

EIR

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Italy: the battle for the 'heavy lira'
Chinese premier reveals economic chaos
Bank for International Settlements power grab

**Central American trap set
for the Reagan administration**



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EIR

From the Editor

We at *Executive Intelligence Review* have ushered in the New Year with an in-depth investigation of a plot to run both sides of a bloodbath in Central America for the purpose of embroiling Ronald Reagan in a conflict he can't win. At stake is the future of Mexican-American relations and the entire foreign policy of the Reagan administration.

By surrounding Reagan with a red-hot "final offensive" by leftist guerrilla forces in El Salvador before inauguration day, the perpetrators of this entrapment scheme hope Reagan will be dumb enough to fall, according to profile, into an "anticommunist" mode culminating in direct U.S. military intervention on behalf of the current military junta.

The trick is that both the present junta—the commanders of the death squads responsible for the murder of three American nuns last month—and the left-wing guerrilla opposition are deployed by the same "mother"—the "Society of Jesus" and the international black oligarchy that has run the Jesuit order as an intelligence arm for hundreds of years.

Complicit in this operation along with the Jesuit theology of liberation movement are the leaders of the Socialist International, the Cuban government, the KGB Soviet intelligence agency, Jesuit-controlled elements of the Christian Democracy, and the KGB-infested Heritage Foundation.

This week's Special Report provides the proof and the background on this Central American scenario, and the role of National Security Adviser-designate Richard Allen in the entrapment of President-elect Reagan.



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Correction: Our Dec. 30 Gold column reprinted an *Izvestiya* article protesting reports that the U.S.S.R. is cooperating with South African gold interests. After the dateline Maputo, the identification "[South Africa]" was incorrectly inserted, due to a copyediting error. Maputo is the capital of Mozambique. *Izvestiya* does not report directly from South Africa.

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The BIS makes a 1981 power grab

by David Goldman

It is misleading to draw historical analogies for the sort of world turning-point that 1981 promises, but it is almost impossible to avoid referring back a half-century to 1931, the year of the collapse of the pound sterling, the financial ruin of Germany, and the Standstill Committee of Germany's creditors—which, as French economist Jacques Rueff insisted, erected the Nazi economic structure before Hitler took power. As then, both the monetary authorities and governments of the major industrial countries, as well as corporations and individuals, are so preoccupied with which direction the financial system will tumble from its razor's-edge position that they are completely blind to the real dynamic of events: how their fears and perceptions are employed to push them toward making decisions which they otherwise abhor.

That is the case with the West German Bundesbank's announcement in the last week of 1980 that it would freeze further issuance of German mark-denominated credits to foreign borrowers (see *International Credit*). Unreported in the American financial press, the decision severs one of the few bonds that have held the world financial system together since the 1974 oil crisis.

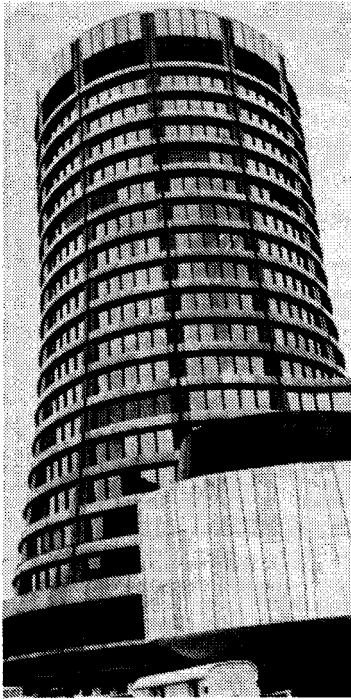
It also explains a great deal about the current state of the markets: the lowering of interest rates, as the *Times* of London signaled in a Dec. 23 editorial, is part of a package deal worked out between the Federal Reserve, the German Bundesbank, and the Bank of Japan through the mediation of the Bank for International Settlements in Basel. In return for cutting off the last *independent* source of major financing for the developing countries,

the Bundesbank has been offered a lowering of dollar interest rates sufficient to remove pressure from the mark and the German domestic economy.

The questions ahead

This does *not* mean that dollar interest rates have peaked. In early September we predicted an "interest-rate disaster" based on fundamental economic considerations. No predictions can be made now. Will the average price of OPEC oil follow the radicals' price up to \$41 per barrel? Will the Federal Reserve demand that banks cut back on lending no matter what the domestic American demand? How will the fall in commodity prices affect loan demand on the Eurodollar market on the part of countries whose export income depends on these prices? What will Ronald Reagan do about a federal budget deficit that could exceed \$60 billion this year? Plug in different sets of assumptions, and you come out virtually anywhere between Bear, Stearns view that rates will start rising again shortly, and Harris Trust's prediction that the prime will fall to 12 percent by the end of this year.

The list of uncertainty factors indicates what is at stake this year, namely control over the world monetary system. The German capitulation is of incalculable significance. Between 1976 and the present, Germany's foreign lending, directly and through support of France and other European Community members, held big chunks of the world economy together. The German-dominated Luxembourg lending market financed a



The Bank for International Settlements headquarters.

margin of world trade expansion that was rejected by the New York and London market and by the International Monetary Fund.

Luxembourg became moribund as a financial center when the July 1979 rise in oil prices finally broke the back of the West German payment surplus. Between then and the present, Germany financed its foreign lending either by borrowing from OPEC countries—making its currency system the intermediary for re-lending oil money to oil-deficit countries—or by printing money. Hence the weakness of the West German mark. The mark has gradually been forced into a position comparable to that of the U.S. dollar, extended internationally to cover for an insupportable international debt structure.

As we report elsewhere in this section, the question was finally put to the Bundesbank at a private gathering of the Hamburg Conference on Oct. 24, then worked out operationally, according to Federal Reserve Governor Henry C. Wallich, at the Bank for International Settlements: yield the international financial arena to the supranational control over the BIS in return for a momentary respite on interest rates. At this time, the *Wall Street Journal* ran an otherwise incongruous lead article under Richard Janssen's byline mooted the growing power of the Bank for International Settlements at the expense of even the floundering International Monetary Fund.

Once before, the BIS emerged as the dominant arbiter in world financial affairs, following the 1931

blowout. At the point that the pound sterling could no longer function as the world's major lending currency and the dollar could not replace it—because the Federal Reserve had directed dollar international lending to support the weakened pound during the previous decade—the world credit system ceased to function. The German and Austrian financial crises, marked by the Kreditanstalt bankruptcy, toppled the structure of short-term borrowing on which Germany had depended since 1924. The Bank for International Settlements, created in 1928 to administer Young Plan funds, became the mediator after international payments broke down, supervising the German payments moratorium through the central banks' Standstill Committee.

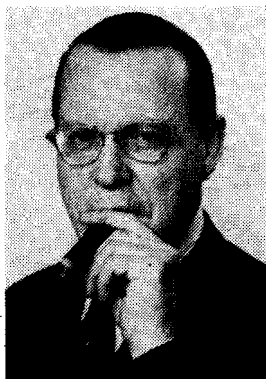
Whether the *de jure* bankruptcy of the American dollar, the inability of developing nations to close a more than \$100 billion 1981 payments deficit, and the inability of other Western economies to function with \$35 per barrel oil will produce a similar payments breakdown is not the most important question. No such events are inevitable. In 1931, the payments breakdown occurred because the Warburg-led consortium of Germany's short-term creditors decided to provoke it. The BIS gang employed the *threat* of such a payments breakdown to force all participants to negotiate on their terms.

To outgoing BIS President Jelle Zjylstra, the former Dutch central banker, or Gustav Schleiminger, the new chief executive of the institution, whether a crisis actually occurs or not is immaterial. If all national governments accept the principle (proposed by Federal Reserve Governor Wallich) that all currency-market interventions must be treated by the same monetarist criteria as provision of credit to domestic economies, the "central bank for central banks" will have carried off a coup d'état over world financial affairs. If the type of shock therapy that Paul Warburg's International Discount Bank and Schroeders Bank of London administered to Germany in 1931 appears necessary to achieve the same result, prepare for real storms on the currency and credit markets.

At bottom, the BIS represents the residual power of the old Venetian, Genoese, and later Dutch and British financiers who ran world finance in their own name three centuries ago. These are families who believe that industrial republics and their governments come and go, but that their power remains eternal. The summer home of the BIS staff is at the Villa Santa Colomba of the Siena-based Monte dei Paschi Bank, where an annual economics conference prepares documents that used to be considered obscure; the brains of the BIS operations, including Alexandre de Lamfalussy, the BIS staff director, and central bankers like Giovanni Magnifico and Rinaldo Ossola of the Banca d'Italia and Jelle Zjylstra of the Bank of the Netherlands have been

publishing the scenario described above for some years.

These men now feel confident that they have suppressed what the *London Economist* called “insurgent European nationalism,” that is, the international development perspective centered on the European Monetary System and the projected European Monetary Fund. Should the German departure from international lending remain in force, the world trade expansion perspective embodied in the EMF will be in the gravest jeopardy. Short of the most astute possible actions from what is now a confused and heterogeneous American administration, the world would fall back into the pit of 1931.



Henry Wallich: central banks aren't monetarist enough

From a Dec. 30 interview with Federal Reserve Governor Henry Wallich, provided to EIR. The Hamburg Conference, as elaborated in our International Credit column, is a group of 60 international economists that met Oct. 24.

Q: Did the Hamburg Conference discuss the pending German capital controls declaration?

A: The conference theme was “In Search of Stability and Development in an Unbalanced World,” and in that regard we discussed the need on a world scale to control the excess creation of credit, and to cut back reserve growth in the Eurocurrency markets. There has been a tremendous amount of excess expansion of world credit, both domestically in the industrial nations and internationally in the Euromarkets, and the central banks must get control over the process and scale it back; the U.S. and all Western countries need to pull back sharply on international lending.

Q: Do you see any early implementation of your propos-

al for placing reserve requirements on the Euromarkets?

A: No, that is very much on the back burner, but the central banks do agree on the basic principles of monetarism—that we must cut excess reserve growth internationally. We noted that Germany’s problem is deutschemarks being created abroad by German and other banks, outside the control of the central bank, which has led to a long-term account deficit. The Bundesbank wants to get a hand in every syndication done by any bank, German or not, involving marks, and has announced it wants all DM bond issues and loan syndications to have German participants for this reason.

But this has not stopped an extensive capital outflow on the long-term lending account; they have had a tremendous borrowing out of German banks by Nordic, Third World, and other countries. . . . But recently. . . due to rising oil prices, they began having to finance both a long-term and a short-term capital outflow. They then had two choices: they could continue to finance both deficits by borrowing from OPEC, as they had been doing extensively, or they would have to restrict capital outflows. The Saudis and the other OPEC countries, however, did not provide enough funding to keep the deutschemark from growing very weak, as far as the foreign exchange markets went. So the option was taken to restrict capital outflows.

Q: This was a surprising step, wasn’t it? Who at the Bundesbank was responsible?

A: The man responsible for this indeed radical new departure was one of our Hamburg [Conference] members, Bundesbank Deputy Governor Helmut Schlesinger. Of course, we have several members from the Bundesbank, which funds our conference, who were also involved—Herr Gleske, for example.

Q: What about your proposal that central banks limit foreign-exchange intervention to fixed growth rates, just as monetarism limits central-bank credit creation?

A: Yes, we discussed this at length; the idea is to get central banks—governments—out of the foreign capital markets. Whenever governments intervene, they are in effect creating new reserves, which leads to inflationary expansion of credit and distorts the markets. The idea is to fix an intervention quota and then intervene no more, no matter what the exchange rates do. This is akin to ignoring interest rates and focusing on monetary aggregate targets. In fact, Steve Morris, the OECD chief economist, who is also a member of our Hamburg group, is studying an identical proposal very carefully; he thinks the entire OECD should implement it jointly.

But you know that this Hamburg Conference is all really very professorial. . . . The real center for these policy discussions and for policy implementation is at Basel, at the Bank for International Settlements.

The specter of the 1930s

West Germany has imposed foreign capital controls, drafted by the same men who blocked the mark before.

The West German central bank, or Bundesbank, announced Dec. 23 that it has obtained from German banks a "gentlemen's agreement" to halt all medium- and long-term loans of four years' maturity and over to foreign nations, especially the Third World. This ban on foreign lending, which amounts to foreign capital controls, will last until March 1981, when it may be renewed again.

The action, which has never been resorted to by any postwar German government, is authored by the same financiers who imposed capital and foreign exchange controls on Germany in the 1930s: M. M. Warburg and Company of Hamburg and its financial partners in the Italian and British oligarchy, the ancient Monte dei Paschi Bank of Siena, and the City of London.

The Bundesbank's Dec. 23 move amounts to foreign-exchange controls; the excuse is that the mark is under heavy attack, as rocketing oil prices induce a severe German foreign deficit. The Warburgs argue, as in 1933 when Max Warburg had Reichsbank chief Hjalmar Schacht impose exchange controls, that to strengthen the mark, Germany must slash domestic credit and pull marks abroad back home.

The West German capital controls were developed at the Oct. 24 meeting of the Hamburg International Monetary Conference of 60 German, Italian, British, and American monetary economists, according to U.S. Federal Reserve

Governor Henry Wallich. The Hamburg group was founded in 1967 at the Monte dei Paschi's Bologna, Italy villa.

"We discussed the need on a world scale to control the excess creation of international credit, and to cut back growth in the Euro-currency markets," said Wallich (see page 6). "The U.S., and all Western countries need to pull back on international lending sharply.

"We noted that Germany's problem is deutschemarks being created abroad by German and other banks, which has led to a long-term outflow deficit. As Germany's current deficit widened with rising oil prices, they had two choices: they would continue to finance both deficits by borrowing from OPEC, or restrict capital outflows. The Saudis did not provide enough, and the option to restrict outflows was taken.

"The man responsible for this radical new departure was one of our Hamburg members, Bundesbank Deputy Governor Helmut Schlesinger."

The Hamburg group today is nominally a U.S.-German organization, sponsored by two famous German think tanks, the Hamburg Weltwirtschafts Archiv and the Institut für Wirtschaftsforschung, which do most of the Bonn government's economic planning, and by Claremont, California Graduate School Professor Randall Hinchshaw, who first organized the group as a Bologna fellow.

More interestingly, the conference is funded by M. M. Warburg and Brinckmann Wirtz and Company. Eric M. Warburg, the bank's chairman, sits on the conference advisory committee. Behind Warburg are his Italian and British seniors.

Conference members include Giovanni Magnifico, top economic counselor to the Bank of Italy, and Tomasso Padoa-Schioppa, director for economic affairs of the European Commission. From Britain come Lord Robbins, chairman of the London School of Economics, Lord Kaldor of the British Exchequer, and Christopher McMahon, deputy governor of the Bank of England.

It is the secret Mont Pelerin Society, and its spinoff, the Siena Group, however, that really control the Hamburg Conference. Mont Pelerin is the international umbrella organization of economists in the Anglo-Italian tradition of *monetarism*, founded in 1947 by Friedrich von Hayek, economist to the Hapsburg nobility, whose finances are run by Genoa and Siena banking.

Mont Pelerin, whose leading U.S. member is Milton Friedman, has advocated world financial autarchy since the war, calling upon the United States, Germany, and others to impose foreign and domestic capital controls, form regional currency blocs, and pull out of world markets for "stability." Its Siena Group meets yearly at Monte dei Paschi's Siena villa.

The Hamburg Conference includes more than 10 Mont Pelerin-Siena members, led by Magnifico, Robert Triffin of the University of Louvain, and Armin Gutowski, head of the Hamburg Weltwirtschafts Archiv.

When the economy snaps, let go

Without action from the new administration, there's no real interest-rate relief in sight.

Rates will not come down by any sizeable amount until there is news that the economy is showing weakness. I think that the 21.5 percent prime and an 18 percent Treasury bill rate are the peaks.

"But for the first three to four weeks in January, I think that we'll see rates go up and down until we know that the economy is heading downward. Then rates will fall."

With that comment on Dec. 30, Ben Laden, economist with the T. Rowe Price investment house, cut across much of the fluff now being debated in the financial press on "whether interest rates have financially peaked." Until the economy shows that it is buckling, Federal Reserve Board chairman Paul Volcker will not let up on interest rate levels. The prime may drop. But more likely, Volcker will hold the prime at a level of 18 percent or higher, which is sufficiently high to strangle economic activity. Once the patient—in this case, the economy—begins to slump over in its chair, Volcker will perhaps ease off on interest rates, but very slowly.

However, it is to be emphasized that the rate of U.S. industrial credit demand is sufficiently high that Volcker could send interest rates higher before they go lower. For example, on Dec. 29, the large New York banks, led by Chemical Bank, took the prime down from 21.5 to 20.5 percent, while federal funds traded in the middle of the day at

17.5 percent.

The credit markets were ecstatic. "Treasury Bill Rates Off Sharply" read the lead story of the *New York Times* business section Dec. 30.

But within 24 hours, the euphoria wore off. Volcker moved back into the market, pushing the federal funds rate to 20.5 percent on Dec. 30 and letting it close at 22 percent. The morning of the same day, Morgan Guaranty Trust decided to raise its broker loan rate to 20.5 percent, up 0.5 percent.

The message is that despite the fact that the Federal Reserve is succeeding in contracting the amount of new reserves placed into the system, there is no way it can stop the amount of business borrowing at commercial banks. Commerce and industry loans have grown at a whopping 20 percent rate since Oct. 1. While the Fed has been crimping reserves going into the banking system, it has also directed, in an internal memo, many of the large banks to bring funds back into the United States from Europe, in order to control the domestic money supply.

This has had the effect of providing banks with funds to lend to corporations. These credit-starved businesses are desperate for money to keep themselves afloat, and are now forced to borrow at the record interest rates.

So strong is the credit demand that the Federal Reserve is now

resorting to other contractive means, including slapping "voluntary credit controls" onto the economy. According to one Fed official, "Volcker is circulating inside the Federal Reserve system a letter we call the Martin-Burns letter." The source continued, "This is a version of the letters that two former Fed chairmen, William McChesney Martin and Arthur Burns, sent out to the banks asking them to control credit allocations. We are trying to get compliance with the letter."

After Burns sent out his letter in August 1974, the banks pulled in credit, and the United States went into the worst industrial tailspin since the 1930s depression.

This would be Volcker's intention. If he finds that the "voluntary controls" do not have their effect through the first few weeks of January, then Volcker will push rates back up again.

Otherwise, in the meantime, he will keep rates up around the 18 to 20 percent level.

This is precisely the point emphasized by T. Rowe Price's Ben Laden. "Anyone putting their money into the market would have to be prepared to see rates go up and down," Rowe stated.

The single positive way out of the perspective of months-long high interest rates until the economy snaps is an intervention by President-elect Ronald Reagan to force Volcker to back down. "We have felt that interest rates would remain high," stated Smith Barney brokerage house analyst Michael Dahood Dec. 29.

"We continue to hold that belief," he continues, "although with somewhat less conviction, because the Republicans can exert pressure on the Fed as the inauguration approaches."

Squabble of the titans

Citibank and Security Pacific are spatting over who'll buy up California's regional banks.

As the California state legislature prepared for its new session Jan. 5, New York's giant Citibank suddenly came under a major press attack by the leading West Coast dailies. The *Los Angeles Times*, in a Dec. 26 editorial titled "Money in the Bank," laced into Citibank with surprising gusto on the issue of Assembly Bill 1926, "Foreign Bank Holding Companies." The bill, which was drafted by Citibank Sacramento lobbyist Fred Pownall, refers to all non-California-chartered banks and would allow the Citicorp parent holding company to establish two full-service bank subsidiaries in California.

Citibank is first accused of trying to buy both Sacramento houses. "Citicorp's new love affair with the California legislature is embarrassing," the *Times* writes. Citicorp "is outspending even the Bank of America to lobby the legislatures. . . . \$40,600 to 34 candidates for the state Senate and Assembly in the recent general election; \$37,344 for lobbying the legislature in the first three months alone of 1980. Assemblyman Howard L. Berman (D-L.A.), who co-sponsored the bill Citicorp wanted, got \$3,000 for his campaign; the other sponsor, Louis J. Papan (D-Daley City), received \$2,500.

"'Nobody's buying or selling legislation here,' an aide to Berman said of Citicorp. If not, why not? A bank that spends that much money

and gets nothing in return ought to be sued by its stockholders for misuse of corporate funds."

The *Times* then derides Citicorp's willingness to grant "reciprocity" to California banks in New York. A companion bill in the New York legislature, also authored by Citibank, would grant California banks the right to open full-service subsidiaries in New York State. Under the Douglas Amendment to the Bank Holding Company Act, which prohibits banks from holding subsidiaries in more than one state, state legislatures may abrogate the act by passing reciprocal laws.

"Citicorp wants access to customer deposits in California, which are growing, but California banks have no interest in New York deposits, which are shrinking. The so-called 'reciprocal banking' bill is reciprocal all one way."

Seattle Times Business Editor Stephen H. Dunphy, in a prominent Dec. 23 article, similarly hit plans by Citibank to set up an Edge Act branch in Seattle. Under the 1919 Edge Act, banks may set up branches in multiple states but strictly for foreign trade activity. "Don't look now, but those big money-center banks have found the edge they need and they are coming to Seattle. First to arrive is Citicorp . . . pointing the way toward more intense competition in the banking industry for lucrative international

business."

Are these Los Angeles and Seattle editorialists eager to save smaller West Coast banks? Think again. *EIR* has learned that Los Angeles' Security Pacific Bank and the Bank of America (BOA) are behind the press campaign, because they want to gobble up California's regional banks first.

"It was primarily our strident opposition" that killed Citicorp's bill in 1976 in the last California legislature, Security Pacific lobbyist Norman Jay told *EIR*. "As our Executive Vice-President Jack Duffy said, 'We wouldn't trade two blocks of Fresno for the entire state of New York.' We made the bill's sponsor, Howard Berman, think twice and realize that it is not in his best interest." Jay described how Security Pacific and Bank of America led a lobbying drive that spent over \$141,000 in campaign contributions in Sacramento to kill the bill, which Assemblyman Berman dropped in August "like a hot potato." Although Citibank's Fred Pownall is making the rounds to get a new sponsor and will probably succeed in re-introducing the bill, "it doesn't stand a snowball's chance," Jay boasted. "We've made it clear to all the assemblymen that this is just not in their self-interest."

Security wants a free hand in California. "We're all in favor of interstate banking," Jay said, "but we want Douglas and the McFadden Act [prohibiting interstate branching] repealed on the federal level. Why should we give Citibank a special advantage in California?" If Security and BOA were able to expand nationwide, he argued, then they would have the resources to "acquire smaller California banks" in fair competition with Citibank.

Dairy to test Reagan farm policy

Calls from the old administration to kill parity are hanging over the new one.

Next to the Soviet embargo, the dairy industry's price-support program may be a major test of the Reagan administration's determination to keep its promises.

The issue was moved to the front burner in early December when the Community Nutrition Institute (CNI), a Ralph Nader consumer front, announced it was suing the U.S. Department of Agriculture for failure to act on CNI's one-year-old administrative petition that the price of reconstituted milk—milk made with water and dry-milk powder—be deregulated. The Carter-Bergland administration has issued a request for comments on the CNI petition, standard procedure in such administrative actions, but may well drop the final decision in the new administration's lap.

If accepted, the CNI petition could open the door to a dismantling of the federal marketing order system on which the milk price-support program is based. The move occurs at a time when a general campaign against the dairy program has been stepped up and demands have been issued to abandon parity and "adjust" the price-support levels downward. Under the existing program the government enforces a "floor" price for milk products at 80 percent of parity that is adjusted semi-annually.

The CNI demand for deregulation of the reconstituted-milk price was seen from the outset as a foot in

the door for dismantling the federal milk-marketing order system that governs milk marketing in the U.S. Yet it is this system which has kept milk flowing to growing numbers of Americans at stable prices for more than 30 years. This was accomplished because the program assures dairy farmers sufficient returns to make the kind of technological improvements that have revolutionized the industry.

In 1950, the average dairy farm supplied milk for approximately 44 consumers. Today it supplies 900 people! Moreover, the dairy industry's efficient production system, coupled with the stability provided by the price-support program, has since 1967 kept dairy-product price increases below those for all other food products and the Consumer Price Index.

CNI's legal move on what it has termed a "burning regulatory reform issue" is designed to trap the incoming Reagan administration in its "free-market" rhetoric. In a Dec. 2 press release announcing the court action, CNI argues that the milk-marketing orders "create an economic barrier to the marketing of milk and milk products." CNI claims that the current price level for reconstituted milk prevents low-income consumers from freely choosing the product.

The deregulation attack is accompanied by a broadside against the price-support side of the dairy program, viewed by most produc-

ers and others as the most single successful farm program. Carter administration "inflation fighter," Alfred Kahn, led the charge last year, and the Government Accounting Office produced a study in July asserting that the existing dairy program leads to "overproduction."

National Milk Producers Federation spokesmen have pointed out, however, that the GAO neglected to include commercial inventories, stocks judged necessary in the trade to meet consumer demand on an ongoing basis, and government stocks net of annual inventory change. A complete picture of the data shows that the dairy support program has in fact aided the industry to deal with the complex production and marketing problems it faces.

And, in attempting to prove that milk production has exceeded consumption in 17 out of the last 20 years by a total of 43.2 billion pounds, the GAO neglected to count approximately 40 billion pounds of milk that never left the farm but was fed to calves.

The Reagan team's response will be watched closely. The Committee to Fight Inflation Group formed by former Federal Reserve Chairman Arthur Burns and other Wall Street figures among the President-elect's advisers, is already on record opposing all federal farm programs. During the November election campaign, Reagan's campaign spokesmen stated that the President-elect "favored" the 80 percent parity price-support program, but refused to pledge its continuation after March 31, when the program's legislative authority expires.

World Trade

by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Financing	Comment
NEW DEALS				
\$1.7 bn.	Saudi Arabia from U.S.	Blount, Inc. of Alabama will be lead contractor for new University of Riyadh campus.		Agreement signed.
\$550 mn.	Indonesia/Malaysia	Indonesia and the east Malaysian state of Sabah have signed deal for joint-venture wood pulp factory, plywood plant, and sawmill. They also agreed to a common policy on timber marketing to export processed woods instead of logs.		Indonesia is world's leading hardwood exporter.
\$430 mn.	Libya from Japan/Mexico	Kawasaki Heavy Industries of Japan will build a 550,000 tpy steel plant in Misurata, Libya, for the Libyan govt. Plant will use the direct reduction technology pioneered by Mexico's Hylsa and will be fueled by Libya's abundant natural gas.		Order received.
\$250 mn.	Peru from Canada	Financing arranged for state-owned Tintaya copper mine from Canadian Export Development Corp. and private banks.	9½% over 15 years.	
\$25 mn.	Vietnam from India	India is giving Vietnam \$25 mn. credits and loaning 50,000 tons of rice.		India studying aid requests from Laos & Cambodia.
\$450 mn.	Argentina from Spain	Buenos Aires-La Plata 8-lane toll road. Buenos Aires provincial governor announced contract won by Spanish-Argentine consortium whose main members are owned by Banco Unión of Spain. Argentine national road agency has challenged award, since consortium reserves rights to raise tolls to cover cost over-runs and higher interest costs. Argentine president's office siding with province.	Banco Unión will run financing at rates which may be much above 8.9% used by its subsidiaries to win bidding.	<i>El Economista</i> (Buenos Aires) predicts big fight over contract terms.
UPDATE				
\$750 mn.	Brazil/U.S.	Brazilian subsidiary of Alcoa and Hanna Mining have raised \$750 mn. loan from Citibank-led consortium for building plant to refine 500,000 tpy alumina and smelter to turn out 100,000 tpy primary aluminum metal. Complex will utilize bauxite and cheap energy of northern and Amazonian Brazil. Alcoa's purchase of extra bauxite reserves from D. K. Ludwig has been blocked by Brazilian govt., which reportedly demands Alcoa hold reserves jointly with competing state-private-foreign aluminum consortium.	2¼ to 2¾% over LIBOR for 10 yrs. with no govt. or parent co. guarantee.	Alcoa denies reports of problems with Ludwig bauxite, but will bring in Brazilian partner to reduce political risk.

Swiss to dump dollars for gold

Swiss tactics are nothing new, but there is a broader international scenario in the works.

A report that the Swiss central bank is considering making additions to its gold reserves could be the signal that the European "black nobility" which controls Swiss banking is preparing for another major dollar crisis during 1981. Their "worst-case" scenario calls for the dissolution of the existing dollar-based monetary system and its replacement by a deflationary gold standard similar to that which prevailed under the "Pax Britannica" of the 19th century.

On Dec. 29, London *Financial Times* correspondent David Marsh reported that the Swiss National Bank "is keeping open the possibility of eventually purchasing gold to stock up its reserves." Continued Marsh: "A return to the bullion market by a major central bank, following a decade in which the main industrialised countries have made practically no additions to their gold holdings, would underline the way gold has returned to monetary importance in spite of years of U.S. efforts to reduce its reserve role."

Under Swiss law, at least 40 percent of the country's banknote circulation must be covered by the central bank's gold holdings. Recent money-supply trends indicate that banknote circulation will reach the legal limit by about 1982 or 1983.

The National Bank is considering two measures which would per-

mit it to conform to the 40 percent limit; one is to revalue its gold reserves. (The official price is now SF 4,600 per kilo or about \$80 per ounce.) The alternative is to purchase more gold. The central bank has so far played down this second option but, according to Marsh, it has "not been ruled out and may be favoured in some quarters."

Marsh's story is not really news to experienced gold-watchers. The Swiss National Bank's legal predicament has been known for many years, and the bank's predilection for gold remonetization is likely to surprise no one. More significant is the fact that the *Financial Times* placed this "scoop" prominently on its front page.

As *Executive Intelligence Review* has reported, leading British and European banking circles associated with the Mont Pelerin Society and Robert Triffin's Siena Group have been setting the stage for a major dollar crisis early in Ronald Reagan's administration, triggered by Reagan's alleged "indecisiveness" in fighting inflation. This is expected to force the administration to adopt draconian measures, such as credit controls, exchange controls, and deep cuts in necessary federal spending programs such as Social Security. The imposition of controls on U.S. dollar outflows could in turn precipitate the collapse of the \$800 billion Eurodollar market, upon which the financing

of less-developed nations' payments deficits depends.

Under conditions of world financial anarchy, the time would be ripe for the imposition of a scheme which the Mont Pelerin Society has long favored: the replacement of a discredited International Monetary Fund with the Basel, Switzerland-based Bank for International Settlements (BIS) and extensive use of gold, instead of the dollar, in international transactions among central banks (see page 4). Since world credit growth would not be allowed to outpace the supply of physical gold, the new "gold standard" would result in a prolonged depression in world production and trade.

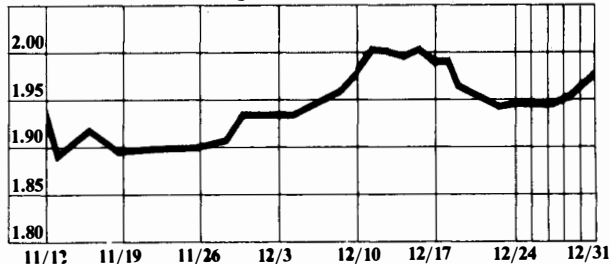
Will the governments of France and West Germany, which founded the European Monetary System as an embryonic progrowth, gold-based monetary system, go along with such a scenario? The answer seems to be that there will be resistance, of course, but unfortunately, leading German businessmen are already throwing up their hands in despair and hedging against an expected debacle in Reagan economic policy.

According to a source at one of West Germany's "Big Three" banks, the banks expect an acute dollar crisis to break out by mid-1981. Gold may remain weak, slipping to \$550 an ounce or at times even lower for about six months. But once the euphoria about Reagan's election wears off, the dollar will come under fire, and gold will take off. The major European central banks probably will seek to protect themselves by stocking up on gold while it is cheap, the source added, mentioning the central banks of Switzerland, West Germany, France, Portugal, and Italy as likely buyers.

Currency Rates

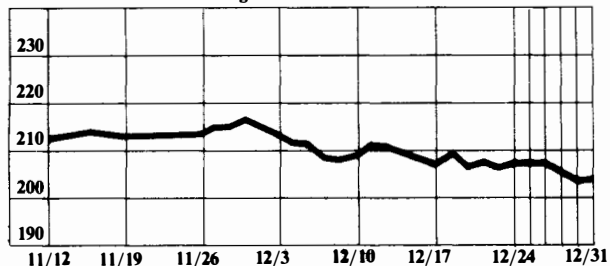
The dollar in deutschemarks

New York late afternoon fixing



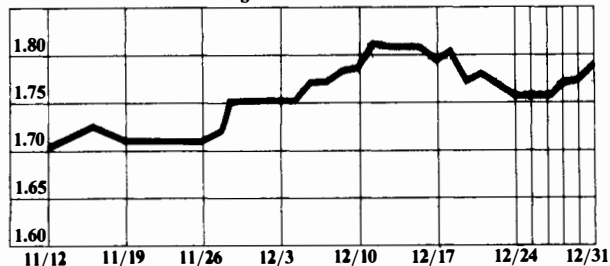
The dollar in yen

New York late afternoon fixing



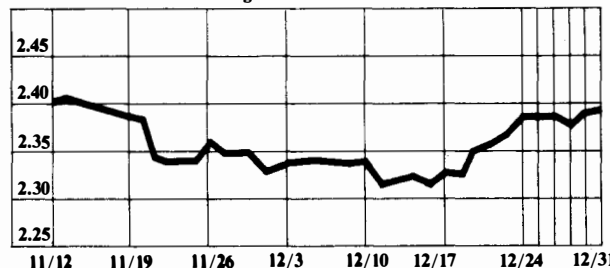
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



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China's economic chaos

Richard Katz goes beyond Premier Zhao's admissions to examine the scope of the new anti-industry policy.

While the U.S. Commerce Department and other public relations agencies still issue enthusiastic projections of China's trade and economic prospects, China's own press is reporting that country's economic straits in the most alarming terms. A landmark Dec. 2 editorial in the official Communist Party newspaper, *People's Daily*, reported the following:

"This year has been a disastrous one for agriculture due to floods in the south and drought in the north, and grain production will be lower than last year." Later reports forecast the decline at 5 percent, from a level that was already no higher per capita than that of 1958. Due to the lower grain shipments to the cities, the government has already announced the cancellation of year-end wage bonuses in 1980.

"An imbalance has appeared between energy production and usage," the editorial continued, "and the imbalance is worse than was originally estimated. There are difficulties facing both the petroleum and coal industries in their attempts to increase production next year." In a recent secret speech getting limited circulation among party leaders, new Premier Zhao Ziyang revealed that oil production will actually fall—from this year's 2.1 million barrels per day to only 2.0 million in 1981 and only 1.9 million in 1982. Coal will also fall. He said the situation may not improve until 1985.

China has been forced to renege on contracts with Japan for export of oil—the commodity it had expected to become its biggest foreign-exchange earner. This in turn has led to cancellation of imports of plant and equipment. Internally, factories are being ordered to increase production without increasing energy consumption, either through "conservation" or switching to non-energy-intensive light industry product lines.

What is the regime's response to this crisis? "We must not hesitate in making a necessary and adequate retreat," the editorial continued. "The amount invested for capital construction this year has already been reduced, but it still far surpasses what the country is at present capable of handling." The national budget for capital investment was cut by 33 percent; the editorial, however, accuses various provinces of taking advantage of decentralization in order to invest in local industrial projects. It

demands a halt; "Even projects already built must be closed, suspended, merged or changed in accordance with conditions in all sectors. Otherwise, we cannot curtail capital construction as a whole." Every day the Chinese press reports on projects being halted in mid-construction. According to Premier Zhao's speech, construction will be cut another 40 percent in 1981.

One reason for the cutback is that major bottlenecks in energy and transport make it impossible to operate plants already built. For example, China deliberately cut back on steel production this year by 5 percent, because more than 20 tons—the equivalent of 60 percent of a year's production—lay uselessly stockpiled, because of transport bottlenecks or overproduction of basic cheap products and underproduction of needed specialized products, or because product quality was so shoddy as to be unmarketable. The steel example is typical. A Nov. 19 *People's Daily* editorial complained, "There have been grave difficulties in getting money and materials for projects urgently needed for the improvement of people's lives."

Zhao told visiting Rumanian Premier Ilei Verdet that energy and other bottlenecks forced plants to operate at only 70 percent of capacity, and that many factories will simply be shut down in 1981. Zhao said that under the circumstances, it was even impossible to draw up a budget for 1981. Unless there are "fundamental changes," he said, the crisis will continue at least through 1985.

Chinese official Wu Zhenkun summed up the situation in a Nov. 19 speech in Peking: "We must admit that *over the past 20 years or so, the people's livelihood has not been improved—and the livelihood of some has in fact deteriorated.*" Now Zhao says there will be no wage increase for another five years. What an amazing indictment of the course of Chinese economic policy since the end of Sino-Soviet economic cooperation in 1960!

Deng's longterm readjustment

Vice Premier Deng Xiaoping insists that China is simply going through a necessary "readjustment" from the economic dislocations caused by the Cultural Revolution, but even more so from the grandiose "overam-

bitious" rapid industrialization plans of soon-to-be-ousted Party Chairman Hua Guofeng.

American promoters of Sino-U.S. trade explain it in the same terms. Among these is Arne de Keijzer of De Keijzer Associates, a consultant to both China and American firms on Sino-U.S. trade matters. De Keijzer told *EIR*, "China realized it had to walk before it could run. They have to slow down, go step by step. They thought they could go with agriculture and heavy industry. But now they realize they've got to have a light industry base before they can complete the heavy industry. They have to do it more slowly than they anticipated."

In fact, Deng's policies represent not so much a slowing down of industrialization as an abandonment of any realistic prospect of achieving it. A look at the Hua era shows some of the problems involved and the irony that, on fundamentals, Hua, Deng and the Gang of Four all agree.

Following the death of Mao Tse-tung and the arrest of the Gang of Four in 1976, Hua announced a manic leap into rapid industrialization in many ways reminiscent of Mao's own disastrous Great Leap Forward of 1958-60. The intent was to reverse the 10 wasted years of the Cultural Revolution. Hua announced a \$600 billion investment program through the year 2000, lined up \$23 billion worth of foreign credit lines, and outlined hundreds of major projects—now mostly scrapped—for steel, oil, machine-building, transport, power generation, chemicals and other areas.

In fact, such a program, properly planned, managed and combined with an influx of foreign technicians and advisers would be the one thing that could save China.

However, decades of Maoist ideology and the destruction of the educated elite during the Cultural Revolution doomed Hua's program. China has simply been unable to develop basic middle managements and skilled labor to implement such a program.

For example, to earn the foreign exchange for the necessary import of foreign technology, Hua demanded that the major oil field at Daqing be pushed to increase output much faster than was technically prudent. The result is that the fields were ruined and have started declining in output long before they would have reached their natural peak with proper management.

China bought a fancy offshore oil rig from Japan, and then lost it when bureaucrats insisted on towing it to sea despite reports of an impending storm; later reports revealed the Chinese had never bothered to translate the Japanese operating and safety manual. China also contracted a \$6 billion, six-million-ton capacity steel plant to be built at Baoshan—but located it on swampy ground unable to support the facility. In any case, poor internal transport would have required China to import iron ore from Australia for the plant

despite China's own abundant reserves of iron ore. The second phase of this project has now been abandoned.

A *People's Daily* article on a foreign joint venture yarn plant in Guangdong which failed reveals the kind of mismanagement problems that pervade Chinese factories: "The management level of the leading members was too low and the workers lacked specialized knowledge." Packs of raw materials that should have been added in the wool mixing were simply forgotten. Some machines were "badly damaged due to lack of maintenance and repair and improper handling." Only 40 percent of the factory lights worked, "but for a long time nobody took any notice."

Beyond the systematic disregard of the most elementary realities at the microeconomic level of management lies a more fundamental problem in the economic/social policy shared by virtually all factions in China. This policy mandates that as a matter of deliberate policy the 80 percent peasant-to-urban demographic ratio will not be reduced. As a result, much of the supposed industry in the country amounts simply to ancillary items for rural communes.

One-third of all coal mining, for example, takes place manually in pits of less than 10,000 tons per year and is unusable in modern furnaces; one-third of all steel is produced in scattered mills on rural communes; one-third of all hydroelectric power is produced in primitive rural generators of 25-50 kilowatt capacity, about the amount needed to run an apartment building; one-third of all industrial labor is in the communes, not in cities.

The result, of course, is tremendous inefficiencies. It takes two to three times the amount of energy and coking coal to produce one ton of steel in China as in the West. Small Chinese generators are one-third as thermally efficient. Some of these problems are simply the result of backwardness. For example, since it takes decades to build a national electricity grid in such a big, backward country, it makes sense *temporarily* to have small power plants to run irrigation pumps, etc.

The problem is that in China all the factions have enshrined such a necessary evil as a shining virtue—just as the World Bank is trying to do in other countries, often using China as a model. The result is that China is not only unable to develop industry but remains unable to get off the treadmill of simply keeping grain production level with population—and even that capacity may now be in doubt.

Hua tried to industrialize sectors of the economy, particularly those serving as a base for the military, while maintaining the agrarian bias. Admittedly, Hua's program was woefully misconceived and mismanaged from the start. After an initial *claimed* spurt of 10-12 percent production growth rates in 1977-78, Hua's mini-Great Leap collapsed. Deng, however, is compounding

A wicker caravan in New York

The first thing a visitor to the Dec. 6-28 China Trade Exhibition in New York saw was a mini-Great Wall adorned with Chinese flags planted firmly in the middle of Columbus Circle. The Chinese announced their arrival in New York for three weeks to show their nation's produce with a big splash. Hundreds of thousands of New Yorkers, like Chicagoans and San Franciscans before them, flocked to the fair. Some thousands of them are buyers for American firms.

The exhibition itself begins with the arts and crafts display, ranging from museum pieces to brush paintings of flowers that attracted small storekeepers. The arts and crafts drew most of the spectators, and also the largest group of buyers, some 26 percent. Indeed, Chinese Foreign Trade Ministry official Chen Kechang told *EIR* that this is what China expects to sell most—handicrafts, wicker baskets, bamboo items. Chen explained that few sales were made at the fair itself. "In this regard it is not quite successful," because the buyers did not know China's products yet.

Passing from the arts and crafts into the garment section, silk blouses in the 50-dollar range were most on display. Few mass-produced clothes or even textiles could be found. Chen explained that synthetic textiles or garments are out. "We cannot compete with Korea or Taiwan since our raw materials are so expensive." Asked if China has the wherewithal to ship cotton goods, since its own cotton production has stagnated since 1972 and its domestic demand is rising, he replied, "It's hard to say. We have one billion people—a lot of people. They want more."

The reaction of the textile buyers, the second largest group, numbering 22 percent of the visitors, was mixed. Some said they would buy garments, others expressed dismay at the lack of "gray goods" textiles for display, and still others thought they could get better quality at cheaper prices from Korea, Hong Kong, or Taiwan.

Chen said he discovered that the real market for China in the U.S. is the bargain-basement stratum. "We thought we had to bring all our best-quality goods. But we learned that, in many cases, price is the main consideration, for example, in paint brushes." Indeed, Gary Furst of the American Brush Company told *EIR*, "I came here looking for cheap stuff. The products here were of better quality than I expected,

but priced too high." Chen also suggested that cheap, throwaway beach thongs could become an American boom item.

The real selling at the fair was not done by the Chinese, who made little in immediate sales, but by the "Bloomingdale's People's Market." This department store for New York's "beautiful people," which has consistently promoted U.S. ties with Peking, took over a whole floor of the exhibit. They sold polyester shirts, of the type usually available for about \$7, for \$16; they hawked woolen rugs and silk blouses, revolutionary posters and porcelain Buddhas and bamboo hats.

One of the most interesting exhibits, though little visited by either spectators or buyers, was the display of Chinese machine tools. The lathes, borers, and so forth ranged from Soviet-designed models to more up-to-date automated designs. They were nothing spectacular, but could conceivably fill a gap in the lower-level tools no longer made in the United States, should quality and price prove to be competitive with Korea or Taiwan. Clearly this was the best China had to offer, in contrast to the more typical models at home that receive so many complaints of poor workmanship.

More interesting than the machines themselves were the technicians accompanying them. At least some of them represented a side of China that shows why Deng Xiaoping will have a tough time fully enforcing his abandonment of heavy industry. The technicians were clearly proud of their machines. Naturally, they had been educated prior to the Cultural Revolution.

One had even been a Red Guard. "But by 1967, everybody knew it was wrong. People were being killed, my friends were sent to the countryside." Asked why Mao is not posthumously on trial with his widow Jiang Qing, he replied, "Without Mao, China could not have become independent. No matter what he did later, this cannot be taken away. But it is true that without him, the Gang of Four and the Cultural Revolution could not have happened." At the point that he and millions of Chinese like him understand that Deng's wicker-basket economics is not so different from Jiang Qing's, Bloomingdale's may have to look for new suppliers.

the crisis: since Hua proved unable to implement a heavy-industry program, Deng has proposed abandoning the goal of heavy industry in favor of a get-rich-quick light industry approach.

Deng's strategy is modeled directly on the ideas of Soviet politician Nikolai Bukharin, who in the 1920s and 1930s counterposed a light-industry approach to Lenin and Stalin's heavy industry policy. The ironies go even further: Bukharin learned his economics in Vienna, sharing classes with Milton Friedman's mentor Friedrich von Hayek. Deng in turn—perhaps after seeing how Volcker has destroyed U.S. heavy industry by using Milton Friedman's ideas—invited Friedman to lecture in China earlier this year.

In reality, Deng's attacks on heavy industry have produced a capital and materials shortage that is now cascading out of control, as Premier Zhao has now admitted. Some Chinese publications claimed an estimated 12 percent industrial growth over 1979 levels during the first half of 1980 based on the quick returns from light industry. Premier Zhao's secret report now projects an 8 percent year-to-year growth for all of 1980—implying a drastic reduction in growth towards the end of the year. All such quantitative estimates are extremely rough and unreliable at this point, but the downward trend is clear. It is likely that the industrial growth will go to a very low level, and could turn negative.

The Chinese press reports widespread opposition to Deng's program both among the military and "heavy industry" civilian factions, whom Deng is now purging. These include Gu Mu, who resigned as head of the state capital construction commission but retained his job as including the ouster of Party Chairman Hua Guofeng, state energy commission, and Kang Shi'en, minister of petroleum. While Deng may temporarily have the upper hand, the problems raised by his economic policies mean that internal fighting over economic policy will continue, particularly if the expected decline in living standards resulting from Deng's policies leads to outbreaks of peasant and urban unrest.

Fighting to maintain stability

The number-one priority for the Deng Xiaoping regime is to prevent this economic turmoil from spilling over into political unrest. Deng vividly remembers the widespread illegal strikes and even riots that embroiled China in 1976 because the economic disruption caused by Jiang Qing's "Gang of Four" led to drops in living standards. One of Deng's first moves as he consolidated power in 1978 was to institute material incentives at the workplace and to declare the first general wage increase in 20 years. However, since China was not producing the consumer goods to absorb the wage increase, the increased wages simply fueled price increases, now

yielding a stubborn 7-10 percent inflation rate. The combination of the price increases and the cancellation of year-end bonuses following the grain and energy decline has already led to the first economically caused internal unrest since 1976. Workers in Chang-sha, the capital of Hunan province, held a demonstration against price increases in late December. Farmers in various provinces have also protested.

With Deng launching a wholesale grab for power, including the ouster of Party Chairman Hua Guofeng, a purge of the army, and a denigration of the memory of Mao, he can ill afford any restiveness among the population.

Deng tried to grant immediate consumer concessions at the expense of investment. The cancellation of year-end bonuses and Zhao's prohibition of wage increases shows how limited is the ability to implement this approach, but under the rubrics of "readjustment" and "switching from heavy industry to light industry," Deng attempted to buy off the population.

For example, even while cutting back on \$3 billion worth of plant orders from Japan for steel, chemical and refrigerator factories, Deng's regime imported 300,000 black and white televisions, 130,000 tape cassette players and 400,000 wristwatches from Japan. Internally, investment priorities, materials allocations, etc. are being shifted from heavy industry projects that require several years to pay back the investment to light-industry consumer-goods areas such as textiles, garments, bicycles, radios and other items that require little investment, little energy and provide quick returns.

Trade Ministry official Chen Kechang explained to *EIR*: "We have to produce light-industry products that yield a return in a short time so people can see results. We have to manufacture light-industry products for the people's daily life. Heavy industry such as steel and chemicals takes too much capital and too much time to show results."

In part the "readjustment of light industry" is due to Deng's long-term light-industry perspective for the economy. However, the situation is out of control. The Dec. 2 editorial said that originally the readjustment program was to have been completed in 1981—now, they say, it will take until the end of 1983. Chen Kechang told *EIR*, "It will take even longer, four to five years."

In the haste to provide concessions to the population despite the declines in grain and energy, the "readjustment" program is being carried out almost without regard to the future. A report on the city of Tianjin (Tientsin) states that in the last two years "the municipality has cancelled and postponed 74 local construction projects. Most of the projects cancelled and postponed are productive."

Half of the \$250 million saved in this manner was



One-third of China's steel is produced in tiny commune furnaces like this one.

shifted to housing construction, "guaranteeing the satisfaction of the needs in housing and urban construction projects while there is a shortage of construction forces and building materials." As to where the building materials will come from in following years if there is little investment in heavy industry now, the report says little except to complain of "inadequate curtailment of productive projects."

Some of the "readjustment" measures are being carried out with such franticness as to practically guarantee a future *decline* of living standards. For example, a Dec. 18 report from one of China's most productive farming provinces, Heilongjiang, mandates that "the water conservancy capital construction front should be cut back and the number of irrigation projects should be reduced."

Yet the only way China managed to keep grain output growing as fast as population was to construct widespread flood control and irrigation projects allowing double and triple cropping as well as expansion of cultivable acreage. There were already serious problems with China's farm policy over the past 20 years—particularly a neglect of mechanization and chemical fertilizers that made it impossible for China to increase per capita grain output while leaving China vulnerable to flood and drought. This new cutback for the sake of

immediate results adds a new nightmare.

"Costly large and medium-size [water] projects begun a couple of years ago which will not yield results in the *near* future . . . should be stopped. Projects under construction requiring less investment which will be completed *next* year should not be stopped. Annual expenditures should be reduced. No large or medium-sized water conservancy projects should be initiated *in the next five years* [emphasis added]." In the next breath, the report adds that "the conference urged all localities to do a good job in preventing spring water-logging and droughts."

Trade cutback

The same meat-axe approach has hit the trade sector as well. After months of cutbacks in import of steel and chemicals, in November China suddenly announced unilateral abrogation of a number of contracts with its number one trade partner, Japan, for plant imports. This included cancellation of a \$3 billion second phase of the massive Baoshan steel project, \$400 million worth of chemical plants, and a \$20 million refrigerator plant. On the other hand, the grain crisis at home and the need to grant concessions to workers increased imports of grain and wristwatches.

Part of the reason for the cutbacks is a foreign ex-

change crisis. The decline in oil production has delayed at least until 1987, in latest Chinese estimates, the growth of what China had hoped would be its biggest foreign-exchange earner. China has already renege on contracted oil deliveries to Japan. The oil shortage also precludes making synthetic textiles and garments a major export. Simultaneously, the absolute stagnation in cotton production since 1972 combined with import quotas in the U.S. and Europe limits rapid growth in natural textiles and garments.

While China's two-way trade enjoyed a five-fold increase from 1972's \$6 billion to 1979's \$30 billion, including a 30 percent increase in 1979 alone, rough estimates for 1980 growth are only 7 to 10 percent (mainly due to oil price increases) and China's announced plan for 1981, which may not be met, is only 7 percent growth.

The foreign exchange shortage is only part of the reason for the import cutback. Perhaps more important are serious doubts about China's ability to use the plants once imported or even to physically get rapidly increased amounts of imports into the country. De Keijzer told *EIR*, "China really can't handle much more business immediately. . . . I don't think they have the management or infrastructure. Look at China's ports. Even if the Chinese built the container loaders which they need so they can export more efficiently, there's no way you're going to get the goods into port in the first place. The inter-modal transport is still very complex. It's like delivering it in a boxcar and taking it out in a bicycle. The internal transport system to get it to Shanghai is still very difficult."

Some of the plant imports being cancelled would have produced petrochemicals or other items for future export. Why then did China cut back on future foreign exchange earners in order to save now? The Chinese press reveals that raw materials bottlenecks plus quality problems in output were as much a consideration as foreign-exchange shortages. Premier Zhao Ziyang revealed two weeks ago that more than \$2 billion in imported goods is lying around idle for lack of ability to use them.

China's press has begun a campaign against use of foreign and advanced technology except in limited areas, as shown in a Dec. 8 *People's Daily* editorial. "The higher the degree of mechanization and automation of enterprises, the stricter the demand on the types, specification and quality of raw materials. Some imported projects not only require a great deal of capital and foreign exchange during construction, but after they have started operation, they must still also rely on imported raw materials. . . . Furthermore, the more advanced the technology adopted, the less manpower the unit making the investment will employ, which will give rise to serious contradictions between labor pro-

ductivity and full employment."

The Dengists are instead proclaiming the virtues of labor-intensive production both for domestic output and for export. "At present, for one million yuan's worth of fixed assets, 94 people are employed in heavy industry, 257 in light and textiles industries, and 800-1000 in the arts and crafts enterprises . . . and arts and crafts and other labor-intensive trades consume only a fraction of the energy and raw materials compared to heavy industry. . . . Plans are being drawn up to develop and export labor-intensive products." Exports of such products increased 23 percent in 1980, according to the Chinese press, but as De Keijzer noted, "you have to sell a lot of wicker baskets to buy one oil well." More importantly, only imports of foreign technology—though certainly in a balanced, rational manner—can end the bottlenecks in energy, transport, machine-building, metallurgy, chemicals, etc. without whose solution China cannot develop either agriculture or industry. By limiting its imports of foreign technology to such resource extraction areas as offshore oil wells and concentrating on labor-intensive production and export, the Dengists are throwing away China's future.

Deng's major gambit for the introduction of foreign technology is the creation of special zones on the coast for foreign investment, on the basis of joint ventures and compensation trade agreements for labor-intensive products. China has set up 300 such agreements so far in Canton's Guangdong Province in which foreign firms build factories and often bring in the raw material in exchange for a set amount of product. One of the most successful of such ventures was run by Japan's C. Itoh for a trouser factory outside Peking. In this case, C. Itoh provided the materials, dealing with a problem which, says *Asian Business* magazine, "is rapidly becoming more acute—the shortage of high-grade fabrics and other raw materials needed to produce the garments demanded on the world market."

Many of the compensation trade agreement ventures are not so successful. One pioneering case in Guangdong province had to be shut down because management and labor produced goods too shoddy to sell. Construction projects to create a large foreign investment zone in the Shekou area of Guangdong had to be shut down due to mismanagement and corruption.

A more serious political problem also rears its head. If the rest of the economy collapses while the only growing section is export-oriented labor-intensive special zones that don't ignite general industrialization—the Hong Kong model—then some Chinese may wonder whether these zones are just a bit too reminiscent of British colonial zones in pre-1949 China. Deng may have the upper hand for now, but the collapse of his economy portends future political trouble for his faction.

Business Briefs

European Community

Showdown over budget authorization

When Simone Veil, president of the European Parliament, announced Dec. 24 the adoption of an expanded European Community (EC) budget, bypassing the concerned European governments, she took supranational powers she is not entitled to. This is the contention of the French government in the EC dispute between France, Germany, Belgium and Denmark on the one side, and Britain and Italy, who back Veil's decision, on the other. The British support Veil's decision for two reasons. The increased social funds in the budget would mean reduced funding for the Common Agricultural Policy farm subsidy program, and British Prime Minister Margaret Thatcher has made clear over the past week that eliminating most farm subsidies is a top 1981 priority for her government's action in the EC. Secondly, the British, who have always controlled the EC Commission in Brussels, and have used Community institutions to attempt to impose Malthusianism on the rest of Europe (as witness the Davignon plan for dismantling the European steel industry), want to reinforce the powers of the European Parliament as a supranational body.

International Credit

Citibank recommends oil-price 'adjustment'

In a recent interview made available to *EIR*, a senior Citibank executive commented that "Brazil is not as in such bad shape as people suggest. Very, very few banks at this point are not lending to Brazil; they have mostly gotten what they need, about \$12 billion gross in 1980, which comes out to about \$5 billion net after refinancings. . . . They have agreed to pay tremendously higher spreads. Next year they will need about the same,

a bit more. It will be difficult, but it can be done on the same basis of higher rates. . . .

Asked about countries like Kenya, who cannot finance oil imports, the Citibank executive said: "There are people who have been waiting on line for a bus in Zaire for two years now because of lack of gasoline. Kenya, Zaire, these sorts of countries are simply going through part of the process of adjustment. They have to reduce their imports of oil, which means they have to be ready to experience slower economic growth. This is going on everywhere. These countries will just have to adjust."

Management

Montagu and Craven leave Merrill Lynch London

In a year-end shock to the British investment banking community, top City of London operators David Montagu and John Craven resigned top management positions at Merrill Lynch International Bank last week. The most famous team in City banking, Montagu and Craven had earlier built up the international banking stature of S. G. Warburg, before moving to Orion Bank and then to Merrill Lynch.

A Merrill Lynch official cited by the London *Financial Times* Dec. 30, Arthur Urcioli, said that the abrupt departure of the two British executives was due to "philosophical differences." Another London paper, the *Times*, speculated that the recent designation of Merrill Lynch chief executive Donald Regan as treasury secretary in the new U.S. administration might have been "the last straw" for the two British executives.

Earlier in December, John Craven caused a major flap with a statement to an international banking conference that the Eurodollar markets faced a major crisis, which many institutions might not survive. His partner David Montagu, heir to the Montagu banking family, also drew publicity when he pronounced the dollar a "suspect currency" at a New

York banking conference.

However, there is no direct evidence that these statements constituted the cited "philosophical differences" with Merrill Lynch top management in New York.

Domestic Credit

Mortgage lending off 45 percent from August

Mortgage lending by federally insured savings and loan institutions was down 29.4 percent in November from the October level and down 45.1 percent from August, the Federal Home Loan Bank Board reported. The sharp drop-off since August reflects the Federal Reserve's credit-tightening measures.

Federally insured savings and loans experienced a net inflow of funds of \$1.4 billion in November. But their financial condition continues to deteriorate; savers drained \$4 billion from low-yielding passbook accounts at S&Ls and increased balances in high-yielding six-month money-market certificates by more than \$6 billion during November. The higher cost of bank funds will keep mortgage rates high.

Agriculture

Bergland calls corn loans

After several weeks of ambiguous signals and inexplicable inaction, Agriculture Secretary Bergland has called the loans on 665 million bushels of corn farmers are holding under the government reserve program. The move will force producers to sell their corn, or scramble for other funds to pay back the loans. Alternately, they may forfeit the grain to the government.

Bergland made the move because cash market prices for corn had reached \$3.26 per bushel, or 150 percent of the loan rate, in five major markets. Producers have 90 days to act on the call.

Briefly

● **ANDREAS VON BULOW**, the new research minister in Bonn, vigorously defended nuclear power in a Dec. 30 interview in the nation's largest daily, *Bildzeitung*. Von Bulow stated that since West Germany cannot survive without nuclear power, politicians must deliberate with a clear mind, even in the face of popular opposition. The federal cabinet will soon meet to discuss easing administrative blockage of nuclear plant construction, he said.

● **THE CLINCH RIVER** Fast Breeder Reactor demonstration project may well be resumed under the new Reagan administration. S. David Freeman, Carter appointee as TVA chairman, just reversed an earlier opposition and announced the TVA utility is willing to resume payments it suspended in 1977 when Carter officials dropped licensing proceedings for the \$2.8 billion project. Freeman's shift is being read as a sign of his reading of "the facts of life" under the new administration. Freeman had been instrumental in shaping the Carter anti-nuclear policy as a transition adviser and Ford Foundation strategist.

● **THE U.S. TRADE** deficit narrowed in November to a seasonally adjusted \$1.66 billion compared with \$1.86 billion in October, the Commerce Department said. Most of the improvement was due to a decline in the volume of imported oil, which fell to a four-and-a-half-year low, reflecting the severity of the U.S. recession. Total U.S. imports fell 3.1 percent in November, while exports fell 2.4 percent.

● **NATIONAL DEMOCRATIC** Policy Committee staff have reported that an attempt to conduct a telephone survey of Illinois home-builders in December ran into a problem. The NDPC found that more than half the builders listed in a 1979 directory had already gone bankrupt.

The move will force corn prices down, but many traders note that that will just be short term, since this year's crop was cut back by 20 percent by heat and drought losses and demand remains high internationally.

The corn markets, like the commodity markets generally, have been highly volatile in recent months. A shortage of rail cars has slowed delivery of corn to Mexico, dampening cash market prices. And, as futures soared prior to the market collapse of two weeks ago, cash corn prices at the key Gulf terminals didn't budge.

During the last phase of the market spasm, the Gulf market was burdened by distress selling of corn by the Farmers Export Company, a subsidiary of Foodland Industries, the nation's largest farm co-op, which was a big loser in the market bubble. If President-elect Reagan maintains the embargo on Soviet grain exports, corn prices could stay low.

U.S. Auto

Will Volcker block Chrysler loan guarantees?

The Carter administration is "playing a day-to-day waiting game," hoping to hand to President-elect Ronald Reagan the responsibility for deciding whether to issue additional loan guarantees to Chrysler Corporation, the *New York Times* reported on Dec. 31. Two members of the Chrysler Loan Guarantee Board, Federal Reserve Chairman Paul Volcker and Comptroller General Elmer B. Staats, are said to be in no hurry to make a decision. Moreover, sources close to the board say that, if the ruling is delayed until after Jan. 20, Volcker and Staats would be willing to turn down Chrysler should Donald Regan, the proposed treasury secretary, recommend that course. Both Volcker and Staats are expected to continue as board members after Regan's inauguration.

Should the Loan Guarantee Board turn down Chrysler's request for \$400 million in additional guarantees, it would

mean almost certain bankruptcy for the financially troubled automaker.

Volcker has reportedly attempted to justify his reluctance to salvage Chrysler on the grounds that further loan guarantees would be "inflationary." The *New York Times* noted: "Indeed, Mr. Volcker has told visitors that a Regan-led decision not to continue the Chrysler rescue effort—the board so far has issued \$800 million of guarantees—might be read by the financial community as a sign of the new administration's determination to stop inflation."

Banking

White House calls for deregulation

The Carter administration is recommending to Congress that restrictions on interstate banking be eased. The recommendations are contained in a report prepared by the White House staff over a two-year period under the direction of Orin Kramer, associate director of the White House domestic policy staff. The report was completed about six months ago, but the White House delayed its release out of fear that it would create political problems for Carter during the electoral campaign.

The White House report calls for a change in the Douglas Amendment to the Bank Holding Company of 1956, which prohibits bank holding companies from purchasing out-of-state banks. This would be done in stages: the first step would be to permit out-of-state acquisitions in so-called natural market areas even if they cross state lines. As part of this first stage, banks would be allowed to install electronic banking terminals throughout these natural market areas.

In later stages, unlimited interstate banking might be allowed for federally chartered institutions. Eventually, "nationwide EFT [electronic funds transfer] deployment should be permissible," the report states. The report also urges Congress to pass a bill already before it that would allow domestic banks to acquire financially ailing banks in other states.

Central American trap set for the Reagan administration

by Dennis Small



The *Executive Intelligence Review* has uncovered a sophisticated plot to set up the incoming Reagan administration within days of its taking office, through staging a bloodbath in the tiny Central American nation of El Salvador.

A top Salvadorean guerrilla leader, using friendly journalist channels at the *New York Times*, announced this week that Salvadorean rebels are now beginning a "final offensive" against that country's Christian Democratic government, and that "the situation in El Salvador will be red hot by the time Mr. Reagan arrives" in the White House on Jan. 20, 1981. "The situation is irreversible," he confided.

Those responsible for placing this ticking time-bomb on Reagan's doorstep are:

- **The Jesuits**, whose leftist wing runs the "Theology of Liberation" movement in Latin America's Catholic Church. They have given their blessing to the guerrillas' call for insurrection, and are organizing popular support for the revolt.

- **The Socialist International**, whose leaders, like Willy Brandt and Felipe González, have publicly bragged that they are funding and arming insurrectionary movements across Central America.

- **Fidel Castro** and other Cuban proponents of Third World "wars of liberation," who are calling for an alliance with the Jesuits and the Socialist International. They are backed up by a powerful faction inside the Soviet Union which favors a strategy of "confrontation" with the capitalist West.

- **The Christian Democracy**, whose international networks run the current Salvadorean civilian-military Junta, and which has deliberately polarized the Salvadorean situation in order to have it blow up in Reagan's face. This oligarchic faction in the Christian Democracy is synonymous with the "right wing" of the Jesuit order.

- **The Heritage Foundation** in Washington, D.C., a "right-wing" think tank infested with KGB "moles" who are encouraging Reagan to get involved in the Central American quagmire, siding with "right-wing" Jesuits in their contrived war against "left-wing" Jesuits. Heritage "moles" like Stuart Butler boast that they will foist the Socialist International's program of deindustrialization on America, under a conservative label.

The combination of these forces is now fully activated on both the "right" and "left" sides of this scenario. Their immediate objective in lighting the fuse on El Salvador is to wreck the talks between Reagan and Mexican President José López Portillo scheduled for Jan. 5, 1981.

The meeting at the border town of Ciudad Juarez offers President-elect Reagan a unique opportunity to improve U.S.-Mexican relations—both economically

and politically—as quickly as Jimmy Carter has destroyed them, by establishing a bilateral accord to trade Mexican oil for American advanced technology and capital goods. More than simply improving relations with Mexico, such an agreement would signal the Reagan administration's commitment to stabilizing the developing sector in general through joint industrial development programs. What the Heritage Foundation and its Jesuit friends most fear is that Reagan will in fact adopt such an enlightened approach to the "North-South" problem in his first 100 days in office, which would go a long way toward cooling out the world's worst hot spots.

To prevent this, they are working day and night to manipulate Reagan into a hardline anticommunist response in El Salvador, escalating toward direct U.S. military involvement against the guerrillas. Just as large an effort is being mounted by the Socialist International—in particular through their top asset, Mexican Foreign Minister Jorge Castañeda—to enroll Mexico on the side of the Jesuit "left."

The specific tactic is to try to get Mexico to grant diplomatic recognition to an "opposition government" in El Salvador that would have its seat in one or two guerrilla-controlled towns.

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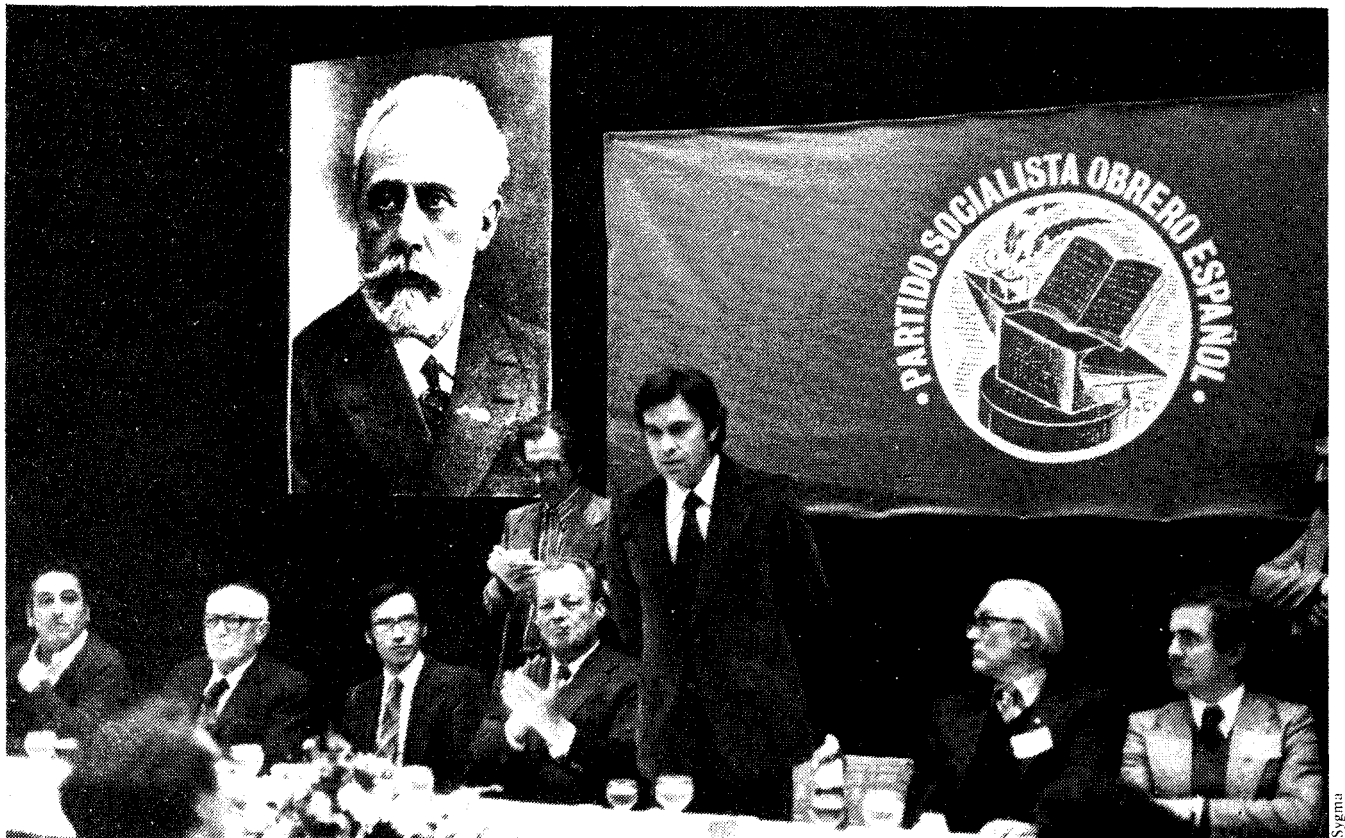
Soviet faction backs Latin insurrections
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Christian Democrats start socialist party
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Contributions in memory of slain guerrilla leaders are solicited by a Salvador church in December.

Spengler/Syigma



At a 1976 Eurosocialist conference in Madrid. Standing: Felipe Gonzalez. To his left: British Labour Party leftist Michael Foot. To his right: Willy Brandt, chairman of the West German Social Democracy.

With the Reagan and López Portillo governments thus lined up on opposite sides of the Salvadorean civil war, the plan is to then force that divisive issue to the top of the agenda at the Ciudad Juarez meeting.

In separate conversations made available to *EIR*, top spokesmen of the “left” and “right” sides of this plot made clear how they expect the gameplan to work. A leading U.S. Jesuit charged with monitoring El Salvador, Father Simon Smith, S.J., confided that “I have every reason to believe that the new [guerrilla] offensive will occur shortly before the inauguration” of Reagan. Father Smith chuckled that Reagan’s “advisers are incapable of giving him any but the most knee-jerk anticommunist advice,” and that if Reagan is stupid enough to fall into the trap by supporting intervention, “then the U.S. will have made itself a laughingstock.”

Working the other side of the same street is Cleto DiGiovanni, the author of the Central America section of the Heritage Foundation’s recent 3,000-page policy study for the Reagan administration. DiGiovanni states that Reagan would do well to get the U.S. militarily involved in El Salvador.

A policy of genocide

Beyond the short-term goal of sabotaging the Rea-

gan-López Portillo summit, the strategic purpose of the El Salvador plotters is to place the United States and the developing sector as a whole on an irreversible collision course. The Jesuits and their Cuban foot-soldiers are arguing that, in the face of the “right-wing” Reagan administration, the developing sector must opt for suicidal insurrection and wars of liberation against the developed North. The Socialist International, meanwhile, is complementing this with an economic policy designed by the Brandt Commission, whose basic tenet is that the South must liberate itself by “delinking” its economy from the capital and technology of the North.

The combined effect of these two facets will be to launch of a wave of genocidal wars in the developing sector, which will plunge the entire area into an Iran-style new Dark Age. This is precisely what is already occurring in El Salvador, where during 1980 alone the carnage claimed the lives of 12,000 people—and this before the full “final offensive” had occurred.

That this is the *deliberate* policy of the Jesuit-Heritage axis was made clear by Michael Novak, a Jesuit-linked policy-maker who works at the “conservative” American Enterprise Institute. “Central America and the Caribbean,” he told a caller, “will be what Iran and Afghanistan have been.”

DiGiovanni on the right

Cleto DiGiovanni, a controversial intimate of many of Reagan's Latin American advisers and the author of the Central American section of the Heritage Foundation's bluebook on the State Department, made the following comments in an interview this week:

Q: Is there collaboration between Carter officials in Central America and the Socialist International?

A: There certainly is. It's a public relations effort, but also a substantive one, and their objective is to foreclose options for the Reagan administration. They're having some success with this. It has me so worried that I've just banged out a piece which may come out in a few days.

Q: What does the fighting look like in El Salvador?

A: It's difficult to tell. Remember that the 1,500 guerrillas [reputedly involved in a post-Christmas offensive] were not killed, they escaped. If the guerrillas launch dispersed but coordinated attacks, I don't think the military could hold without pulling out troops from the top five cities. It's the kind of situation which can't wait, it could go bad in the near term.

Q: What role will the Christian Democrats play?

A: You should remember that the Copeyanos [members of the Venezuelan Christian Democratic party, Copei—ed.] are a far cry from the CD in El Salvador. There's some reality in Venezuelan thinking, that will make itself felt in under-the-table influence.

Q: But I thought Duarte [the Christian Democratic president of El Salvador—ed.] was very close to the Venezuelans.

A: He is. He was there for seven years or so. But he set up ties to both the Adecos [the Acción Democrática social-democratic party] and the Copeyanos.

Q: What about the role of Mexico? Will it support the left?

A: If there's anyone pushing López Portillo [in that direction], it's his foreign minister [Castañeda].

Q: So what's the way out in El Salvador now?

A: The parameters are not very flexible for even a short-term solution in El Salvador. Carter has buried the fact that there's a shooting war going on there. The guerrillas are increasingly well trained and equipped, while the military forces are constantly less so.

I have a three-point program for what has to be done. First, the U.S. must put in strong military support for the government, at least with credits if not with the arms themselves. Second, the private sector has to be brought back into the fold. These are the guys with the skills, the capital, the clout in the international money markets. And third, we have to recognize the reforms are here to stay, but based on law, not whim. The land confiscated in phase one of the reforms may not be returnable. But you can give the owners realistic compensation. . . .

Q: Will Duarte be pushed into the background?

A: There's a real advantage in keeping Duarte on, in the short term. The international image question comes in here. The private sector is not well organized, but it's learning rapidly.

Father Smith on the left

Father Simon Smith, S.J., the Jesuit chief of mission for the Third World who is currently working out of the Jesuit Conference in Washington, D.C., and is known in leftist Christian circles as "the man who knows most about El Salvador," commented on the situation.

There is no doubt in my mind that the guerrilla forces are planning to launch a major offensive soon [in El Salvador]. The liberationists have by no means ceased their activities; it's really a question of timing. Remember that statement by their leader that they will present Reagan with a red-hot situation? Well, I have every reason to believe that the new offensive will occur shortly before the inauguration. . . .

I have no way of predicting what Reagan will actually do. I can't point to any of his advisers as being capable of giving him any but the most knee-jerk anticommunist advice. If Reagan does intervene in the situation, then the U.S. will have made itself a laughingstock. . . .

Barring U.S. intervention, I believe that the progressive movement will be successful—the [Salvadorean] army simply isn't trained in guerrilla warfare. It's also possible that elements of the army may soon defect to the guerrillas. . . . Look at what we were able to do in Nicaragua; there's no reason why we can't accomplish the same thing in El Salvador. . . .

The Socialist International's help has been of tremendous importance to the liberationist forces. When Willy Brandt went on national television to declare the Socialist International's support for us, it had a tremendous moralizing effect on the revolutionary forces. . . . The Jesuits are coordinating closely with the Socialist International forces in El Salvador.

II. How the trap was set

by Timothy Rush

“El Salvador is next,” ran the refrain after the Sandinista victory in Nicaragua on July 19, 1979. But there was nothing inevitable about the way a bloody terrorist civil war in El Salvador was built up and has now been dumped at the Reagan administration’s doorstep a year and a half later.

This “tar baby” operation was a consciously plotted project *from the outside*, each principal force conveying the orders into its on-the-scene operatives—Socialist International, Christian Democracy, Jesuit “left” and Soviet-Cuban KGB circles.

In the welter of mutually reinforcing moves made by “right” and “left” forces, one theme stands out: the effort to lock Mexico into the “left” side of the equation, and the Reagan administration into the “right” side.

In March 1980, the Socialist International took the lead. Under the chairmanship of West Germany’s Willy Brandt, the Social Democrats staged their annual meeting on Latin American soil for the first time. This was in Santo Domingo, capital of the Dominican Republic, and the corresponding focus of attention was the Caribbean and Central America. The final communiqué expressed the Socialist International’s solidarity with the left opposition in El Salvador.

In late May, it was the turn of the “right-wing” Christian Democrats. Consciously imitating the Second International event held two months before, the American Enterprise Institute and the West German Christian Democratic think tank, the Konrad Adenauer Institute, brought in luminaries from Latin America and Europe for in-depth discussions on Central America and the Caribbean with U.S. policy-makers in Washington.

Though members of the U.S. National Security Council and the State Department policy planning staffs were present, the primary purpose was to bring the Christian Democratic leaders into contact with Reagan’s Latin American policy group, and shape Reagan’s policy accordingly. Reagan advisers Pedro Sanjuan and Constantine Menges organized the affair; and Richard V. Allen and Menges made the keynote presentations.

A central figure in the meeting was Antonio Morales Erlich, one of the two Christian Democratic figures in the five-man Salvadorean Junta at the time.

Aristides Calvani, former foreign minister of Venezuela and president of the Latin American chapter of the Christian Democrat movement, launched a vitriolic attack on Mexico for allegedly helping the “left and revo-

lutionary movements” in Central America. Menges backed up the charge: López Portillo was “attempting to outdo Fidel Castro,” he claimed.

Later in the summer, Menges flew to Europe for extended strategy sessions with Adenauer Foundation-linked circles in West Germany.

The next continental strategy summit was that of the “liberationist” Church. At the early August assembly of the Theology of the Americas project held in Detroit, Michigan, support for the Jesuit-directed “left” Church movements of Central America was a central focus for action programs throughout the continent. The U.S. campaign culminated in a strong condemnation of the Salvadorean government by the U.S. Council of Bishops a few months later.

The pace of events picked up rapidly with the election of Ronald Reagan Nov. 4.

In an attempt to force Reagan’s hand in their direction, right-wing death squads, under international Christian Democratic direction, stepped up the rate of kidnappings and murders of political opponents.

Meeting in Madrid in mid-November for a specially convoked conference on the other side, the Socialist International established a “Committee for the Defense of the Revolution in Nicaragua” as a front for region-wide deployments. The all-star cast on this committee included Brandt; Michael Harrington of the U.S. Democratic Socialist Organizing Committee; Austrian Chancellor Bruno Kreisky; former Jamaican Prime Minister Michael Manley; French Socialist Party Chairman François Mitterrand; French Socialist leader Michel Rocard; former Swedish Prime Minister Olof Palme; Dominican Republic social democrat Francisco Peña Gómez; and former Venezuelan President Carlos Andrés Pérez. The chairman of the committee was Felipe González, head of the Spanish Socialist Workers Party (PSOE).

Week of Nov. 24. A “Private Enterprise Steering Group” of Salvadorean rightists met in Washington with top Reagan Latin American advisers Constantine Menges, Jeane Kirkpatrick, James Theberge, and Roger Fontaine. A spokesman for the Salvadorean group stated afterwards that it had received promises of Reagan administration military support against the insurgents.

Nov. 27. In a dramatic escalation, right-wing death squads, with the clear complicity of government security forces, kidnapped six leaders of the Democratic Revolutionary Front (FDR) opposition umbrella organization

as they were meeting in the Jesuit Legal Aid office of San Salvador. They were found murdered the next day. Colonel Adolfo Majano, known as the most liberal of the Junta members, fled the country.

Dec. 4. Felipe González set out on a key coordinating mission. He met with Fidel Castro at dawn in Havana to discuss "such issues as the Central American situation." González proceeded to Panama that afternoon for extended private meetings at the home of Panamanian strongman Omar Torrijos, with Colonel Majano and other Salvadorean insurgents, representatives of the Nicaraguan Sandinistas, and the liberal Christian Democratic Foreign Minister of El Salvador, Fidel Chávez Mena.

At the airport, González said he had come because Panama is "a center of information . . . particularly regarding the Central American isthmus."

Escalating the provocation from their side, right-wing elements abducted and murdered four American missionaries outside San Salvador. The next day the United States temporarily suspended aid.

Dec. 5. González flew to Washington. He briefed the Committee for the Defense of Nicaragua, gathered for a giant conference on "Eurosocialism and America," on his consultations with Castro and the Salvadorean leaders. The issue of Nicaragua was barely mentioned; press accounts stated that the meeting was "to study the Salvadorean situation."

Dec. 6. The Eurosocialism conference moved into high gear, with González, Brandt, Palme, Harrington, Mitterrand, and Nicaraguan Foreign Minister Father Miguel D'Escoto all playing prominent roles. Palme told a Mexican newspaper that the "Salvadorean government must be based on the FDR."

Dec. 7. Willy Brandt was asked on the U.S. television program "Face the Nation" if he supported a "social-democratic policy" of sending money to El Salvador, "even though some of it goes to arming the guerrillas." "Yes," he responded; "and I speak for the Socialist International."

Dec. 7. U.S. emissaries William D. Rogers and William Bowdler left for a "fact-finding mission" to El Salvador to investigate the deaths of the nuns and to demand restructuring of the government. At the end of the week, Christian Democratic Junta member José Napoleón Duarte was named president, and the other members of the Junta downgraded.

Dec. 7. Majano returned to El Salvador after two additional days of meetings in Panama. He began discussions with opposition figures, and soon went into hiding.

Dec. 7. Felipe González, in his plenary speech to the Eurosoci-alist strategy session in Washington, made it clear that the Second International was turning up its pressure to force Mexico to join the "left" side of the fray. "The Second International asks itself what Mexico's role in Central America will be. This could be

decisive."

The same day, the Social Democratic Foreign Minister of Denmark, Kjell Olenson, finished talks in Mexico. The Salvadorean Junta "has no equal in modern history" for the practice of genocide, he declared; it is a "criminal act" to support such a government. "I have similar points of view to Jorge Castañeda," Olenson added, referring to the Mexican foreign minister.

Dec. 8. The Socialist International began to fan back out through Latin America to deliver the marching orders established in Washington. Francisco Peña Gómez, Dominican social-democratic leader, flew from Washington to a series of new meetings at Torrijos's home in Panama with Venezuela's Carlos Andrés Pérez and former Bolivian President Hernán Siles Suazo.

Dec. 8. A three-day conference on European-Latin American relations sponsored by the Friedrich Ebert Foundation opened in Caracas. Numerous members of *both* Christian Democrat and Social Democrat factions were present. The conference was closed by Carlos Andrés Pérez, returned from his talks in Panama.

Dec. 9. Willy Brandt's personal secretary, Klaus Lindenburg, was dispatched from the Washington meeting to Mexico, where he coordinated a three-day conference on North-South issues cosponsored by the Friedrich Ebert Foundation and the think tank of the ruling PRI party, IEPES. The backroom discussions focused on efforts to align the PRI with the Social Democracy.

Mexico kept its distance. Though PRI President Carrvajal indicated affinity for the Socialist International, he was forced by opposition in his ranks to declare that the PRI "is prevented by statute" from joining.

The semi-official government daily, *El Nacional* cut through the wave of proguerrilla propaganda being mounted in Mexico's vociferous left-Jesuit press. It pointedly wondered whether the Junta had simply made an error by not more effectively preventing the deaths of the U.S. missionaries, or whether it had fallen into a trap designed to justify foreign intervention.

Dec. 14. Acción Comunitaria, a group founded by the Mexican affiliates of the Christian Democracy, announced that it was changing its name to become the "Mexican Social Democratic Party." Its platform is support for "anti-imperialist" liberation struggles.

Dec. 15. Mexican Foreign Minister Castañeda granted an exclusive interview to Mexico's Jesuit-controlled left newsweekly, *Proceso*. In defiance of López Portillo's policy, he stated that Mexico had already decided to break relations with El Salvador, and was only awaiting a certain degree of territorial control by the guerrillas to make the announcement.

Dec. 17. Fidel Castro, in his opening speech to the Second Congress of the Cuban Communist Party, warmly praised the Socialist International's work in Latin America. The final resolutions of the conference Dec. 20 called for "joint action" with the "progressive elements"

of the Church, particularly in “Nicaragua and El Salvador.”

The Congress was the occasion for a steady stream of Salvadorean, Guatemalan, and Nicaraguan guerrillas to be feted by the 2,000 delegates and 34 foreign delegations.

Dec. 17. The “liberationist” wing of the Salvadorean Church, through Archdiocesan spokesman Roberto Cuéllar, issued an open call for rebellion. “[The Church] sanctions the legitimacy of insurrection as the supreme recourse of popular defense” in the face of tyranny, he told the press.

A week earlier, “liberationist” Archbishop Marcos McGrath of Panama had directed an international communiqué commencing: “To the present government of El Salvador, we direct our clear, vigorous, and, in the name of God, threatening words.”

Dec. 23. Amid increasing rumors that the “final offensive” of the Salvadorean guerrillas would be due Dec. 26, Salvadorean Archbishop Rivera y Damas gave the green light from the Church for the strategy of establishing enclaves of “rebel territory.” The Church will “recognize the constituted power” on a parish-by-parish basis, he announced. Strong messages of support for the Salvadorean Church arrived from the Mexican Episcopal Council and the U.S. Council of Bishops.

Dec. 26. The guerrilla offensive began. The *New York Times* made arrangements to broadcast the statements of guerrilla leader, Fermín Cienfuegos worldwide: “The situation in El Salvador will be red hot by the time Mr. Reagan arrives.”

Nicaragua’s ordeal: eyewitness account

A highly reliable source on friendly terms with the current Nicaraguan government recently returned from a visit to that country and reported the following developments.

The consolidated policy now in place in Nicaragua is one of accelerating economic devolution into a Kampuchea-style Dark Age. Many factories are run on a daily basis by armed teenage “political commissars,” who use their vested authority to override decisions made by experienced plant managers and technicians. In many cases there are KGB-linked Cuban and Soviet advisers performing similar roles.

One specific anecdote is exemplary. A respected Nicaraguan medical doctor who was to deliver a technical scientific paper to a group of students was told that he

would have to submit his presentation for political screening by a Soviet “commissar.” Then, in the course of his talk, he showed photographs of advanced American medical equipment, only to be interrupted by the Soviet, who informed the group that this was “imperialist technology.”

Not surprisingly, such policies are leading to a situation of economic chaos. And no one is seriously mobilizing the population behind development or reconstruction tasks.

Although the July 1979 Sandinista revolution included a thrust toward the industrial development of Nicaragua—and viewed the ouster of the drug-running Somoza dictatorship as a first step in that direction—the current situation indicates that the Jesuit Dark Ages faction now enjoys total hegemony and has the country locked into an antiscience, Jacobin course.

A crucial consolidation point was the late 1979 “literacy campaign,” run by the country’s leading Jesuit, Father Fernando Cardenal, S.J., the brother of the better known (but less influential) Nicaragua Culture Minister, Ernesto Cardenal. The campaign, under which thousands of Cuban volunteer teachers have traveled to Nicaragua to aid in the project, was based on the method developed by Paulo Freire, a renowned “Third Worldist” pedagogue who has close links to Liberation Theology Church networks. Best known for proposing “deschooling” and other antidevelopment brainwashing techniques, Freire’s sponsors include the Club of Rome and UNESCO. Prior to Nicaragua, his main guinea pig was Guinea Bissau.

The same Jacobin bias is evident in the day-to-day management of the state. The latest fashion among government officials and employees is to wear dirty shirts on the job—perhaps to prove their proletarian roots.

The person with greatest power in Nicaragua is Interior Minister Tomás Borge—an individual generally recognized as “Havana’s man” on the scene. There are nominally three distinct governing bodies in the country—the five-man Junta; the parliament-like State Council; and the nine-member Sandinista National Directorate—but in point of fact, it is the Sandinista Directorate which runs the country. It consists of three representatives of each of the three currents within Sandinismo, and Borge is the strong-man within this grouping. Through this arrangement, our source reports, Borge systematically overrides Junta members like Sergio Ramírez, who otherwise object to features of the ultraradical, antiscientific approach that is dominant.

Borge is also in charge of internal and state security, and has placed the leading members of the government under close surveillance. To keep control over the armed forces, the government keeps them constantly on edge over real and feigned “foreign attacks” and “bat-

ties with counterrevolutionaries." The relative international isolation of the Nicaraguan government—both politically and financially—has contributed to this "trench mentality." The mental health of some Sandinista commanders has been shattered to the point that they are feverishly preparing to have the "invincible Sandinista army" repulse an "imminent U.S. invasion" of neighboring El Salvador.

According to our source, many Nicaraguans close to the Sandinista leadership view Borge as close to clinically insane, with megalomaniacal obsessions dominating his political life. Borge himself actually best explains his current mental dissociation, and the likely fact that he is controlled by the Jesuit order, in an exclusive Nov. 17, 1980 interview with the Mexican magazine *Proceso*.

Borge reports that he was extensively tortured by Somoza's security forces, including one nine-month period in 1977 when he was held in a cell with a black hood over his head and an air conditioner running the entire time.

A number of Somoza's top generals—possibly including those overseeing Borge's lengthy torture—are known to have been Jesuits.

Today, Borge reports, he reads erotic poetry and the Bible—"on the recommendation of Fernando Cardenal, the Jesuit. He is the man I most love."

Growing discontent

One of the consequences of this overall political arrangement is that it became impossible for the government to maintain a political alliance with the leading business representative, Alfonso Robelo, who was a member of the ruling Junta until September 1980. Although Robelo himself seems to have followed Carter administration recommendations that he pull out of the government to polarize the situation further, it is the evaluation of our source that this could have been prevented by proper government economic policies designed to build support within the private sector.

Discontent is now widespread and growing in Nicaragua in response to the economic crisis, and although much of this is being spearheaded by representatives of the old Somoza dynasty, the breadth of opposition to Sandinista policy goes well beyond the Somocista group alone.

Our source emphasized that both the Cubans and Soviets are "up to their ears" in the current Nicaraguan situation. This evaluation was shared by French Minister of State for Foreign Affairs Olivier Stirn, who recently traveled to Nicaragua and Mexico. In an airport stopover in Costa Rica, Stirn expressed great concern over the Cuban role in Nicaragua. And members of his entourage independently confided this same view to *EIR* staff personnel.

Jesuits run both sides in Salvador

by Carlos Wesley

The day after Christmas, leftist guerrillas in El Salvador launched a major offensive against government troops in the northern end of the country along the border with Honduras. Between 1,000 and 1,500 guerrillas were believed involved in this effort to overthrow the ruling military-civilian junta headed by Christian Democratic president José Napoleón Duarte.

Reports from the battlefield say that the guerrillas have so far fallen well short of their goal of obtaining a decisive victory over the military. But neither has the government been able to pacify the country: close to 12,000 people were killed in 1980, and a flood of refugees was created that already surpasses 100,000 people.

Much of the press has portrayed the Salvadorean situation as a conflict between ultraleftist factions vying for power against extreme conservatives, with the Carter-backed Junta caught in the middle. But what most accounts leave out is the fact that *all* sides in the struggle, including the governing Junta, are controlled by the nominally Catholic Jesuit order, whose policy it has been to deliberately polarize the situation and bring about a civil war in which the Salvadorean peasantry have mostly served as unwitting cannon fodder.

El Salvador has been an experimental testing ground for the Jesuits since at least the mid-1960s, when the order took a 180-degree turn and, ostensibly abandoning its longstanding alliance with the ruling local oligarchy, wholeheartedly embraced radical "liberation theology." Raising the banner of "land reform," scores of Jesuits and Jesuit-trained Maryknolls, Capuchins, diocesans, and members of other religious orders were deployed to organize or take over existing peasant groupings; the Christian Democratic party; the social-democratic National Revolutionary Movement (MNR); and the student groups that spawned the guerrillas. Among the backward peasantry, in particular, the Jesuits organized "Base Communities," and local priests began to take on the status of mass political leaders. The murder of Archbishop Romero in March 1980 only served to turn him into a martyr for the left, while consolidating the hold of the Jesuits over the population in general.

The takeover of the mass institutions at the top was facilitated by the fact that the Jesuit order runs most of the country's leading educational institutions, including

the Universidad Centro Americana (OCA) that has trained "most of Salvador's political leaders," as one high-ranking European Jesuit recently boasted to *EIR*.

Exemplary is El Salvador's Junta, whose civilian-military membership has shifted repeatedly in musical-chair fashion since its inception. The Junta first came to power following a military coup carried out with the blessings of the Carter administration in October 1979. At that time, Ramón Mayorga, one of the five members of the Junta, was the head of the Jesuit UCA, while another, Guillermo Ungo, was a professor there, and became a leading member of the Socialist International-linked MNR, after quitting the Christian Democratic party. Ungo to this day maintains excellent links with the country's several guerrilla groups. Both he and Mayorga have since left the Junta, gone into exile, and proclaimed their support for the guerrillas.

In late 1979, the London-based newsletter *Latin America*, commented: "In addition to the presence of Mayorga and Ungo, the country's Jesuit order, the most radical in Central America, has close links with at least four members of the cabinet."

Venezuela's role

The social-democratic members of the Junta were driven from power in early 1980, in a reputed "right" turn that brought the Christian Democracy into full control. After a few more shifts, including the ouster of Col. Adolfo Majano—the most liberal military member of the Junta—power was concentrated in a center-right

mixture of civilian and military representatives, headed by President José Napoleón Duarte, the top leader of Salvador's Christian Democracy.

The successful Christian Democratic presidential candidate in 1972, Duarte was couped by the military and forced into exile in Venezuela, where he lived for the next seven years. While in Venezuela, he worked closely with the faction of the Christian Democratic Party (Copei) of then-President of Venezuela Rafael Caldera. He also maintained close contact with the Venezuelan affiliate of the Socialist International, *Acción Democrática*.

Duarte's mentor, Caldera, is—together with the self-confessed leader of Colombia's fascists, Alvaro Gómez Hurtado—a founding member of the European Center for Documentation and Information (CDI), a think tank that is closely associated with the Mont Pelerin Society and the Black International's Pan European Union of reactionary Count Otto von Hapsburg. Hapsburg is also a member of CDI.

It is an open secret that Duarte and the current Junta are today virtually run by the Venezuelan Christian Democracy. For example, the move to make Duarte President of El Salvador in December 1980 was reportedly personally engineered by Aristides Calvani, who served as foreign minister under Caldera. Calvani, the secretary-general of the World Union of Christian Democrats, and Caldera both have extensive links into the old European oligarchic families that run both the Christian Democracy and the Social Democracy.

With friends like these . . .

Reagan faces a source of Jesuit "right" manipulation within his own band of Latin American advisers, and this could prove a serious problem.

Two names to single out: **Jeane Kirkpatrick** and **Roger Fontaine**. Both have longstanding associations with the Jesuit Georgetown University in Washington, D.C., Kirkpatrick as a professor of government and Fontaine as the Latin America director of Georgetown's strategic think tank, the Center for Strategic and International Studies (CSIS) from 1975-1980. Both currently operate out of the American Enterprise Institute, as elements of massive Georgetown influence over the AEI. And both stand to play important roles in the new administration, Kirkpatrick as U.N. ambassador-designate (see profile p. 60) and Fontaine as a leading contender for the Latin America assistant secretary post at State.

What are they counseling for Central America

and the Caribbean? Here's a sampling of recent statements by Kirkpatrick:

On Cuba: "I think it is very important to target Cuba. I think a naval blockade should do the trick."

On the right-wing role in El Salvador killings: "The inability of the Junta to control the military is an absolutely normal condition for a Latin American government."

On Latin American politics: "Latin America has a cultural idiosyncrasy for military dictatorships and coups."

In a now-famous lecture she delivered to an AEI seminar in early December, Kirkpatrick spoke of "Hobbesian choices" in the region—a reference to the British philosopher Hobbes, who advocated law of the jungle and rule of force as the "natural conditions" of man. According to Salvadorean sources, she has promised the Jesuit-run Salvadorean Junta immediate military backup by the Reagan administration.

III. Cuba declares war on advanced sector

by Gretchen Small

Cuba is one of the biggest strategic “prizes” held internationally by the oligarchist forces who are deployed to ensure that genocidal wars are implemented across the globe. This was made strikingly clear by the Second National Congress of the Cuban Communist Party, held Dec. 17-20 in Havana. North-South confrontation was adopted as formal strategy at the PCC Congress, the most important since the party’s founding congress five years ago. The underdeveloped countries have “unified into a single front,” Castro told the conference in his opening 12-hour speech, in order to confront the “contradiction between these countries and imperialism.”

The Reagan administration represents the ascendancy of the “most reactionary right” in the United States, according to Castro, and will have to face the “increasing combativeness of the masses” in the formerly colonial sector. Cuba will aid any national liberation struggle that “opposes the domination of Washington,” he promised.

Two leading allies of Cuba in this confrontationist strategy, outside the socialist sector, were cited by Castro: the Socialist International, and the radical “liberation theology” movement within the Catholic Church. Castro informed the congress that the PCC had “maintained frequent and fruitful contacts with the social-democratic parties” of Latin America and Europe in the recent period, and declared that “the Social Democratic participation . . . in Latin America [is] positive.”

Castro also underlined the growing importance of revolutionary Christian forces, and the PCC unanimously adopted a resolution at the end of the congress which formally stated that Cuba would seek “strategic alliance and joint action with progressive and revolutionary layers of the Church.”

The congress was attended by foreign delegations ranging from official representatives of the socialist bloc countries to representatives from national liberation movements and radical states from around the globe. Castro noted in his closing speech that “at times it was difficult to distinguish whether it was a Cuban congress or a congress of the world’s revolutionary forces!”

Cuba has served as a key base of operations for the creation of radical “national liberation” movements since the 1959 Cuban revolution. But the all-out war on the United States and the advanced sector as a whole that was adopted as Cuba’s official strategy at the Second

National Congress reflected a sharp shift in the factional situation within the Cuban government and its consolidation over the recent period. From the evidence provided by the congress, a deeply entrenched Dark Ages faction in Cuba linked to the KGB/confrontationist faction in the Soviet Union has gained ascendancy in the government’s foreign policy, and is gaining strength on the internal front as well.

As recently as Fidel Castro’s September 1979 speech to the United Nations, the Cuban president combined calls for Third World revolution with a saner orientation toward seeking economic cooperation between North and South as the only means to guarantee détente. Now virtually nothing remains of the détente strategy.

Cuba’s full adoption of the confrontationist game-plan is also a crucial policy entry-point into the rest of the socialist bloc. French Socialist Party members at the congress stressed that Castro’s positive reference to the Socialist International is doubly significant, in that it sharply differs from the historic animosity toward the Social Democracy in the rest of the East bloc.

A crucial role in swinging the Cuban government behind this Jacobin strategy has been played by networks under the control of British intelligence operating in the United States who have orchestrated an escalating confrontation with Cuba during the past year and a half in particular. Exemplary was the pamphlet on Cuba published by the influential Committee for a Democratic Majority (CDM), a hawkish policy-making group, many of whose members are now associated with the Reagan camp. Called “Coping with Cuba,” the pamphlet started with the assumption that the Castro government could be overthrown in the short to medium term if such actions were taken as funding of internal subversion, economic pressures, and even the re-imposition of a naval blockade around the island to stop Soviet oil shipments. The author of the report, Hugh Thomas, is British intelligence’s leading specialist on the Hispanic world and an adviser on Latin America to British Foreign Secretary Lord Carrington.

Carter administration plans to hold invasion and landing exercises last May at the U.S. military base at Guantanamo Bay as part of unprecedented Caribbean military exercises by the U.S. Marines—though cancelled at the last minute—made the CDM’s recommen-

dations more than credible to the increasingly besieged Cubans.

Equally significant in explaining the domination of the Cuban government by the current super-revolutionary "Third Worldist" mode was the Soviet invasion of Afghanistan. Top Cuban policy layers are known to have viewed this as signifying a Soviet decision to "trade off a pawn" with the United States—Afghanistan for Cuba—which led the Cubans to believe that they could not rely on firm allies either in the East or the West. Cuba's only strategy, in that case, was seen to be insurrectionary forces in the South.

Castro's speech to the congress is virtual clinical evidence of the fear reaction that now grips the centrist faction of the Cuban leadership, as his "let them drop 20 bombs on us" statement illustrates most graphically (see box). Discussion at the congress centered on mobilizing the population to withstand the severe hardships a blockade would entail, and the necessity of training every Cuban citizen in military skill to face an invasion.

That fear has in turn thrown the centrist faction in the Cuban government, which has tried to balance between the KGB-linked Jacobin faction on the one hand and the opposing industrially vectored faction on the other, into full support of the insurrectionary policy. Operating under an immoral, Maoist-style criterion of "the enemy of my enemy is my friend," the Cuban government is supporting and aiding everything that presents itself as "anti-American": the bestial Iranian revolution; Puerto Rican "pro-independence" terrorism in the United States; and genocidal wars of attrition in Central America.

The networks involved in this Dark Ages foreign policy are collaborating inside Cuba with cultural-relativist anthropology networks whose roots go back into pre-Castro Cuba and who are now centered around the cultural ministry. The promotion of Central Committee member Jesus Montane Oropesa into both the Secretariat of the Central Committee and the newly formed Alternate Politburo, is exemplary of the control gained by this Dark Ages faction.

Montane, a longtime close collaborator of current Culture Minister Armando Hart, was the representative of Cuba at a critical meeting of East bloc networks close to Soviet "radical" Boris Ponomarev held in East Berlin in October, on the topic, "The Joint Struggle of the Working Class Movement and National Liberation Movement against Imperialism for Social Progress."

Montane spoke there on armed struggle as the only route for national liberation. Montane's new post as general director of Foreign Relations and the Americas in the Secretariat places him in close collaboration with Manuel Pinero, the KGB-trained head of Cuban intelligence for the Americas, who has been identified as a critical man in Cuba's Latin American policy-making.

Fidel Castro looks to the Church radicals

The following are excerpts taken from the 12-hour speech that Cuban President Fidel Castro delivered on Dec. 17, 1980, to the opening session of the Second Congress of the Communist Party of Cuba.

On North-South confrontation

One benefit of the struggle for a new international world order is the unification of the underdeveloped countries into a single front. . . . This phenomenon can only be explained on the basis of a generalized contradiction between these countries and imperialism. . . . In the face of the strategy of the most reactionary circles of imperialism, the united action of the underdeveloped world, of the socialist countries, of the entire planet's progressive forces, and even of the most clear-sighted sectors in the developed capitalist powers, becomes essential in order to confront the serious crisis that today prostrates mankind. . . .

At the present time in world history, it is necessary to stop and consider whether mankind should choose—in resolving these ancient problems that are now recorded—the path of confrontation or whether it should prefer the path of cooperation. This was the central theme of the speech that Cuba presented to the 24th U.N. General Assembly in the name of the Movement of Nonaligned Countries. This choice has not yet been made, and there is still time to try—although it is a very difficult and perhaps romantic task—to coordinate the interests of the developed capitalist countries, of the socialist countries, and of the developing countries, in order to arrive at constructive propositions. . . .

On Cuba's strategic allies

The unity achieved by the revolutionary forces in some countries and the advances made in that direction in others, have constituted an important factor in the victories achieved and the advances made by the Latin American revolutionary movements of national and social liberation. . . .

Within the Latin American context, the active participation of Christian forces is more important every day. These forces . . . are actively joining the struggles for national liberation, democracy and the social transformations of our peoples. The fight of the revolutionary Christian elements, which sometimes include priests and other elements of the Catholic hierarchy, alongside the leftist forces, constitutes an appreciable ingredient

of the major historic changes currently taking place in our countries.

When we refer to the revival of the popular forces, there is another new element in the Latin American situation, which must be recorded: the social-democratic presence. . . . Now, however, Latin America has become one of the permanent arenas of social democracy. . . . Despite the well-known ideological differences that separate Marxist-Leninist revolutionaries from the social democrats, when we examine the immediate situation and refer to the current historic conditions, the social democratic participation and the social-democratization of former bourgeois and oligarchic parties of Latin America are positive. . . .

The Cuban Communist Party has maintained frequent and fruitful contacts, at times at the highest level, with socialist and social democratic parties and personalities from Latin America as well as from West Europe. . . . We will join also with all the patriotic governments and with the anti-imperialist movements that are combatting, in one way or another, the domination of Washington. . . .

On a showdown with the U.S.

The election of Reagan introduces into Cuban-U.S. relations an element of uncertainty, or more properly, of danger.

At the final session of the congress on Dec. 20, Castro again addressed the issue of Cuba's preparations for fighting a U.S. invasion:

We are constantly threatened by imperialist aggression. . . . They are threatening us with maintaining their economic blockade. Let them maintain it for 100 years if they want. . . . They are threatening us with naval and military blockades. Let them impose their blockade and they will see what the Cuban people are capable of withstanding.

If this gigantic mass has to disperse throughout the country and cultivate the land in order to live, if we have to cultivate it with oxen and plows and with hoes and pickaxes, we would cultivate it, but we would last. If they think that we are going to surrender because we lack electricity or buses or oil or whatever, they will see that they will never be able to subjugate us . . . even if we have to live like the Indians that Columbus found when he arrived here 500 years ago. . . .

If they dare invade our country, more Yankees will die here than died in the Second World War. . . .

If they wish to save themselves a lot of work and they wish to drop 20 atomic bombs on us, let them do so. Let them drop them. Once before we faced the risk of having them dropped on us. I do not recall that any citizen of this country lost sleep over it. . . .

We must prepare ourselves for the defense of the country. . . .

Soviet faction backs Latin insurrections

by Rachel Douglas

In the closing months of 1980, Soviet propaganda increased its support of the liberation theology of Jesuit revolutionaries to a loud roar. The internationally circulated Moscow weekly *New Times* hailed "Latin American priests . . . active in social and political life. The monthly *America Latina* devoted its entire October issue to liberation theology."

These are the outlets of a Soviet faction which is instrumental both in the immiseration of Central American nations and populations, and in the creation of military explosions in that region.

The same Soviet faction, which reaches to the highest levels of the Communist Party of the Soviet Union and centrally involves the KGB security agency, orchestrates the Soviet networks collaborating with the Iranian mullahs' regime in plunging Iran into a new dark age.

The International Department of the Soviet Communist Party Central Committee, headed by Boris Ponomarev, is complicit in these operations. So are the foreign policy think tanks of the U.S.S.R. Academy of Sciences, led by the Institute of World Economy and International Relations (IMEMO), known for its links to British intelligence agencies.

Together with the overseas sections of the KGB, these institutions comprise a powerful subsector of the Soviet foreign policy-making establishment, which co-functions with those international socialist and Catholic networks that pursue policies of de-industrialization and destabilization. As such, they directly counteract a very different impulse that also contributes to Soviet foreign policy, namely the goal of avoiding war.

A clear, current instance of Soviet war-avoidance policy is the proposal made personally by President Leonid Brezhnev, during his December 1980 visit to India, for an international agreement on securing sea lanes through the Persian Gulf. Several nations of the Gulf region, nations which are otherwise targets of Soviet-linked destabilization, welcomed Brezhnev's initiative as a concrete opportunity for defusing the Middle East crisis.

At the just-ended Second Congress of the Cuban Communist Party, which cemented Cuba's allegiance to the destabilization strategems of the Socialist International and the Jesuit order, Moscow's contribution was on a stability track. The Soviet delegation was led not by the communist ideologues like Ponomarev, but by Polit-

buro member Konstantin Chernenko, an associate of Brezhnev since their postwar jobs in rebuilding a Soviet industrial district, and Vladimir Dolgikh, the Central Committee secretary for heavy industry.

In his speech to the Cuban congress, Chernenko stressed the strengthening of Cuba through industrial development, the importance of science and technology exemplified by a joint Soviet-Cuba space flight last summer, and the need for détente. Chernenko even delivered a slap to Havana by saying Soviet support for the international nonaligned movement was exemplified by Brezhnev's trip to India—the country which has confronted Cuba's efforts to harness the nonaligned movement to its policies!

Soviet forces implicated

The Moscow collaborators in the destabilization of Central America are centered mainly in two places: the Communist Party Central Committee apparat and the Academy think tanks. Implicated institutions and personnel include:

Sergo Anastosovich Mikoyan. Editor: *America Latina*, monthly of the U.S.S.R. Academy of Sciences Institute for Latin America.

The Institute of Latin America, whose director is Viktor V. Volskii, is one of several spun off during the 1960s from IMEMO, the chief Soviet foreign policy think tank. IMEMO is where British intelligence agent Donald Maclean, colleague of the famous Anglo-Russian triple agent, KGB General Kim Philby, works on shaping Soviet perceptions of Europe. It is the leading Soviet source of the thesis that unless it becomes socialist, the developing sector would be better off without foreign capital inputs at all—even if countries relying on their own resources collapse economically.

IMEMO was founded after a 1956 directive from Mikoyan's father, the Armenian Bolshevik and later Politburo member Anastas Mikoyan. Drawing on the cadre trained by the Hungarian communist Eugen Varga, an adherent of the British school in communist economics, Anastas Mikoyan commissioned IMEMO to be headed first by his brother-in-law, A. A. Arzumanyan.

The October 1980 issue of Mikoyan's *America Latina* contained six articles on "The Church and the Political Struggle," which provided theoretical justification for communist collaboration with the armed priests of the Jesuit order in Latin America. The keynote article was a tribute to 18th-century rabble-rouser Tupac Amaru for his conclusion that the way to a radical transformation of the world passes through armed struggle. Tupac Amaru was an Incan (Peruvian Indian) noble who organized a vast Indian rebellion in the 1780s and who has been claimed by Jesuit historians as a

product of Jesuit training and direction.

Boris Ponomarev. Secretary: International Department of Central Committee, Soviet Communist Party.

In the liberation theology issue of *America Latina*, Nikolai Kovalskii quoted Boris Ponomarev as the authority on the need for cooperation of antiwar forces including communists, socialists, social democrats and other parties and social movements, especially Christian ones.

For over three decades, Ponomarev has worked in the Central Committee International Department, handling Moscow ties not only to foreign communist parties, but to socialist parties and Third World groups like the Palestine Liberation Organization. Before that, Ponomarev worked since the 1930s on the staff of the Communist International organization.

This "communist party" track of Soviet foreign policy often runs counter to Soviet state initiatives, as in the case of Ponomarev's December 1980 trip to Paris. At a point when Brezhnev was signaling, through

A Jesuit controller on Cuba and Central America

The following is a summary of an interview conducted Dec. 30 with Father Zweifelhofer, head of Third World Policy coordination for the Society of Jesus. He is based in Munich, West Germany at the Societas Jesu Philosophical Academy. The interview was conducted by a European specialist on Latin America.

Father Zweifelhofer gave what he described as a "very cautious" assessment of the situation in the Caribbean and El Salvador. I asked him whether he thinks that the recent call by Fidel Castro for the unity of opposition movements means anything concrete. In reply, Father Zweifelhofer said that there is little Cuban influence in Latin America, either in Nicaragua or in El Salvador.

"Castro first has to work out a model of cooperation with the Church in Cuba," he stated, "in order to sound convincing to others in the region.

"The reason for Cuba's minuscule influence on affairs in El Salvador reflects the fact that the guerrilla

several channels, recognition of France's independent international role, Ponomarev publicly attacked the French government for having a cold war military policy and reportedly threatened to throw French Communist support behind the Socialist Party opponent of French President Valéry Giscard d'Estaing in the 1981 French elections.

Lazar Velikovich. Researcher: Academy of Social Sciences of the Central Committee, Soviet Communist Party.

In the KGB-connected international weekly, *New Times*, in October 1980, Velikovich wrote under the headline "The Jesuit Order Today" that an important tendency at work within the principal order of the Catholic Church was the politicization of priests. Citing a justification for revolutionary action in Latin America given by Jesuit chief Pedro Arrupe, Velikovich resurrected the idea of dialogue and specific cooperation between Marxists and Jesuits.

The Central Committee's Academy of Social Sci-

ences is closely linked to the party ideologists, like Ponomarev and Politburo member Mikhail Suslov, who control Soviet assets in the international communist parties.

Georgi Arbatov. Director: U.S.A./Canada Institute.

Moscow's top Americanologist, director of IMEMO's largest spinoff, Arbatov met in Washington, D.C. in early December with attendees of the Socialist International conference—people directly involved in carrying out the socialists' plans for Central America. Among them were Willy Brandt of West Germany and Olof Palme of Sweden, both of whom are also working with Arbatov on a newly founded international disarmament lobbying group.

Arbatov also reportedly conferred with Henry Kissinger while in Washington, and then went on to the Foreign Policy Research Institute in Philadelphia for talks with associates of Kissinger who are among the foreign policy advisers for the Reagan administration transition team.

movement there is Salvadorean in origin. Naturally, the Catholics have a better reading on what is going on there than anyone else."

When I inquired about the Central American socialists, Father Zweifelhofer would only comment that they have better access to the Salvadorean people than the Cubans.

I was struck by Father Zweifelhofer's pinpoint reading of the military and political situation at the moment in El Salvador—a much more informed reading than the ones I had received from people in and around El Salvador itself.

I asked him about the apparent failure of the December FMLN offensive in El Salvador from the movement's Honduras base. He replied that the offensive was "dilettantish" and had indeed collapsed. But that, he thinks, is not so important. What is important is that the seven opposition groups in El Salvador united under the umbrella of the FMLN. "The popular resistance will continue on a lower level, and it will probably be a bloody war of attrition."

There is little likelihood, he said, that the new Junta, which consists of "militarists," will be open to any impulse for moderation. Until some months ago, most of the moderate Christian Democrats stayed with the Junta and the Establishment in San Salvador.

He added that the Church has great influence over the majority of the country's leaders, "since most of them come from our own universities." Seventy-five percent of them withdrew their support from the

Junta, he emphasized, and the election of Ronald Reagan in the United States also accelerated the process of militarization in El Salvador. When Colonel Majano (the liberal member of the Junta who has reportedly joined the underground) had to leave, "that was a sign of a turn in the situation. It is arguable that the United States had a hand in bringing Duarte to power, and the incoming administration will side with the right-wingers in all of Latin America.

"For the Church, this means that since the Junta is against the Church, all six bishops in El Salvador will at least sympathize with the FMLN if not join their movement or support it more actively.

"The Reagan administration cannot be expected to openly move into the region, for example, with an action against the Cubans, because the Cubans do not play a major role anyway—although the press writes that they do—but the United States will provide weapons, other material support, and operate with economic aid weapons as in the past."

Zweifelhofer preferred not to comment on the upcoming meeting between Reagan and Mexican President López Portillo, but said that the El Salvador question will be brought up there.

Munich, it should be noted, is a center for the Society of Jesus in Western Europe. As home base for the Hapsburg-Wittelsbach aristocracy, Munich and Bavaria have been a launching zone for both enforced backwardness and anti-capitalist radicalism throughout the 20th century.

IV. The battle over Mexico's foreign policy

by Elsa Ennis

On Jan. 5, President-elect Ronald Reagan will meet Mexican President José López Portillo on the bridge that links El Paso, Texas, with its Mexican "sister city," Ciudad Juarez. The place of encounter symbolizes the opportunity Ronald Reagan now has to reverse the Carter administration's opposition to Mexico's industrialization, a policy that has taken Mexico-U.S. relations to their lowest point in 50 years. Should Ronald Reagan assure the Mexican leader that he will reject Zbigniew Brzezinski's now-famous vow not to permit the rising of "another Japan south of the border," and that he will promote an oil-for-technology policy as the baseline for the two countries' relations, this could not only turn U.S.-Mexico relations around overnight, but also lay the basis for Reagan's overall policy toward the developing sector.

Nonetheless, while each leader prepares to take advantage of this opportunity, political factions in both the Reagan transition team and the Mexican government are hastily working to spoil the summit and set the two leaders up for confrontations and misunderstandings over a series of issues.

The sabotage work is being done from three main flanks:

- The insistence by some Reagan advisers—grouped around National Security Adviser-designate Richard Allen—on making a "North American Accord" the basis U.S.-Mexico relations.
- The attempt by the Socialist International and their conduits to make the explosive crisis in El Salvador a top agenda item for the two leaders, to the point of even forcing them to line up on opposing sides of that country's civil war. The Socialist International's main inside operative in this wrecking job is Mexico's Foreign Minister, Jorge Castañeda, and his networks within that ministry.
- A desperate last-minute effort by these networks to make a minor U.S.-Mexico disagreement on bilateral fishing treaties a major point of confrontation between the two countries.

The 'North American Accord'

In announcing the summit meeting in a press conference Dec. 18 Richard Allen said the meeting "comports

well with the initial statement at the time of Governor Reagan's announcement that his desire was to seek a North American Accord."

This "accord" is a variant of Zbigniew Brzezinski's concept of a "North American Common Market" to be formed by Canada, Mexico, and the United States, which has been repeatedly rejected by the Mexican government. In a speech delivered to the Canadian parliament in May 1980, President López Portillo categorically stated that "the creation of such an entity would inevitably hinder our industrial development [and condemn] Mexico to perpetually extract and export raw materials for consumption by more advanced societies."

Although Mexico's feelings about the "common market" have been expressed loudly, several Reagan advisers—and the President-elect himself—have persisted in promoting it.

In his announcement to the press Dec. 18, Allen even indicated that there have been discussions with European leaders aimed at convincing them of the benefits of such an accord. According to Allen, "The Europeans . . . feel very comfortable about the United States' developing policies that will bring about a very good-neighbor relationship on the continent of North America."

The El Salvador trap

While President López Portillo has expressed concern over his "noncoincidence" with Ronald Reagan on Central America, his foreign minister, Castañeda, is going out of his way to make these differences into a fundamental division.

He has even publicly defied López Portillo's stated policy toward El Salvador by assuring the left-wing opposition of nonintervention, and encouraging their forces there to step up their offensive and set up a "regional government." In an interview in the Mexican magazine *Proceso* in December, Castañeda went to the point of stating that Mexico has virtually made the decision to break relations with the Salvadorean government and only awaits the guerrillas to take and hold a territorial seat to announce the break.

Right after the *Proceso* interview was made public,

President López Portillo expressed a totally different perspective for El Salvador in an interview with the foreign press, in what most observers viewed as a public reprimand of his own foreign minister.

In the same interview, López Portillo sidestepped journalists' attempts to force him to attack Reagan's so-called right-wing, militarist positions toward Central America, saying that he could not comment on the subject because he did not yet know the Reagan administration's policies toward that region. "That's what I will find out" at the Ciudad Juarez meeting, he said.

Castañeda's fishy business

Those who hope to sabotage the U.S.-Mexico talks apparently decided in late December that they had not yet succeeded in derailing the potential for an oil-technology accord, and so they moved to throw in a last-minute monkey wrench.

On Dec. 29, the *New York Times* Mexico correspondent, Alan Riding, a known opponent of Mexico's modernization drive, broke the news that the Mexican government had decided to terminate all fishing accords with the United States. Riding's source for the "shocking revelation" cited in his report was his friend Andrés Rozental—stepson of Castañeda, and the foreign ministry official in charge of preparing the Reagan-López Portillo meeting from the Mexican side! Riding quoted his inside sources "predicting" that the Mexican decision could "provoke a new storm in relations," and that it could be "high on the agenda" in the Ciudad Juarez meeting.

That same day, the *Washington Post* Mexico correspondent, Marlise Simons (who is Mrs. Alan Riding), ran a front-page story on how the Reagan team was causing "embarrassment" to the Mexican government by cutting Carter administration officials out of the Reagan-López Portillo meeting. The story was immediately picked up by several U.S. national radio and newspaper networks. Simons's source: "Mexican officials preparing the talks."

'Provocations'

A furious official in the Mexican embassy in Washington, reached by the *Executive Intelligence Review* this week, denounced both stories as totally fraudulent. In the fishing treaties, he said, all that was involved was a formal notification by Mexico to the United States that it did not wish to renew existing treaties and wanted to negotiate new ones—a mutually agreed upon approach.

As for Mexico's supposed embarrassment over the Reagan team's exclusion of Carter officials, the Mexican official said: "That's ridiculous," since the Reagan-López Portillo meeting will be an informal exchange of views. "These articles are provocations," he concluded.

Documentation

López Portillo versus Castañeda

Since he was named foreign minister in May 1979, Jorge Castañeda has tried to channel Mexican foreign policy away from President López Portillo's prodevelopment orientation and toward a zero-growth, North versus South confrontationist perspective. Castañeda has worked on this closely with the Socialist International, and with the Brandt Commission in particular.

The following quotes taken from Castañeda's interview in the Dec. 17 issue of the Mexican magazine *Proceso*, and from López Portillo's interview with the foreign press Dec. 20, indicate the depth of the rift.

On El Salvador:

Castañeda: A premature break [in Mexican relations with El Salvador] would not serve the political objective one is seeking. . . . It is a question of waiting for the opportune moment. . . . The struggle has not yet taken on the requisite characteristics to be able to recognize, for example, the "belligerent" status of the opposition, since it has no territorial seat, nor is it habitually obeyed by a sector of the population in a specific zone.

López Portillo: Political problems are largely results of economic problems which have not been resolved. . . . This is basically the reason why Mexico continues being supportive of this neighboring region whose history and destiny are our own. We will maintain relations with El Salvador according to the principles of the Estrada Doctrine [non-intervention in foreign countries] and we have not found sufficient reason to either exercise or terminate our diplomatic representation there.

On the Brandt Commission:

Castañeda: According to *Proceso*, "Jorge Castañeda highlights the Brandt Report as a 'promising sign.' Its recommendations, he says, are not altruistic; they are pragmatic; they intend to prevent a crisis of broader consequences. He thinks the assertion that the Brandt Report follows a World Bank plan is unfounded: 'There's no way to prove that. I can't believe that Brandt, Kreisky, or Palme are following a World Bank plan. Some, like Heath or Frei, may be. But that doesn't show that all are.

"The original idea [of the Mexico June summit

meeting] was taken from the Brandt Report which proposed a summit meeting. Then, President López Portillo turned it into a political initiative. Thus he cut the umbilical cord linking the proposal with Brandt; he depersonalized it. Mexican-Austrian contact was set up and, concretely, Kreisky and López Portillo began to flesh out this possible scenario and how it would be organized.' ”

López Portillo: If the June meeting actually takes place . . . what we basically expect is what we could call a symbolic contact of political will at the highest level. . . . For these reasons, Mexico took the risk of becoming one of the sponsors and protagonists of this possible meeting.



Castañeda and family: a political dossier

On Dec. 30, the Mexican political scene was shaken by an uproarious rally in front of the National Congress demanding the ouster of Foreign Minister Jorge Castañeda.

The rally, led by the Mexican Labor Party (PLM), rapidly polarized the congressmen around the PLM's denunciation of Castañeda's treasonous support for the Socialist International's zero-growth perspective for the Third World, and his blatant deviation from President López Portillo's foreign policy directions. The PLM also drew attention to Castañeda's known proclivities to consume excessive quantities of alcohol with jokes about his close relationship to "Willy Brandy."

According to political observers, the polarization

Jorge Castañeda (l) with Kurt Waldheim of the United Nations.

around the Castañeda case is now shaking the cabinet itself.

A review of Castañeda's political pedigree—and that of his family—gives a good idea why he has become the center of such a heated controversy in the Mexican political scene.

Jorge Castañeda, Sr. is the chief asset of the Socialist International in the Mexican government.

A leading proponent of one-world international jurisprudence, Castañeda is a 25-year collaborator of the British-Canadian Special Operations Executive (SOE) unit headed by Major Louis M. Bloomfield, through his involvement as an associate member in the Bloomfield-founded International Law Association of the United Nations. Bloomfield and his associates in the ILA are notorious for their links to the Permanent Industrial Expositions (Permindex), an organization cited in American and French judicial investigations as the agency responsible for planning President Kennedy's assassination and multiple assassination attempts against French President Charles de Gaulle.

Mrs. Rozental de Castañeda is the second wife of the foreign minister, and is part of the Eastern European exile group around Bloomfield. She is a Russian-born Canadian whose primary allegiance is to the Zionist movement she organizes for.

Andrés Rozental is the foreign minister's stepson and also the director of North American Affairs in the foreign ministry.

He is currently in charge of preparing the López Portillo-Reagan meeting. Rozental is on intimate terms with the *New York Times's* Mexico correspondent, Alan Riding, who has gained notoriety in the country for his outrageous opposition to its industrialization.

Right after the triumph of the Nicaraguan revolution, Rozental was sent to that country to set up diplomatic relations with the new government. According to highly placed Nicaraguan government sources, negotiating with Rozental proved a unique experience: more than Mexico's, he seemed to be Israel's ambassador.

Jorge Castañeda, Jr. is the family hand in the Mexican Communist Party (PCM), the country's most rabid supporters of drug legalization, homosexuality, and zero growth. PCM leader Jorge, Jr. played a key role in a recent factional fight aimed at rallying that party totally behind this perspective.

Castañeda Jr.'s articles in the PCM's tabloid *Machete* and in the Jesuit-led daily *Uno mas Uno*, were a crucial vehicle for ousting those party members who opposed this orientation.

Christian Democrats start socialist party

by Dolia Pettingell

On Dec. 14, 1980 a Mexican political group known as Acción Comunitaria announced its transformation into the Mexican Social Democratic Party (PSD). Declaring total war against Mexico's successful "mixed economy" system, the new party stated that it will move to link up with the Socialist International of Willy Brandt.

The creation of the Mexican Social Democratic Party is a perfect case study that proves what this magazine has charged repeatedly: 1) that the Socialist International movement is responsible for the creation and ongoing deployment of left-wing terrorist organizations; and 2) that the Socialist International and its left terrorist infrastructure is controlled by the same Society of Jesus networks who run the rightist Christian Democracy.

The founding declaration of the PSD itself proved the point on terrorism. There, the new party attacked the enormous concentration of power of Mexico's presidential system, and made public its commitment to continue the battle of Hidalgo, Morelos, Juárez, and Cárdenas—Mexico's founding fathers—and of Lucio Cabañas. Cabañas was the peasant guerrilla leader who founded the terrorist 23rd of September League ("Liga 23") in the 1960s, and was killed by the Mexican army in the late 1970s.

The reference to Cabañas by the PSD is not accidental: both groups were created by the same Jesuit networks.

Acción Comunitaria, the group that has now turned into the PSD, was founded in the early 1970s by three brothers, Ernesto, Edmundo, and Luis Sánchez Aguilar, and by Guajardo Suárez, the heavyweight political and financial supporter of the group. Guajardo Suárez, a leading Christian Democratic businessman, is well known in Mexico for working closely with the Christian Democratic FAT trade-union confederation, as well as founding the Jesuit Social Union of Mexican Businessmen (USEM). The USEM is the social action organization of the more "liberal" faction of the Monterrey Group, Mexico's most powerful private-sector financial and industrial conglomerate.

Luis Sánchez Aguilar, current head of the PSD and Guajardo Suárez's protégé, was trained at the presti-

gious Monterrey Institute of Technology, the Monterrey Group's cadre-training institution. Most of the professors of the Monterrey Institute are either members of the Jesuit order or have received Jesuit education.

One of the most prominent and influential Jesuits who trained Luis Sánchez Aguilar in the 1960s was a German national by the name of Herman von Bertrand. Von Bertrand, still considered by Sánchez Aguilar as the most influential person in his personal development, played a prominent role in recruiting young students into the Liga 23 support groups. These support groups at the Monterrey Institute were in turn the principal recruitment base for the Liga 23.

In the early 1970s, around the time Acción Comunitaria was formed, a sharp faction fight within the Monterrey Group surfaced. The fight was between Guajardo Suárez's liberal faction on the one hand, and the more pro-industrial group aligned with Monterrey patriarch Eugenio Garza Sada.

The fight centered around Garza Sada's attempts to throw the Jesuits out of Monterrey, something which Guajardo Suárez violently opposed. In an effort to consolidate his own support base, Guajardo Suárez at this point created the USEM.

In addition to purging the Jesuits, old man Garza Sada was engaged in key negotiations with then-President Luis Echeverría, aimed at establishing cooperation on economic development projects between the public and private sectors. The negotiations had the potential of ending the longstanding rivalry between Mexico's public and private sectors, a dispute the Jesuits and others have historically manipulated to keep the Mexican economy weak. Garza Sada's efforts were strongly opposed by Guajardo Suárez's people on this count as well.

In 1973, a terrorist commando of the Liga 23 assassinated Garza Sada in downtown Monterrey. This not only destroyed his own efforts, but sabotaged the possibility of any cooperation between the two sectors for the remainder of the Echeverría administration, since the Monterrey Group as a whole blamed Echeverría for their patriarch's death. More sophisticated analysts, however, wonder about Guajardo Suárez's more likely connection to the incident.

It was not until 1978, the second year of the López Portillo administration, that relations between the two sectors started to improve. In an exclusive interview with this magazine in March 1980, the PSD's Luis Sánchez Aguilar expressed great unhappiness at this increasing cooperation between the government of López Portillo and Monterrey businessmen.

It is this potential for a prodevelopment alliance which the new PSD is now targeting for destruction.

Kissinger sets up a Mideast 'arc of crisis'

by Robert Dreyfuss

In characteristic fashion, former Secretary of State Henry Kissinger embarked at the end of December on an unauthorized diplomatic voyage that will carry him to Egypt, Israel, Saudi Arabia, Oman, Somalia, and Morocco.

Though unofficial, the Kissinger mission was the subject of public controversy within the camp of President-elect Ronald Reagan. On one hand, Reagan himself has personally disavowed Kissinger's visit and refused to lend assistance to the former secretary's effort to resurrect his virtuoso diplomacy; on the other hand, within days of Kissinger's departure, Richard Allen, Reagan's designated National Security Adviser, commented that the administration might find it useful to employ Kissinger in the role of special envoy and adviser.

Despite the divisions in Washington, however, Kissinger may achieve the primary objective of his current visit: the heating up of tensions across a broad "arc of crisis" stretching from central Africa through the Middle East, the Arabian Peninsula, and the Persian Gulf. By the time Ronald Reagan is sworn in on Jan. 20, a half-dozen crises now simmering in that region may explode, thanks to Dr. Kissinger.

By himself, of course, Kissinger could not manage such an extraordinary series of developments. He is, however, working in close collaboration with the Second International, whose social democrats are Great Britain's traditional allies in the Middle East and the Persian Gulf, and, at the same time, with important components of the radical and communist movement in the area, including

the Libyan regime of Col. Muammar Qaddafi, radical Palestinians, and the regime of Ayatollah Khomeini and the Muslim Brothers.

Case study: Libya

Within hours of Kissinger's arrival in Egypt, on the first leg of his voyage, the Egyptian press began a systematic campaign of threats and intimidation aimed at neighboring Libya. In the past, Kissinger is said to have promised Egypt's Anwar Sadat that he would be allowed to seize control of Libya's oil wealth by the force of arms in exchange for Egypt's cooperation in Kissinger's scheme to establish a direct U.S. military presence in the Middle East.

According to intelligence specialists, Egypt is presently preparing an invasion of Libya to reply to alleged provocations from Qaddafi. Qaddafi, a fanatic ruler controlled by the secretive Senussi Brotherhood, whose tentacles reach deep into the African continent, is a close ally of the U.S.S.R.

At the urging of the KGB, the Soviet Union has established an enormous concentration of military personnel and equipment in Libya—at least 6,000 Soviet advisers, more than in any other country outside the Warsaw Pact, and thousands of tanks, personnel carriers, and aircraft.

A confrontation between Egypt and Libya, should it arise, would be a managed conflict. There is not the slightest chance that the U.S.S.R. would allow its Libyan ally to fall to Sadat's armed forces; in fact, in



Unlike 1974, Kissinger was not allowed into Jordan during this trip.

case of Egyptian attack, the U.S.S.R. reportedly has a contingency plan to use KGB-controlled Libyan officers to oust the Qaddafi regime.

But an Egypt-Libya crisis would provide an almost certain pretext for Kissinger to urge the incoming Reagan administration to continue Zbigniew Brzezinski's policy of NATO militarization of the region based on the Egypt-Israel alliance.

Kissinger's deal with the KGB

What Kissinger is seeking in the Middle East is a behind-the-scenes accord with the Soviet KGB faction, especially the Middle East specialists and Orientalists around Middle East veteran KGB General Kim Philby, to divide the region into two separate "spheres of influence." The Egyptian-Libya crisis, worked out in advance between Kissinger and the KGB controllers of Qaddafi, is meant purely to serve as a vehicle for manipulating Reagan into supporting an expansion of U.S. military bases and facilities in the region.

Kissinger seeks to consolidate Egypt and Israel, along with the so-called Rapid Deployment Force, as an axis of control over Saudi Arabia, Jordan, and the Arab states of the Persian Gulf.

The Soviet Union, in exchange, would not only get strengthened control over Libya and an expanded role throughout Africa—at the expense of France, whose former colonial allies are endangered by the Libyan subversion campaign—but, at the same time, expects to consolidate its influence in Iran, Iraq, and Syria.

What Kissinger and the KGB have in common is the desire to polarize the area along Cold War lines, and to exclude Western Europe, especially France and West Germany, from playing a significant role in the area. From the Anglo-American side, this policy has taken shape since 1977 with the regional "bloc" approach directed by Zbigniew Brzezinski and Pentagon Policy Planning chief Robert W. Komer. In an interview recently in the *Wall Street Journal*, Brzezinski suggested that the Persian Gulf would now have to go through a process of militarization and partition into zones in exactly the same way as "happened in Europe between 1945 and 1955."

In Iran, the virtual collapse of the hostage release negotiations and the prospect of trials of the 52 Americans as "spies" raises the danger of a U.S. show of force in the Persian Gulf. Such a rash action would undoubtedly lead to a direct countermove by the U.S.S.R. in northern Iran and an irrevocable polarization of the region.

Kissinger influence

At present, Kissinger does not have any official role in the Reagan administration, and, according to informed sources, he will not get one.

But he is using his Middle East tour, which will end on Jan. 13, as a lever for increasing his influence in the next administration. Following his meeting with Anwar Sadat, Kissinger and the Egyptian president emerged to meet the press, and Sadat told the audience that he had given "certain messages" to Kissinger to deliver to Reagan's circle. Kissinger, who is not known for his modesty, commented, "I shall, of course, report these conversations to the new administration and to its leading personalities."

By giving a message to Kissinger, Sadat was taking a calculated gamble, since it was known that the portly former secretary of state was not making an official visit. Yet Sadat assumed that the risk of insulting Reagan in that manner would be worth taking if it could give Kissinger an inside track with the Reagan transition.

For his part, Kissinger declared that the chief problem in the Middle East was that of "military pressure from the Soviet Union"—although most Middle East analysts consider the Arab-Israeli problem to be the chief concern.

On the issue of the Israeli-Arab conflict, Dr. Kissinger offered his opinion that the key to resolving the problem is to bring Jordan's King Hussein into the Camp David talks. But Kissinger's position was viewed with some skepticism when it was made known that Jordan had refused Kissinger permission even to visit the country on his current trip.

Qaddafi's African bridgehead

Libya, with Soviet aid, is penetrating, and ravaging, sub-Saharan Africa, Douglas DeGroot reports.

A massive Libyan military intervention into the Chad civil war placed the capital, NDjamena, and most of the country into the hands of the Libyans and the various factions in Chad allied with the Libyans on Dec. 15.

This move promises to be only the beginning, since the takeover of Chad by a Libyan-recruited mercenary force, after a month-long airlift of troops, tanks, and arms reportedly planned by Soviet and East German advisers gives Libyan strongman Muammar Qaddafi a strategic beachhead into sub-Saharan Africa. From Chad, Qaddafi can deploy his mercenary "Islamic Legion," with arms from his vast stockpile into western and central Africa on a rampage against what this advocate of "Islamic fundamentalism" sees as the supposedly imperialist evils of modernization and development. The Khoemini hordes, supported by Qaddafi, that overthrew the shah in Iran, had the same profile.

The unstable situation produced in Africa by Qaddafi's adventures cripples the possibility that the French "trialogue" proposal to develop Africa as a joint venture involving Arab capital and European technology will provide Africa with an alternative to its present economic collapse.

The Soviet endorsement of Qaddafi as a marcher-lord to carry out the destruction of Africa also sets a trap for the incoming Reagan administration, making it easy for Reagan's Heritage Foundation and Hoover Institution-associated advisers to push him into an anti-Soviet confrontationist posture instead of backing a vigorous development policy that would expose the Soviets for blocking with antidevelopment forces.

Dark Ages

All of Africa has already been written off, with the intention of plunging the continent into a Dark Ages. Qaddafi's policy of fomenting regional wars and internal destabilizations throughout Africa will implement a neocolonialist order, forcing the populations that manage to survive to eke out a cult-ridden tribal subsistence lifestyle with the most backward of technologies.

The Libyan takeover of Chad provides Qaddafi with a springboard for launching this operation throughout the rest of Africa. Nigeria and Sudan, located on either

side of Chad, are the two key pivots for spreading this Dark Ages campaign throughout the remaining regions of Africa not already caught in the throes of regional conflicts and destabilizations (e.g. southern and eastern Africa), and both countries are already being targeted. If Nigeria, the most heavily populated country in Africa, is unsuccessful in its efforts to maintain its integrity in the face of the Dark Ages onslaught, the smaller countries around Nigeria will not be able to resist the chaos spreading from Nigeria. If Qaddafi is successful in Sudan, he will provide the trigger for a U.S.-Soviet clash in the strategically located Horn of Africa.

Who is behind assault?

The forces behind this Dark Ages assault on Africa include an alliance of the British-allied Kim Philby KGB networks in the Soviet Union, and European oligarchic families. The latter is made up of Italian "black nobility" families, the British oligarchy, and the Jesuit "liberation theology" networks they control.

Boris Ponomarev, Soviet Central Committee Secretary for relations with foreign communist and socialist parties and liberation fronts, is a prime example of the Philby-controlled network in the Soviet Union. Ponomarev is pushing the line that modernization and development "exploit" and "oppress" Third World populations, and is opportunistically allying with the destroyers of Africa, seeing this as a way of weakening the West.

In Paris, recently, he attacked French military policy, undermining efforts by Brezhnev and French President Giscard d'Estaing to cooperate based on mutual recognition of the positive role each was playing to stabilize relations.

The leading families in Libya are connected to ancient Italian oligarchical families. In early January Qaddafi is going to Italy, where he will no doubt meet with his controllers, who are tied to these families. Qaddafi's trip was organized by Ahmed Shahati, the organizer of Khomeini-style People's Committees which have replaced the government in Libya. It was through Shahati that key Qaddafi controllers such as terrorist controller Michele Papa of the Italian Socialist Party

and the networks of the late Lelio Basso, who was part of the Bertrand Russell Foundation, mediated Billy Carter's connection to Libya.

Qaddafi's more direct British connections date from the days of his military training at Sandhurst. His Jesuit connections are indicated by his professed admiration of Jesuit theoretician Roger Garaudy, formerly of the French Communist Party.

Qaddafi's operation into Chad

The Libyans began their takeover of Chad with a massive airlift of troops, arms, and tanks into Chad that began in the latter part of October. As Qaddafi's forces took more territory from anti-Libyan forces and worked their way toward the capital, NDjamena, they reportedly handed out Libyan identity cards in the conquered areas. After a week of artillery barrages and Libyan air strikes, on Dec. 15 the Libyan forces finally succeeded in taking over the city.

Throughout the Libyan buildup into Chad, numerous African countries, who knew precisely what the consequences would be for them if Qaddafi took over Chad, urged the French to take action to stop Qaddafi's invasion. The French only quietly assured these African countries that the Qaddafi menace would not spread beyond Chad, and issued a weak statement expressing concern about the Libyan invasion, without mentioning Libya by name.

Diplomats from several African countries have expressed bitterness about French passivity in the face of Qaddafi's invasion, and tended to agree with the often repeated reports that the French had struck a deal with the Libyans to split Chad up into zones of influence.

However, other reliable sources report that the Soviets were exerting blackmail pressure on Giscard not to take any action by threatening to order the French Communist Party to form an electoral alliance with the French Socialist Party, a development that would be a more significant threat for Giscard in next spring's presidential elections.

African anti-Qaddafi activity

There are very few African countries into which Qaddafi has not meddled. *Le Continent*, an African newspaper in Paris, reported that the Gambian government had arrested individuals who admitted that they had been sent by a Senegalese Islamic fundamentalist who is in the same networks as Qaddafi to participate in an effort to overthrow the Gambia government. Senegal, Gambia, Ghana, and Gabon have all severed relations with Libya because of subversive Libyan activities. Mauritania has just kicked three Libyan diplomats out of the country following pro- and anti-Khomeini student clashes.



During the Nigerian civil war in 1967.

Before the Libyan takeover of Chad, Nigerian government officials leaked that they were considering kicking out the Libyan ambassador for recruiting mercenaries to join the assault on Chad. Anti-Libyan demonstrations took place in neighboring Niger.

After the Libyan takeover, a previously scheduled Organization of African Unity summit on the Chad civil war took place in Lagos, Nigeria, but broke up after one day without being able to agree on a strong denunciation of Qaddafi. African sources report that Nigeria, which was very concerned about Qaddafi's activity in Chad, did not take a strong position at the conference it hosted, and blamed the failure of the conference on this development. However, the riots in Kano that coincided with the Libyan takeover of Chad reportedly gave the Nigerians cause to reconsider their intended public denunciation of the Libyan invasion.

In the face of such institutional lack of resolve to confront and expose Qaddafi's marcher-lord activity, those Reagan advisers in favor of an adventurist foreign policy will be able to capture Reagan. And these advisers know exactly what the destructive consequences will be for Africa.

When asked if this kind of policy would not lead to a bloodbath in Africa, Reagan adviser Peter Duignan of the Hoover Institution said bluntly: "Africa already has the most refugees in the world, so it isn't going to make all that much of a difference. I have no interest in peace if it's not our friends involved. We have to kill as many Marxists as possible. That'll do it. We have to knock out Libya. Sadat would be happy to do it."

Nigeria: the plan for disintegration

by Mark Burdman

A scenario for splintering Nigeria into feuding ethnic-tribal blocs was set into motion during the last weeks of 1980, thanks in large part to the meddling into Nigerian affairs by Libya's Col. Muammar Qaddafi.

Qaddafi and his agents have recently funded and instigated regionalist, secessionist sentiment among various of the Muslim-populated states in Nigeria's north. Qaddafi's actions, in conjunction with those of the intelligence agencies of several nations, created the pre-conditions for the outbreak of the worst civil unrest in Nigeria since that country's tragic and bloody late-1960s civil war. The shockwaves of this unrest are now reaching out into other parts of Nigeria and are raising the spectre that Nigeria's venture into American-modeled federalism will collapse and that the country will again sink into chaos.

If Nigeria disintegrates, the repercussions will be profound throughout Africa: Nigeria is the most populous nation in black Africa, and is a major global energy producer. Its political fate is watched with great interest by its neighbors, who will be hard pressed to contain the spread of Dark Ages tribalism if Nigeria collapses.

Sect on rampage in Kano

On Dec. 29, the Nigerian Third Infantry Brigade, equipped with machine guns, armored cars, mortars, and shells, forcefully suppressed an uprising in the city of Kano by a Muslim fundamentalist cult, which had taken 65 people hostage. In the fighting between the federal armed forces and the cult's fanatics, 400 to 500 people were killed.

For two weeks before the Third Brigade intervention, the cult—variously identified as Yen Izala, Yen Awaki, and al-Masifu by Nigerian sources—had committed an estimated 500 murders, both individual acts of murder and killings carried out during riotous rampages throughout Kano.

According to sources in Nigeria's capital city of Lagos, the murders were carried out in classical fundamentalist cult format: victims, labeled "infidels" by the cultists, were slain with primitive bow-and-arrow or

dagger-and-sword weaponry, after which their bodies were hacked into little pieces. At the same time, market areas of Kano were ravaged by the fanatics.

Although the savagery of the Kano killings shocked many Nigerian observers, their occurrence was not entirely unexpected. During Nigeria's 1979 national election campaigns, charges were made by several Nigerian journals and politicians that Kano was the one state in Nigeria that was receiving Libyan money to influence the outcome of the elections. Colonel Qaddafi's fanatical propaganda was able to make some headway in Kano because the predominant Peoples' Redemption Party bases its appeal on a pseudo-mystical "popular revolution" ideology not dissimilar to Qaddafi's own Jacobin preachings. The state also has many Muslim sects and grouplets with a mystical doctrine modeled after the same "Sufi" ideas now hegemonic in both Libya and Iran.

Since the Dec. 18 initiation-date of the cult outbreak, several Nigerian newspapers and political insiders have asserted with certainty that Libya has been behind the most recent spate of events in Kano.

On Dec. 30, the Nigerian Defense Ministry issued a statement that "foreign elements" were responsible for the Kano destabilization. Central government sources asserted that the Libyans were acting in concert with Pakistan and Iran in Kano, and that Ayatollah Khomeini was a "brain" behind the destabilization. Libya, Pakistan, and Iran are all run by the British intelligence-created Muslim Brotherhood, a covert organization committed to restoring a feudalistic order under the cover of "Islam."

The Peoples' Redemption Party newspaper added a further element to these charges Dec. 30, claiming that the Kano unrest was attributable to "a carefully planned operation of the Israeli Mossad" aimed at splitting up Nigeria and overthrowing of the Lagos government. The PRP paper stated that the sect behind the unrest was the "al-Masifu" group, a fundamentalist sect headquartered in Israel which had been involved in the November 1979 uprising in the Mecca mosque in Saudi Arabia.

The Borno precedent

Prior to the Kano events, Qaddafi was intervening extensively in northern Nigerian affairs. In November 1980 his emissaries obtained airspace rights for incursions into Chad from the rulers of the northeastern state of Borno along Chad's borders. The Borno government's action was taken in defiance of instructions from President Shehu Shagari in Lagos.

After the Borno-Libya agreement was concluded, Nigerian Foreign Minister Audu charged for the first time that Libya was actively interfering in Nigeria's

internal affairs. Several complaints have since been made to Libya's ambassador in Nigeria—whose mother is Nigerian—protesting against Qaddafi's meddling, and the ambassador has been threatened with ejection from Nigeria.

The Borno incident set the stage for the Kano unrest. It is no coincidence that high-level Kano sources

Sudan: trigger for U.S.-Soviet conflict

The Sudan delegation to the Dec. 23 Lagos summit on Chad left before the summit had officially ended, outraged that the summit could not agree to strongly denounce Qaddafi's invasion of Chad. Sudan is vulnerable to destabilization operations by Qaddafi due to its deteriorating economic situation, aggravated by a recent IMF-dictated cancellation of planned development projects. From neighboring Chad, Qaddafi is ideally situated for operations into Sudan.

Any such Libyan activity will prime Egyptian President Sadat to carry out his role as anti-Soviet gendarme for Africa, an assignment that was one of the secret clauses of the Camp David agreements. Egypt has historically close relations with Sudan, and has troops stationed in Sudan.

This would set the stage for U.S.-Soviet conflict in the eastern and Horn of Africa regions. On his latest trip to the Mideast, Henry Kissinger also went to Somalia, where he advocated that the U.S. should supply arms to Somalia. This would push a reluctant Ethiopia to grant military bases to the Soviets, which would embroil Ethiopia in a regional superpower conflict that would sabotage its development efforts.

The economic collapse in Sudan, territorially the biggest country in Africa, has aggravated tensions in the country, which was the scene of a protracted 17-year-long civil war resolved in the early 1970s.

In January, President Numeiry will begin implementing a decentralization plan, creating semi-autonomous regions in a desperate gamble that will only make the country more vulnerable to destabilization. Qaddafi has links to the opposition in Sudan, and supported a coup attempt against Numeiry in 1976.

blame the recent unrest on the Yen Awaki sect, which has its origins in Cameroon and Chad—both of which are geographically close to Borno.

'A flare-up of tribal rivalries'

The mooted Borno-Kano linkage may presage the outbreak of wider unrest throughout Nigeria's states.

According to the *Daily Telegraph* of London Dec. 30, "the disturbances may spread wider than Kano and may not be entirely sectarian. There are reports from Lagos of 'border clashes' between some of the states in the Nigerian federation." These episodes, the *Telegraph* suggests, "may be the result of a flare-up of tribal rivalries" throughout Nigeria.

The *Telegraph* projection has a basis in the political facts of life in Nigeria. By his intervention into Borno, Qaddafi greatly exacerbated an already delicate political struggle in that state between the state ruling party, the Greater Nigerian People's Party (GNPP), and the federal ruling party, the National Party of Nigeria (NPN).

The GNPP is a small, regionally based party founded by Waziri Ibrahim, a Nigerian merchant who made a financial killing running arms during the 1967-70 civil war. Since mid-1980, Shagari's NPN has been carrying out a systematic political challenge to the GNPP in Borno and in the state of Gongola to Borno's south. One aim of the challenge is to undercut the working alliance between the GNPP and the NPN's main political rival, the Nigerian People's Party (NPP), headed by Obafemi Awolowo, a leader of the Yoruba ethnic grouping in southwestern Nigeria.

Awolowo has been engaged in strident polemics against Shagari's government throughout 1980, and has been systematically cultivating a mood of secessionism among his Yoruba grouping if his demands for power are not met in the future.

As the GNPP-NPN fight heats up, Awolowo may decide to intensify his own secessionist demagoguery as a countermove. Then, what would occur in Nigeria is the intersection between northern-Muslim fundamentalism and Yoruba fundamentalism. The interplay between northern, Yoruba, and southeastern-Ibo chauvinisms was what brought about the late 1960s events. The repeat of this dynamic is now threatened.

A 1960s dynamic?

Qaddafi's activities alone might not be enough to blow Nigeria apart, given the intent of majority internal forces to avoid sundering the country. But Qaddafi is not alone. The suspected roles of Israel and Iran have already been cited. The specific British targeting of Nigeria is evidenced in a Dec. 26-28 three-part series in the Lazard-Frères-controlled *Washington Post*, profiling labor unrest and tribal hostilities in Nigeria.

Fifth Republic, Giscard d'Estaing under attack from all sides

by Dana Sloan

What do the *New York Times*, *Time* magazine, and *The Economist* of London have in common with presidential contenders Socialist François Mitterrand and neo-Gaullist Mayor Jacques Chirac of Paris, or the anarchist comedian-become-presidential-candidate, Michel Coluche?

They are the orchestrators and actors in a now-open conspiracy to defeat French President Valéry Giscard d'Estaing in next spring's elections and destroy the institutional framework that has given France the ability not only to survive the last 22 years of sometimes grave destabilization (ranging from the near-civil war during the Algerian War to the May 1968 revolt) but to assert itself powerfully on the international scene with an independent foreign policy. If Giscard remains in office, his enemies have indicated that they will "settle for" destroying the Fifth Republic, their fundamental objective with, or without, Giscard.

From the far left to far right, Giscard's attackers are on a remarkably similar track. While François Mitterrand compared Giscard to Louis XIV, Jacques Chirac's campaign manager, Charles Pasqua, is accusing Giscard of "creeping fascism." Candidate Coluche, normally incapable of putting together one sentence without profuse scatology, was also blunt: "I prefer chaos to another seven years of Giscard. We must overhaul the constitution."

Coluche was born Michel Colucci, but adopted the clown-like stage-name and uses it in his campaigning. The campaign itself would be utterly insignificant but for major coverage from the liberal press outlets *Le Monde* and *Le Nouvel Observateur*, the latter the unofficial press of the French socialists. The *New York Times*, which has given the comedian more coverage than the president, quotes Coluche boasting that his campaign is not serious, but intended to erupt what he calls the "alienation" of the French population.

Ironically, but not accidentally, it is the most feudal of all Western regimes, the British, that is spearheading the attack on Giscard and the Fifth Republic for alleged abuse of power worthy of a would-be monarch. It was also in London that Jacobin terrorist leaders Danton and

Marat went to get their marching orders in 1791 during the French Revolution. And it is a rerun of this kind of Jacobin mob rule, which so disrupted France's emerging industrial-capitalist order, that the Socialist International in particular wants to restore in France. Speaking to a Princeton University audience Dec. 12, Socialist Party leader Michel Rocard, who only recently withdrew his own presidential campaign to make room for colleague Mitterrand, declared that France has some experience in "getting rid of kings" and warned that France "is an explosive country when nothing changes."

Strange alliance in politics

The Socialist International has been provided with a partner to carry out this operation in the person of Jacques Chirac, who otherwise parades as a believer in "law and order." According to sources in Giscard's Republican Party, "Chirac can create enormous damage and he knows it." Other sources, in Chirac's own factionally split Gaullist Party (*Rassemblement pour la République*), have identified his *modus operandi* in the following terms. Knowing that another seven-year term in office for Giscard would effectively destroy the RPR as a political machine and consolidate Giscardian power for at least the following decade, Chirac is determined to play the role of political wrecker, hoping to bring Mitterrand to power in the elections. Then, Chirac has been advised, it will be only a few years at most before economic and other crises will collapse Mitterrand's regime, and Chirac can come in "on a white horse" to restore order.

This is the twisted logic that has been imposed on Chirac—whose intellectual powers are inversely proportional to his political ambitions—by his campaign manager, Charles Pasqua. A Corsican, Pasqua is an old-time fellow-traveler of the Socialist International—not politically, but in its extracurricular activities, notably drug trafficking. According to numerous accounts which have never been legally contested, as commercial director for exports of the Marseilles-based liquor company Ricard, Pasqua was the immediate boss of Ricard's Canadian representative, Jean Venturi. Official

U.S. investigations made public in the 1960s described Jean Venturi as a leading exporter of heroin to the United States, while his brother Dominique Venturi worked closely with the Socialist Party Mayor of Marseilles, Gaston Defferre, who has managed to stay in power throughout the postwar period only by virtue of his connections to the local heroin mob.

Giscard aloof?

So far, Giscard has mounted no open counteroffensive to speak of. Hoping that his political enemies will somehow be destroyed in the fray, he has so far refused to even announce whether he will, in fact, run for another term. Meanwhile, he has put a stop to the flow of illusory opinion polls predicting a large margin of victory for him against Mitterrand or Chirac, and adopted an extremely low profile. Without explanation, Giscard canceled a trip to Metz, in the heart of the industrial Lorraine region, and has not scheduled any of his usual monthly hour-long television broadcasts for the next two months.

Giscard's enemies have given every indication that they do not intend to let up on the pressure. Four hours before the president's arrival at the airport of Guadeloupe in the French West Indies on Dec. 28, a powerful bomb exploded there. Responsibility was claimed by an "Armed Liberation Group." It remains to be seen whether this has alerted Giscard that not only his political future but also his physical survival may depend on his taking the offensive now.

What Time readers didn't get in Europe

Under the headline "The Man Who Would Be King," Time magazine Dec. 22 published an article which warned Giscard that, whether or not he gets re-elected, he can still be watergated by the French press. The article, excerpted below, did not appear in Time's European edition.

After six years [in office], a markedly different Giscard has emerged.

Where he once delighted in gunning his Citroen through Paris traffic to lose his police escort for the evening, Giscard is now nearly as distant and imperious as Louis XIV. . . . His relationship with the press has shifted just as sharply. . . .

Giscard's political opposition is scattered and demoralized, and there is little chance that a Gallic Watergate will prevent his re-election. So far, no one is accusing the

president of breaking the law. But some members of parliament are now insisting that his sweeping power over the media should be reduced. With the *Le Monde* case pending [Justice Minister Peyrefitte ordered charges brought against its editors for undermining the independence of the judiciary system with some of their articles—D.S.], and with the French press united as never before against him on the issue, the president may do well to remember a lesson of history: the original Watergate did not prevent an American President from being re-elected either—but the matter did not end there.

The London Economist blasts Fifth Republic

Reprinted in the Baltimore Sun Dec. 28, The Economist's Dec. 27 article "Giscard's power invites abuse" was most explicit that it is the Fifth Republic—because of the powers it puts in the hand of the president—that is the target of the attacks against Giscard. Here are some excerpts:

The presidency of the Fifth Republic that General Charles de Gaulle created in 1958, to rescue France from the shambles of the previous parliament-based system, gives Mr. Giscard d'Estaing an astonishing freedom of action. Unlike an American president, he does not have to coax and cajole a Congress entrenched behind the parapet of constitutionally separate powers.

"Unlike the British prime minister—remember James Callaghan—he cannot be removed by a parliamentary vote of no confidence. Unlike Helmut Schmidt in Germany, he is not shackled to a coalition partner who can prevent him from going too far. Unlike Arnaldo Forlani in Italy and Zenko Suzuki in Japan, he does not have to ride the neighing circus horses of his own party's fractious factions. . . .

The [French] president hires and fires the prime minister, dissolves parliament if he wishes (and can bypass it by calling cut-to-measure referendums), and can rule by emergency decree if he judges that France's institutions are in danger. He keeps daily control over every aspect of government policy. And all this, it may be, for 14 years. . . .

If Mr. Giscard d'Estaing does get re-elected, he could earn the gratitude of future Frenchmen by re-examining the powers of the presidency. There is an argument for reducing the term of office from seven years to, say, five or, if not, for making it a one-term job; for re-allocating the balance of power between president and parliament; or for a mixture.

Book Review

The stakes in the fight for Italy's 'heavy lira'

by Paul Gallagher

A 'Gaullist' Solution for Italy's Monetary Crisis

by Lyndon H. LaRouche, Jr.

National Democratic Policy Committee

New York, 1980. 70 pages.

Suggested donation \$2.50.

This book, just released in the United States as a U.S. foreign policy study of the National Democratic Policy Committee, has been circulating in Italian-language translation for the past month. Known in Italy as the "heavy lira" book, it has already caused a storm of controversy over Italy's credit and monetary policy.

The book outlines, on the level of immediate action, a currency reform of the Italian lira based on the "heavy franc" French reform of 1958, by which de Gaulle and his Finance Minister Jacques Rueff saved France from chaos and began building the modern French economy to its present power. LaRouche describes how to "trap" the untaxed billions of Italy's "black economy" profiteers (real-estate speculation, gambling, drug traffic) in two basic steps. The first is the replacement of the debased Italian currency with a "new lira" at 1,000 to 1 (1,000 liras now buy a loaf of bread). The second is state direction of plentiful, cheap credit and tax breaks to investment in real, tangible production—capital formation. The two steps must, of course, be made as one simultaneous package, and at an early date. Just how early is now being debated by the Italian press, with denials from the treasury minister and statements in newspapers controlled by Italy's black oligarchy as to how unconcerned they are about the proposed reform.

Today Italy's "black economy" is larger than its real economy, its humpty-dumpty government is negotiating with international terrorists and trying to legalize drug use. Under those circumstances the LaRouche book has sparked a current of sanity in Italy flowing in the other direction, toward joining and strengthening the French-German orientation to economic development.

At the outset, LaRouche reminds the reader that this current of sanity is the still-fresh legacy of Pope Paul VI, whose reign in its last years coincided with the extraor-

dinary stability of the Andreotti government up to the pope's death. LaRouche evokes his own 1976 conversations with Jacques Rueff, author of the "heavy franc" reform of 1958, about the failure of politicians to act on behalf of nation-states when those nations are in peril from the supranational institutions of the oligarchy. He points to the existence of a "Gaullist" potential among Italian political currents. This is the potential to mobilize the full economic powers of a nation against foreign financial warfare—the quality feared by opponents of de Gaulle and LaRouche alike.

But LaRouche makes it clear it is not political currents he is relying on, but the quality of statesmanship represented by the influence of Pope Paul VI, whose principal moral goal was the progress of humanity to be assured through the policies of sovereign nation-states.

The "*Gaullist*" *Solution* is released in the U.S. as a proposed outline of bipartisan U.S. foreign policy support to its ally, Italy. Jimmy Carter's departure will also remove U.S. Ambassador Richard Gardner from Italy. Gardner, while wearing the stripes of an American representative, is in fact a member of the Italian black nobility both by marriage (into the Luzzatto family) and by political commitment. Most leadership strata in Italy have realized, at least since the Moro kidnapping, that Gardner was merely "the enemy within" cloaked in American authority.

Now with a new, nationalist American administration, the possibility for collaboration with Italy's nationalists to repair the damage will be opened up by LaRouche's book. But the proposal cuts both ways for America. In the U.S. as well, the black economy, centered on drug traffic and New York real estate, has grown larger than the real economy, which is now being collapsed by credit shutoff. The U.S. government has also been negotiating away its sovereignty and those of its allies to international terrorism in the Iran crisis.

What LaRouche is proposing is not the simple solution of an Italian problem. He lays out, measure by measure, the basic weapons of selective tax and credit-creation powers available to sovereign states and how they can be wielded to destroy speculative accumulations of inflationary "hot money" while protecting and stimulating real productive economic activity.

The notion of "two-tier" tax and credit policy is the crucial one to be understood by statesmen and citizens. As de Gaulle and Rueff understood, the question is not inflation policy or deflation policy, but mobilization of the powers of the government for financial warfare against the international financial oligarchy to save the nation. What LaRouche has laid out for the new American administration, facing a worldwide depression fostered by its predecessor, is the basis for foreign policy collaboration with all of its allies, from Italy to Mexico.

LaRouche notes a unique application in American

history of the wielding of government power to protect the growth of the nation's economic strength—the American system of patents. This creates a unique, temporarily protected relationship between the inventor and the venture capitalist, to jointly develop the full potentials of a new innovation, while the official publication of the invention stimulates further applications of it by other inventors. The extraordinary growth of American agricultural productivity has resulted from just such an arrangement between the publicly funded agricultural extension colleges, and the farmer acting as both venture-capitalist and occasional inventor.

Today this principle is grotesquely replaced by the sight of the government's pouring billions into solar and synfuels gimmicks which are scarcely inventions, and which, on their own, would attract no venture-capital at all.

The "Gaullist" *Solution for Italy* is one of three books on the moral basis of economic science and statecraft written by Lyndon LaRouche in September and October 1980, just before his national series of televised "Dump Carter" addresses to Democrats on election eve. The first, *How Credit Can Be Greatly Expanded Without Adding to Inflation*, is a direct statement of the LaRouche economic method, applied to averting the looming 1981 world depression. The third, *An Open Dialogue With Leonid Brezhnev*, is a direct statesman-to-statesman call to Brezhnev to turn the Soviet Union away from supporting depression and destabilization in the West, a course leading toward world war by miscalculation.

The three books were written as a "package" to break the logjam of economic inaction and worse by the world's statesmen, who are now, as LaRouche puts it, "in the trenches" of economic collapse and have not yet begun to fight. But the books are written to the *citizens* of America and Europe, who must take responsibility for their nations. In America, in particular, LaRouche is attacking the tendency of the citizenry to leave the government to the politicians for four years between elections, despite all the evidence that these politicians themselves are leaving economic policy to supranational institutions and banking consortia which have destroyed the nation's credit.

What LaRouche demonstrates with these three books is that economics is fundamentally a moral science—a science of human progress—and that it is the science whose mastery is most accessible to the average citizen. The primary requisite for such mastery is moral courage. While thousands of citizens dabble in various fields of science and art during their lifetimes, they could master economic science and take responsibility for rescuing their nations from looming disaster. If they continue to rely on elected political leaders, whose failures of such courage have already been shown, their posterity faces "perhaps, no future at all."

Treasury: no new lira now

On Christmas Eve, a Rome daily carried a front-page notice announcing that in February 1981 production would begin on a new Italian banknote, a one-lira note—the so-called heavy lira, worth one thousand of the present lira notes.

The announcement, which is an accurate reconstruction of the proposal first made by U.S. economist and Democratic Party policy-maker Lyndon H. LaRouche, Jr., produced an explosion of denials from Italian Treasury officials in the press.

The LaRouche proposal was formally announced at a Rome conference Dec. 5, and is detailed in the Italian-language book titled *A "Gaullist" Solution for Italy's Monetary Crisis*. The idea of the currency substitution is presented as the prerequisite to a thorough economic and fiscal overhaul of the Italian economy. The measure is characterized as "Gaullist" since it is based on a program actually carried out in France 20 years ago by Charles de Gaulle and his economic adviser Jacques Rueff.

The announcement that the heavy lira was going into production was carried front page in the Italian Communist Party daily *L'Unità*, Dec. 24, in a box outlined in red. "It seems" that Italy will have a "heavy lira" worth 1,000 of the old lira notes in 1981, *L'Unità* reported. The design for the new note is ready, production would begin next February, and "it is an operation analogous to that carried out in France."

Three leading Italian papers, *La Stampa*, *La Repubblica*, and *L'Unità*, promptly carried the Treasury's denial. Turin's *La Stampa*, newspaper of the Agnelli family, which owns FIAT, explained. "No 'heavy lira,' at least for the moment, says the Treasury Minister, in a communiqué denying the announcement made by a daily newspaper recently." *La Stampa* claimed that the heavy lira "is a project particularly dear to [former Treasury, now Industry] Minister Pandolfi," who envisions it as "the crowning of [his] operation to reduce inflation and stabilize the currency." Pandolfi recently concluded a stint as chairman of the International Monetary Fund.

La Stampa claimed that the heavy lira measure was only directed to simplifying bookkeeping, since it would eliminate huge figures and rows of zeros! *La Stampa* argued that even if the proposal were to be implemented, it would make no difference to the economy.

Obregón won, not Zapata

The sacred cow of Mexican politics—the land tenure system—was modified last week.

The new agricultural law which passed the Mexican Congress the week before Christmas was the most controversial measure to be debated by that body in the course of the López Portillo administration.

The acrimony that surrounded the final, 20-hour marathon session in the Chamber of Deputies is an accurate reflection of the passion stirred by the land reform issue in Mexican politics.

The new law permits, and encourages, what is called the “association” of the several different forms of land tenure in the Mexican the radical demonstrators attacked privately held land, whose extension is theoretically limited by law, and the *ejido*, lands held “by the community.” *Ejido* lands can be farmed either individually or collectively, but cannot be bought or sold on the market.

In the years since these forms were established at the conclusion of the Mexican Revolution in 1917, the privately held “small plot” has frequently grown into large extensions known as *latifundia* through manipulation of land titles. The remaining small plots and much of the *ejido* land have suffered the opposite fate as successive generations of sons divide up their father’s land—the *minifundio*.

Previously, it was juridically impossible to bring these economically unviable parcels of land together for large-scale, productive use.

The new law not only allows for this, but specifically declares “intensive mechanization” of the land to be of “public interest” and thereby subject to special government incentives.

One might wonder why the new law kicked up such a storm, given Mexico’s profound agricultural crisis due to the inefficiency of its peasant agricultural sector.

The law brought to a head the conflict of two philosophies embedded in the revolution itself: the reification of “land for the tiller” in the movement of peasant leader Emiliano Zapata; and the nation-builder tendency of Alvaro Obregón, who saw in industrialization and efficient modern agriculture the future of Mexico. The law just adopted, under the president’s personal guidance, is a reflection of López Portillo’s commitment to Alvaro Obregón’s vision.

The gamut of Mexico’s left, going from the Mexican Communist Party to a few labor sector deputies in Congress from the ruling PRI party, took up the cudgels to defend the Zapatista conception. They sufficiently challenged the law so that it took a demonstration of PRI internal discipline to turn out the final vote of 282 to 27.

There is indeed the danger that the new law could facilitate concentration of land in a few hands; this will depend on its implementation. But it is incontrovertible that the present arrangements have reached

a crisis point that demands an intervention in the direction outlined by the law.

President López Portillo, angered at the left’s imputation that the president’s initiative was “reactionary,” called together the entirety of the PRI deputies immediately after the final vote.

“It’s not true, and I have denied this no matter how often stated, that this modality of organization [the new law] . . . is reactionary and privatizes agriculture. It’s not true!” he affirmed.

Turning his anger on the left, he stressed that it “is not the opposition parties” which are “writing the history of Mexico. It is we [of the PRI] who are writing it, with full responsibility, in the open, with well-founded initiatives.”

The president repeated once again his invocation of the “Bulgarian model” of productive agriculture, which he saw on a state visit in 1978. The key issue facing the nation is no longer further subdivision on minuscule plots, he has insisted over and over; it is the raising of productivity and solving Mexico’s increasing food deficits.

It is noteworthy that the new law reflects a setback for many of the theorists of the Mexican Food System initiative (SAM) launched in March 1980. The primary thrust of the SAM was to direct new support mechanisms to the more backward, peasant sector of agriculture. The role of mechanization was pushed into the background, under guidance of presidential adviser and SAM director Cassio Luisselli.

The new law puts mechanization back up front, and that is a very hopeful development for Mexico’s chances of pulling itself out of a serious agricultural crisis.

Not so simple, Mr. Reagan

'Spy trials' and a brewing Iranian civil war may ambush the Reagan administration.

A little-reported incident in Iran at the end of December casts light on a crisis in Iran that may explode in Ronald Reagan's face soon after his inauguration.

Following a demonstration by Muslim Brotherhood-controlled Afghanistan rebels outside the Soviet embassy in Teheran, some of the radical demonstrators attacked and damaged the premises. The incident, which bore an eerie resemblance to the November 1979 seizure of the U.S. embassy, undoubtedly had the quiet backing of the ruling Iran clergy and Savama, the secret police of Ayatollah Khomeini's regime.

Immediately afterward, Moscow sent a sharp diplomatic protest to the Iranian government.

More significantly, Soviet television suddenly began reporting that the Iranian revolution, after two years, "has failed."

This could well be a signal that the Soviet Union and its reportedly very extensive KGB underground in Iran is preparing for a showdown with the faltering clergy. Last week, the mayor of Teheran resigned from his post, complaining that the activity of the Tudeh communist party and allied leftists made it impossible for him to carry out his function.

Throughout northern Iran, in Azerbaijan and other provinces, as well as among the clergy itself, the Soviet Union reportedly has built up a powerful apparatus of agents

and sympathizers, bolstered by the dispatch of several thousand Soviet citizens disguised as Iranians across the border into key positions in "revolutionary Iran."

For the KGB and other elements of the Soviet leadership, the regime of Ayatollah Khomeini has been viewed as useful chiefly in terms of its value in destabilizing the West and the Western supply of oil from the Persian Gulf.

Although Moscow is aware that the chief control over Khomeini lies in the long-established presence of the British Secret Intelligence Service (SIS) in Iran's religious leadership, the KGB considers it expedient to cooperate with London in encouraging the spread of Islamic fundamentalism.

KGB General Kim Philby, the son of Harry St.-John Philby, the most important SIS operative in the Middle East in the 20th century and one of the founders of the Muslim Brotherhood secret society, represents the fulcrum of this KGB-British intelligence interface.

At present, Moscow thinks that the Reagan administration, out of a combination of naiveté and poor calculation, may try some sort of heavy-handed military action against Iran.

To help the new President make the hoped-for mistake, the British and the Philby faction in Moscow may collaborate to arrange the convening "spy trials" for the U.S. hostages.

Under the current conditions, show trials of the "Great Satan's spies" would guarantee some sort of overreaction by Reagan.

And any U.S. move into the Gulf, such as seizing Iran's Kharg Island or parts of the Saudi Arabian oil fields, would provoke an immediate Soviet countermove in northern Iran, where the Soviet Union's own assets could easily invite the Red Army in.

Since mid-December, advisers to Reagan have been meeting in the offices of the Heritage Foundation, a British intelligence think tank in Washington, to prepare policy documents aimed at one single purpose: to convince Reagan to support an intensified U.S. military presence in the Gulf, founded on the Egypt-Israel alliance.

The chief objective of both the British and the KGB is to prevent Reagan from approaching the crisis in Iran on the basis of the offer made by Soviet President Leonid I. Brezhnev in India in mid-December. Brezhnev proposed that the U.S.S.R. join other international forces to reach an accord on neutralization of the Persian Gulf, including a set of guarantees for ensuring the flow of oil from the Gulf to consuming nations.

Brezhnev's proposal was viewed with intense dislike by the KGB and the heirs of the old class-war Comintern network inside the Soviet Union, along with the Philbyites.

Should Reagan, impelled by the force of events, choose not to accept Brezhnev's offer to pursue an accord, then the impending collapse of the Khomeini regime will result in a conflict that may soon assume the dimensions of the Spanish Civil War—but with far deadlier consequences.

International Intelligence

Saudi oil threatened by 'Arab radicals'

"Radical Arab nationalists with ties to Iran" may soon "take the Saudi Ras Tanura oil export terminal hostage to extort monetary and political demands from the West," according to a scenario now being discussed in Israeli and Georgetown University strategic circles. The scenario calls for Israeli units to form the core of a "strike force" to liberate the seized terminal.

The unfolding of the scenario depends on the ongoing destabilization of the Gulf by Iran and its allies, planners emphasize.

Lending credence to the potential scenario is the recent appearance in Tabriz, in northern Iran, at a meeting of Iranian leftists of a top leader of the Saudi "nationalist left."

According to emigré Iranian sources, the Iranians have been intensifying their political operations throughout the Gulf. Pro-Khomeini agents have organized hunger strikes among members of the Shiite Islamic group in Bahrain, and similar unrest is reported in Kuwait.

PCF under pressure following Ponomarev trip

Following the visit to France two weeks ago by Boris Ponomarev, the Soviet Communist Party official in charge of foreign communist parties, pressure has mounted on the French Communist Party (PCF) to reconstitute a "Union of the Left" with the Socialist Party. Ponomarev had threatened French President Valéry Giscard d'Estaing that if his policies displeased Moscow, the PCF could rejoin the Socialists and possibly destroy Giscard's chance for re-election this spring.

The Union of the Left comprised the Communists, Socialists, and the tiny Movement of Left Radicals. In the 1974 presidential elections, the Union gave its backing to François Mitterrand against

Giscard. The Communist support for Mitterrand launched both his and the Socialists' prominence in French national politics.

A recent incident involving a Communist-administered town's refusal to let African immigrant workers relocate into the locality has triggered a wave of attacks against the PCF as "Stalinist" and "racist" by the Socialists, French Zionists, and the right-wing daily *Le Figaro*. The French Anti-Defamation League (LICRA) put out a statement comparing the Vitry-sur-Seine town government's actions to those of the Ku Klux Klan and the Third Reich.

In a front-page article, *Le Figaro* asserted that the PCF is in "a political ghetto" because of its refusal to ally with the Socialists.

Sharper fighting forecast in Lebanon

Major battles between the militias of the Lebanese Falangists and the Palestine Liberation Organization are foreseeable during the immediate months ahead, the London *Economist* reported Dec. 27.

According to *The Economist's* special Levant correspondent, the PLO takes this threat so seriously that "over the past two or three months it has been mobilizing its full fighting strength, even pulling young men and women out of high schools and universities" locally and from around the world. This is a sign that the PLO fears it may have to fight a "last-ditch battle" in Lebanon.

Lebanese sources report that a PLO-Falange clash may follow from the consequences of Syrian-Falangist fighting in Zahle, a town in eastern Lebanon. That fighting brought about the unity of various Christian militias, and created the military preconditions for a new Falange offensive.

As the tension in Zahle peaked, Israel's military expanded its raids against PLO camps in southern Lebanon. During a Dec. 30 raid, Israeli jets shot down two Syrian jets that had interceded into Lebanon's south.

One week earlier, during a raid into Lebanon, Israeli units killed three Syrian soldiers, the first time in the five-year history of Lebanon's civil war that Syrian soldiers had been killed in combat with Israel.

President Giscard target of terrorist attack

President Valéry Giscard d'Estaing of France was an apparent target of a terrorist attack when a bomb exploded in the Guadeloupe airport waiting room Dec. 28, just hours before Giscard was scheduled to arrive there.

Since the Caribbean island of Guadeloupe has been the scene of terrorist violence by Corsican-linked autonomist terrorists for months, the French press had reported on the extraordinary security precautions planned for Giscard's Guadeloupe trip.

One week earlier, following the Dec. 21 capture in Paris of Italian terrorist Marco Donat-Cattin, Giscard hailed the arrest, and called for European police forces to be given more effective freedom of action to pursue terrorists across international borders.

Such freedom of action is a minimum condition for undertaking effective anti-terrorist activity under conditions in which European terrorists escape capture by crossing borders, said Giscard.

Murder, riots mount in Italy

General Enrico Cavaligi, the deputy commander of the carabinieri antiterrorism force in northern Italy who was assassinated by terrorists Dec. 31, had worked closely with Judge Giovanni D'Urso, the magistrate kidnapped early last month. Cavaligi was in charge of security in the maximum security prisons where convicted and suspected terrorists are held.

Following the Dec. 28 announcement

Briefly

by the Italian government that it will close the maximum security prison on Asinara Island, near Sardinia, where approximately 25 Red Brigades terrorists are being held, riots broke out at two separate Italian prison facilities where other terrorists have been imprisoned.

At Trani prison on the southern Adriatic coast, rioting prisoners captured 19 guards, demanding the repeal of antiterrorist laws instituted in the late 1970s under the auspices of police general Alberto Dalla Chiesa, who has specialized in investigating the Red Brigades and who had been working closely with Cavaliere.

In addition, the prisoners demanded the repeal of a new law that allows preventive detention of suspected terrorists. While the guards held hostage were released, several convicted terrorists escaped.

At Palmi prison in Calabria, prisoners staged a protest also demanding repeal of antiterrorist laws.

The government's capitulation on the issue of closing Asinara prison is a result of severe pressure on the government to negotiate with the Red Brigades for the release of Judge D'Urso.

Adding to the pressure on the government from the terrorists has been pressure from the Socialist Party, whose secretary, Bettino Craxi, has cast himself in the role of "negotiator" with the Red Brigades, as he did during the 1978 Aldo Moro kidnapping.

Craxi, according to the Dec. 28 *Washington Star*, is rumored to be "headed for the prime minister's office."

Emigration is Israel's 'most serious problem'

Four parliamentary motions were presented before Israel's Knesset last week to deal with the problem of the increasing numbers of Israelis who are emigrating from the country.

During a Knesset debate on the subject, Israeli Deputy Prime Minister Simcha Ehrlich declared that emigration is

"really the most important national problem" facing Israel. Another Israeli parliamentarian stated that Israel's "emigration problem comes even before defense."

On Dec. 23, the Jewish Agency, an international Zionist organization committed to encouraging immigration to Israel, held a special press conference in Jerusalem to warn of the dangers to Israel arising from the growing number of emigrants.

Agency sources revealed that there are now between 300,000 and 500,000 emigrants in the United States alone, and that 60 percent of those recently departed were between 20 and 40 years old, and were highly educated people who had held productive jobs in industry and the professions.

One of the press conference speakers, Prof. Ephraim Urbach of Hebrew University, stated that "emigrants are now boasting about leaving rather than being ashamed as before. The problem is in Israeli society and its declining values at home and in school."

Tories, Heritage plan Mideast scenario

Julian Amery, a British Tory ideological controller of the Washington-based Heritage Foundation, has been holding policy planning meetings on how the Persian Gulf oil-producing area can be militarily occupied, intelligence sources report.

According to these sources, Amery has been holding meetings in Washington and London on how the Middle East can be destabilized by leftist groups and then occupied by an Anglo-American-led military force possibly including Israeli participation.

In mid-December, the Washington-based Heritage Foundation sponsored a luncheon speech by J. B. Kelly, the Tory-linked author of the book *Arabia, the Gulf, and the West*. Kelly's book recommends the "recolonization" of the Gulf by the Western powers.

● **PEKING** has just issued its most pessimistic evaluation of prospects for fossil fuels output. Professor Lu Yingz-hong of Quinghua University's Nuclear Technology Institute declares that on a per capita basis China is both petroleum-and coal-short. He states that nuclear power is the best long-term answer. Carter administration foreign policy has greatly encouraged U.S. oil development investment in China in the last several years.

● **MUAMMAR QADDAFI**, Libya's dictator, has announced his support for the "Kurdish liberation movement." Qaddafi declared that the Kurds have a right to "self-determination." Intelligence sources suspect a signal of support for Armenian-linked Kurdish terrorists, or an operation against Iraq-linked Kurdish factions, or both.

● **JAPAN** is lending Mexico 150 billion yen (about \$75 million) in low-interest government and Exim Bank loans for "unspecified purposes," a highly unusual form of loan. Only the countries of Southeast Asia and a fellow oil producer of Mexico's, Iraq, have previously received such loans for unspecified use. Japan's desire for increased oil from Mexico is believed to be the motivation for such generosity on Tokyo's part.

● **BRAZIL** has contracted to sell the Soviets 1.6 million tons of sugar during the next five years. The U.S.S.R. is supplying Brazil with oil, and thus qualifies under Brazil's new policy of seeking long-term sugar contracts with oil exporters. Similar deals have been signed with Venezuela and some Middle Eastern countries. The Brazilians are also gearing up for a likely visit to Russia by Planning Minister Delfim Netto some time this year.

Momentum grows against Volcker's credit policy

by Barbara Dreyfuss

Public outcry against Federal Reserve Board Chairman Paul Volcker has mounted since *EIR's* last exclusive report two weeks ago. Trade-union leaders, farmers, business executives and elected officials are all demanding Volcker's ouster or a total reversal of his policies.

Lambasting the Federal Reserve's high-interest-rate policy as "outrageous," UAW President Doug Fraser blamed the Fed in a Dec. 20 press conference for collapsing the auto industry and demanded that Volcker be replaced by someone with "economic sanity."

With auto production down almost 30 percent from last year's already grim levels, Fraser warned that the United States will not have an auto industry if current credit policy continues. "Our nation faces the total collapse of crucial industries unless immediate action is taken," the UAW chief declared in a telegram to President-elect Ronald Reagan. "The U.S. cannot have a viable auto industry if interest rates continue at the current outrageous levels. . . . Unless the Reagan administration acts affirmatively to establish an auto policy for this country, the devastation affecting hundreds of auto-based communities will spread to thousands of other towns and cities as this crisis ripples through the economy."

Fraser urged Reagan to convene an emergency economic summit, including representatives of the administration, Congress, the Federal Reserve and the auto industry, to devise solutions for the auto crisis.

Auto fights back

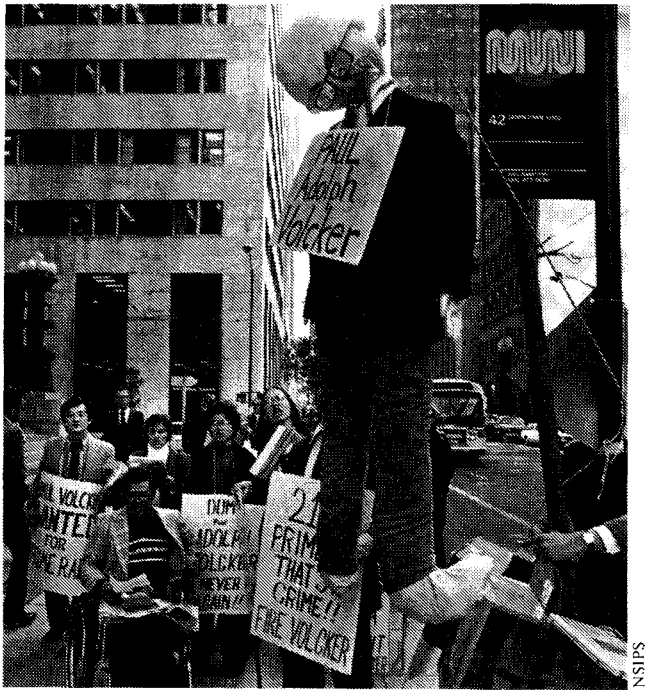
With 350,000 autoworkers, more than one-third of the entire union, already unemployed thanks to the

Fed's monetary policies, Fraser has been getting a lot of pressure from his membership. On Dec. 11, United Autoworkers Subcouncil 9, representing 475,000 employees of the General Motors Corporation, directed a motion to the union's international leadership demanding Volcker's ouster, a one-day shutdown of auto plants, and a picket line in Washington, D.C. to demand a change in Federal Reserve Board policy.

The resolution's sponsor, John McCarrell, president of UAW Local 544, has received telegrams of support from numerous trade-union leaders. And in the first two days after Doug Fraser made his own statement, over 30 trade-union officials sent telegrams of support to Fraser, urging that the UAW back national demonstrations against Paul Volcker.

The mutual self-interest between union leaders and industry executives in the fight to reverse the Federal Reserve policies is becoming evident. In a letter to the *Wall Street Journal* Dec. 26, Chrysler Chairman Lee Iacocca declared, "Contrary to your statements I did not blame the Federal Reserve for the madness of fighting inflation with monetary policy. I blamed it for the madness of jerking the prime rate up from 10 to 20 percent, to 11 percent and then back to 21 percent again. That is madness."

At the same time, Stan Hoynitski, the executive director of the Pennsylvania Independent Auto Dealers Association, demanded Paul Volcker's resignation in his latest newsletter, which was sent to auto dealers in every part of the state. Citing Iacocca's statement, Hoynitski strongly condemned the Fed's policies for crippling not only the auto industry, but the homebuild-



An NDPC rally this month in San Francisco.

ing industry and agriculture. He also declared his support for John McCarrell's call for demonstrations against Volcker.

The fight is beginning to open a farmer-labor alliance of a kind last seen during the Great Depression. The director of the AFL-CIO's Industrial Union Department, Harold McIver, addressed a meeting Dec. 20 of the Georgia state chapter of the American Agriculture Movement, which unanimously endorsed a call for the resignation of Paul Volcker. McIver and Georgia AAM leader Kersey both stressed the need to unite the efforts of farmers and labor. Louisiana AAM President Roger Beale, attending the meeting, told McIver, "We came very close in 1977 to getting parity and growth for the country. With labor's support now, we can win the fight." Kersey declared: "We have to get labor on our side or we farmers will soon wind up working in Southern plants at cheap wages, just like what is happening to workers who come down from the North."

Ronald Reagan responded quickly to Fraser's plea for an economic policy conference. Reagan told reporters the day after Fraser's press conferences that he was definitely willing to sit down with the UAW's leader and was seriously considering the economic summit proposal.

At the same time Edwin Meese, who will be the next President's chief White House counselor, told reporters just before Christmas that Reagan will hold a session with his cabinet in early January and then possibly meet with Volcker. "We will urge Volcker to act in line with the overall economic strategy that Reagan works out

with his cabinet," he said. Wall Street responded by speculating that the new administration may move quickly to rein in Volcker.

National demonstrations grow

Whether the Reagan administration actually carries out a program of economic growth with adequate credit for productive industry and agriculture, or imposes austerity programs similar to those of British Prime Minister Margaret Thatcher, as some of his advisers are urging, will depend largely on the national pressure put on the incoming administration from constituency groups. In the last two weeks, the New Jersey League of Municipalities and the South Jersey chapter of the National Association of Homebuilders added their call for Volcker's ouster to those by farm groups, local trade-union leaders and legislative bodies. The homebuilders' resolution will be considered at their national convention in January.

The National Democratic Policy Committee, a multi-candidate political action committee and policy formulating group, has called for a series of demonstrations around the country on Jan. 14 to ensure that the Reagan administration ousts Volcker and restores economic prosperity. In preparation for this, the NDPC held a series of uproarious rallies during the week before Christmas in front of Federal Reserve offices in New York, Washington, D.C., Seattle, Chicago, San Francisco and Los Angeles. Demonstrators ripped into Volcker for shutting down the U.S. economy and hung him in effigy. While passersby leaned out car windows to yell "string him up," the demonstrators sang "Twenty percent prime is a crime" and a special rendition of "John Brown's Body" titled "Hang Paul Volcker from a Sour Apple Tree." The New York rally was endorsed by eight area trade-union officials.

No longer able to ignore the enormous rage in the population against Volcker, more than a dozen television and radio stations, including the Voice of America, covered these rallies. The *New York Times* and *New York Post* interviewed the featured speaker at the Manhattan rally, *EIR* Economics Editor David Goldman. NBC-TV national news ran a story on the Washington, D.C. event and the *Detroit News*, *San Francisco Examiner* and *Los Angeles Times*, among others, carried a UPI wire photo of the same demonstration.

"This is only the start of a much broader action," declared Warren Hamerman, chairman of the NDPC. "Now is the time for every American farmer, trade unionist, businessman, banker, and average citizen to publicly demonstrate against the policies of Paul Volcker." Lyndon LaRouche, chairman of the Advisory Board of the NDPC, has declared in a nationally circulated pamphlet that the fight to revive America's economic power must become the basis for bipartisan collaboration.

LaRouche's bipartisan call was echoed this week by Sen. Howell Heflin (D-Ala.). "I have called on Reagan and Carter to appoint a joint team to see what can be done on the interest rates and inflation," Heflin told *EIR* on Dec. 19. "We can't wait until January twentieth. We need a joint economic study now, a bipartisan team. There is no question that everybody in America wants to halt inflation and to have better interest rates. Bipartisanship is the way to do it."

In his letter to the President and President-elect, Heflin stressed that "Partisan political considerations must not stand in the way of action to bring about a drastic and immediate lowering of interest rates."

Under pressure from their constituents, other congressmen are also denouncing the credit squeeze. On Dec. 16, Rep. Norman Dicks, a Democrat from Washington, where the lumber industry has been hard hit by the high interest rates, introduced a resolution, H.R. 830, cosigned by 21 other congressmen. The resolution declares that "high interest rates will continue severe unemployment, erode national productivity, and prolong our dependence on foreign oil. . . . We call on the Federal Reserve to immediately take steps to reduce current high interest rates." Dicks intends to make the resolution a first order of business for the new Congress, warning that if the Fed does not act, "Congress will."

Representative Fernand St. Germain (D-R.I.), incoming chairman of the House Banking Committee, told an angry constituent that he will not wait until Volcker's term expires to act. "We're going to haul him before the banking committee."

State legislators are feeling the same pressure. Following the passage of anti-Volcker resolutions earlier this month in the New Jersey State Assembly, a similar statement was introduced this week into the California legislators. And Alabama State Sen. Bobby Denton told reporters that he had telegraphed both Volcker and the President-elect demanding that Volcker resign. "I fear that high interest rate policy of Paul Volcker will finish off farmers, small businessmen and homebuilders if this policy continues," Denton said. "It is becoming more and more ripe for a dictatorship to take over, and our freedom is in jeopardy."

The situation in Alabama exemplifies how mobilized constituents are forcing action from their elected officials. Both Denton and Heflin are very close to Alabama's farm leaders, and last week the Alabama Farm Bureau passed a resolution demanding Volcker's ouster. The Alabama Farm Bureau, with over 230,000 family members, is the fourth largest in the country. One farm leader declared, "Much of this motion began after a meeting the NDPC held in Huntsville, Alabama, in November. We then got out a pamphlet on Volcker's policies. One state legislator told me, 'As I read this I got madder and madder.'"

Documentation

Senator Heflin calls for bipartisan countermove

Senator Howell Heflin (D-Ala.) sent letters to President-elect Reagan and President Carter demanding that they immediately establish a bipartisan committee to plan how to lower interest rates and curb inflation.

From a Dec. 23 interview:

EIR: Do you see a problem with the interest rates?

Sen. Heflin: Of course, it has reached the stage where it is having a disastrous effect. Farmers in Alabama, which is mainly a farm state, will have to borrow to plant their crops. Last year the interest rates were 15 to 18 percent and farmers had to borrow; they had a bad year. They had a drought and will have to borrow to plant this year. In the construction industry, with auto dealers and those industries with large inventories, the high interest rates practically put them out of business. High interest rates are counterproductive. They are inflationary.

EIR: What do you think about Paul Volcker?

Sen. Heflin: I am disappointed with his idea of tight money. The conception we are working from is one that has been followed for several decades. Now interest rates are climbing to 21 percent in five months, and inflation hasn't stopped.

EIR: Do you see the fight against high interest rates and the fight to stop inflation as the basis for forming a bipartisan alliance in this country?

Sen. Heflin: There is no question that everybody in America wants to halt inflation and better interest rates. It seems to me that during the transition period, well the old administration is cautious about doing anything and the new one is waiting until January. But we could have a bipartisan approach now to do something. Why not do it on a bipartisan basis. The concept of the Federal Reserve when it was set up was to be bipartisan but obviously its policies are not working. So we have to look to different things. Bipartisanship is the way to do it.

EIR: What can be done about the economic crisis we are facing?

Sen. Heflin: The cyclical approach we have followed in the past has not worked. We have to start with the government balancing the budget. This could be a symbol for spending discipline in business and family lives. We must increase productivity. There are many plants with outdated equipment. We need accelerated depreciation allowances for this. We have to encourage savings.

EIR: If the Fed does not lower interest rates, what will Congress do?

Sen. Heflin: There are drastic measures, which I don't advocate, but that are beginning to be talked about, which include a usury ceiling. I don't want to have to see this, but it is being talked about inside Congress and outside. I don't want to see federal controls on interest rates but there is a growing movement on this. Interest rates now are rising and there is a relationship to inflation. People want something done about this.

EIR: The Alabama Farm Bureau, among a number of groups, has called for lower interest rates.

Sen. Heflin: The Farm Bureau also called for Volcker's ouster. I have called on President-elect Reagan and President Carter to appoint a joint team to see what can be done on the interest-rate problem and inflation. We can't wait until Jan. 20 to act. We need a joint economic study now. It has to be a bipartisan team. Interest rates are continuing to grow. Both Presidents could put the treasury secretary and secretary-designee, senators, congressmen and certainly economists on it.

Here is a situation where we are going through a transition period, and we could have a bipartisan effort to reach a consensus on what to do.

Interview by Barbara Dreyfuss with Stan Hoynitski, executive director of the Pennsylvania Independent Autodealers Association:

EIR: I understand that in your latest newsletter you called for Paul Volcker's resignation. Why?

Hoynitski: Well, it's a proven fact that Paul Volcker's theory doesn't work. He has had a few years to turn inflation around but inflation has gotten higher. Inflation is higher than ever before. More businesses are going out of business than before.

EIR: You mean Volcker's policy of tight money?

Hoynitski: Yes, that's right.

EIR: What has happened to the auto industry?

Hoynitski: The auto industry, well around 30 percent of the dealers went out of business in the last 18 months to two years. And now 20 percent to 30 percent are in trouble. I believe it's all tied in with the interest rates and

the tight money. Dealers can't make 5 percent on an item and pay 20 percent interest to buy it.

EIR: What do you hope to accomplish with your statement?

Hoynitski: I hope to get enough of our dealers in Pennsylvania to write to the new President, write to Congress and the Senate, to see if they can't get someone in Washington to change the policy of the Federal Reserve. I represent used car dealers and I have friends in housing and agriculture and their problems are the same. It's worsening, not getting better. I truly believe that there is not much time left before we go into a tailspin. Everyone knows the Crash of '29. We can have the same thing now.

EIR: I understand that you endorsed the call by UAW Local 544 President John McCarrell for a day of demonstrations against Volcker?

Hoynitski: My idea would be to give the new President a few weeks to get into office and meet with him and a small business group, and make our needs known. If it didn't work, dealers from all over the U.S. should meet in Washington or their state capitals and demonstrate against what is happening.

EIR: Have you been in touch with other people on this?

Hoynitski: The newsletter I sent out resulted in some calls of support to me. Many endorsed my ideas and are looking for guidance on what we can do.

In the first two or three weeks in January I will work with dealers and others to see if we can come up with a plan of action.

EIR: Have you talked with union leaders?

Hoynitski: Yes, in the UAW and some of the homebuilding unions. Everything will come together depending on the policy of the new administration. I hope Reagan lives up to his political campaign, and does it in a hurry.

I know how hard it is for businesses. There is no way a dealer in Pennsylvania can survive when there is a 12.8 percent cap on the charge he can make on loans to people while he pays 20 percent and more interest. With this tight money policy, banks now require 50 to 60 percent down payment, where before they required 25 percent. People can't get loans. It is the same in the house-buying area. I'm scared that what I see is that soon only the super-rich will be able to afford homes and cars.

Eight New York area trade union leaders sent a message of endorsement on Dec. 18 for the National Democratic Policy Committee's call for action to dump Volcker:

We, the undersigned labor and community leaders, heartily endorse the national call by the National Dem-

ocratic Policy Committee for the immediate resignation of Paul A. Volcker, chairman of the Federal Reserve. We further endorse the public demonstration to publicize this call scheduled for . . . New York City.

As evidenced by the growing number of public resolutions by business, labor and legislative bodies, there is in our nation a groundswell demanding a reversal of the Volcker dictatorship of austerity; a dictatorship which is plunging America into a deeper recession.

We call on our members and all citizens of good will to rally behind our call until such time as the Paul Volcker resignation is achieved.

George Boncoraglio, president, CSEA Local 466, AFSCME 1000, Brooklyn, N.Y.

Carmine Marotta, Plasterers Local 202, Brooklyn, N.Y.

William Caramo, executive assistant to the president, United Paperworkers International, Flushing, N.Y.

Pete Pavlisak, business manager, Laborers Local 7, Binghamton, N.Y.

Richard Lewicki, president, Petroleum Trades Employees Union, ILA 419, Long Island City, N.Y.

Julio Mojica, vice-president, United Autoworkers District 65.

Fred Rossi, vice-president, United Autoworkers Local 664, Tarrytown, N.Y.

Santiago Torres, president, International Union of Electrical Workers Local 485, Brooklyn, N.Y.

(Organizational affiliation for identification purposes only).

From a press release issued Dec. 20 by the UAW regarding UAW President Doug Fraser's telegram to President-elect Ronald Reagan:

"Our nation faces the total collapse of a crucial industry unless immediate action is taken. . . . The U.S. cannot have a viable auto industry if interest rates continue at the current outrageous levels," the telegram said.

Fraser said that the union was hopeful that Mr. Reagan would act quickly upon assuming office to convene a summit meeting involving representatives from his administration, the Federal Reserve Board, the auto and auto-related industry, other labor unions, the Congress, and the consuming public. We would hope the Reagan auto summit would result in a definitive set of policy approaches for the next two years. . . . The telegram asks "What will overall Reagan economic policy do to assure that critical industries such as auto can recover from the current deep downturn?"

"What will U.S. policy be on the question of capital formation in the auto industry, which must raise nearly

\$80 billion to restructure?"

"What will our policy be on the question of interest rates, which at 21.5 percent have virtually shut down the auto industry?"

"What will national policy be on the crucial question of trade and imports?"

"What will our policy be on the key question of how the auto industry will restructure and modernize and what will happen to the workers and communities affected?"

"The time factor in this crisis is absolutely crucial because failure to act means the auto industry in North America goes down the drain. . . . The impact of that collapse would affect the whole world economy."

. . . Fraser said that the problem of the auto industry cannot be solved at the bargaining table because that's not where they originate. Labor costs in the auto industry represent about the same percentage of overhead they did 20 years ago. The place to solve the auto industry's problems is in the salesrooms across North America. But that can't occur when our government drives interest rates to nearly 22 percent.

The following is the text of H.R. 830, introduced Dec. 16 in the House of Representatives by Norman D. Dicks, Democrat of Washington:

Whereas the Board of Governors of the Federal Reserve System has taken actions which caused interest rates to rise and raised the Consumer Price Index; and

Whereas the Board's recent decision to raise the discount rate from 12 percent to 13 percent annually has caused the prime interest rate to rise to 20 percent annually; and

Whereas this action by the Board threatens to cause the prime interest rate to rise even higher; and

Whereas the Board's policy of higher interest rates has increased unemployment and inflation by increasing prices; particularly for housing and other capital improvements; and

Whereas increased prices for housing and other capital improvements threaten to continue to cause substantial declines in housing construction and other capital improvements and will continue severe unemployment, further erode national productivity, and prolong national dependence on foreign oil; and

Whereas the Board of Governors is restraining, and can further restrain as necessary, short-term commercial credit through other measures including selective credit controls even if interest rates are reduced; now therefore, be it

Resolved that the Board of Governors of the Federal Reserve System should immediately take all necessary steps to reduce the current high interest rates.

The liberals' darling

Kathy Murphy identifies the Fabian Democrats, past and present, who have boosted Alexander Haig's career.

Using methods reminiscent of his patron Henry Kissinger, Secretary of State-designate Alexander Haig has moved swiftly to establish his control over the Reagan administration's foreign policy apparatus. Within days of being named to head up the State Department, Haig took some obvious muscle-flexing steps designed to convey the message: "I'll be running foreign policy."

One of the first actions Haig took, after his nomination was announced, was to summarily fire all but two members of Reagan's State Department transition team, many of them conservative opponents of Kissinger. Haig reportedly told the group, "don't call us, we'll call you," when the subject of possible jobs in the new administration came up. Adding insult to injury, the former NATO Supreme Commander then held a tête-à-tête with State Department career officers to compliment them on their services, apologize for the transition team's behavior, and to assure them that Reagan will only drop a few rotten apples from the department.

Haig's action directly defied efforts by Reagan's inner circle to place some limits on Haig's freedom of movement. Transition sources had earlier reported that under Ed Meese's direction, a list of names, most of them Reagan loyalists, had been prepared and handed to Haig with the message that he had to select his State Department assistant and deputy secretaries from it.

It is also known that Haig has been working very closely with the Carter State Department to "coordinate policy toward Teheran and to ensure continuity between the two administrations"—an approach that would prove disastrous to the Reagan presidency.

An expert at manipulating Presidents—one need only refer to the operation he and Kissinger ran against Richard Nixon—Haig seems committed to setting up his new boss in similar fashion, and appears to have no compunctions about working openly with Democratic "doves" to do so.

At the same time, Haig gave his official blessings to a Kissinger "fact-finding" junket to the Middle East, thereby responding positively to a recent request by Carter special Mideast ambassador Sol Linowitz that Reagan employ Kissinger's talents.

Haig's actions were ominous on several counts. First,

should Haig succeed in asserting his control over the State Department, it would ensure that the Kissinger-Carter foreign policy mess would be continued in the new administration. Such a development would make it almost certain that the left-right destabilization of the Reagan administration now under way would be achieved. Second, by shoving to the sidelines conservative input into the Reagan foreign policy team in favor of Kissinger and Carter holdovers, Haig is creating a situation in which Reagan can be increasingly isolated from his nationalist base and persuaded to embark on foreign policy initiatives that he might otherwise reject.

In fact, Arab sources report that Haig has already drawn up plans for a U.S. military rescue of the American hostages in Teheran by no later than February, and it is highly probable that Reagan's recent statements condemning the Iranians as "barbarous" and "criminals," reflect advice from Haig.

Despite Haig's media-bolstered image as a rough-and-tumble, hard-bitten soldier, his ball-playing with the Carter team is by no means out of character. While it is well known that Haig's entrée into a position of influence came through Henry Kissinger, who hired him as a special assistant on Nixon's National Security Council in 1969, the people who originally engineered his rise through the military ranks and then into the White House were three Democratic Party liberals: Joseph Califano, Cyrus Vance, and Robert Strange McNamara. These three individuals played key roles in introducing the "cost-benefit analysis" methodology into Pentagon planning that has all but destroyed the United States' strategic planning capabilities.

The Califano connection

When Haig revealed recently that he had hired Califano to represent him at his Senate confirmation hearings, some eyebrows were raised. But Haig was merely turning to an old friend and mentor. It was Califano who got Haig his first important job at the Pentagon, as military assistant to then-Secretary of the Army Cyrus Vance, and it was Califano who recommended Haig to Kissinger for an NSC staff post in 1969.

Given Califano's role in promoting Haig's career, it is worthwhile examining Califano's background. Like Haig, Califano is a product of a Jesuit education, but where Haig generally pursues a "right-wing" Jesuit track, Califano has a "left-wing" Jesuit profile—precisely paralleling the right-left setup now being engineered for Reagan in Central America.

Known as the "deputy president of the Great Society" because he developed and implemented most of President Johnson's social experiment programs, Califano was first brought into government service in 1961 by Cyrus Vance, then Army counsel. When Vance was named secretary of the Army, he took Califano with him, and in 1963, the year Califano got Vance to hire Haig, was promoted to Army counsel.

In 1964, Haig and Califano worked side-by-side as special assistants to Vance, who by that time was deputy secretary of defense under Robert McNamara. In that post, Califano became McNamara's chief troubleshooter, working on the Pentagon chief's cost-reduction and reorganization programs (which later achieved notoriety as the Vietnam "body count" method) and supervising the use of federal troops in civil rights confrontations in Alabama. Califano early on earned the reputation as one of McNamara's top whiz kids, a term derisively applied by military traditionalists to the accounting-oriented systems analysts who had taken control of the Pentagon.

In 1965, Califano was named Lyndon Johnson's special assistant for domestic trouble-shooting and proceeded to initiate and implement key Great Society programs including legislation on consumer protection, auto safety, civil rights, water pollution, as well as creating the Office of Economic Opportunity and Model Cities. He also helped crisis-manage the Watts ghetto uprising in Los Angeles, which had been deliberately provoked as part of the British-inspired scenario for destabilizing the United States' political structure.

When Califano left the White House in 1968, he worked briefly for the prestigious liberal Democratic law firm Arnold and Porter and then established himself at Edward Bennett Williams's law firm, where he represented Coca-Cola and the *Washington Post*. In 1977, Jimmy Carter named Califano secretary of health, education and welfare to applause from Ralph Nader, among others.

There is no evidence whatever that the Califano-Haig relationship has been based purely on personal friendship. On the contrary, the two have functioned as political allies, albeit from superficially distinct standpoints, during the last two decades.

In fact, according to John Lehman, a Reagan defense adviser who is personally close to Haig, Haig consulted continuously on policy with both Califano

and Vance during his tenure as NATO Supreme Commander. "That shouldn't surprise anyone," says Lehman. "They share the same policy viewpoint, even though they may seem to be different."

That policy convergence, most efficiently described as the "controlled economic disintegration" laid out by the Council on Foreign Relations in its *1980s Project*, explains why liberal Democrats in the Senate who have been making loud noises about Haig's involvement in Watergate may let Haig get through his Senate confirmation hearings with a light slap on the wrist. According to an aide to Paul Tsongas (D-Mass.), the Kennedy protégé who is leading the anti-Haig Hill forces, "The senator has never said he opposes Haig. In fact, he'll probably end up voting for him. We just want to show that the Democrats didn't roll over and die when Carter lost the election."

It may also explain why three top Democratic Party spokesmen, all members of the Carter administration—Secretary of State Ed Muskie, National Security Adviser Zbigniew Brzezinski, and special adviser on Soviet affairs Marshall Shulman—have all publicly endorsed Haig for Secretary of State.



Jeane J. Kirkpatrick.

Allen and Kirkpatrick: a foreign-policy problem

If Secretary of State-designate Alexander Haig succeeds in steering Ronald Reagan into a no-win foreign policy track, it will no doubt be with the compliance of two other key Reagan appointees: National Security Adviser Richard Allen and United Nations Ambassador Jeane J. Kirkpatrick.

Kirkpatrick and Allen, whose paths have crossed at various times in the past, have both recently made statements that implicate them in the overall attempt to destabilize Reagan through a Central American blowup.

Allen, who functioned as Reagan's chief foreign policy adviser during the 1980 presidential campaign, is generally credited with talking Reagan into adopting the North American Accord idea—i.e., a common market

for energy encompassing Canada, the U.S., and Mexico, which Mexico rightly sees as a direct attack on its national sovereignty. Allen has recently stated that he hopes Reagan will bring up the idea at his Jan. 5 meeting with Mexican President López Portillo. This would place a severe strain on the new administration's relations with its most important neighbor even before Reagan takes office.

Richard Allen

Allen's advocacy of supranational regional governments—the ultimate content of the North American Accord concept—is characteristic of his overall outlook. Educated at Notre Dame and conduited to the Jesuit-oriented University of Munich for graduate training, Allen early on became a functionary of Central European circles committed to recreating a global feudal order. One of his earliest patrons was Robert Strausz-Hupe, scion of a family from the Hapsburg petty nobility. Now based at the University of Pennsylvania's Foreign Policy Research Institute, Strausz-Hupe publicly endorsed the scheme proposed by Mussolini admirer Count Coudenhove-Kalergi for transforming Europe from a group of nation-states to a feudal "Europe of the regions." Strausz-Hupe maintains close contact with Allen and writes regularly for the Heritage Foundation magazine *Policy Review*.

A founder in 1962 of Georgetown University's Center for Strategic and International Studies—a principal center for Jesuit-run global destabilization operations—Allen joined the Hoover Institution for War, Revolution and Peace in 1966, and there gained a foothold into the Reagan camp.

In 1968, Allen was named by President Nixon as senior staff member of the National Security Council, but personality conflicts with Henry Kissinger supposedly caused his ouster. He then became deputy assistant to the President for international economic affairs and Deputy Executive Director of the Council on International Economic Policy. After leaving the government in 1972, he established his own consulting firm, Potomac International.

In 1965, Allen toured Portuguese Africa under the sponsorship of the Gulbenkian Foundation, founded by the oil magnate of that name who had helped the Warburg interests finance the Bolshevik Revolution in 1917. In 1972, he was hired as a consultant to the Overseas Consortium of Portugal, which advocated continued Portuguese control over its mineral-rich African colonies.

After the 1974 Portuguese coup, Allen got involved in a movement funded by wealthy Azores landowners who had launched a movement to "liberate" the Azores from Portuguese rule.

In 1973, Allen was working with the government of the Socialist Republic of Romania to establish an International Business Center in that country.

Allen has been tainted by the scandal surrounding international fugitive financier Robert Vesco, and has been accused of using confidential information he procured during his White House days for his own personal business advantage.

Allen was instrumental in persuading Reagan to name Haig as secretary of state.

Jeane Kirkpatrick

Like Allen, Jeane Kirkpatrick maintains a steady interest in Latin American affairs, although her main area of expertise is in French politics. Reagan's new U.N. ambassador told this news service several months ago that "the most important change in U.S. foreign policy would have to be in our relations to Latin America and the Caribbean." Kirkpatrick stated that "it is very important that we target Cuba. . . . I feel very strongly that we should counteract the crucial role of Cuba in Central America and the Caribbean. . ." This is the line being fed to Reagan to manipulate him into a stereotyped right-wing operation in Central America.

In the same interview, Kirkpatrick also indicated her links to the Socialist International. She boasted that she had just held a series of meetings with Hubert Matos, the Cuban dissident who had just been released from a Cuban prison through the intervention of the European Social Democracy and is now emerging as a key social-democratic-linked figure in South American politics.

Educated at Barnard College and the Jesuit-dominated University of Paris, Kirkpatrick is a lifelong Democrat.

Her husband, Evron Kirkpatrick, was the man who engineered the late Hubert Humphrey's political career, from his first campaign for mayor of Minneapolis. He is now head of the American Political Science Association.

Active herself in Democratic Party politics, Kirkpatrick has been a member of the Democratic National Committee and worked on the Winograd Commission, which formulated the delegate selection rules that governed the 1980 Democratic Party convention that renominated Jimmy Carter. She was a charter member of the Coalition for a Democratic Majority, an AFL-CIO-sponsored group of right-wing social democrats within the Democratic Party.

Kirkpatrick is also a leading member, together with Richard Allen, of the Committee on the Present Danger. She has taught at Georgetown University for 20 years and is a senior fellow at the American Enterprise Institute.

National News

Joe Rauh wants Haig ratified

Joseph Rauh, Jr., cochairman of the Americans for Democratic Action, recently told an interviewer that while the ADA will raise a protest against the nomination of Alexander Haig as Secretary of State, they do not want him defeated.

Said Rauh, "We want to keep him there wounded, as a permanent liability for Reagan." Rauh sees in Haig "a lightning rod for controversy swirling around the Reagan administration. That is fine for us."

Rauh, mentor of Teamster and other union dissidents, says he hopes that "a paralyzed Reagan administration will be destroyed by an economic collapse."

Report sets stage for postindustrial consensus

Private and public commentary on the recently leaked report of the President's Commission for the National Agenda for the 1980s confirms that the operative principle of the report is not to secure implementation of its specific proposals, but to establish as a baseline assumption throughout the country the idea that the U.S. has entered the postindustrial era.

The commission's report itself states that "The passage into postindustrial society is marked by . . . concentrated poverty, dependence, unemployment, fiscal imbalances, tax-base erosion, and deterioration of physical plants and public-service infrastructures. . . . Throughout this report, however, the panel has sought to understand these conditions in the context of our passage into a postindustrial era and to consider how that passage may be made with a minimal amount of stress." The particular recommendation that follows is large-scale population relocation from the Northeast and Midwest to the Sunbelt.

The commission was organized by

Hedley Donovan of Time-Life, and is now headed by William McGill, former president of Columbia University. Its board includes John Gardner of Common Cause, Mrs. Ruth Hinerfeld of the League of Women Voters, and Glenn Watts, head of the Communication Workers of America and an Aspen Institute and Trilateral Commission member. The urban policy task force is dominated by former NATO policy planners and think tank operatives who in the 1970s engineered the Club of Rome's Limits to Growth initiative by orchestrating extreme and moderate versions of zero-growth, antiscience policy proposals.

Commenting on the 1980s report, Stuart Butler of the Heritage Foundation, who looks to the British Fabian Society for his orientation as the inspiration for the foundation's promotion of the free-enterprise zones said Dec. 30 "even if our enterprise zone proposal is implemented, the cities will continue to undergo depopulation," serving merely as centers for "consumer items such as toys, china goods, and pottery. . . . Of course, this will mean cities will have to rethink very carefully the amount of services they attempt to provide."

Socialist International liaison Gar Alperovitz, a Washington think tanker, stressed computers and robotics as opposed to handicrafts, but concluded that "America must make the difficult choice to move away from the heavy industrial urban-based economy."

Roy Cohn link to JFK assassination raised

The connection of the New York City-based attorney Roy Marcus Cohn to the November 1963 assassination of President John F. Kennedy has once again become a subject of investigation by law-enforcement agencies in the United States and Western Europe. The renewed interest in Cohn and his association with the Permindex organization has been triggered as a byproduct of a series of investigations into terrorist actions by the Armenian Secret Army, including a

recent assassination in Paris.

During the 1960s, Cohn, operating through the Lionel Corporation of New York City, was a significant minority shareholder in a Montreal-based permanent trade expositions company called Permindex. Permindex was identified by both the French government and a grand jury in New Orleans as the principal financial conduit and operations control for a series of aborted assassination attempts against French President Charles de Gaulle and the successful assassination of U.S. President Kennedy.

The Permindex apparatus, including the Lionel subsidiary, has been retained intact since the 1960s under the effective control of the same agencies that commissioned and executed the Kennedy hit. As a result, the investigation into the Kennedy assassination, including the involvement of complicit agencies within the FBI and U.S. Department of Justice, has immediate bearing on currently operational terrorist deployments.

The current interest in Roy Cohn's role in the Kennedy assassination has already drawn investigators into a pro-Khomeini network intersecting the Armenian assassination in Paris. All these operations involve friends of Cohn.

Chicago: setting up the \$1.00 fare

Considerable effort was involved in setting the Chicago transit fare on course for a dollar a ride by Aug. 15, 1981—and setting the stage for a transit strike somewhere along the line.

The Illinois Regional Transportation Authority (RTA) and its subsidiary Chicago Transportation Authority (CTA) have set the basic bus and subway fare at 80 cents after Jan. 1, 1981, 95 cents after April 1, and the full dollar on Aug. 15.

The nation's highest fare was born in November 1979 in an emergency package between the real-estate lobby's newly elected mayor, Jane Byrne, and Rockefeller protégé Jim Thompson, the governor of Illinois. They reorganized the RTA revenue base, eliminating the state

subsidy, the gasoline tax, and existing sales tax for a new sales tax that subsequently produced a nearly \$40 million revenue shortfall from what the new tax had been expected to raise—and probably as much as \$100 million below what the former taxes might have raised. To this was added a different schedule of taxable items between old and new sales taxes which produced massive collection problems and leakage.

Labor is being blamed, even though the unions gave up two-thirds of their cost-of-living allowances in the emergency deal. At any time, the city can abolish remaining 24-hour service, change work rules, and introduce part-time drivers. Chicago is therefore on the express track toward a transit strike.

Baltimore harbor dredging approved

Environmentalists, led by Maryland Congressman Clarence Long (D), suffered a major defeat when Federal Judge Herbert F. Murray ruled on Dec. 24 that the dredging of the Baltimore Channel could proceed according to the plan of the Army Corps of Engineers.

Richard A. Linsky, Jr., director of national port affairs for the Maryland Port Administration, said that engineering plans for the dredging and a landfill site had been moving right ahead before the court issues were resolved, and that actual construction work could begin as soon as July 1, 1981. Federal funding is available for funding dredging, and Linsky speculated that the decision might expedite it. The Army Corps of Engineers and the State of Maryland have proposed to deepen the Baltimore Harbor Channel from its current 42 feet to 50 feet.

At the center of the court action was whether the dredged material could be dumped on Hart and Miller Islands, 13 miles east of Baltimore. Long and the environmentalists filed a suit to block the dumping on the Hart-Miller site. Two years ago, Judge Murray ruled that the Army Corps of Engineers had processed

the state's application illegally, and stated that congressional approval was necessary. However, last May, the Fourth Circuit Court of Appeals in Richmond reversed him, and last month the Supreme Court refused to hear that part of the case, thus letting the Fourth Circuit Court decision stand.

In his new 45-page opinion, released on Dec. 24, 1980, Judge Murray wrote that the "Supreme Court has clearly held that . . . the court's role in cases like this one at bar is limited and narrow. The court has neither the expertise, the power nor the responsibility to review the merits of the corps's conclusions, but only the sufficiency under NEPA of the procedures followed in reaching them."

EIR is sponsoring a seminar on Rebuilding the Port of Baltimore on Jan. 26, at the Convention Center of the Baltimore Harbor.

London Economist offers Reagan advice

The latest issue of the London *Economist*, dated Dec. 27, includes predictions and proposals for the incoming U.S. administration. In a section titled "Deindustrializing is fun," *The Economist* comments that capitalism is outdated, and continues: "America is moving rapidly but quietly from an industrial society (which means capitalist, bossed-about, partly horny-handed) to an information society, and this means the heyday of small entrepreneurial businesses." Another section points to "the maybe 5 million illegal immigrants . . . who do not draw welfare money or unemployment pay but take illegally untaxed jobs at 50 cents an hour . . . but are not dying of starvation at every street corner. They are becoming increasingly entrepreneurial. . . . The most useful private economic research in America now would be into how far illegal immigrants have been able to prosper more dynamically precisely because particular welfare rights (such as the legal minimum wage) do not apply to them."

Briefly

● **REAGAN'S** nonproliferation/nuclear export transition team proposes that the now-dispersed nuclear export review structure of the U.S. government be consolidated into one new office within the State Department on an assistant secretary level. Presently, export and nonproliferation review is spread among the State and Energy departments, Nuclear Regulatory Commission, and Arms Control Disarmament Agency. The proposal is being praised by U.S. nuclear industry sources.

● **THE LATEST** official industry count of active oil and gas drilling rigs reached 3,303, marking a new historic record and the 20th straight week over 3,000. The previous record had been reached in 1955. It declined over the following two decades as multinational companies opened Middle East production and de-emphasized domestic exploration and production.

● **THE ACADEMY** for Contemporary Studies is functioning as chief adviser to congressmen who oppose shifting population to the Sunbelt. The academy is headed by Ralph Widener, who coined the term "deindustrialization" in the 1960s, and is financed by the German Marshall Fund, currently planning the phaseout of heavy industry from the Ruhr. ACS's Patrick Henry said Dec. 30, "This debate on America's postindustrial future is key; there will be lots of controversy, but that's fine. It will give people time to come to grips with the new reality." ACS advises Congress to keep people in the Northeast and Midwest through free-enterprise zones.

● **LANE KIRKLAND** endorses Ronald Reagan's choice of Alexander Haig for Secretary of State. When asked about Haig's nomination, the AFL-CIO president told the *Wall Street Journal* Dec. 30 that "Both in personal terms and in a policy sense, I have the highest regard for General Haig."

Some policy clues

We interviewed a former energy aide to Dr. James Edwards, the Secretary-designate.

President-elect Ronald Reagan made a surprise announcement last week when he announced his choice of former South Carolina Governor James B. Edwards to become the next head of the multibillion-dollar Rube Goldberg monstrosity known as the Department of Energy. Because the former governor has spent the past two years in private practice as an oral surgeon, the most that the press could speculate was that this is a "signal" of Mr. Reagan's intent to severely curtail, if not dismantle, the controversial creation of Rand strategist and professed neo-Malthusian James Rodney Schlesinger.

Some knowledgeable people have expressed a certain anxiety that Edwards may enter Washington like some latter-day Atila the Hun and dismantle vital programs along with the clearly negative ones such as solar and various regulatory nightmares. While this may be possible, a recent talk I had with someone who had worked closely with Governor Edwards during his tenure should shed further light on Reagan's choice.

Robert Hirsch was director of the South Carolina Office of Energy under Edwards and the governor's executive assistant for energy research. His remarks show the former governor to have been one of the more far-sighted of our public officials during the 1974-79 period in which he served.

I asked Hirsch what major energy issues he dealt with under Edwards: "The state of South Carolina is completely energy-dependent, and we generated electric energy with nuclear power." Hirsch added that nuclear power "was the salvation of our situation. Jim Edwards advocated nuclear energy as vital to the development of South Carolina and a logical source of energy."

As a result of Edward's commitment to nuclear power generation, the state built up one of the nation's most impressive nuclear power complexes and a large energy base on which to attract large industry into an economically growing region. By the time Edwards left office in 1978, nuclear power generated over 50 percent of the state's electric power, an impressive record to say the least, in the face of doubling world oil prices.

Hirsch emphasized that Edwards used his office as governor to go to the population and "take every opportunity to speak for and tone down fears about nuclear energy." Under Edwards, the state created a strong Nuclear Advisory Council which brought in some of the best people from across the country to advise on the state's nuclear development program. It was under Edward's tenure that General Atomic completed the nation's first nuclear fuel reprocessing facility at Barnwell, S.C. This was and is today the only rational method to

solve the so-called nuclear waste problem: as much as 96 percent of the spent fuel from reactors can be reprocessed into new fuel rods or breeder fuel and other valuable materials. Four years ago Mr. Carter dashed this program using the fraudulent argument that it created danger of weapons proliferation. Whether the years of R&D and millions of dollars of development for the Barnwell reprocessing plant can now be salvaged is unclear. Edwards did, however, as governor, appreciate a profound facet of national energy R&D enough to make it a national issue.

His understanding of the complexities of the nuclear issues won him the respect of his fellow governors and led to his being selected as chairman of the National Governors' Association's nuclear energy committee. He also established the basis for creation of a South Carolina Energy Research Institute, which was funded privately and headed up by one of the country's most respected nuclear safety authorities, Dr. Ben Rusche.

Clearly, Edwards will require extremely sophisticated advice to restore the nation to its proper policy of energy development as opposed to the energy restriction which has been the underlying philosophy that James Schlesinger, S. David Freeman, and the gaggle of Carter "energy" strategists used to shape the development of the nation's first cabinet-level energy department four years ago. We are encouraged by the discussion with Hirsch that the new designee will approach the problem with a far healthier approach than his two predecessors. It will be an uphill battle to salvage this nation's vital nuclear program from four years of malign neglect.