Cossiga took over the premiership in April, when the anti-Communist, pro-NATO forces took power, has once again shifted with the collapse of the Cossiga government and Cossiga's resignation Sept. 27. Now, the more moderate wing of the Christian Democratic party, led by former Premier Giulio Andreotti, has another chance to form a more stable government allied to the policies of the European Monetary System, and to West German Chancellor Helmut Schmidt and French President Giscard.

While the trigger for the collapse of Cossiga's government came in the repeated failure of Parliament to approve Cossiga's economic appropriations legislation, the causes for the collapse lie with Cossiga's foreign and domestic policy, and the makeup of the government coalition itself.

Cossiga's coalition consisted of the cold-war wing of the largest party, the Christian Democrats, the small Socialist Party, and the tinier Republican Party. This coalition has been an unswerving supporter of the Carter administration-NATO "forward defense" posture for Europe, including making Italy the base for NATO's southern flank, a jumping-off place for NATO's presence in the Persian Gulf, and has undone the bulk of the oil-for-development economic cooperation deals worked out between Italy and the Arab world.

Finally, Cossiga has been tainted since his tenure as Interior Minister under Andreotti with being soft on terrorism and drug running. His own wing of the Christian Democrats has been rocked with scandal. Former Christian Democratic president Carlo Donat Cattin was forced to resign when it became known that his son was a member of a terrorist group, and that Donat Cattin and Cossiga were implicated in helping Donat Cattin's son flee Italy.

The other crucial difference between the Cossiga government and any potential Andreotti government is in the longstanding policy of cooperation between Andreotti and the Italian Communist Party, the so-called historic compromise.

The Italian Communist Party is Italy's second-largest party, with about 30 percent of the vote. Its base of support is chiefly among Italy's skilled industrial workers, especially in the auto and steel sectors. It has been a firm supporter of Andreotti's policies of East-West detente and Third World development. While the Communists have never been a partner in the various Christian Democrat-led coalition governments since the end of World War II, they were a prominent force in the previous Andreotti-led government, and were pointedly excluded from the Cossiga government at the behest of U.S. Ambassador Richard Gardner in favor of the Socialist Party.

The forward defense issue

With Europe increasingly uneasy about the prospects for war with the Soviet Union given the unstable Middle East situation, and the recent announcement of the Carter administration's PD 59 limited nuclear war doctrine, the leak that the Cossiga government supports proposals by Carter's national security adviser Brzezinski and U.S. Defense Secretary Harold Brown to use Italy as NATO's southern flank made the unstable Cossiga government even more shaky.

On Sept. 26, the Communist Party daily *L'Unità*, in an article written by Communist Party defense spokesman Arrigo Boldrini, said that Italy's Socialist Defense Minister Lelio Lagorio was supporting Italian participation in the Carter administration's plans to use a rapid deployment force in the Persian Gulf. According to Boldrini, Lagorio planned to involve Italy in a "so-called 'forward defense' in the Mediterranean against eventual threats to central Europe from the south." Further, Boldrini charged, "it seems obvious in this context that the Italian government does not reject the theory—put forward by U.S. Defense Secretary Harold Brown—that Italy could be involved in a limited conflict. There are very worrisome signs to this effect in recent statements by the minister."

Agence France Presse reported Oct. 1 that under a compromise within the Christian Democrats, a five-party coalition will probably be offered that does not include the Communists. The Communists have indicated that they will not refuse to support such a government if it is more stable than Cossiga's. Andreotti, meanwhile, is said to be working out a compromise with other factions in the Christian Democracy that would have him take over as Christian Democratic president while allowing either current president Flaminio Piccoli, or Arnaldo Forlani—currently charged with forming a new government—to become Premier with the collaboration of Andreotti's faction.

Behind Der Spiegel's slander operation

A dossier on the Anglo-Canadian intelligence capabilities and their on-the-ground use against LaRouche.

On Sept. 22 Der Spiegel, *the leading weekly news magazine in West Germany, published an article attacking the European Labor Party—headed by Helga Zepp-LaRouche, wife of* EIR *founder Lyndon H. LaRouche, Jr.—as a "Nazi anti-Semitic" organization. The following report, prepared by a team of* EIR*'s biweekly counterintelligence newsletter,* Investigative Leads, *provides the background on this and parallel slanders.*

From preliminary street interviews reported from the Federal Republic of Germany, the majority of the population sampled indicated that its view of the European Labor Party (EAP) became more favorable because of the libelous attack on the EAP featured in the Sept. 22 issue of the prominent newsweekly *Der Spiegel.* Most of the remainder of the sampled population, who had believed there must be some degree of truth to *Der Spiegel*'s libel, were reportedly stunned and often angered by a leaflet exposing the connection between the libelous featured article and the international drug lobby.

The majority of the population of the Federal Republic has developed the opinion that *Der Spiegel* is representative of some interest which is adversary to their own interests. They also regard *Der Spiegel* as a publication that frequently twists facts to create false impressions.

Spiegel's attempted first line of self-defense against charges of criminal libel is the assertion that its U.S. sources for the libel are "authoritative" publications such as the *New York Times* and *Washington Post.* *Spiegel*'s attempted self-defense conforms in crucial features to the argument of defense lawyers in Paris, where a criminal libel prosecution is currently in progress against the *International Herald Tribune* for the *IHT*'s publication of false and defamatory material from the same sources employed by *Spiegel.* The *IHT*'s defense attorneys argued that truth is not necessarily a criterion in U.S. libel cases, and that therefore, since the *IHT*'s defamatory libel against U.S. 1980 Democratic Party presidential candidate Lyndon LaRouche was written in the United States, the publication of such material in France should be interpreted according to U.S. law, not French law.

The *IHT*'s attorneys cited the conduiting of the same falsehoods into the New Hampshire news media during the period of the New Hampshire presidential primary. They argued that without such defamatory actions, LaRouche might have secured a large vote in that primary, and that therefore the use of such defamatory materials was justified.

Spiegel representatives echoed that particular form of argument. They insisted that the publication of the libel at the present time was necessary in order to prevent the EAP from securing a significant vote in West Germany's Oct. 5 General election.

Therefore, *Spiegel* is not embarrassed by proof that the libels published in the *New York Times*, *Washington Post*, *Los Angeles Times*, and other prominent periodicals originated with an obscure New York City weekly, *Our Town,* edited by a convicted criminal, Ed Kayatt, who formerly served time in prison for securities fraud, or by evidence that the circulation of republications of the same libels internationally is promoted chiefly by the international drug lobby.

The following dossier identifies leading components of the network coordinating the international distribution of the variety of libels, recently appearing in *Spiegel,* the Maoist Hamburg publication *Arbeiterkampf*, the Bavarian anarchist publication *Das Blatt,* and the U.S. pornographic publication *Hustler.*

The grey influentials behind the operation

Cumulatively speaking, the most conspicuous of the agents coordinating the libels is one Arthur Ross of New York City.

Ross is a former protégé of Lord Beaverbrook and Beaverbrook's Sir William Stephenson, and has been for the past four decades to date an integral part of the Anglo-Canadian secret intelligence organization formerly named the Special Operations Executive (SOE).

During the postwar period, prior to the formal demobilization of the wartime Special Operations Executive, the economic warfare entities created by SOE for operations against Germany, Italy, and Japan were established as nominally independent private corporations. These, and newly spawned corporate entities of the same network, continue to conduct economic warfare globally today, and also serve as a private cover for some of the dirtiest operations of Anglo-Canadian secret intelligence services.

Rio Tinto Zinc is one such case. So is the Argus Corporation, with which Ross is directly associated. ITT is a related case. Another case is the Permindex ("Permanent Industrial Exposition") entity, created by Canadian SOE executives (Major Louis M. Bloomfield), and implicated in assassination attempts against President Charles de Gaulle, as well as subjected to indictment in connection with preparations for the assassination of President John F. Kennedy.

The immediate financial coordination for the operations of this nest of SOE covers for Anglo-Canadian intelligence is the offshore banking network for the City of London. These "offshore" financial operations center in the Canadian banking system, and include as a part of the same network the British West Indies, Hong Kong, and Singapore financial circuits. This is the same financial network that also serves as the principal conduit for "laundering" the hundreds of billions of dollars accumulated by illegal drug interests.

These Anglo-Canadian interests exert a dominant influence within large portions of the Manhattan banking community and the New York Council on Foreign Relations, the latter the Round-Table-spawned leading policymaking conduit for the so-called Eastern Establishment of the United States. Arthur Ross is a part of those banking circles, a leading influence within the New York Council on Foreign Relations, and has for years been the "controller" of Sen. Jacob Javits, the stringpuller behind Javits's role in NATO.

This network overlaps another arm of British secret intelligence, run under the cover of the foreign office of the established Church of England. The two arms overlap within the leading transatlantic circles of the British branch of the Order of Malta: Key figures of the New York City Anglican Cathedral of St. John the Divine, including Bishop Paul Moore and Canon Edward West, are ranking British secret intelligence executives in the United States.

This is the network which deployed and controls the principal international libel and harassment campaigns against former Democratic Party presidential candidate LaRouche and LaRouche's friends and associates.

The short history of the operation

The known history of the Anglo-Canadian secret intelligence operation behind libels including the recent *Spiegel* feature is dated from May 1968.

The original cause of the operation was the work of LaRouche and a relative handful of associates in effecting nearly successful operations against the SDS-conduited riot operations of 1968. LaRouche and his associates had penetrated Students for a Democratic Society for the purpose of weakening the Herbert Marcuse-linked networks then being financially sponsored chiefly by the Ford Foundation through, in particular, conduits managed by the self-styled neo-Fabian "left-wing" intelligence networks of the Institute for Policy Studies.

In response, the Institute for Policy Studies and its sponsors developed a relatively large-scale counteroperation against LaRouche and his associates.

The role of such Philip Agee associates as Harvey Kahn in conduiting the massive libel and harassment campaign against LaRouche and his associates internationally in 1976 reflects Kahn's assignment to conduit "black propaganda" against LaRouche beginning in 1968.

It was Kahn's libels which were later used as a basis for the Mont Pelerin Society's libel campaign of May-June 1978. This was documented by a British secret intelligence operative resident in the United States, Francis M. Watson, and by Michael Deaver of Ronald Reagan's "Citizens for the Republic" newsletter.

Deaver stated that his libel against LaRouche had been channeled through the Mont Pelerin Society on orders from a Hong Kong meeting of the society. Deaver stated, as Watson independently corroborated, that Robert Moss was assigned to coordinate the libel and harassment campaign internationally.

The intimate collaboration with Philip Agee's networks, especially Harvey Kahn, in inventing the libel used by the Mont Pelerin Society, was stated in print in a libel published by the magazine *Business Week*, and also in a libelous report written over Watson's byline as a bulletin of the Mont Pelerin Society-controlled Heritage Foundation.

During this period, an operative in the office of Sen. Jacob Javits, Jeremiah Novak (the brother of Michael Novak) proposed a modification of the libel line to be used against LaRouche and his associates, according to affidavits of statement volunteered to an undercover investigator. Novak proposed to change the libel against LaRouche to "Nazi," arguing that the large proportion of Jews prominently associated with LaRouche made the proposed charge of "anti-Semitism" ineffective by itself.

During the same general period, Canon West, among others, stated to undercover investigators, "We're going to use Jews against them. By tying them up with Zionists, we will divert them from us."

Since the ranks of Zionists include both allies and adversaries of LaRouche's policies for the Middle East, undercover investigations readily identified the faction of Israeli intelligence's Mossad being deployed by Anglo-Canadian secret intelligence for the operation proposed variously by Novak, West, et al.

The dirty faction of the Israeli Mossad operating within the United States centers around two elements, an inner circle deployed under the cover of the Anti-Defamation League and the terrorist Jewish Defense League associated with Rabbi Meir Kahane. This dirty faction of the Mossad is controlled by Anglo-Canadian secret intelligence, but is partially cut out from its "mother" entity through international financial networks intersecting the famous Bank Leumi.

Undercover investigations targeting such unwitting informants as Burton Joseph, Irwin Suall, and Justin Finger of the Anti-Defamation League (ADL) elicited cross-checked and independently verified details of the operation Canon West's associates were deploying under the cover of the ADL. These ADL-linked operations were deployed, most notably, with cooperation from contaminated elements of the Carter administration, including important elements of the State and Justice Departments. This also intersected contaminated sections of U.S. military intelligence as is illustrated by the former Air Force Intelligence rank of Kahane-linked Colonel Joseph Churba, and by John Birch Society penetration of Pentagon and other U.S. intelligence organizations and "old-boy" networks.

Also jointly linked to both the Mont Pelerin Society and Mossad subelements of Anglo-Canadian intelligence is a New York entity known as the East Side Conservative Club, an entity which includes prominently William F. Buckley and the notorious former chief counsel to Sen. Joseph McCarthy, Roy Cohn.

The other major component of the deployed forces is the international drug lobby. This centers around the prodrug and pornography-publishing networks. It includes the Playboy Foundation's backing of the major prodrug lobby organization in the United States, NORML, and the leading drug-boosting publication in the nation, *High Times*. There is a massive overlap among the Mossad networks, the pro-terrorist networks of the Institute for Policy Studies, and the drug-pornography-lobby networks. These entities not only overlap massively—the nominal lines of separation among these forces have been dissolved entirely in the process of libel, harassment, and violent operations launched over the past year against LaRouche and his associates.

As a result of successful undercover penetration of the *New York Times* during the summer of 1979, LaRouche's security organization secured photos, tape recordings and affidavits documenting the declarations of *Times* employees Paul Montgomery and Howard Blum. Both volunteered reports of a *Times* plan for immediate publication of a libelous attack on presidential candidate LaRouche. They added that this attack had been prepared in cooperation with elements of the Carter administration's Justice Department, and would enjoy cooperation from Cong. Elizabeth Holtzman (D-N.Y.), a member of the House Judiciary Subcommittee on Immigration, Refugees, and International Law. They stated that since the Carter administration had no basis for legal prosecution against LaRouche and his friends, a nationwide press climate, created through publication of libels originating with the *New York Times*, would be used to create a climate in which the Justice Department would be able to bankrupt LaRouche and businessmen friendly to him through harassing forms of investigation and prosecution.

The publication of the leading points of evidence obtained through crosschecking the volunteered statements of Montgomery and Blum caused the *Times* to change its tactics. The new tactic involved using an obscure weekly, *Our Town,* to originate the libels. *Our Town* is edited by the convicted felon Ed Kayatt, a protege of Roy Cohn.

Following *Our Town* publication of the libels, the *Times* published a two-part feature series under the byline of Blum and Montgomery, based chiefly on the in-print libels published by *Our Town*. By this legal tactic, the Times was able to use its willingness to spend millions in fighting the libel case it incurred to dissuade LaRouche from diverting millions from his campaign required to prosecute the libel case against the *Times'* millions. In an editorial, the *Times* confirmed that the purpose of the libels' publication was an effort to neutralize LaRouche's presidential candidacy by means of defamation and incited federal government harassment.

Subsequently, during the last weeks of the New Hampshire presidential primary campaign, various major nationwide publications issued multithousand-word libels against LaRouche based on the *Our Town* libels. These included the *Washington Post*, the *Baltimore Sun*, the *Los Angeles Times*, and *People* magazine. Meanwhile, *Our Town* slanders were repeatedly conduited into every daily newspaper in the state of New Hampshire, despite libel action in progress against *Our Town,* chiefly through direct approaches to those publications by the Mossad's ADL operatives. Despite the libel and other harassment, name-by-name canvasses proved that LaRouche received at least 17 percent of the New Hampshire vote, while exit polling on election day proved statistically that LaRouche received more probably between 23 percent and 24 percent of the total vote.

Middle East Report by Robert Dreyfuss

Kuwait: the next hot spot?

A combination of British-connected "radicals" poses a threat to Saudi Arabia's neighbor.

An ongoing investigation by *Executive Intelligence Review* has turned up evidence of a subversive network in Kuwait whose aim is to topple the monarchy and destabilize the country.

This movement is comprised of prominent Kuwaitis associated with the Nadi al-Istiqlal, a leftist grouping; the Jamiyat al-Islah, an Islamic fundamentalist group; and radical elements in Kuwait's sizeable Palestinian and Shi'ite Muslim populations. The sociology of the Kuwaiti opposition closely mirrors that of the coalition of secular leftists and religious fundamentalist rightists which last year brought down the Shah of Iran and his economic development plans.

As in the Iranian revolution, the source of this movement is British intelligence and its Jesuit allies working through Kuwait University and the Institute for Palestine Studies. According to a well informed source, since the Iranian revolution, the minority Shi'ites in Kuwait have moved closer to forming an alliance with the Istiqlal against the Kuwaiti regime.

Kuwait's Shi'ites, many of whom are Iranian in origin, have reportedly been influenced by the propaganda coming from Ayatollah Khomeini, a Shi'ite who has called for the overthrow of the Arab monarchies of the Gulf.

Historically, the Nadi al-Istiqlal, though secular and left-leaning, has allied with the conservative Muslim fundamentalist Jamiyat al-Islah al-Dini, a group known to be associated with the clandestine Muslim Brotherhood which installed the regime of the Ayatollah Khomeini.

The Jamiyat al-Islah al-Dini is reported to have worked with the Saudi dissident Juhaiman al-Oteibi in the seizure of the Grand Mosque of Mecca last year, which was the first major incident challenging the Saudi royal family in a decade.

An insurrection in Kuwait would assuredly reverberate into Saudi Arabia. The elites of the two countries are closely allied, and Kuwait is on Saudi Arabia's northern border not far from the Saudi oilfields. Analysts believe any disruption in Kuwait could spark unrest among the 100,000 Shi'ite Muslim oil workers in Saudi Arabia's eastern oilfields who earlier this year sparked violent strikes against the Arabian American Oil Company in Qatif, near the main oil terminal at Ras Tanura.

A key figure in the anti-monarchical movement in Kuwait is Ahmed al-Khatib, the leader of the Nadi al-Istiqlal who was an outspoken leader of the "Opposition Group" in Kuwait's now disbanded parliament.

Al-Khatib has a long history of associations with the radical wing of the Palestinian movement, notably George Habash's Popular Front for the Liberation of Palestine. The Kuwaiti-based Institute for Palestine Studies is known to be a command center for Palestinian terrorism, and is a sister institution to the Washington-based Institute for Policy Studies which this magazine has identified as a supporter of terrorism and radical "environmentalism." It also supported the Khomeini takeover in Iran. Al-Khatib formed the now defunct Arab Nationalist Movement in the 1950s, out of which the PFLP and his own party emerged.

Fuad Ajami of Johns Hopkins University expects a militant segment of the Palestinian movement to become a source of trouble for the Kuwaiti regime in the near future. He noted that traditionally the coalition led by al-Khatib has worked with the Palestinian movement. The *Jerusalem Post* on Sept. 18 reported increasing strains between the Kuwaiti regime and the Palestinian foreign workers in Kuwait.

Two months ago, the Emir of Kuwait, in an unusual statement, warned his tiny nation not to heed the demand of "certain divisive elements" and announced that Kuwait would reconstitute its parliament. The Kuwaiti parliament was disbanded in 1976, reportedly because of the increasing demands which al-Khatib and his following were making. It is believed that a new attempt at a parliament in Kuwait would open the door for a political offensive by al-Khatib's circles.

EIR *will make available by subscription in November a special report on the Arabian Gulf entitled "Prospects for Instability in the Arabian Gulf" at a cost of $250. The report can be ordered through Peter Ennis at (212) 247-8820.*

Díaz Serrano finally goes to Tokyo

Mexican officials are looking to economic cooperation with Japan with cautious optimism.

On Sept. 25, Mexico and Japan signed a long-awaited capital goods and steel accord, worth about $370 million. The project involves a joint venture among a Japanese consortium headed by Kobe Steel, Mexico's national development bank Nafinsa, and the state steel company Sidermex.

The deal, known by its initials NKS, is viewed by both sides as something of a watershed, closing the book on an unhappy period of Japanese-Mexican relations which reached its low point during the early-May state visit to Mexico by the late Japanese Premier Masayoshi Ohira.

Although the NKS deal marks the end of one era in Japan-Mexico relations, it remains to be seen whether it also signals the beginning of a new, more positive one. The consensus among Mexican private and official sources, consulted by this reporter during a recent visit to Mexico, is that they are now looking to the prospects of sound economic cooperation with the new government of Zenko Suzuki with cautious optimism. "The NKS deal is the kind of thing we are looking for," a top Industry Ministry official commented. "But will Washington stop pressuring Tokyo to not cooperate with us? Or will Tokyo stand up to such pressures? We will find out at the mid-October Tokyo meeting."

Mexico, for its part, issued a string of unmistakable signals over the past week, indicating a willingness to reestablish good economic links with Japan. These include:

- Mexico has just announced that, as of Oct. 1, it will finally begin to ship 100,000 barrels per day of oil to Japan, thus meeting its earlier commitments. Until now, Japan had been receiving only 50,000 barrels per day.
- Nafinsa director Jorge Espinosa de los Reyes told a Washington, D.C. press conference Sept. 29 that Mexico viewed the NKS deal as important to breaking Mexico's bottlenecks in the areas of capital goods and heavy machinery.
- And perhaps most significant of all, veteran trade union leader Fidel Velásquez, one of the most powerful political figures in all of Mexico, went out of his way three days earlier to call a press conference whose sole purpose was to support the NKS deal. "Agreements such as this," he stated, "are worthy of applause, because they involve the creation of a heavy industry sector, which will help us to consolidate other economic areas." Velásquez added that "insofar as foreign capital does not come to Mexico as a *Conquistador*, it will always be welcome." He significantly added that one of the attractions of Mexico to foreign investors is its "mature labor movement." A stronger stamp of approval would be hard to come by.

With the NKS deal out of the way, the question on everybody's mind is what comes next. The strength of the Mexican delegation to the Oct. 13 Tokyo meeting would indicate that there is good potential. Pemex head Jorge Díaz Serrano will head the Mexican team, a fact which has delighted his Tokyo hosts and induced in them what one Japanese businessman in Mexico criticized as a foolish "oil fever." Already Japanese officials have leaked to the press that they will once again try to extract the long-sought 300,000 barrels per day from Mexico. The Iran-Iraq war in the Middle East has now added a tone of urgency to their requests.

Observers are also closely watching the composition of the rest of the Mexican delegation, to try to get an indication of the likely direction and outcome of the talks. Joining Díaz Serrano will be private sector leaders; Mr. Moctezuma Cid, the Coordinator of special projects of the Presidency and the man in charge of Mexico's ambitious industrial ports projects: a Foreign Ministry representative; and a number of officials from the key Industry Ministry (Sepafin). *EIR* has learned that it is possible that the indicated Sepafin representative, Subsecretary García Ramírez, will *not* travel to Tokyo, and that he will be replaced by Jorge Leipen Garay, the director of Sidermex. Although Mr. Leipen is reportedly ill and may therefore be unable to travel, his mooted presence instead of García Ramírez is thought to indicate Mexico's preference for focusing economic discussions with Japan heavily on steel, the area which Mr. Leipen has special responsibility for.

This column was contributed by Latin America Editor Dennis Small.

International Intelligence

Mexico's Echeverría hits Jesuits for 1968 role

Former President of Mexico Luis Echeverría dropped a political bombshell Oct. 1 when, during a discussion with press representatives in Mexico City, he broached the subject of the 1968 massacre of students that so badly destabilized the government in which he was Interior Minister.

"We observed coincidences . . . elements from the ultra-left and the ultra-right, contributions from the Communist Party and from Sears Roebuck, interventions from revolutionary groups and even Jesuits."

EIR has independently confirmed that these elements were involved in the 1968 incident, in which military troops fired on a student demonstration, killing hundreds.

Although other Mexican commentators have exposed the 1968 events as a calculated effort to destabilize the Mexican government, Echeverría is the first to point to the role of the Jesuits and their typical "left-right" modus operandi. Echeverría, as Interior Minister, was put in charge of investigating the tragedy.

International music symposium in Paris

Classical music performers, conductors, and lecturers from five European nations and the United States held an International Music Symposium in Paris on Sept. 26-28. The symposium was cosponsored by the U.S. Platonic Humanist Society, the Humanist Academies of Italy, France, West Germany, Denmark and Sweden, and the Paris Jardin de Musique.

West German Humanist Academy director Anno Hellenbroich, a parliamentary candidate in West Germany's upcoming Bundestag elections, emphasized the relationship between a nation's moral ability to effect change and its understanding of great composition such as Beethoven's. In his keynote address, Hellenbroich placed the issue of music education for youth at center-stage in creating a mature adult population. The young conductor is author of the article *So Denk Wie Beethoven* ("Think Like Beethoven"). American oboist Carolyn Pollak and Platonic Society choral director John Sigerson also spoke on music education for children.

Throughout the conference, performances of the great composers were presented to the international gathering. Italian pianist Carlo Levi-Minzi, who has recently made a recording for the Platonic Society, presented what he termed "the dialogue" among Bach, Mozart and Beethoven. Other performers included U.S. soprano Joan Moynagh, Danish pianist Bodil Frolund, and Dutch violinist Thomas Magyar, Isabella Petrosian, a student of the great violinist Oistrakh, and the director of the Jardin de Musique, Eugénie Alécian, pianist.

Pakistani dictator gets cold reception at U.N.

General Ziaul Haq, the military dictator of Pakistan, put on a well-orchestrated public relations event at the United Nations Oct. 1. Arriving fresh from his role as the "Islamic" mediator in the Iran-Iraq conflict, Zia gave a scheduled speech to the U.N. General Assembly in his capacity as current chairman of the Islamic Conference.

Zia's 100-minute speech was full of quotes from the Koran and flowery descriptions of the Islamic heritage—including a not-so-veiled reference to Islam's role as a buffer against communism. All this was aimed at building up Zia's own image. He was accompanied by a huge delegation of hangers-on from Pakistan, including local politicos brought in to be impressed by Zia's performance as an Islamic "leader" before the world body.

Pakistani officials, though, were disappointed at the reception Zia got from the U.N. body—no one, which is unusual, applauded on the entrance of the head of state, and the entire speech was unbroken by applause and received at the end by only perfunctory ackowledgement. Arab leaders who fondly regard former Premier Z. A. Bhutto, the real initiator of the Islamic Conference, are not too enthusiastic about Zia, who overthrew Bhutto and had him hung.

Zia did not give the usual U.N. post-speech press conference—the reason, according to Pakistani sources, was fear of "troublemakers" who would ask embarrassing questions about the reign of terror inside Pakistan, staining his image of Islamic "love." Instead, selected reporters from papers like the *New York Times* are being granted "interviews."

French, Iraqis wrecked U.S.-Iran alliance plan

French and Iraqi intelligence preempted a U.S.-Iranian scheme to establish an American alliance with the regime of the Teheran mullahs, according to highly informed sources in the Washington diplomatic community. According to these sources, in the weeks before the outbreak of the war, the Carter administration was negotiating a deal for the release of the hostages in exchange for the reintroduction of an American military supply relationship with Iran.

In order to blackmail certain resistant Iranian factions into going along with the U.S.-Iran rapprochement, Washington launched several parallel operations, the sources said. First, they encouraged Israel to promote troubles in Iranian Kurdistan. Second, the U.S. threatened to attack Iran's southern port of Bandar Abbas. And third, Washington encouraged Iraq to put military pressure on Iran—without telling the Iraqis that the ultimate design on Washington's part was to set up a U.S.-Iranian pact.

But, the sources said, together French and Iraqi intelligence discovered the real intention of the U.S., and France then backed Iraq in a full-scale invasion of Iran which wrecked the emerging U.S.-Iran alliance.

At present, the U.S. is working with Britain, Israel, Egypt, and Turkey to undo the damage by supporting the establishment of a Savak/Savama Iranian military regime potentially in alliance with the Cairo-based Iranian monarchy. Other sources report that such a regime might, alternately, be comprised of some combination of pro-fundamentalist military officers and President Bani-Sadr.

On the other hand, these sources report that France and Iraq are closely coordinating their military policy toward Iran. The French intend to help Iraq rebuild economically and militarily after the war. Meanwhile, Paris and Baghdad are supporting the faction of exiled Premier Shahpour Bakhtiar, in other words, the Iranian republicans.

From the Soviet side, East European diplomatic sources report that Moscow's primary concern is only with preventing Iran from reestablishing American bases and military supply relationships with the U.S. armed forces that might pose a threat to the U.S.S.R. The Soviet Union, the source said, is willing to accept a Bakhtiar government in Iran.

U.S. woos Nigeria for energy supplies

How Nigerian energy resources can be exchanged for American aid for Nigeria's recently announced "Green Revolution" agriculture development program will be a main subject of discussion during Nigerian President Shehu Shagari's Oct. 3-8 trip to New York and Washington.

Shagari will commence his trip with an Oct. 3 speech to the Foreign Policy Association, a New York institution closely tied to the Council on Foreign Relations. After addresses before the Congressional Black Caucus and the United Nations in New York, he will arrive in Washington Oct. 7 for a two-day visit to include talks with President Carter, David Rockefeller, and Business International head Orville Freeman.

Freeman has recently been named as the director of the American side of a special Nigeria-U.S. Joint Agricultural Consultative Committee that was established during Vice-President Mondale's July-August trip to Africa. During his visit, Mondale signed a series of protocols for U.S. aid to Nigeria in the fields of agriculture and science and technology in return for Nigerian exports of oil and other energy resources to the U.S.

Shagari, a former Minister of Finance and Governor for Nigeria at the International Monetary Fund, has initiated an agricultural program for Nigeria that was written with extensive assistance from the World Bank and which emphasizes aid to "rural small-holders" and the use of "appropriate technologies" for Nigeria's primarily peasant-farmer population.

On the energy issue, sources in Washington report that Nigeria is being especially wooed because of the rising tensions in the Persian Gulf, which may jeopardize the flow of oil from that region.

Cuban diplomats pull out of Caracas

Cuban President Fidel Castro announced last Saturday the withdrawal of Cuba's entire diplomatic corps from Venezuela to protest the acquittal by a Venezuelan military court of four terrorists responsible for the October 1976 bombing of a Cuban airplane. Seventy-three people died in the incident.

Castro further denounced Venezuela's Christian Democratic government for its "willful absolution of terrorism, an act more monstrous than the crime itself." Observers believe that a rupture of relations between the two countries could come next month when the terrorists are expected to be released.

According to Venezuelan journalist Alicia Herrera, who has maintained regular contact with the self-confessed terrorist ringleader Orlando Bosch, the terrorists are planning an assassination "hit" against former Venezuelan president Carlos Andres Pérez as soon as they are released from jail. Under Pérez's administration the terrorists were captured, vigorously prosecuted, and sent to jail, it was assumed, for life.

Briefly

- **LEONID BREZHNEV** will visit India before the end of the year, officially returning an ongoing visit of Indian President S. Reddy to Moscow. The Indians are seeking increased oil supplies from the Soviets to replace Iraqi and Iranian sources. Brezhnev's visit, though, is aimed at strengthening Indo-Soviet ties which have been given a high priority in the Kremlin.

- **A LAO** People's National Liberation Front was set up last month to cooperate with the Pol Pot-controlled Khmer Rouge against the Cambodian government of Heng Samrin. Former Meo secret army chief Gen. Vang Pao, now living in Montana, has reportedly joined hands with the group. Vang Pao has alleged close ties with Peking.

- **THE U.S.S.R.** is carrying out a new series of military maneuvers near Poland, according to American military sources, who say that "they are training in the same way as if they were going to Poland."

- **THE BOMBING** of the Baghdad nuclear reactor complex Sept. 30 was not carried out by Iran's air force but by the Israelis, under an Iranian Air Force cover, French news media accounts suggest. The Iranian General Staff is reported to deny that Iran ever attacked the French-supplied reactor complex. Said one DOD official: "They [Israel] are absolutely committed to knocking out Iraq's nuclear capability...."

- **CORRECTION:** In the Oct. 7 issue of *EIR* we erroneously reported that the pro-Moscow Communist Party of India has a policy of unity "with the Maoist Communist Party/Marxist-Leninist." "Leninist" was inadvertently added; the intended reference was to the Communist Party of India-Marxist (CPM), a Maoist-oriented major party. The CP-ML is a separate, pro-Peking organization.

The 'unpredictable' Carter adds to Middle East danger

by Konstantin George

President Carter, at the request of Saudi Arabia, dispatched four AWACS (Airborne Warning and Control Systems) radar aircraft to monitor the fighting in the Gulf. This move reignites the potential superpower flashpoint dimensions of a Gulf crisis generated by the war.

The Defense Department statement announcing the U.S. action was as follows:

> The U.S. Government, in response to a request from the Saudi Arabian Government, has initiated the temporary deployment of AWACS aircraft to Saudi Arabia. This deployment is purely for defensive purposes. It is designed to track aircraft and thus to provide additional warning for Saudi defenses.
>
> The U.S. Government unequivocally reaffirms its position of neutrality. We are committed to as rapid a termination as possible of the conflict between Iran and Iraq, in accordance with U.N. resolution 479, or other peaceful initiatives. These aircraft are being deployed consistent with these peaceful objectives.

The tenor of the question and answer session that followed provided every indication that further escalations could occur. The questioning focused on whether similar U.S. moves were either underway or under discussion with Israel, Bahrain and Oman. The concern over U.S. involvement widening and deepening was evident.

A speech delivered that day in Mobile, Alabama by National Security Affairs Director Zbigniew Brzezinski, provided the clearest signal to date that the Carter administration is beginning to tilt toward a direct confrontation course: "The U.S. has all military means necessary to act in the Middle East on behalf of its self-interest. The U.S. favors the independence and sovereignty of Iran."

In earlier leaks to the *New York Times*, the Pentagon had cited two interlocking "conditions" that could, if the decision were made in Washington, dispatch RDF units to the Gulf region: "Repelling an incursion from a smaller nation, such as Iraq, into the oil producing nations around the Gulf," and "helping a friendly nation . . . at the request of that nation's government."

Questions on the theme of the U.S. moves occurring on the basis of "request of that nation's government" recurred from the press following Brzezinski's statement.

A zig-zag pattern

The day of the Pentagon announcement, Sept. 30, also witnessed editorials in the *New York Times* and the *Washington Post*, exhorting Carter to proceed as if a substantive basis for invoking the "second contingency"—"repelling Iraq"—existed.

The AWACS escalation, and what the move may portend, are indicative of an "escalation-pullback" pattern exhibited from the start of the Iran-Iraq war by what the Europeans call the "unpredictable" Carter regime.

The first action of the Carter administration after the war began was to openly urge Khomeini to free the hostages as a straightforward deal whereby the United States could then begin rearming Iran for its war defense against Iraq. No results were evident.

The next move was the call for an international naval task force to be assembled by the United States, Britain, France, Italy and Japan. That was shot down by the allies, who said they saw no need to force open the Straits of Hormuz when no immediate danger to international shipping existed. The only foreign head of state to accept Carter's initiatives for talks on the naval force, Premier Francesco Cossiga of Italy, found himself unseated by what most observers claim to be no coincidence the next day.

After measuring the rejection from overseas, the White House beat a retreat Sept. 26 through the following statement: "In view of the importance of minimizing the effects of the conflict on international shipping and world petroleum markets, the U.S. had indicated that it would be willing to host a meeting to review the issue if that should seem desirable. No such meeting has been set."

Next, the administration conceded repeatedly that, as Energy Secretary Duncan was forced to characterize the situation, "we should be able to maintain a high rate of stability in the international oil markets. . . . under present circumstances the situation is manageable."

However, the climate for a U.S. military intervention into the Gulf was escalated as of Oct. 3, with the visit to Israel of Defense Department Undersecretary Robert Komer, an architect of the U.S. Rapid Deployment Force. Israel has attempted to provoke Iraq into expanding its offensive against Iran, creating the preconditions for a superpower showdown. Egypt's Anwar Sadat has offered the Carter administration military bases from which to offer "protection" to the Saudi Arabians, whether they want it or not.

Since the war danger arising from prospective U.S. moves in the Gulf is by no means contained, Western Europe has concentrated on finding ways to contain a Carter lurch towards confrontation, and build a minimal framework for strategic stability. European policymakers are, among other things, attempting to shape a second Carter administration so as to at least remove the "unpredictability" problem embodied in National Security Adviser Brzezinski, a problem that can create a world war by miscalculation in the short term.

It has been recognized that the problem is one of not individual but institutional unpredictability, centered on the institution of the National Security Council itself.

Administration actions since the war began

Sept. 21: No official statement by Washington.

Sept. 22: Defense Department comments matter-of-factly that Iranian armed forces, including the navy, "have been shattered" since the Khomeini takeover. Secretary of State Muskie makes the blatant offer of military aid to Khomeini. "We recognize the reality of the Iranian revolution. [If the U.S. hostages are released] the U.S. is prepared to deal on a basis of mutual respect and equality with the Khomeini regime."

Sept. 23: Carter issues his first "neutrality" declaration. "We are not taking a position in support of either Iran or Iraq. . . . There is only minimum involvement at this time . . . of ground forces." Muskie apparently has a different intelligence reading: "The United States has no intelligence on war developments, and has not been in touch with either Iran or Iraq."

Sept. 24: Carter, campaigning in Portland, Oregon, reiterates, "We will not become involved in the combat and we are urging and insisting that the Soviet Union and other nations not intervene in this very dangerous situation in the Persian Gulf area. . . . We do have military forces in the area, but we don't anticipate at all any use of American forces." The same day, Carter contradicts his own professions of "neutrality" by repeating Muskie's offer of arms to Khomeini for a deal on the hostages: "Iran needs to be a part of the international community . . . they need to get spare parts for their weapons, and so forth, and this could induce them to release the hostages."

Central Intelligence Agency Director Stansfield Turner warns of "danger" in Iraqi victory, in an appearance before the Senate Foreign Relations Committee: "Iraqi air superiority will mean a defeat for Iran and be dangerous for Iran's stability." Muskie gives the first faint signal of possible future military involvement: "We have a special stake in the area."

Sept. 25: Carter discloses the international naval task force initiative: "We're consulting other nations about what ought to be done to keep the Straits of Hormuz open." This escalation, despite no apparent danger to the straits, is joined by Carter's official admission of U.S.-Iranian arms negotiations, albeit "indirectly." "We've consulted through other means with Iran . . . but that particular point [release of hostages in exchange for military spare parts] would perhaps be better for me not to single out among the others."

Sept. 26: Administration suspends the sale of six remaining General Electric ship turbine engines to the Iraqi navy. Muskie declares that the crisis inherently carries with it the danger of nuclear war: "The Middle East is such an unstable area, so potentially explosive, that when hostilities erupt, it could escalate to the point where the ultimate unthinkable hostilities could take place."

Sept. 27: The White House announces that it is still willing to convene a meeting of America's major allies to "discuss ways of keeping oil moving . . . if ship traffic is threatened." The statement followed European and Japanese flat rejections of the international naval task force proposal. It also followed direct Carter administration admissions that even with a worst case indefinite interruption of Iran and Iraq's oil supplies there was no danger of any oil shortages in the world's consuming nations.

Sept. 28: Former Secretary of State Henry Kissinger is quoted claiming that "events over the past 48 hours show that Iran is the only effective bulwark against the Soviet Union in the Middle East."

Sept. 29: The administration leaks that Deputy Secretary of Defense William Graham Claytor, Jr. had ordered the services to submit proposals for improving the Rapid Deployment Forces before the war, so as to bring the forces to readiness.

Sept. 30: Pentagon announces that Carter has ordered the dispatch of four AWACS radar aircraft to Saudi Arabia. Deputy Secretary of Defense Robert Komer is in Egypt for talks with Egypt's leaders, discussing RDF "forward-basing"—out of Egypt—contingency plans.

Oct. 1: Komer leaves Egypt for Israel. Pentagon announces that the Chairman of the Joint Chiefs of Staff, General Jones, will arrive later in the week in Cairo for more talks with Egyptians. The talks are to center on "the use of Egypt as a forward-basing area into any Arab nation that requests it."

CARTER CAMPAIGN

The strategy and the new setbacks

by Kathleen Murphy

With less than a month before the U.S. presidential elections, apprehension continues that Jimmy Carter might resort to a provoked foreign policy crisis.

"We expect Carter to try to pull off some kind of foreign policy grandstanding within the next two weeks," one Washington source says. "He wasn't able to get the hostages out of Iran, so he may try some kind of military intervention, especially if the Iran-Iraq conflict drags on."

Enhancing this possibility is the fact that Carter, despite one of the dirtiest campaigns on record, has managed to fall behind Ronald Reagan, with no prospect of reversing the trend through normal means.

The latest *New York Times*-CBS poll, taken shortly after the League of Women Voters-sponsored debate Sept. 21, shows Reagan moving from four points behind Carter to a five-point lead. The *Times*-CBS poll also revealed that Reagan is winning the competition for independent voters who have deserted John Anderson, contrary to earlier expectations that Anderson's decline would benefit Mr. Carter.

Carter is encountering unprecedented hostility from traditional Democratic Party constituencies as well. Many Jewish voters bitterly oppose Carter for what they perceive to be his anti-Israel stand. The two leaders of the newly formed national Democrats for Reagan, former Watergate prosecutor Leon Jaworski and Hershey Gold, are both prominent figures on the Zionist political circuit. Carter would be badly hurt in key states like New York and Florida if enough Jewish voters decided to simply sit out the election.

Carter's weakest flank is the economy. Despite administration claims that an economic recovery is just around the corner, few blue-collar workers, supermarket shoppers, businessmen, or farmers have been persuaded by Carter's predictions of an upturn. Unable to deal with the underlying causes of the country's economic disasters, Carter instead is turning to politically selective "quick fix" transfusions of federal funds.

Carter's newly released steel recovery program is a case in point. Release of the program was clearly targeted at gaining Carter votes in some of the key swing states he needs to win, particularly Pennsylvania and Ohio. Pennsylvania, which went for Carter by a slight margin in 1976, is now in Reagan's column, according to a Gallup poll commissioned by the *Pittsburgh Gazette* and released Sept. 29. Although both Reagan and Carter campaign staffers say the program could boost his standing in Pennsylvania and other steel-oriented states, they also concur that it could be a very temporary phenomenon.

In an effort to recapture the urban vote, Carter is pouring taxpayers' dollars into cities strategically situated with respect to the election. Chicago, Cleveland, New York, and Miami have all received large doses of federal funds over the last few months. During the last week of September, the administration promised more than $50 million to Detroit.

This month, the Carter administration will announce its quarterly awards of urban development grants to economically distressed cities. The announcement, totaling $150 million, is coming a month earlier than usual. About $200 million in federal aid for local mass transit programs is expected to be released to local governments soon. According to one bus manufacturer, the Transportation Department has been holding up the announcement so that it will come nearer the election.

Carter is attempting to woo the farm belt, by paying out $300 million in cash over the next month to compensate farmers hurt by this year's drought. In addition, much of the $2.6 billion in promised drought-relief loans will be committed before Nov. 4, Agriculture Department officials say.

And the Department of Energy will soon award an additional $300 million in development money for synthetic-fuels projects. So far, the administration has doled out synfuels money to 46 states.

Despite this outright attempt at vote-buying, Carter is still in deep trouble. The results of the *Times*-CBS poll are being confirmed by surveys commissioned by regional organizations. Republican pollster Richard Wirthlin, acknowledged to be one of the most accurate pollsters, believes that Reagan is now positioned to capture enough swing states to win the election. Wirthlin says that Reagan has a solid lock on Wisconsin, Illinois, and New Jersey, with a strong edge over Carter in Pennsylvania, Ohio, Michigan, and Texas. New York and Florida are "up for grabs," as one Carter campaign aide put it; how they go will depend in large part on the Jewish vote. And while Floridians' anger at Carter for the recent influx of Cuban refugees has been partly assuaged by the convenient timing of Fidel Castro's decision to halt the flow, Democratic Senator Henry Jackson was nevertheless loudly booed when he mentioned Carter's name at a Miami rally for Florida Sen. Richard Stone last week.

DEMOCRATIC POLITICS

Texas Liberals retain control

by Anita Gallagher

A sparsely attended two-day Texas state Democratic Party Convention concluded in Houston Sept. 27 and elected Robert Slagle, a lawyer and the choice of the Carter White House, chairman of the Texas Democratic Party. After the election, the remaining delegates passed a resolution to repeal the state law against sodomy proposed by the Gay Rights Alliance, in a sharp repudiation of the Democratic Party Convention's 2 to 1 vote against repeal in June.

Political observers in Austin agreed that the results demonstrate that the liberals in the Democratic Party are at present firmly in control and have again turned back for the time being a challenge from the conservative wing of the party.

"This is going to weaken the Democratic Party, no question about it," said *Houston Post* reporter Juan Palomo. "This is going to mean a two-party system for Texas a lot sooner than most people thought." Texas has been overwhelmingly Democratic for the past hundred years.

The battle between the victorious Slagle and 38-year-old State Rep. Luther Jones was to some extent a surrogate war exercise between current Democratic National Committee Chairman John C. White, a Slagle backer, and John Hill, the unsuccessful Democratic candidate for governor in 1978, who supported Luther Jones at the convention. Both Hill and John White are expected to seek the Democratic nomination for governor in 1982, when Republican Governor Bill Clements's term expires.

Slagle was clearly perceived as the candidate of White and Carter White House. Bob Strauss personally spoke at the convention on Saturday and attempted to rouse support for Carter's campaign.

Rep. Luther Jones's support was based on forces identified with the Open Convention, such as Billie Carr, a leading Texas supporter of Ted Kennedy's candidacy. On Saturday, Slagle got 64 percent of the vote, while Jones received 33 percent.

A third candidate for the chairmanship was David Samuelson, former commissioner of Travis County (Austin), who was credited with 2 percent of the vote.

Samuelson, who announced for the chairmanship late, after the Democratic National Convention in August, said his campaign was based on bringing together "the Alliance of Producers who represent the constituencies of the Democratic Party—in agriculture, among entrepreneurial businssmen, minorities and labor."

Producers' alternative

Samuelson's candidacy was quickly endorsed by the Moderate Conservative grouping of the Democratic Party, who had been backers of former Texas Governor Dolph Briscoe. The Modcons, as they are called, looked at Samuelson's candidacy as the way to reestablish the emphasis on economic production and a delivery system which gets the benefits of an "expanded pie" out to the different constituencies which had been traditional in the Texas Democratic Party.

Despite his Moderate-Conservative support, Samuelson was squeezed out by poor convention attendance, a rule change that prevented continuous balloting, and the refusal of the nominating committee to place his name in nomination. Observers in Austin said that the muscle against Samuelson was evidently ordered by the White House and enforced by the Democratic National Committee.

Embarrassments and prospects

While Slagle won the election by presenting himself as more conservative than Luther Jones, the 31-member nominating committee run by Texas AFL-CIO head Harry Hubbard blocked Samuelson's nomination by committee and forced it to come from the floor. Hubbard had delivered the AFL-CIO endorsement to Slagle.

Passage of the resolution to repeal the sodomy law in Texas is regarded as a major embarrassment to the Democrats. Slagle had said that while he supports gay rights, he would not put the party on record for repeal of the sodomy law.

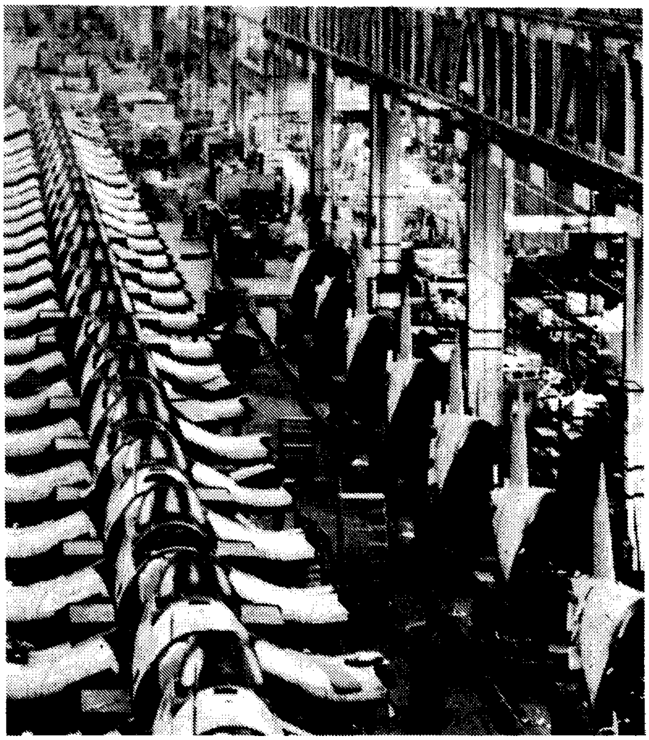
Although 3900 delegates to the June State Party Convention had voted 2-to-1 against it, current Texas Democratic Chairman Billy Goldberg allowed the vote to be taken with fewer than 400 delegates present.

Other resolutions on nuclear energy, reindustrializing the U.S. economy, and against Brilab and Abscam-style federal indictments failed to get out of committee.

Samuelson announced that he has joined the Advisory Committee of the National Democratic Policy Committee, a think tank to provide policy analysis to Democrats which is headed by former candidate for the Democratic presidential nomination, Lyndon H. LaRouche, Jr. Samuelson predicts that the "Alliance of Producers" will rebuild the Democratic Party because these are the policies endorsed by the party's constituencies.

MILITARY POLICY

'Small is ready'



U.S. Corsair fighter planes.

ENERGY MANAGEMENT

Recalculating the oil crisis threat

Top administration officials have been forced to admit over the past several days that under the current circumstances the fighting between Iran and Iraq has not caused any major crisis in U.S. oil supplies and is not likely to do so unless there is a major expansion of the war, including expansion to other oil producing nations. Energy Secretary Charles Duncan stated bluntly Sept. 30 that oil supplies are plentiful and "under present circumstances the situation is manageable."

Duncan met with executives of the nine major oil companies over the weekend. He indicated that there was agreement between the Carter administration officials and the oil company executives that "with continued

There no longer exists any doubt that as a result of 15 years of domination of anti-industrial policies, the United States lacks the industrial defense capability—even should the order be given tomorrow—to launch an in-depth military buildup approximating the kind witnessed during World War II or the Korean War. The facts documenting the loss of what was termed during the Second World War "industrial surge capability" are emerging in a series of hearings conducted by the House Armed Services Committee.

At the same time, newspaper editorials around the country began to propose a "small is ready" policy for the armed forces, cutting quantity in order to improve quality.

The hearings, which began on Sept. 17, have paraded a "Who's Who" of America's defense and aerospace corporate leadership before the full committee, chaired by Illinois Democrat Melvin Price and subcommittee chairman Richard Ichord of Missouri.

The disclosures made in the testimonies speak for themselves. The first to testify was Harry J. Gray, chairman and chief executive officer of United Technologies, leading manufacturers of jet engines, helicopters, advanced radar and command and control systems, and solid rocket boosters for our ICBMs. Gray minced no words:

> If there were a national emergency today, I seriously doubt that our nation could mobilize its industrial base in time to make an appreciable difference in sustaining a war effort. It might take *as much as two years* before we'd see any real increase in production of war materiel. And that's an optimistic estimate. . . . [emphasis added—ed.]
>
> America's defense industry—particularly the aerospace segment of it—is already working at virtually full capacity. Factories are full and backlogs in many cases are at record levels.

The Carter administration's role in the process of industrial-defense capacity devastation was developed in the testimony given the next day by Allen E. Puckett, chairman and chief executive officer of the Hughes Aircraft Company:

> There are those who have recently expressed the opinion that the [defense] industry is healthy at the prime contractor level and that the problems are concentrated only in the lower tiers of the industry. . . .
>
> I do not believe such analysis leads to a correct conclusion. . . . Financial results of prime contractors for the years 1978 and 1979 are not representative of the financial performance that can be expected in 1980 and future years. The rapid acceleration of inflation and the unprecedented run-up of interest rates both occurred late in 1979. . . . Their impact for a full year will be substantial for contractors at all levels. . . .

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restraint we should be able to maintain a high degree of stability in the international oil market."

On Sept. 26, the Energy Department reported that the nation's oil stocks were at an all-time high. Duncan said that the oil companies that he had contacted had all agreed to "exercise restraint" in actions that might "increase prices unnecessarily in the spot market."

The same day the head of the International Energy Agency, Ulf Lantzke, announced that the current fighting between Iran and Iraq posed no serious problems to world oil suplies.

Earlier, at hearings last week in the Senate Government Operations Subcommittee on Investigations, Deputy Energy Secretary John Sawhill declared that the current supplies of oil gave the United States a cushion against major price hikes or supply shortages. Nevertheless, Sawhill took the opportunity to press for a cut in energy consumption. White House press spokesman Jody Powell Sept. 26, also admitted that "there is no reason for any rapid escalation of prices or concern about tremendous shortfalls based on any experience over the past few days."

Various Washingtonians, however, are using the current Middle East crisis as a justification for demanding that the United States gear up its energy emergency apparatus. The weekend before their hearings with oil company executives, the House Government Operations Subcommittee on the Environment, Energy and Natural Resources chaired by Cong. Toby Moffett (D-Conn.) issued a report on the capability of government agencies to implement the Emergency Energy Conservation Act. The act provides for gasoline rationing and mandatory state-imposed conservation programs in a crisis.

The Senate Government Operations Subcommittee, headed by Republican Charles Percy of Illinois, has also been looking into the readiness of the federal government for an oil crisis. The subcommittee called Sawhill to testify last week on this. Despite Sawhill's assurances, Percy declared that the Iran-Iraq crisis will lead to $100-a-barrel oil prices and $5-a-gallon gasoline.

The Senate Energy Committee chaired by Henry "Scoop" Jackson is also reviewing energy emergency measures. The committee held a closed-door hearing Sept. 30 with representatives of the CIA, Energy Department and State Department. Capitol Hill sources report that the committee intends to make energy emergency planning its top priority in the next congressional session.

Press demands shrinkage

From recent U.S. newspaper editorials reflecting a new "small is ready" approach to military mobilization:

New York Times, Sept. 27: Even with the defense budget greater than $150 billion a year, large parts of the armed forces are not yet ready to fight. Those that are ready lack what is needed to fight very long. If intervention were required in the Persian Gulf, the Pentagon would plead it can't. . . . The Air Force needs fewer planes and more crews and maintenance. . . . we should scrap the MX. . . . the money would be better spent on keeping and recruiting skilled manpower. . . . If America wants to maintain a mass Army without the draft . . . it will have to settle for fewer than 2 million men [current force levels—ed]. . . .

San Diego Tribune, Sept. 12: Our military forces must be ready. . . . we need a good army, not a big one. Available funds should be used to organize smaller forces, highly professional, highly paid and ready for instant action . . . anywhere in the world and supply them. . . . the means for this must exist.

St. Louis Post-Dispatch, Sept. 23: The Army is enlisting an unacceptably large number of recruits in the lowest mental category [46 percent—ed.]. . . . at bottom the solution is in the quantity of the personnel, for a disproportionately large number of lowest-category recruits . . . aggravates other problems bearing on readiness. . . . up to now the military appears to have emphasized quantity instead of quality.

Newsweek, Sept. 29, editorial by Milton Friedman, one of the architects of the All-Volunteer Force in 1973: The military has long insisted on getting skilled personnel primarily by recruiting 18- and 20-year-olds, training them, and promoting them. . . . This makes no sense today when many, perhaps most, persons in the military will never be anywhere within sight of an enemy. . . .

Let the military recruit from civilian occupations, regardless of age. . . . Why pay for the training. . . ?

Michigan in a fiscal catastrophe

by Stephen Parsons

Michigan's 12.5 percent unemployment rate is by far the highest in the United States, with seven of the nation's 15 highest unemployment areas located in the state, as shown in Table 1. Over a half-million workers are officially unemployed, with at least another 155,000 having exhausted their unemployment benefits. Many are beginning to turn up on the welfare rolls. Businessmen in the industrial center of Flint plan to reopen shut-down auto plants—as museums for tourists.

As the 1980 fiscal year closes, municipalities and the state itself are confronting severe budget crises that have already generated sharp cutbacks. In the 1981 fiscal year, Michigan residents are facing budget cuts that add up to 30 percent or more in real dollar terms.

Revenue receipts have declined sharply. Governor William Milliken expects a $180 million deficit for this year, despite the exhaustion of cash reserves, and over a half-billion dollars in fiscal year 1981. He has implemented a de facto hiring freeze and policy of attrition in most state departments, along with some outright layoffs, and is immediately paring $800 million in expenses from the budget—a cutback of nearly 10 percent. The heaviest budget cuts are in the service sector—20 percent or about $700 million—which includes police, corrections, and justice as well as education, transportation, and social services.

The welfare story

The cutbacks in social services, especially in welfare and Medicaid benefits, are particularly severe. At a time when most workers simply have no place to go, Milliken is proposing to cut the rolls by 68,000, designated "employable." The primary victims will be those in the General Assistance category, who are mostly single people. General Assistance, unlike Medicaid or family benefits categories that qualify for federal funding, is almost totally funded by the state. In the last year, the caseload has nearly doubled, from 50,000 in July 1979 to 90,000 as of July 1980.

This means that two-thirds of these people are to be completely cut off. Milliken had projected saving $144 million with cuts in this and other social service areas, but revised estimates show only a $56 million saving. The difference will be made up in large part by throwing families off the rolls for having "too many assets that are not necessities," like second cars, and by denying Medicaid benefits.

All this comes amid an explosion of applications, as workers exhaust supplementary unemployment benefits (SUB pay) and unemployment compensation. Last year the number of new family applications was 300-400 per month; now it is well over 1,000 per month and climbing fast. "We are perched right under a mountain that is about to give way and crush us in an avalanche," said one harried administrator.

The avalanche has already begun. Last summer both Ford and Chrysler's SUB pay funds virtually ran out. With revenues of only $636 million and payouts of over $1.5 billion, the state unemployment fund is bankrupt and totally dependent on borrowings from the federal Unemployment Trust Fund.

Bottom line for Detroit

The future of the state, however, is embodied in the situation of Detroit, the nation's automobile capital and Michigan's premier city. Four major automobile-related plants have closed this year, and Mayor Coleman Young has announced that eight more will follow in 1981.

The combination of inflation, economic collapse, skyrocketing unemployment, and a 25 percent drop in population over the last 20 years has resulted in an erosion of Detroit's tax base and a shortfall in revenue that has created a budget crisis rivaling New York City's. In August, Moody's and Standard & Poor's lowered the city's bond ratings to below investment grade, citing Detroit's $85.5 million deficit at the end of its 1980 fiscal year last June. To restore the former bond classifications, both rating services are demanding a "plan of action" by the city—i.e., budget slashes.

Mayor Young has already instituted draconian austerity (see Table 2). He has ordered 10 percent across-the-board cuts in all city departments and is trying to get legislative approval for a tax increase. Last month he laid off 18 percent of the city's police, putting total police layoffs this year at 1,100.

The capital budget for plant and equipment construction (see Table 3) is equally jeopardized. As of 1979, the real purchasing power of capital expenditures had fallen almost 20 percent. Now, without the ability to raise any funds at all, the city is on a straight bandaid track that can only raise operating expenses further and necessitate more cuts.

Meanwhile, Detroit faces a budget deficit currently estimated at $130 million and up, or more than 15 percent of the current budget. When inflation is figured in, the magnitude of compensatory cutbacks approaches 30 percent.

Table 4 gives a sense of Detroit's budget problems. Two-thirds of the increase in the city's revenues have come from federal and state transfer funds, which have generally been earmarked for specific programs. The bulk of city services have been dependent on general fund revenues, which rose only 18.4 percent from 1975-79. In constant dollar terms, these revenues actually declined by 13.2 percent. With the industrial decline and exodus of the population accelerating, property tax revenue has remained absolutely flat, despite higher assessments and millage, meaning a more than 25 percent decline in real terms. Expenditures in constant dollars have increased only 2.7 percent for 1975-1979.

Table 1

The 15 highest unemployment areas

	Number Out of Work	Unemployment Rate
Flint, Mich	54,700	23.1%
Anderson, Ind.	13,300	22.0%
Saginaw, Mich	19,300	20.8%
Bay City, Mich.	10,200	18.5%
Detroit, Mich	299,600	14.4%
Muskegon, Mich	11,500	14.4%
Decatur, Ill.	8,800	14.2%
Gary-East Chicago/ Hammond, Ind.	44,300	14.2%
Modesto, Calif.	18,600	13.7%
Toledo, Ohio	33,300	13.7%
Muncie, Ind.	7,800	13.4%
Jackson, Mich	8,600	12.7%
Johnstown, Pa.	13,300	12.0%
Battle Creek, Mich.	9,700	11.9%
Williamsport, Pa.	6,300	11.9%

Source: U.S. Dept. of Labor

Michigan has seven of the 15 metropolitan areas hardest hit by the recession. The actual unemployment rate is even higher than these Dept. of Labor figures, as the economy moves into a renewed recession.

Table 2

City of Detroit budgeted employment Selected departments

Fiscal Year	1978	1979	1981
Recreation	1,434	1,479	1,291
Public Works	2,490	2,668	2,128
Police	6,370	6,337	4,860
Fire	2,238	1,923	1,759
TOTAL	25,329	25,773	22,429

Source: City of Detroit Budgets

A common scapegoat for the city's financial problems has been its unionized work force, particularly the police and fire unions, which both received wage hikes of 36 percent covering the 1978-80 period. Also cited is the fact that from 1975-79, employee earnings plus benefits increased 45 percent overall, and 56 percent per employee. However, in real dollar terms, the actual gain has been only about 7 percent overall, and 14 percent per individual. Moreover, the relative gains of many of these employees is a vital factor in maintaining even a modicum of productivity and morale in an otherwise adverse situation. The gains are being paid for, in large measure, through layoffs of several thousand workers, a process that will accelerate next year.

New Detroit, Inc.

There is one organization, however, that is enthusiastic about Detroit's crunch: New Detroit, Inc., a tripartite "public interest" conglomerate that is the key planning body for Detroit's future. It is the gathering point of the major power centers in the city and state, with close ties to the big New York banks that oversaw the New York City fiscal crisis.

One New Detroit officially referred to New Detroit's complicity with Moody's. "Well, as we said about the Arabs' precipitating the energy crisis, if they hadn't created the crisis, we would have had to create it ourselves to deal with the problem. We're using this to get everyone off their asses."

New Detroit envisions "a city of the future" where heavy industry will be largely restricted to a new General Motors complex under construction, flanked by Hong-Kong-style light industry. "Planned shrinkage" is a key part of their plan. "Some will have to relocate, a lot will permanently. . . . You don't have to be a genius to figure out that there's going to be fewer and fewer people employed in cities like Detroit."

First coined by former Housing and Urban Development official Roger Starr, now on the editorial board of the *New York Times,* planned shrinkage calls for eliminating services for whole areas of inner cities, thereby forcing "undesirable" layers of the population out of a city, shrinking the utilized area, and bringing in more middle-class layers to man the service industries. The remaining urban poor are slated for low-paying dead-end jobs, or for relocation into similar fates elsewhere.

Table 3

Detroit outlays

(millions of dollars)		Current dollars		Constant dollars	
	1975	1979	% change	1979	% change
Operating expenditures	$618.8	$866.7	40.1	$635.4	2.7
Capital outlays	69.8	77.8	11.5	57.0	−18.3
Salaries, wages and employee benefits: appropriations	408.4	595.5	45.8	436.6	6.9
Same benefits appropriations for 1981	597.7	46.0	383.1	− 6.2	

Sources: City of Detroit General Obligation Tax Anticipation Net, Prospectus, Annual Financial Reports.

Table 4

Detroit operating revenue

(millions of dollars)		Current dollars		Constant dollars	
	1975	1979	% change	1979	% change
Property tax	$157.2	$157.7	0%	$115.6	−26.5%
Income tax	102.6	141.7	38.1	103.9	1.3
Utility users tax	21.8	33.3	52.8	24.4	12.0
Total taxes	281.6	333.3	18.4	244.4	−13.2
Intergovernmental assistance	198.3	371.6	87.4	272.4	37.3
TOTAL REVENUE	576.7	849.0	47.2	622.4	7.9

Source: Detroit Annual Financial Reports

Foreign Policy

Hearings held on U.S.-European relations

Hearings took place Sept. 22 in the Europe and Middle East Subcommittee of the House Foreign Affairs Committee on relations between the United States and Western Europe. Testifying was Dr. Karl Kaiser, director of the Research Institute for the German Council on Foreign Relations in Bonn. The Council was set up in the Federal Republic of Germany after World War II as a German counterpart to the New York Council on Foreign Relations and Britain's Royal Institute of International Affairs.

Dr. Kaiser declared that there is a difference in the way Europe and the United States view détente. For Europe, détente is "a positive experience," he said, while the U.S. views it from the strategic and global level. The United States has been berating Europe about this, he added.

On the question of East-West trade, Kaiser emphasized that Europe and the U.S. disagree on how to conduct trade policy in general and boycotts in particular. Most Europeans question the usefulness of boycotts, he stressed.

Kaiser said that both Europe and the U.S. agree that the Soviet Union's military actions in Afghanistan "have to be resisted," and they agree the Soviets have intentions "in the Persian Gulf area." They differ, however, on how to respond to the Soviets, the Europeans wanting to use economic and political means, while the U.S. is much more willing to threaten the use of force.

For greater alliance cohesion, Kaiser proposed that there be established an informal forum for dialogue. He suggested that representatives from the United States, France, Great Britain, Germany and Japan be chosen for this.

The hearing Sept. 22 was the latest in a series of hearings the subcommittee has held to review relations between the U.S. and Western Europe. Earlier hearings included testimony June 25 by former assistant secretary of state for politico-military affairs Leslie Gelb, and former assistant secretary of defense Robert Ellsworth; hearings July 22 with Princeton professor Peter Kennan, and Richard Erb; a Sept. 9 hearing with the former British ambassador to the United States Peter Jay; and a hearing Sept. 15 with George Vest, former assistant secretary of state for European affairs.

Vance and Harriman on Capitol Hill

Former secretary of state Cyrus Vance and former ambassador to the Soviet Union and elder statesman Averell Harriman testified Sept. 23 at hearings of the Africa Subcommittee of the House Foreign Affairs Committee on the question of U.S. aid to Zimbabwe. Subcommittee chairman Stephen Solarz (D-N.Y.) introduced a proposal the same day to increase U.S. aid to Zimbabwe by $200 million over two years, castigating the Carter administration for not having already increased aid as the U.S. agreed in the Lancaster House agreements.

Cyrus Vance and Averell Harriman testified in support of the increased aid proposal. They stressed the importance of commercial and political relations with Zimbabwe.

Little activity on the aid proposal is expected in the House before the recess, and nothing has yet been proposed in the Senate. However, subcommittee staff members hope that the Congress will act on the issue during the "lame-duck" session beginning Nov. 12.

Aides to Cong. Solarz state that he is interested in seeing Zimbabwe's majority government succeed. He views Zimbabwe as an important source of mineral trade with the United States. The southern Africa region is Europe's lifeline for key strategic minerals.

Gold standard under review

An amendment added to the IMF appropriations bill passed by the House Sept. 25 and now being considered in the Senate would establish a commission appointed by the President to report within a year on the possibility of a return to a gold standard.

"The time for serious, critical discussion on the feasibility of a return to the gold standard has arrived," declared Cong. Jim Santini (D-Nev.) Sept. 24, announcing that he would hold hearings Oct. 2 on this issue. Titled "The Feasibility of a Return to the Gold Standard," the hearings will feature a panel including economist Arthur Laffer, Robert Solomon of the Brookings Institution, Thomas Wolfe, former director of gold and silver operations at the Treasury Department, and Edward Bernstein, ex-director of research of the IMF.

Santini declared that "gold is a vital strategic metal with myriad industrial applications, for the most part without substitutes. How a return to the gold standard would affect the mining sector and the availability of gold supplies to defense and industry is uncertain. . . . The hearing . . . will initiate congressional dialogue on a major political and economic issue and clarify some of its ambiguities."

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Two pieces of legislation have been introduced earlier this year in the House to make all U.S. Notes redeemable in gold. The bills were put forward by Cong. Phil Crane (R-Ill.) and Cong. Ron Paul (R-Tex.), and referred to the House Banking Committee. Sen. Jesse Helms (R-N.C.) is considering similar legislation in the Senate. No action is expected on these bills until the new session in January.

The IMF appropriations bill is being stalled in the Senate by Senator Jake Garn (R-Nev.) and action is not expected on it until the lame-duck session begins.

Committee moderates Japan resolution

The House Foreign Affairs Committee, on Sept. 30, passed House Concurrent Resolution 363, calling on President Carter to "consider" negotiations with Japan to discuss limited auto imports in the event of an unsuccessful resolution of the Ford Motor/UAW case against Japanese auto firms under section 201 of the International Trade Commission's "anti-dumping" proceedings. The resolution, put forward by Asia and Pacific Subcommittee Chairman Lester Wolfe (D-N.Y.) was a substantially moderated version of a resolution put forward by Michigan Republican Carl Purcell which called on the President to take action against Japanese trade depredations.

The resolution passed during a series of hearings being conducted jointly by the Asia and Pacific Subcommittee and the International Economic Affairs Committee, chaired by Jonathan Bingham (D-N.Y.) on U.S.-Japan economic relations. The early September part of the hearings aired the grievance of the UAW auto-state Congressmen, and the auto companies against alleged Japanese dumping. On October 1, the joint subcommittees heard from four witnesses, George Washington University Prof. Amitai Etzioni, American University Prof. Stephen Cohen, consultant Gary Hout and American University Prof. Gary Saxon House, who claimed that the problem was not Japanese dumping practice, but a failure in the U.S. of export and industrial policies. Etzioni stated that "this is not a problem whose origin is in Japan, it is our problem of failing to remain competitive."

The disposition of the Japan trade resolution the day before, and the background of the witnesses pointed to the fact that the hearings were laying the ground for a policy discussion transcending U.S.-Japan relations. Cohen, who served on the Murphy Commission to reorganize the foreign policy powers of the executive branch in the mid-1970s, tipped off the large policy purpose when he stated that the greatest single difference that the U.S. has with Japan and one of the main reasons for U.S. non-competitiveness, is that "we protect yesterday's industries, while Japan promotes tomorrow's industries."

It is clear that certain "export advocates" are going to use the export policy debate to further U.S. acceptance of "sunsetting" certain industries—that is, letting them die. Amitai Etzioni, a special adviser to President Carter who has also pushed the "reindustrialization" debate in the direction of sunsetting certain industries, was also on the panel at the hearings.

Findlay proposes sealane force

On Sept. 25 Cong. Paul Findlay (R-Ill.) in a statement on the floor of the House, proposed that the United States, France, Germany, Great Britain and Japan should "move in concert to assure that the straits stay open" referring to the Straits of Hormuz. Congressman Findlay, the ranking Republican of the House Foreign Affairs Subcommittee on Europe and the Middle East, is a member of the Trilateral Commission, a group of leading corporate, banking and government policymakers.

Last Dec. 20 Findlay introduced a resolution proposing a multilateral force for the Far East-Indian Ocean area, composed of military forces from the countries of the area in conjunction with the United States. On Sept. 11, the Navy wrote to the congressman declaring their support for his proposal. However, they warned that such a force could take away U.S. naval forces from other areas, so they deferred specific recommendations until the nations involved had actually formalized a proposal.

Economic Policy

Export Trading Company proposal stalled

The Financial Institutions Subcommittee of the House Banking Committee met Sept. 30 to hear testimony on several bills (H.R.7310, H.R.7436, H.R.7736, H.R.7364) which would allow banks for the first time to join with corporations to form export trading companies to provide financial and administrative assistance to expedite exporting.

Commerce Secretary Phillip Klutznick testified in support of the proposal, arguing that the trading companies would encourage small businesses to export. Cong. Fernand St. Germain (D-R.I.), chairman of the subcommittee, and the leading House opponent of the proposal, warned Secretary Klutznick that the legislative proposal was "a giant step in the expansion of banking powers. It is a substantive breach in the long-standing policy against the mix of banking and commerce." Aides on the subcommittee declared that Congressman St. Germain "has always been concerned about the large banks owning corporations. The concern is the concentration of resources in the hands of financial institutions."

A number of small banks are concerned about the proposal, although they recognize the need to expand financing for exports.

The bill passed the Senate unanimously Sept. 3, after defeat of an amendment by Senator William Proxmire (D-Wisc.). It would have required any bank seeking over 20 percent of a trading company to get prior approval from the Federal Reserve bank.

The bill was referred to four House committees, ways and means, banking, foreign relations and judiciary. A version of the bill was passed July 2 by the House Foreign Affairs Committee and is awaiting a ruling to bring it to the floor of the House. Congressman St. Germain, however has sent letters to the Rules Committee and the Speaker demanding that since it is a critical banking question, his committee should review it before it goes on the House floor.

The administration views the proposal as an important part of their economic program and has been lobbying heavily for it. President Carter was planning to personally contact St. Germain to urge him to accept the scheme. Efforts to reach a compromise between Congressman St. Germain and the administration collapsed this week, due to bungling by the administration, according to many banking and Capitol Hill sources.

Although St. Germain plans further hearings before he allows the measure to come up for a vote in his subcommittee, sources warn that because the proposal has already been passed out by the House Foreign Relations Committee there is a slight possibility that it could be brought to the House floor despite St. Germain's opposition. Watch carefully for efforts to sneak the bill onto the floor in the waning hours before the election recess or during a lame-duck session.

RFC plan reviewed in the House

Hearings were held in the General Oversight Subcommittee of the House Government Operations Committee on Sept. 10, 18 and 24, reviewing the prospects for a national development bank. The hearings included testimony from New York City Mayor Edward Koch, Treasury Secretary G. William Miller, Cong. William Moorehead (D-Pa.) and Cong. Jamie Whitten (D-Miss.).

Testimony revolved around two particular proposals for a development bank, one introduced by Cong. Norman Minish (D-N.Y.) and the other by Congressman Whitten. Whitten is chairman of the House Appropriations Committee, which has to okay all spending proposals, and his backing for a bill carries particular weight.

Minish's legislation would establish a National Development Bank, modeled on the Reconstruction Finance Corporation established in 1938. It would have an 11-member board, comprising six presidential appointees, the Secretaries of Agriculture, Treasury, Commerce, and Labor, and the head of the SEC.

The bank would begin with a \$5 billion fund raised through stock purchases, and could then borrow up to \$100 billion by issuing bonds. Direct loans or loan guarantees would go to businesses and state and local governments. The interest charge on the loans would not exceed the cost of the money to the federal government.

The Whitten proposal would only allow \$15 billion to be borrowed by issuing bonds. This money in turn would be earmarked for industrial production and agriculture.

The production-oriented Whitten approach does not appear to be the aim of at least one key proponent of the proposal, Felix Rohatyn of Lazard Frères investment house. Rohatyn, who has been lobbying extensively for the proposal for some time, would weight the loans toward debt service needs of state and local governments, which would not help spur industrial production nor solve the tax revenue base problem of local governments. It was Rohatyn who, as chairman of the Municipal Assistance Corporation of New York City, managed city funds so that needed heavy industry was further driven out of the city in favor of service industries.

Treasury Secretary Miller, in his testimony, stressed that President Carter, if re-elected, would make the RFC scheme an important part of his economic program. He declared that Carter would launch an Industrial Revitalization Commission to consider the RFC proposals.

Sen. Daniel Moynihan (D-N.Y.) has introduced similar legislation in the Senate. Action is slated for the next session of Congress.

GOVERNMENT POLICY

President stonewalls on Stealth

The House Armed Services Subcommittee on Investigations called David Aaron, assistant to National Security Adviser Zbigniew Brzezinski, to testify on Oct. 1 on charges that he leaked information about the existence of Stealth, a "radar proof" strategic bomber, to the *Washington Post.* President Carter invoked executive privilege in the matter and Aaron did not appear.

Subcommittee chairman Sam Stratton (D-N.Y.) read a letter from presidential counsel Lloyd Cutler stating that executive privilege was being invoked

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because Admiral Elmo Zumwalt's charge that Aaron was the source of the leak was unsubstantiated and "most suspect." Cutler continued, "If an unsubstantiated charge is sufficient to require that the accused staff member appear before any investigating subcommittee, it would abrogate executive privilege."

Subcommittee member Cong. Richard Ichord (D-Mo.), whose experience dealing with executive privilege goes back to his days on the House Internal Security Committee, immediately pointed out that "executive privilege can only be invoked in conversations between, in this case, Mr. Aaron and the President himself. Mr. Cutler does a great injustice to the President with this invocation of executive privilege in that there is an inference that Aaron discussed this matter with the President."

Stratton concurred that the invocation of executive privilege was inappropriate and announced that he will subpoena Mr. Aaron, but that the matter cannot be resolved until after Congress returns.

Labor Department under fire

The Senate Permanent Subcommittee on Investigations met on Sept. 29 and 30 to further examine the Labor Department's handling of the Teamsters Central States Pension Fund. At issue is the subcommittee's contention that the Department of Labor's strategy of pursuing civil litigation against the Teamsters is inadequate and that its failure to pursue criminal litigation is indication of possible incompetence or malfeasance in the Department. These hearings were preceded by August hearings which aired the report of the General Accounting Office critical of the Labor Department and which heard from former members of the Labor Department's Special Investigative Section (SIS), who claimed that they were blocked from pursuing criminal investigations by their higher-ups. The subcommittee then discovered during mid-September that a 1979 management evaluation of SIS, known as the Kotch-Crino report, had been destroyed by the Labor Department.

Subcommittee chairman Sam Nunn (D-Ga.) opened the hearings on Sept. 29 with expressions of deep concern over the Labor Department's handling of Central States and with Labor's reluctance to cooperate with the subcommittee. Ranking Republican Charles Percy accused the Labor Department of "manifest incompetence, the worst that I have seen in my years in government. Subcommittee counsels, Marty Steinberg and Lavern Duffy led off the witness list with their summary of the subsequently-found Kotch-Crino report, portraying it as extremely critical of the Labor Department. (The report was not released to the public.) Under prodding from Percy, Steinberg and Duffy stated that they were "suggesting obstruction of justice," on the part of the Labor Department as "part of an overall plan of delay in the Central States investigation.

Secretary of Labor Ray Marshall then counterattacked, charging that the subcommittee had made serious, well-publicized allegations against the Labor Department in August to which Labor was only now being given a chance to respond. Marshall then detailed that the crux of the matter was an irrevocable difference of philosophy between Labor and the subcommittee over the best way to protect the fund's assets.

Marshall's Solicitor General Caren Claus explained that under ERISA, the SIS did not have the kind of criminal investigatory powers that the subcommittee was demanding be used. Several repetitions of this point finally penetrated Steinberg's thinking, who then asked if the Labor Department needed to have the powers of ERISA amended and extended. Marshall demurred.

Over ten hours of cross-investigations of Labor Department officials, including Rocco DeMarco, former Deputy Assistant Secretary of Labor, who had been the brunt of obstruction of justice allegations for his destruction of the Kotch-Crino report, and including Kotch and Crino only served to underscore Marshall's point, that seemingly sinister actions to "prevent" criminal investigations were the result of an alternative Labor Department Strategy.

The Labor Department has been identified as a "Maginot Line" against the kind of witchhunting "Brilab" investigations initiated by the Justice Department and abetted by the Nunn subcommittee. Nunn and his organized crime strike force-trained staff can be expected to continue their attempts to Watergate the Labor Department and to force them into a more Justice Department-like posture against organized labor. A long-shot to look for in 1981 is legislation amending ERISA to give the Labor Department more scope in criminal investigations—scope which this Labor Department at least does not seem to advocate.

Lame duck session assured in November

The Senate recessed for the election period Oct. 1, while the House continued activity until the following day. The Congress will definitely return to work Nov. 12, after the election, for the first "lame duck" Congressional session in over thirty years. The lame duck session is needed to pass the appropriation bills for almost all government agencies for the 1981 fiscal year which began in September. Thirteen appropriations bills remain to be passed by Congress. Before recessing, Congress passed a continuing resolution to keep up funding for government agencies at 1980 levels through Dec. 15.

During the lame duck session, other

measures will be brought up besides the appropriations bills and hearings will take place. One key piece of legislation almost certain to come to the floor of the Senate is a tax cut bill proposed by several leading Democrats including finance chairman Sen. Russell Long (D-La.).

As to other activity, look for:

Hearings in the House Ways and Means Committee Trade Subcommittee on "American trade competitiveness: is there a need for sector industrial policies and the development of high-technology industrial goals." The Subcommittee plans to decide if a national policy to stimulate U.S. exports should be developed.

The subcommittee will also hold hearings on the status of the U.S. steel industry to review a soon-to-be-released study by the General Accounting Office on the steel industry and a report issued in June by the Office of Technology Assessment on the competitiveness of the U.S. steel industry. The OTA report concluded that high-priced imports could be 40 percent of our steel products by 1990. The U.S. steel industry could be revitalized, they declared, if money for research and development is increased 50 percent to $3 billion over the next ten years; federal support for this should be increased $600 million a year, the OTA report concluded.

Look for hearings in the House Foreign Affairs Subcommittee on International Security on pending bilateral nuclear energy agreements. Four agreements on nuclear energy cooperation are awaiting review. These include agreements between the U.S. and Indonesia, Peru, Morocco and Canada.

The House Interior Subcommittee on Mines will hold hearings on oil and gas leasing. This subcommittee held one day of hearings in July on two bills, which deal with the way federal lands are leased for oil and gas exploration. Cong. George Miller (D-Calif.) introduced H.R.4373, which would make all oil and gas leasing competitive, and thus give a major advantage to large companies. The other measure, H.R.6882, is an administration-sponsored bill which includes more competitive bidding for exploration than is now allowed, but maintains noncompetitive bidding. Noncompetitive bidding occurs through a lottery system, and in the words of a subcommittee staff member, "gives smaller companies and wildcatters a chance to explore on government lands. These firms would not be able to compete with large companies in bidding because they cannot do it as cheaply. Obviously this is a very controversial issue."

DRUG POLICY

House narcotics committee closes

On Sept. 23 and 24, the House Select Committee on Narcotics Abuse and Control held what may be their final hearings, on the subject of federal strategy on narcotics for the 1980s.

The committee, chaired by Cong. Lester Wolff (D-N.Y.), will soon release a report which recommends the creation of a permanent House Oversight Committee on narcotics to replace the select committee which has been in existence for four years, and will expire at the end of 1980.

Appearing before the committee this week were the Carter administration's top officials in the field of drug abuse and enforcement: Lee Dogoloff, Associate Director of Drug Policy at the White House, Peter Bensinger, Administrator of the Drug Enforcement Administration, Malthea Falco, Assistant Secretary of State for International Narcotics Matters, William Archey, Acting Commissioner of Customs for the Department of the Treasury, and representatives from the U.S. Coast Guard, the National Institute on Drug Abuse, and the Department of Education.

Speaking for the Committee, Wolff stated, "our Committee strongly believes that the magnitude and severity of drug abuse problems in our nation today requires that efforts to prevent drug abuse and drug trafficking be given the highest national priority."

The hearings, however, failed to bring up the policy decision by the Carter administration to significantly cut back the international operations of the DEA. As of Oct. 1, 1980, the Paris regional office of the DEA is cut back from 27 people to five. This is simply the latest cutback over the last 18 months which included closing the Turkey regional office and the Caracas, Venezuela regional office which coordinated all intelligence on drug trafficking in Latin America.

The seriousness of the closing of the European regional center was inadvertently revealed by Bensinger in his description of the present heroin problem: "Unfortunately, we cannot now get to the heroin source where we need to most: Southwest Asia [Iran, Afghanistan, Pakistan and Turkey]. We have had to move to our second line of defense, the transshipment countries. . . ." Bensinger did *not* point out that those countries are the ones that were covered by the Paris operation.

Observers in Washington suspect that the omission of the DEA cutbacks in the administration witnesses' testimony is more than a simple oversight. On Sept. 25, in a highly unusual move, the Central Intelligence Agency (CIA) briefed the committee in closed executive session on worldwide drug patterns.

Our sources believe that the Carter administration is moving in the direction of removing the DEA from all international intelligence functions on the drug question and replacing them with the CIA or a new agency.

National News

Carter picks up greenies' endorsement

President Carter has won the endorsement of 22 leaders of U.S. environmentalist organizations. According to Carter/Mondale campaign aides, the President met with "greenie" chiefs at the White House last month to discuss his environmentalist record and "came off looking pretty damned good."

Audubon Society head Russell Peterson, former Governor of Delaware and head of the Council on Environmental Quality under President Ford, explained the environmentalists' decision: "President Carter and his administration are facing up to the long-term factors that will affect this planet." Referring to the GOP platform's call for development of nuclear power, including the breeder reactor, Peterson charged that the Republican Party and its presidential candidate "show a basic misunderstanding of the important issues such as energy. All they want to do is free up industry so it can make a bundle today. They don't understand that a healthy economy depends on a healthy environment and a wise use of resources."

EIR holds conference in Oklahoma City

Criton Zoakos, Editor-in-Chief of the *Executive Intelligence Review*, addressed 125 participants at an EIR conference on windfall profits Sept. 28. The event brought together subscribers, other oil and gas industry representatives, and long-time supporters of former Democratic presidential candidate Lyndon LaRouche.

Bud Stewart, president of the Oil Producers and Consumers Alliance, and Dave Samuelson, spokesman for the National Democratic Policy Committee in Texas, also addressed the gathering.

Zoakos bluntly stated the following perspective: "Windfall profits is a dead issue—it is a lost battle. If we sent 10 divisions of troops in World War II to replace every lost division, we would have lost the war. We have to develop new flanks.... I'm going to teach you a method of identifying and solving problems—people have forgotten what an American citizen is."

In fighting the Council on Foreign Relations' 1980s Project of shutting down U.S. industry, he said, "current proposals to restructure the banking system represent a flank we can win ... but we have to build the organization to achieve these victories." The question session was flooded with participants' own proposals on how to accomplish that goal.

Conference asks African relief effort

"We are not here to present a disaster report; the people in this room know we have one already. The point is we have the power to do something about it," Christopher White stated to a conference sponsored in New York by the Ad Hoc Committee for a New Africa Policy. White, an *EIR* contributing editor, nevertheless outlined for the 75 persons present the current scope of African famine, especially in the Horn and East Africa.

The conference, the ad hoc committee's first, was chaired by former Manhattan Borough President Hulan Jack. In addition to White, speakers included George Harris of the Georgia Amercian Agricultural Movement, and Dennis Speed, ad hoc committee coordinator. Over 10 church groups, several engineers, and minority groups' spokesmen attended, along with representatives of the National Black Police Association, the United Nations Development Program, and a range of individuals from Teamsters to Wall Street investment bankers. The committee has issued a call for emergency aid from the United States to avert famine in Africa.

Said White: "Our latest reports on the number of lives threatened over the next weeks add up to 20 million, not 10 million as we had originally estimated. And if we don't turn this around, another 70 to 100 million people will die over the next months."

Concerning assertions that famine and drought in Africa amount to a "natural disaster," White said: "Baloney." The famine, he said, is caused by a "systematic policy" of such agencies as the United Nations, World Bank, and International Monetary Fund.

Commander says RDF in logistical trouble

The commander of the Rapid Deployment Force told the House Budget Committee Oct. 2 that the Rapid Deployment Force has serious problems. "We are still dramatically short of airlift," Lieutenant General P. X. Kelley informed the panel. "The strategic airlift, while significant, is not sufficient to put a capital R in rapid. It would take three to four weeks before any ship would be in Southeast Asia by the time of a crisis.

"I have the capability to go to war today. The problem is how fast you can close the entering forces. If you take advantage of warning time, I can put in very considerable forces in short order. But then admittedly we have a huge problem. The problem is moving equipment and supplies."

Submitting testimony to the committee on the Rapid Deployment Force was former Defense secretary James Schlesinger, who charged that the RDF is neither rapid nor deployable.

Brzezinski moots superpower confrontation

Campaigning for President Carter in Alabama this week, National Security Adviser Zbigniew Brzezinski maintained that "American armed forces are prepositioned for possible use in the Middle East if U.S. interests are threatened." Speaking before the Lions Club, Rotary Club, and Kiwanis Club in Mobile, Birmingham and Montgomery, Alabama, Brzezinski stressed on each occasion that the "U.S. has a military strategy to ensure passage of oil through the Straits of Hormuz," according to local press accounts.

In an article in the *Mobile Press-Register,* Brzezinski is quoted: "If the flow of a vital source of energy to the economies of Western Europe and the Far East is interrupted or placed under control of an adversary power, then there will have taken place a fundamental tipping of the balance of global power. There will be no recovery from that. There is no pullback position. There should be no misunderstanding . . . the U.S. will protect its vital interests."

Referring to the situation in Afghanistan, Brzezinski claimed it represented "the most serious threat to Western society since 1945." He called for a "determined response to Soviet aggression."

Consultants call for gigantic oil cuts

Arthur D. Little, a leading international consulting firm based in Cambridge, Massachusetts, has just completed a study that calls for the U.S. to reduce its oil imports by "as much as 70 percent between now and 1995." The prescription is part of a proposal for "continued conservation and substitution efforts" to "reduce total domestic oil demand by one third over the next 15 years," issued in A. D. Little' study, "The Impact of Constrained Global Oil Supplies on the U.S. Energy Outlook to 1995."

But a number of governments, and not only those of the OPEC nations, would contest the assertions carried in Little's release on their study: "Oil is not likely to be available in sufficient quantities to allow the United States to consume much more than 12 million b/d according to Christopher E. H. Ross, coauthor of the study." Ross is a member of London's Institute for International Strategic Studies.

Without documentation, the release states: "Likewise, the OPEC countries' concern about the decline in the ratio of reserves and the need to leave reserves ... does not permit an optimistic view of future OPEC supplies, regardless of future production capacity." No reference is made to nuclear power or coal.

Committee formed against Brilab and Abscam

An organization aimed at defending organized labor and other constituency organizations from government "sting" operations was formed at a Houston, Texas press conference Oct. 2. Called the Committee Against Brilab and Abscam, the group announced its intention to raise funds to organize opposition to what it described as U.S. Attorney General Benjamin Civiletti's witchhunt against trade unions and urban political machines, thinly disguised as an effort to root out organized crime.

Spokesmen for the new committee disclosed that prominent political and farm leaders have agreed to serve on its advisory board, including Charles R. Pinzone, president, Cleveland Building and Construction Trades Council; Ernest Colbert, president, Southeast Louisiana Laborers District Council; Allen Thompson, president, Kansas State Building and Construction Trades Council; Bill Smedley, president, Oklahoma State Building and Construction Trades Council; Lloyd Jenkins, president, Carpenters District Council, Topeka; Jim Dehoff, executive secretary, Kansas State Building and Construction Trades Council; Roger Geall, American Agricultural Movement National delegate from Louisiana; attorney Max Dean, treasurer of the Flint, Michigan NAACP chapter; J. C. Harrison, president, ILA Local 854, New Orleans; Francis Hicks, director of the Teamsters DRIVE for Southern Illinois; and Bill Bounds, president, Joint Council 65 (Illinois) Teamsters.

The committee has formed a trust to accept contributions. One of its first activities will be to raise funds for the court defense of two Abscam-Brilab targets, L. G. Moore, the head of the Texas Operating Engineers union, and Billy Clayton, speaker of the Texas House of Representatives.

Briefly

- **"HIGH-LEVEL"** negotiations between Castro and the Carter administration produced Fidel's termination of the boatlift, according to Florida Rep. Bill Nelson's White House sources. Observers have noted that Cuba's move, five weeks before the presidential elections, followed Castro's agreement with Washington to cool down the refugee problem.

- **A NATIONAL ACCORD** between contractors and building trades unions has been set in motion by the administration, according to Labor Department sources. The subject is the synthetic fuels construction projects. The accord is "only just getting off the ground," a department official said. "We would like to see the unions bend a lot on work rules and apprenticeship programs. We're out to cut costs."

- **SEN. JESSE HELMS** has introduced a bill in the Senate that would return the U.S. to the gold standard. Helms characterizes this legislation as "the monetary equivalent of supply-side classical economics—the economics of growth, jobs, and stable prices." The bill, titled "The Gold Reserve Act of 1980," is based on a study prepared by former Reagan adviser Arthur Laffer, who proposed that the U.S. preannounce its intention to make the dollar convertible into gold again and permit "the free market" to determine the price at which the new parity would be set. The Federal Reserve would be instructed to keep the value of the nation's gold stock at or above 40 percent of the monetary base, tightening credit if necessary to do this.

- **THE NEW YORK TIMES,** owners of Quadrangle Books, on Oct. 1 suddenly cancelled publication of a forthcoming autobiography of convicted multiple murderer and federal Abscam/Brilab witness James Fratianno. A Quadrangle spokesman said the reason "cannot be revealed."

Mossad runs anti-Semitic violence

As during the de Gaulle years, France is targeted, to disrupt its foreign policy.

Speaking Sept. 28 at a press conference in Tel Aviv, Israel, Knesset member and accused stock swindler Samuel Flatto-Sharon announced that a commando team of a dozen Israeli Army veterans had been infiltrated into France to carry out counteroperations to the neo-Nazi organizations active in that country in recent days.

Claiming the backing of the Israeli Defense Force, Flatto-Sharon further stated that a total of over 200 commandos will be sent into France in the immediate weeks ahead, to "protect" the Jewish communities of Paris, Marseilles, Nice and Lyon.

The announcement by the man identified in a recent French best-seller as a kingpin of the Israeli mafia was ostensibly triggered by five separate incidents of machine gun strafing of Parisian synagogues and Jewish nurseries by the National European Action Federation (FANE), France's leading neo-Nazi group.

On Sept. 27, simultaneous to the FANE violence in Paris, a bomb was detonated at the Munich Oktoberfest which left 12 people dead and nearly a hundred injured. The blast, the worst bombing incident in Germany since the close of World War II, has been tentatively traced to the Wehrsportgruppe Hoffmann, another neo-Nazi organization.

Following the bombing, a call was received at Munich police headquarters from a female who claimed credit for the incident on behalf of the "Bologna bombers." Last month, an Italian neo-fascist group, the Armed Revolutionary Nucleus (NAR), blew up the train station in Bologna, killing 80.

This activation in France, West Germany, and Italy constitutes the most significant activation of right-wing terrorist operations in nearly a decade. It comes on the eve of federal elections in the first two countries and in the wake of a government crisis in the third.

This coincidence of events has prompted professional security analysts in both Europe and the United States to strongly speculate that the right-wing activation and the consequent surfacing of Flatto-Sharon's vigilante invaders are *both* the work of the Israeli foreign intelligence service, the Mossad.

This is a shocking assessment, but the Mossad-rightist cooperation has developed since the end of World War II into an operationally effective unit.

Operationally, the Mossad has maintained at least partial control over the Nazi and neo-Nazi networks of Europe since the end of the world war, when the Israeli intelligence service was first formally created out of the Haganah and Irgun terrorist undergrounds in Palestine.

At that time, Israeli intelligence operatives—familiar with the Nazi escape routes out of Eastern Europe (the same escape routes had carried many Jewish survivors of the Nazi concentration camps to Palestine)—began a systematic hunting and blackmailing operation to secure the services of the Nazi escapees on behalf of Israel.

In the mid-1960s, French President Charles de Gaulle revealed that it was the Mossad, operating through charitable fronts in Israel and the United States, that bankrolled the attempt on his life by the Vichyite generals of the Secret Army Organization.

The de Gaulle parallel is relevant. Then, as now, the foreign policy of Israel stands at loggerheads with that of the nations of continental Europe, especially France. Then, as now, the Mossad resorted to a terrorist activation as a means of resolving the policy dispute.

In the present case, analysts believe that the Mossad has activated a wave of largely anti-Semitic violence in France precisely in order to provide the justification for the deployment of a mercenary army of Israeli commandos.

Just prior to the formal announcement of the deployment of Flatto-Sharon's "dirty dozen" into French territory, several industrial sites in that country were bombed by a group identifying itself as the "Friends of the Iranian Revolution." French police announced that their investigations showed that the group was in fact an Israeli intelligence cell.

Simultaneous with the announcement of Flatto-Sharon, a series of bombs went off that destroyed the headquarters of the Chamber of Commerce in Marseilles. Marseilles is one of the four cities where Flatto-Sharon's mercenaries have been surfaced.