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What's next in the Persian Gulf
Carter's hostage deal unconstitutional
Reagan: 'reawaken this industrial giant'

**Why the United States needs
high-technology breakthroughs**



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EIR

From the Editor

The latest LaRouche-Riemann econometric study is the subject of our Special Report this week. It is based on a computer-generated simulation of the U.S. economy from 1963 through 1980, in the aggregate and for each industrial sector. Nine of those sectors are featured in the graphic appendix, to help demonstrate the conclusion that "the U.S. economy is getting no more output per unit of physical investment of capital and labor than it did in 1963!"

In reviewing the two decades, Economics Editor David Goldman underlines the positive and negative actions of past administrations—e.g., the rise and fall of NASA, and the federal penalties on energy-intensive sectors under Carter—as a decisive determinant of productivity. He insists that there is no possible return to business as usual: the joyful necessity is that scientific and technological breakthroughs are required for sheer survival.

In our Economics section, Kathy Burdman puts the tax policy question on a similarly rigorous level, showing how the present system misallocates financial resources, so that cuts alone would be literally counterproductive.

Our National coverage poses the question of international law and constitutional principle, questions raised by the legacy of the Carter administration through the outrageous Carter-Khomeini-Bank of England deal to release the hostages, and by the ongoing exposés of the depth of illegal tactics used by the Civiletti Justice Department in the Abscam/Brilab purges.

Don't miss the updated announcements of EIR seminars on page 24. And watch for our upcoming LaRouche-Riemann econometric studies of South Korea and West Germany.



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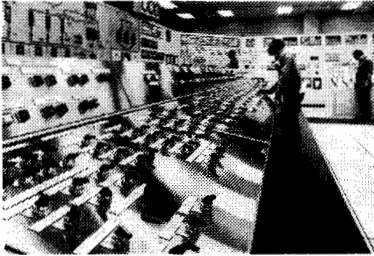
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Bethlehem Steel's computer-controlled, 8,000-ton-per-day blast furnace at Sparrows Point, Maryland. Courtesy of Bethlehem Steel

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“The Volcker-Reuss banking reforms may be the single greatest threat facing the American economy at this time.”

—David Goldman,
Economic Editor, *EIR*

Federal Reserve chairman Paul Volcker and House Banking Committee chairman Henry Reuss are spearheading a drive to restructure the American banking system, which threatens to give the Fed and the money center banks top-down control over the deposits of regional financial institutions. Far from being a limited banking issue, these “reforms” threaten to deprive the agricultural, consumer, and medium-size business sectors of vitally needed credits.

Now, the *Executive Intelligence Review* is making available a comprehensive study on this danger, exploring in detail the Volcker-Reuss motivations, how the current economic downturn is affecting American banks, and a growth perspective to revive the traditional national banking system.

The Undeclared War Against American Banking

A special report from the Executive Intelligence Review,
available December 1, 1980 \$50.

And for ongoing domestic and international intelligence, subscribe to the 64-page weekly journal, the *EIR*. The banking report will be provided free of charge with every annual subscription purchased through this offer.

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A post-Malthusian era

Inauguration Day 1981 will go down in history as a day of hope for the American people. President Ronald Reagan reminded us all of the national purpose set down by the Founding Fathers: to be a moral light and an engine for human progress throughout the world.

"It is time to reawaken this industrial giant," said the President in his call for "an era of national renewal." Mr. Reagan called on his fellow citizens "to believe in ourselves and in our capacity to perform great deeds."

The spirit of President Reagan's address was in sharp contrast to Jimmy Carter's inaugural message four years ago. Carter then called for energy conservation and sacrifice, and he continued during four years in office to implement a policy of Malthusian zero growth in the name of the post-industrial society.

For the United States this meant the degradation of our industry and our work force, the stagnation of scientific research in many fields, and the destruction of our youth. For the Third World, the postindustrial United States meant genocide.

This is the case because the future of the developing sector depends on the industrial strength of the advanced sector and continuing scientific revolutions that will aid in the rapid industrial development of the Third World.

The question of progress, which is ultimately a question of the advancement of science, must be defined in moral terms. The advancement of science and technology for the benefit of all mankind is the moral responsibility of the United States.

The day of hope we experienced, in truth, was also a day of uncertainty. For Americans must ask themselves, do we have the moral fitness to survive? Can a nation recover that was so degraded by four years of a Carter presidency, a nation that has accepted the destruction of our educational system, the near dismantling of the space program, and the drug plague against our children that led directly to the White House? Can we face the ugly truth of the moral degeneracy and the economic ruin of the

nation, with the will to create an era of renewal?

Lyndon LaRouche, chairman of the National Democratic Policy Committee's advisory board and former candidate for the Democratic presidential nomination, has put forward this challenge to the American people in a recently released State of the Union message titled, "A Day of Wonderful, If Uncertain Hope." LaRouche states that "our nation and the world" have been "freed at last from the worst presidency of our once powerful and great republic. Let us rejoice at our own liberation from the petty, sly, grudge-seeking meanness and insolent rampaging hypocrisy which characterized that administration." Yet, LaRouche continues, "We must not be blinded by that joy." The nation is "still floundering" with a half-destroyed economy and an eroded national morality.

We must face the cold truth of the present emergency, and mobilize the capabilities of the population to "perform great deeds." Such deeds must begin with the implementation of immediate measures to halt the present depression collapse, Federal Reserve Chairman Paul Volcker must be shown the door, and the credit policies of the nation must be changed to service industrial growth. The Congress is already at work preparing legislation to accomplish this. Senator James Sasser (D-Tenn.) has sponsored legislation to create a two-tier credit system and penalize speculative and nonproductive investment. Similar legislation is being prepared for the House.

Along with facilitating the growth of industry by ending the credit crunch, the nation's moral commitment to science must be renewed. The belief in progress and the determination of our youth to excel in scientific studies can be rekindled through the rebuilding of NASA and a renewed dedication to the exploration of space. We must massively fund the fusion energy research effort; the advent of a fusion power based economy will give us the capability of ending hunger and scarcity for good.

It will take a great mobilization of moral and political will to carry this out.

Will Reagan 'reawaken this industrial giant?'

by David Goldman

The apparent resolution of the fight within the Reagan camp over whether to start tax cuts immediately is far from a guarantee of economic success for the new administration, but it does settle the question of who's in charge. President Reagan and the Western senators have not forgotten who elected them and are ignoring advice not to take risks on behalf of economic growth.

What has emerged for public consumption is a debate between the new budget director, David Stockman, and hoary Republican traditionalists like Arthur F. Burns, the former chairman of the Federal Reserve Board of Governors, over whether to move "slowly" or "quickly." In fact, there is no such simple division of ranks.

Stockman wants to move quickly not only to put through the Kemp-Roth tax cut first installment of 10 percent, but also to butcher the Federal government's backup for high-technology research and development, and support for agriculture, the nation's most productive and most vulnerable economic sector.

But this type of budget-cutting will meet with bitter resistance from Sen. Robert Dole's Finance Committee staff, who say they are committed to preserving, if not expanding, the role of the National Aeronautics and Space Administration, and nuclear research and development.

EIR demonstrates in this issue's Special Report that maximum impetus for the nuclear and space programs

are the baseline condition for both the long-term and short-term survival of the American economy. The collapse of American productivity is, more than anything else, due to the straitjacketing of power production and power use in American industry. If Reagan's budget-cutters destroy the economy's sinew along with the fat, the British disease will become terminal on this side of the Atlantic.

The counterpressures

But there are already bitter complaints among the monetarist academic hacks who surround the new administration that the President is listening to his "political advisers"—to the constituencies who elected him—rather than to technocrats like them. Says one senior economist at the American Enterprise Institute, the concentration of everything that has been wrong with Republican economics in the past 10 years:

"There are two groups of people I'm worried about. The real problem is with the conservative populists, like [Reagan confidant and Nevada senator] Paul Laxalt, who have been complaining to Reagan that the Fed is doing horrible things and urging him to do something about high interest rates immediately upon taking office. Then there is another group, the supply-siders."

Supply-side spokesman Jack Kemp—the best of an extremely heterogeneous group who wear that label—

warned in an *EIR* interview Jan. 20 that austerity is not the solution, but the problem.

A more sophisticated argument, circulated in the U.S. by Warburg-Paribas-Becker and other outlets for the old European banking oligarchy, is that American corporate and household liquidity is so weak that a crash is inevitable sooner or later. Efforts to bring down interest rates will crack on the hard reality of the financial problems of industry, the argument goes. *EIR* demonstrated with a simple financial model of U.S. credit flows (Nov. 11, 1980) that a prime rate level above 17 percent triggers debt service obligations of a magnitude sufficient to throw the economy into recession.

There is some truth in the Warburg argument, but only on the surface. Reagan can break the interest-rate spiral by adopting the tested methods of the French, Japanese, and Irish central banks: a two-tier credit system favoring lending for expansion of tangible wealth output above overhead and speculative categories of investment.

This approach, proposed initially by the National Democratic Policy Committee and currently being worked into legislative form by Rep. Bill Alexander (D-Ark.), conflicts with some ideological prejudices that President Reagan shares. But a number of other to-be-expected Reagan initiatives will quickly call the question with respect to the Federal Reserve, and on terms favorable to the right sort of solution.

Priorities for cuts

Rapid action to eliminate environmentalist roadblocks on the energy front could add \$30 billion to capital investment in the utilities sector alone during 1981, according to *EIR* staff estimates. Over 350 power plants, including both nuclear and fossil fuel, are in various stages of completion around the United States, delayed by a series of environmentalist demands of the old Environmental Protection Agency. Shutting off the budget of this agency would permit utilities to bring facilities on line in a burst of project completions.

According to nuclear industry managers at one top U.S. construction firm, the White House has already sent assurances to the industry that regulatory relief on this front will be a top Reagan priority. In addition, the new administration promises an educational campaign to counteract the effect of the hysteria around Three Mile Island.

In addition, the likelihood of rollback of some of the most onerous fuel-saving and emission requirements imposed on the auto industry could enable battered auto-makers to shift investment from purely environmental expenditures to more profitable, and more useful, investments in auto capacity. Precisely how quickly the auto industry could shift investment strategy is

difficult to tell, but it is likely that a significant amount of U.S. machine tool capacity now diverted toward overhead forms of utilization could be diverted back to expansion of output.

Export potential

Also of potentially great importance is the role of the U.S. Eximbank. Some of the companies now suffering the worst short-term liquidity problems, such as the agricultural equipment industry, also have the best potential for rapid export expansion. More broadly, this is true for agriculture in general, for all heavy equipment industries, and for the power-generating industries in particular. A targeted Exim program, combined with the right sort of treaty agreement with Mexico, could provide a \$50 to \$100 billion stimulus to American manufacturing and agriculture.

To summarize: by removing the cap on industrial activity imposed by the Carter administration, key sectors of the economy can restore production levels of a year ago and higher, and restore sufficient income to American consumers (as a spinoff of higher production levels) to lift the consumer-goods industries out of the present trough. Particularly if the Kemp-Roth tax cuts coincide with the initiatives cited above, the economy will indeed be jolted forward.

The credit question

This is more than a financial consideration. As my Special Report in this issue documents, the electric utilities have suffered a 20 percent decline in their total productivity in the past 10 years, entirely due to environmentalist meddling. Taking the constraints off could give the economy a literal "surge of power," the precondition for real expansion of tangible wealth creation.

However, the jolt forward Reagan's first 90 days could generate will run directly into the monetary policy of the Federal Reserve. Not merely will the additional loan demand resulting from the program provide the Fed with the rationale for raising interest rates still further; the additional freedom provided by the expected tax breaks could also fuel a new cycle of real-estate and similar inflationary speculation.

At this point, an abortion of the recovery and a major escalation of inflation will become twin dangers, at almost the moment that economic activity begins to pick up—a potentially fatal flaw in the Kemp-Roth approach.

At that point Mr. Reagan will have to make some tough choices, and jettison the arguments against using the public credit for public purposes. If his constituency—the producers he called "heroes" in his inaugural speech—insists that the growth policy take precedence over ideological considerations, the right decisions will be made.

Cutting through the tax debate

Kathy Burdman shows why cuts can fuel inflation—unless the whole upside-down taxation system gets an overhaul.

One of the single most important tasks confronting the new U.S. administration will be to shape a tax policy to reverse America's industrial decline and rebuild the economy. President Reagan is personally committed to reducing the crushing tax burden on American industry and families, and the Reagan transition team, in a recent fact sheet, proposed a sweeping \$22 billion tax cut for fiscal 1981 on the model of the Kemp-Roth tax bill. The program, sponsored by Rep. Jack Kemp (R-N.Y.) and Sen. William Roth (R-Del.), would cut personal income taxes 10 percent a year through 1985, and provide accelerated tax measures intended to stimulate corporate investment.

Kemp-Roth is often denounced as too sweeping by the liberal Republicans and Democrats in Congress. But the major alternatives on the table, two separate tax-cut proposals by Senate Finance Committee Chairman Robert Dole (R-Kans.) and Senate Finance Committee minority leader Russell Long (D-La.), contemplate a similar \$20 billion range of tax cuts for fiscal 1981.

The American people and American business know only too well that the current tax burden endangers the future of the American System. But the major cuts proposed by Reagan, Dole, and Long, while not "too large," are, in fact, too sweeping in a fundamental way. By cutting taxes across the board, with little or no regard to *what* taxes are being cut, they run the risk of greatly increasing inflation, without helping in any way to increase the nation's tax base.

Under conditions of double-digit inflation and soaring interest rates, a premium is placed on fast-buck speculative investment to the detriment of long-term industrial capital formation. Under such conditions, any non-selective tax cut, failing to distinguish between incomes generated from productive and speculative sources, will only increase the funds available for that inflation-feeding, nonproductive use of capital fostered by inflation and interest-rate conditions.

Moreover, the American tax system itself makes spec-

ulation a tax shelter; the fact is that the entire American tax system is constructed upside-down. It does more than merely discourage capital formation in industry and other goods-producing sectors. It actively forces investment out of long-term, productivity-increasing outlays, into real estate and similar speculative investments that make no contribution to the tax base.

For this reason, the aggregate value of real-estate holdings in the American economy, estimated at over \$3.5 trillion by *EIR*, is more than five times larger than the value of all plant and equipment in American manufacturing industry. The value of New York City real estate alone is larger than the producing assets of the nation's manufacturing corporations.

If this real-estate income, for example, were properly taxed, *EIR* estimates *an additional \$45 billion could have been recouped for the U.S. Treasury in 1980.*

To expand the U.S. tax base, by expanding the economy as a whole, tax cuts must therefore attack the root of economic decay: the decline of productivity in manufacturing, construction, transportation, agriculture, mining, and utilities.

The American family, too, needs a specific kind of tax break. Current tax rates on households with incomes of \$20,000 per year and under, 80 percent of U.S. households, actually *prohibit family formation*, and must be greatly reduced for this bracket.

To rebuild the economy, tax cuts for the 1980s must be *targeted* to provide incentives for family formation and to increase corporate investment specifically in new industrial capital, and to dissuade speculative investment. In effect, the productive industrial sector must be made the only "tax shelter."

The flaw in Kemp-Roth is fundamentally one of ideological blindness, blind adherence to the same British principles of political economy the Carter administration used to wreck the U.S. economy. As William Fellner, the American Enterprise Institute economist who worked on the Reagan transition team task force with Representa-

tive Kemp, Art Laffer, and the other well-intentioned supply-side tax-cutters, put it in a recent *EIR* interview, "We cannot imagine that we can determine what is productive and what is not. Who are you, or I, to say that steel mills are more productive than high-rises or gambling casinos? Whichever is more profitable is more productive."

This is simply bad economics. For example, the Kemp-Roth proposal to merely cut personal income taxes across the board by 10 percent will continue to allow large-scale personal speculation in real estate by individuals who should be encouraged to put their money into industry or savings of real economic benefit to the nation. In particular, the proposal may even contain provisions to reduce the top tax rate on individual capital gains from 28 percent to 20 percent, thus greatly encouraging individuals to engage in investments in real estate with a view to taking speculative capital gains.

Similarly, Kemp-Roth may also eventually include provisions to reduce corporate capital gains from 28 percent to 20 percent, which would be a huge inflationary windfall to the financial institutions' \$100 billion-plus annual real-estate income. The other aspect of the business tax reduction component of Kemp-Roth, the so-called 10-5-3 accelerated depreciation for business investment, would allow productive industry to write off buildings in 10 years, machinery in 5 years, and vehicles in 3 years. But its heavy emphasis on real-estate writeoffs would be another windfall to the real-estate speculators.

The National Democratic Policy Committee, a conservative Democratic Party policy-making organization, has proposed a 1981 tax-cut plan that addresses this need for tax restructuring for national industrial growth. Entitled "A Taxation System for Capital Formation," the plan was devised by the committee's Advisory Board Chairman Lyndon H. LaRouche, a 1980 Democratic presidential candidate. It contains four basic elements:

"1. Increase the personal income-tax exemption to remove all tax liability for families at or below \$20,000 per year gross pre-tax income.

"2. Maintain present progressive income-tax schedules but with substantial exemptions for productive investment of household income.

"3. Grant a 20 percent investment-tax credit for corporations on the margin of new investment above 1980 levels coupled with accelerated depreciation of industrial, agricultural, mining, and utilities structures and equipment.

"4. Generate additional revenues by increasing tax schedules on income and capital gains on nonproductive investment, principally commercial real estate."

The Policy Committee's proposals amount to a \$51 billion tax cut for fiscal 1981, and, although twice the size of other tax cut plans on the table, would be much less inflationary.

The question of U.S. *business-tax cuts* boils down to the question of where we invest capital in America's future: in steel mills and other heavy industry, or in gambling casinos and other "postindustrial" real-estate speculation.

There are so many loopholes in the tax structure for investment in real estate and related speculation at present that the tax structure in effect encourages real-estate speculation. Even where tax laws for real estate and related investment parallel taxation of industrial production, the *turnover* in real-estate holdings of condominiums and land, the sheer resale market, which rises logarithmically, far exceeds the resale market for lowly industrial plant and equipment in the United States, which declines each year because of economic recession. Resale value alone is enough to guarantee a flight of investment money into the real-estate markets.

The major holders of speculative real-estate investment, defined as the large commercial banks, insurance companies, and real-estate corporations, and excluding the savings and loans who finance most of the nation's homebuilding, paid taxes on less than 7 percent of their income in 1980, according to *EIR's* estimates.

Taxable income for this "financial sector" amounted to \$18 billion or less in 1976, out of \$310 billion in total income, according to the Internal Revenue Service's most recently available figures. *EIR* estimates corroborated by the IRS bring the financial sector's 1980 taxable income to no more than \$35 billion, compared with total income of at least \$510 billion.

Out of this \$510 billion income, *EIR* estimates that the financial sector took some \$475 billion in deductions in 1980. These include, of course, legitimate deductions for sales costs (salaries and operating expenses) and interest payments, which is the cost of raw materials, i.e., money, to a financial corporation. However, this sector also took some \$167 billion in "other" deductions, which the IRS does not separately identify, and which is by far the largest category of deductions.

Most of these other deductions, according to estimates by *EIR* corroborated by the Senate Finance Committee, are related to the financial sector's estimated \$120 billion in real-estate income in 1980.

First, the financial sector takes vastly accelerated depreciation on the value of the commercial structures and land holdings to which it holds title, and upon which the institution continues to hold the mortgage. This category is not included by the IRS in its listed minor figures for "depreciation," which merely account for the depreciation, for example, of a bank's own headquarters office, and not for depreciation on the billions in other commercial real-estate buildings whose mortgages the bank holds.

Second, due to the tremendous rise in real-estate and land prices under the current raging U.S. inflation, each

year the capital value of the properties to which the financial sector holds investment title rises substantially. When these properties are sold, generating income and profits, the proceeds are taxed, not at the regular standard gross U.S. corporate income-tax rate of 48 percent, but at the capital-gains tax rate of 28 percent or less.

Considering the financial sector's total taxable income was only \$35 billion in 1980, it is safe to assume that at least \$100 billion of its \$120 billion real-estate income went tax free. If that \$100 billion were taxed at the normal corporate-tax rate of 37 percent after depreciation, this sector alone would generate an additional \$37 billion in U.S. tax receipts on real estate.

In addition to the financial sector's 1980 real estate-related income of \$120 billion must be considered the real-estate income of industrial corporations, estimated by *EIR* at \$50 billion in 1980, and by individuals, whose non-homebuying real-estate income is estimated to be at least \$25 billion for 1980. It is almost impossible to tell from IRS figures how much of this income is currently being properly taxed. It is likely that industrial corporations are entitled to most of the depreciation they take on their real-estate investments, much of which is, unlike in the financial sector, directly related to producing plants and equipment.

Much of the private individual sector's real-estate income, on the other hand, is probably not being taxed adequately due to the same vast acceleration and capital gains deductions provisions being taken, as in the financial sector. In all, out of this additional \$75 billion in industrial and individual real-estate income, *EIR* estimates closing tax loopholes would generate an additional \$5-\$10 billion in tax revenue.

Rebuilding the American family

The American taxpayer in general needs a break, but the most glaring danger to our nation in the entire tax structure is the fact that it at present virtually forbids family formation by the 80 percent of the American population with an average working-man's income today. Unless this insane bias in the tax structure is reversed, America's productive workforce will be greatly reduced, its living and educational standards destroyed, and our national productivity per worker correspondingly reduced, to the long-term detriment of the economy.

In 1977, the latest IRS figures available, 79 percent of the personal income-tax returns filed were filed by households with gross income of \$20,000 or under, a gross-income figure regarded as the "higher income level" end of the spectrum for the average working family by the U.S. Department of Labor. But of these returns, only 17 percent of families with incomes of \$20,000 or under filed with four or more exemptions.

That is, only 17 percent of households with this gross income could afford to have two children. In fact, only 28.5 percent of households in this income bracket filed with three exemptions, that is, could afford to have even one child.

These figures exaggerate the number of children now affordable to the "average" American working family, since these exemption categories include in many cases exemptions for students and other two-exemption-per-household-member exemptions.

The fact is that with four exemptions, a \$20,000 higher-level income was taxed in 1979 and 1980 at an average rate of 11.3 percent, for a net income available to the family of \$17,735. As any urban American citizen can tell the fools at the Department of Labor, this is no higher-budget living standard.

An actual gross income necessary to provide for a two-child family today may be closer to \$25,000. As the National Democratic Policy Committee has proposed, families of four in this income category should be completely tax-exempt. Even if this were done, so few such families now exist that the cost to the Treasury of such a well-targeted tax cut would be a mere \$17.2 billion, assuming no economic recovery and present employment levels.

For the rest of the taxpayers, current progressive income schedules are so burdensome that even the most responsible well-off citizen is virtually forced to seek tax shelters in real-estate capital gains, tax shelter writeoffs, and other subterfuges. While these ease the tax burden on the individual taxpayer, they cause grave damage to the national economy, because the national total of such funds is a large, lump-sum channeling of vital credit into some of the least-productive sectors.

An alternative proposal put forward by NDPC Advisory Board Chairman LaRouche in his recent book, *A "Gaullist" Solution for Italy's Monetary Crisis*, is that the progressive income-tax schedule for the 20 percent of households in higher tax brackets should continue to have highly graduated basic tax rates, but that legal writeoffs, some quite extensive, should be widely provided to encourage these households' investments into the nation's capital-formation needs. Direct investment in capital improvements in manufacturing, transportation, and agriculture should qualify for substantial tax writeoffs, the NDPC suggests.

The Democratic group further calculates that a total tax exemption on savings accounts at all thrift institutions, including savings banks, savings and loan associations, and credit unions, would raise the volume of savings in the economy from \$85 billion to \$120 billion. This would provide a real basis for new construction in the home- and other building industries, and would return about \$8 billion to individuals, mainly in the higher tax brackets.

Reserves are fleeing the system

Volcker's pulling a new credit crunch that will undermine economic recovery potential.

In the week ending Jan. 14, the adjusted bank reserves of the U.S. banking system jumped by \$1.3 billion over the previous week's level to \$47 billion. Most, and probably all, of this jump was due to the "adjustment" the banking system had to make due to the inclusion for the first time of many new financial institutions into the Federal Reserve's data base.

This includes savings and thrift institutions and smaller commercial banks which joined the Fed System in line with the Monetary Deregulation and Control Act of 1980, after the law made membership in the Federal Reserve System mandatory.

As a result, M1-A jumped by \$1.6 billion in the week ending Jan. 14 and M1-B jumped \$11.4 billion. But the most remarkable behavior is that of adjusted reserves. This is the raw stuff out of which new loans are made.

If the \$1.3 billion increase in adjusted reserves is treated as real, it can be seen that between Nov. 26, when adjusted reserves were \$47.1 billion, and Jan. 7, when they were \$47.0, there have been no changes: a freeze for six weeks.

If the \$1.3 billion is attributed to the increase in the number of banks in the Fed System, as it should be, it can be seen that since Nov. 26 there has been a decline of up to \$1.2 billion.

Yet, during this time, the contraction of reserves has been even

more severe.

The large New York banks accounted for most of the widely reported \$500 to \$850 million excess free-reserve position among some banks.

When the excess-reserve position of the New York banks is subtracted, the contraction in adjusted reserves for the *non-New York bank* part of the banking system has amounted to between \$1.5 and \$2.0 billion.

It is convenient for many people to say that when watching Fed Chairman Paul Volcker, one shouldn't pay attention to what his mouth is doing, but rather to his hands and feet.

If this is true, then it must be concluded that Volcker together with the large New York banks is pulling a credit crunch more severe than even his March 14 imposition of credit controls.

This reality is already catching up with the rest of the banking system and the level of loan generation. The rush toward business loans that characterized the latter part of 1980 has been choked off. Business loans nationally were at the level of \$171,905 million for the week ending Dec. 10.

Four weeks later, they were \$172,158 million. It is also the case that consumer borrowing, despite occasional blips, is going nowhere, after being flat (unadjusted for inflation) during 1980.

In addition, corporate and mu-

nicipal bonds are not moving, not at the near record rates for these two markets.

Altogether, new credit flows for at least the last four weeks have been shut down.

The cutoff of reserves and the shutdown of credit flows to the real economy by Volcker, and Volcker's extra effort to dry out the system of credit, is an attempt to act in advance to derail whatever efforts Reagan may make to start up the economy once again.

Already, housing starts fell 1 percent in December, the first official fall since May. The Chrysler Corporation is still not out of the woods on its loan guarantees, which have neither cleared the U.S. Congress nor gotten the approval of the Canadian government.

An MIT auto analyst reported Jan. 19 that Chrysler will have to make an additional 20,000 permanent layoffs on top of those already laid off; there is no indication that Chrysler will not fold within weeks. Caterpillar Tractor announced a new round of several thousand layoffs for 1981. Braniff, Eastern and Pan Am Airlines are all on the verge of bankruptcy, due to the effects of the credit crunch on top of fuel cost hikes and airline deregulation.

White Motors Company is attempting to negotiate new loans to keep itself functioning; the Canadian agricultural implements firm, which employs a large number of Americans, has just undergone another debt restructuring.

Thus there is a tier of corporations which could go under for lack of liquidity to perform rollovers. It is in this situation that the super-tight crunch of the last four weeks is now being applied by Mr. Volcker and the Fed's governors.

The crisis that didn't happen

Unfreezing Iran's funds failed to blow out the dollar, as Europe wanted to give Reagan some help.

The transfer on Jan. 20 of approximately \$3 billion cash to the outlaw Iranian regime in exchange for American hostages failed to produce a foreign-exchange crisis, despite widespread predictions that this would occur.

European officials, interested in giving backup to President Reagan as he assumes office, reportedly acted to ensure a smooth transfer of funds. French sources are asserting in this connection that European leaders convinced the Bank of England, which has close ties to Iran, to bar any large Iranian purchases of pounds sterling in exchange for their dollars.

For days leading up to the transfer, New York financial journals and foreign-exchange experts were warning the Iranians would immediately dump the dollars they received to demonstrate hostility towards the United States. Among those warning that such a crisis could erupt, coinciding with the inauguration of Ronald Reagan was a high-level official at the New York Federal Reserve who reported, "We're staffing the foreign exchange desk on a 24-hour basis."

He asserted that "as soon as [the Iranians] get their hands on the money, they will start converting it into the currencies of friendly countries. This includes the pound sterling, the French franc, the Swiss franc, and the Japanese yen. This could result in severe downward pressure on the dollar."

Although many important details about how the transaction was finally performed remain secret, there is ample evidence that the Iranians were forced to back down.

First of all, between Jan. 18 and 20, the sum of free cash assets released to the Iranians was drastically cut by \$2 billion.

British officials who took part in the negotiations leaked to the London *Financial Times* late Jan. 17 that the Iranians would be getting about \$4 billion in free cash assets, including gold transferred to the trusteeship of the Bank of England.

In the final agreement reached Jan. 20, however, the Iranians only got \$2.88 billion, including the gold. In the interim, the Iranians had "offered" to expand a special transfer of \$3.6 billion, out of which the Bank of England will now directly pay off outstanding Iranian loans to U.S. and European commercial bank creditors. On Jan. 18, the *Financial Times* had asserted this fund would be no more than \$1.5 billion.

The difference between the two breakdowns is substantial. Had the Iranians begun to dump their \$4 billion, international foreign exchange markets would have been upset. With only \$2.9 billion, and actually half of that sitting in the basement of the New York Federal Reserve in the form of physical gold, the Iranian bluff was defused.

On Jan. 21, the Bank of Eng-

land made public that it does not want Iran to go into heavy purchases of the pound sterling in exchange for its dollars. The Bank also reported that lawsuits scheduled to be heard in the London High Court in April from international banks registering claims against Iran would be dropped.

The bank also planted sensitive details about its ties to Iran's central bank, Bank Markazi, in newspapers in New York and London. On Jan. 19, for example, the *Financial Times* leaked that in November 1979, when the U.S. government imposed the assets freeze against Iran, the Bank of England had been "embarrassed" by Iranian officials who told the press that the Bank of England was "on their side."

Like officials in the Carter administration, London's top financial officials are trying to throw up a smokescreen around the true, condemning details about its relations with Iran's radicals since 1979.

The transfer of Iran's assets did not go smoothly due to mediation by the Bank of England, as these leaks are aimed at suggesting.

Interviews with a top Swiss monetary official and well-connected investment banks reveal the combination of circumstances that were able to defuse the threat. Many European leaders are currently committed to taking any action that will give the new President a chance to settle into his tasks without disturbance; others, including the Bank of England, caught wind that Reagan might have used a currency crisis as an excuse for a showdown with the Federal Reserve over U.S. interest-rate levels, and didn't want to take that risk.

Utilities face debt pileup

Unless Reagan eases credit, electricity production's annual growth will stagnate at 1.5 percent.

In the early 1970s, annual growth rates for electrical consumption in the United States were projected at between 6 and 7 percent. On Jan. 21, 1981, Northeast Utilities, a leading electricity producer, announced that a Connecticut state conservation program would limit annual growth in demand from its customers to 1.5 percent for several years.

A report by the Congressional Research Staff last summer considered a scenario in which electricity demand would grow by only 3.3 percent annually for the entire next decade, based on reserve margins of capacity at 5 percent less than what authorities consider to be safe levels.

The plight of U.S. utility corporations is one of the leading challenges awaiting Reagan administration action to reverse four years of regulatory dictatorship over capital investment.

The most capital-intensive industry in the country, utilities spent \$26 billion on over 300 construction projects last year, with most funds going into nuclear- and coal-related capacity.

In 1981, the industry will inject a new \$29 billion of capital outlays into the economy.

Preliminary estimates by our staff indicate that if the Carter era's environmentalist assault on power generation were lifted, up to \$30 billion in additional capital outlays annually could be injected into U.S.

construction, capital goods, and other supplier firms at an early date.

While many industry executives have greeted Mr. Reagan's commitment to review the recent years' regulatory assault on investments, there is little optimism in the industry that its problems can be reversed in the short term.

Although it is clear that nowhere near adequate deliberation on the possible solutions to the industry's problems has yet taken place, the scope of the electricity grid crisis emerging across the country is well documented.

From the credit standpoint, two additional problems currently hamstringing investment are a serious deterioration in industry earnings, and the recent years' pileup of short-term debt.

At this point, even if Reagan implements a 10 percent tax cut at an early date, this will have little effect on utility planning. As one securities analyst put it, "In order to benefit from a tax cut, you have to already be paying taxes. Many utility firms stopped paying taxes long ago, because they're not generating any profit."

Since utilities are highly capital-intensive, firms in this industry cannot delay expenditures.

When a utility firm can't get financing on the long-term market to meet capital needs, it must go to a bank, get those funds, and refinance them at a later time with

long-term paper.

In October 1979, when Federal Reserve Chairman Paul Volcker imposed his credit slowdown on the U.S., high-interest debt whacked the industry hard. During 1980, Moody's and Standard and Poor's, the leading investor rating services, downgraded the credit ratings on the debt issues of over 20 firms. In one typical case last year a leading nuclear producer was paying more on its first mortgage bonds than the 13.7 percent return it was getting on its own equity.

In 1980, utility firms projected that they would borrow \$17.3 billion on the long-term market. Due to the weakness of the long-term markets last year, however, they never received more than \$14 billion.

By the end of 1979, short-term bank debt had shot up to \$7.3 billion after just three months of Volcker's credit constraints. Although 1980 short-term debt tallies have not yet been released, analysts predict that another significant increase, possibly hitting \$10 billion total, will turn out to have occurred last year.

After 15 months of Volcker's policies, the same utility corporations which had been 60 percent self-financing just two decades ago—that is, were able to finance 60 percent of their capital outlays from earnings, *despite* consumer rate declines—had become 70 percent dependent on external credit sources.

Preliminary analysis thus shows that the nation's power grid will be endangered unless low-interest credit, in addition to lifting of regulatory penalties, is made available at an early date. The cost to the economy as a whole would otherwise be intolerable.

Carter's last word: shrinkage

Congress and the new administration may be ready to send his deregulation plan packing, too.

Jimmy Carter's "Report of the President: Geographic Restrictions on Commercial Banking in the United States" has been delivered to the U.S. Congress after two years of stonewalling. The monstrous 240-page compendium is, as expected, an overt call for the "contraction" of the U.S. banking system through the "phased liberalization" of the McFadden Act and Douglas Amendment, which protect the nation's regional banks.

President Reagan and Senate Banking Committee Chairman Jake Garn (R-Utah) are being advised by the U.S. League of Savings Associations, the Independent Bankers, and other local bank constituency organizations to reject the report completely, as detrimental to the nation's banking system and its ability to provide credit to the nation's economy.

The report stands as a grim warning to the new President that, while U.S. industry is overregulated, a sweeping, libertarian deregulation of the entire economy is not the answer. The Carter report openly confirms that the intended effect of banking deregulation in particular is the triage of large portions of the nation's banking system.

EIR insists that any translation of the Carter report into law would profoundly harm the economy and must be opposed by the new administration.

The Carter report calls for the

"significant liberalization of existing geographic restrictions on the provision of banking services." The aim is unambiguously to *eliminate completely* the 1927 McFadden Act, which prohibits large banks from branching into new states, and the Douglas Amendment Section 3d of the 1956 Bank Holding Company Act, which prohibits major bank holding companies from buying banks in new states.

"The administration has concluded that the McFadden Act and Section 3d of the Bank Holding Company Act are increasingly ineffective, inequitable, inefficient, and anachronistic, and that interstate banking should be ratified and further liberalized through a phased relaxation of current geographic restrictions," states the first recommendation.

The report notes that current political opposition makes McFadden abrogation unfeasible, and calls for the phaseout of the Douglas Amendment as an initial step.

Concretely, the Carter report proposes that Congress immediately abrogate McFadden for major metropolitan areas, which would allow New York's giants, for example, to take over banking in New Jersey and Connecticut.

McFadden's repeal as soon as possible is recommended, although the report admits this would "lead to the greatest erosion of states' rights and the dual banking system."

McFadden repeal would not only remove federal protection for local banks but would force states to "liberalize their supervision of state banks or experience large numbers of banks switching to national charters."

"Unrestricted nationwide bank branching," the report states openly, "would most likely lead to domination of banking markets by banking organizations that are currently relatively large," namely, New York's Citibank and California's Bank of America.

This would be the end of many local banks, the report announces: "Unrestricted interstate banking would likely lead to a decline in the number of banks . . . as smaller institutions were acquired by larger institutions located in the same or other markets."

"Rising aggregate nationwide concentration . . . means that any event adverse to these banks may set off serious ripple effects through the financial community," the Carter report acknowledges.

Carter further recommends that "the deployment of Electronic Funds Transfer terminals ought to be subject to less onerous geographic restrictions than brick-and-mortar branches, and that this modification of the McFadden Act should be undertaken in the first phase of deregulation," even though EFT terminals "would tend to benefit the larger banks that can take advantage of scale economies."

In fact, as I have documented at length, the Carter Fed's plan for International Banking Facilities, now before the Federal Reserve Board, would utilize EFT to set up one huge national banking market run by the big multinational banks.

World Trade

by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Financing	Comment
NEW DEALS				
\$333 mn.	Mexico from Japan	Nissan will boost its auto engine-building capacity in Mexico from 100,000 to 360,000 engines per year for Mexican internal market.		Nissan says will not export to U.S.
\$297 mn.	Korea from U.S.	Western Electric will provide \$297 mn. in U.S. goods and services for Phase II of Korea's \$2 bn. telecommunications expansion program.	Eximbank approval announced for \$252 mn. at 8.375%.	
\$65 mn.	Portugal from Italy	Italimpianti won tough international bidding for designing and partially equipping Portuguese state steel company's new blast furnace and revamping old one at Seixal. As part of deal, Italy agreed to absorb part of Portugal's future steel surplus, while immediately selling many manufactured steel products to Portugal.	Supplier's credit by Italian banks at lowest rates tolerated by EC.	Italy will use Portuguese steel components for steel plant projects abroad.
	Argentina from U.S.S.R.	Argentine National Atomic Energy Commission bought 5 tons of heavy water from the Soviets for use as moderator and coolant in Atucha I, only operating nuclear plant in Latin America. Normal replenishment needs are 1.5 tons per year.		Under IAEA safeguards; big step for Soviets, displacing "unreliable" U.S.
\$86 mn.	U.S.S.R. from Italy	Fiat-Allis has won order for 300 heavy track loaders, weighing an average of 63 tons.		Italian govt. has approved; deal signed.
\$200 mn.	U.K. from France	Bristow Helicopters has ordered 35 Super Puma helicopters from French govt.'s Aerospatiale for use with North Sea oil platforms.		Aerospatiale makes 78% of sales for export.
\$59 mn.	Mexico from U.S.	Kimberly-Clark will buy U.S. paper manufacturing equipment for its new Mexican plants.	Exim providing \$25 mn. at 8.75%; private banks \$25 mn.	
	China from West Germany	Busch KG of Baden-Württemberg, Germany is entering a 50-50 joint venture with the Chinese for a vacuum pump plant in Shanghai. Dr. Karl Busch, a small manufacturer, aims at Chinese and Third World market.	Probably German-Chinese credit program for small deals.	Being promoted by Baden-Württemberg state.
UPDATE				
\$740 mn.	Mexico from Japan	Japan's Trade Minister R. Tanaka offered loans and credits which can be used only to cover equipment from Japan and developing countries. They are not tied to specific projects.	\$148 mn. in yen credits at 4.25%; plus \$592 mn. in Ex-Im yen loans at 8%.	Gives Japan best track on rail electrification, steel, and other projects.

Physics conference throws light on the U.S.-Soviet laser fusion debate

by Vin Berg

This past November, more than 2,000 fusion scientists and engineers attended the world's largest nuclear fusion-related meeting, the annual conference of the American Physical Society's Division of Plasma Physics in San Diego, California. The physics of plasma, hot ionized gas that directly exhibits self-ordering behavior, is the branch of physics associated with fusion energy development; the international conference itself was noteworthy not only for the hundreds of progress reports presented, but for additional information concerning one branch of fusion research, inertial confinement, that allows one to piece together the history of this closely guarded field.

Since Oct. 7, 1980, when the Magnetic Fusion Energy Engineering Act was signed into law, the United States has been formally committed to achieving fusion power by the year 2000. Fusion is the power process of the sun, whose enormous gravitational force compresses atoms of hydrogen to the very high temperatures and densities at which, respectively, their electrons are stripped away (ionization), and their nuclei fuse, producing new atoms and releasing enormous amounts of energy in the form of heat and light. Lacking the sun's gravitational force to drive the fusion process, scientists are devising methods that can generate plasma fusion reactions employing inertial techniques—high-energy laser, ion or electron beams—or magnetic fields to contain and compress plasmas to the condition required.

Presentations on *inertial* fusion, in particular methods using high-power laser drivers, produced some of the greatest interest at the conference.

The history of inertial confinement fusion research has never really been told. The field has been generally security classified due to its bearing on advanced-weapons-systems research. However, recently declassified information, some it presented at the conference, begins to clarify the nature of the field's development, and illustrates the extent to which excessive "top-secret" treatment of results, by inhibiting information exchange, has actually aggravated the ability to find solutions to certain

theoretical problems.

Inertial confinement history

To a large extent, research and development in inertial confinement, often called "laser fusion," has revolved around laser/plasma interactions that produce both instabilities in fuel compression and preheating of fuel by "hot," or highly energized, electrons generated by high energy, high-power dense laser beams. The beams are focused on a target "pellet" containing fusion fuel—the heavy isotopes of hydrogen called deuterium and tritium—vaporizing the pellet surface which, as it flies off, effects ablative compression—*implosion* of the pellet. A leading problem has been that the more powerful lasers favored by American scientists also produce high thermal electrons, and these "hot" electrons heat up the fuel prior to its full thermonuclear fusion burn. Since heating tends to expand the target fuel, it reduces the efficiency with which the laser beam compresses the target fuel.

Four years ago, Soviet scientist Leonid I. Rudakov proposed that laser light could be converted into soft X rays, both eliminating hot electron generation, and maximizing compressive force. A debate was provoked.

U.S. scientists in the mid-1950s had found that the X ray output from a fission chain reaction could be passed through a series of filtering materials into a "black body cavity"—"black" because it absorbs and propagates all frequencies of light—producing soft X rays that could efficiently implode hollow spherical targets with low beam power-inputs. However, the U.S. experts believed that to be economically competitive, inertial fusion would have to employ very simple, thick-shelled targets, requiring more powerful laser beams. U.S. research therefore concentrated on developing very powerful lasers.

A Soviet disagreement

Soviet scientists, however, argued that high power fluxes would generate beam/plasma instabilities; they

argued that efficient compression of the plasma fuel, avoiding instabilities and other undesirable effects produced by the interaction of the plasma with the laser beam itself, required that laser beams be limited below certain definite power fluxes. Soviet research therefore concentrated on designing thin-shell hollow targets requiring less laser power input for implosion. U.S. scientists persisted in high-power beam development, arguing that thin-shell targets would themselves produce hydrodynamic instabilities.

Behind this disagreement is a fundamental theoretical question: What is primary in inertial fusion? The implicit assumption of the American view was that input energy is primary. The fusion process is implicitly assumed to be entropic, and what is therefore deemed crucial is a maximum of energy input to drive the plasma to fusion conditions before countervailing instability and energy dissipation can take over.

Implicit in the Soviet approach, however, was the opposite view (long explicitly held by America's Fusion Energy Foundation and others), that the fusion process is negentropic. Energy input does not drive the plasma to fusion. The plasma drives itself to fusion. Energy input merely establishes the initial configuration that triggers such self-ordering plasma behavior. The problem is not energy input, but how to design the target geometry and the deposition of energy input so as to best use the thermonuclear burn process the plasma itself develops. Energy input, as "trigger" for the plasma's evolution, must not interfere with it. During the 1970s, the leading features of the Soviet view were proven correct, as instabilities, decreased laser-light absorption, and pre-heating by hot electrons, reduced implosive efficiency. Each of these obstacles was an unwanted result of the plasma's interaction with a too-powerful laser beam.

Recent experiments at Lawrence Livermore Laboratory in California now confirm that when laser-beam power fluxes are kept below the limits specified by the Soviet specialists, a maximum percentage of laser light is converted to soft X rays, without generating the "hot electrons" responsible for the pre-heating problem.

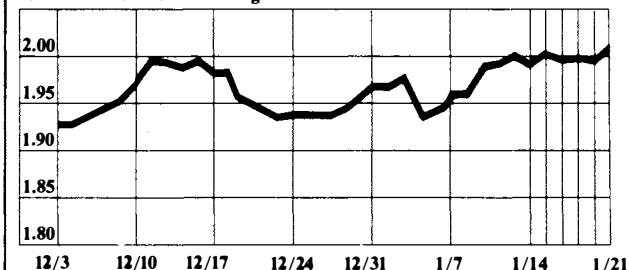
Moreover, the instabilities U.S. scientists had imputed to thin-shell targets—they now agree—are not important when soft X rays are employed.

It is now believed that the Soviet program always presumed the conversion of laser light to soft X rays, and that Soviet thin-shell target designs were therefore based on this presumption. What still remains in dispute is exactly how ignition and "burn" of fusion fuel (through thermonuclear-burn shock waves) actually proceeds. There are indications that the Soviets have made a breakthrough in this area, and may have refined their target designs on the basis of such a new appreciation of the negentropic fusion-fuel "burn" process.

Currency Rates

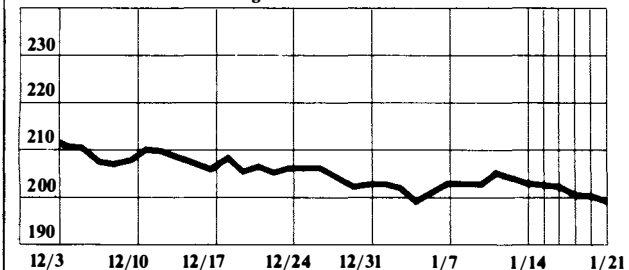
The dollar in deutschemarks

New York late afternoon fixing



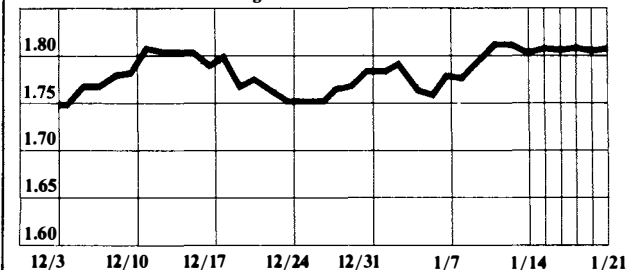
The dollar in yen

New York late afternoon fixing



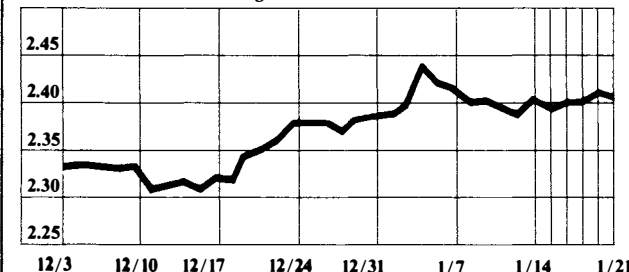
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



Business Briefs

Banking

New York bill to promote interstate banking

In an effort to goad California to collaborate in undermining the Douglas Amendment to the federal Bank Holding Company Act, New York State's Assembly has reported out of committee a bill that would allow an out-of-state bank to establish two branch offices in New York City. The bill, introduced by Harlem Assemblyman Herman D. Farrell, is key to a Citibank plan to operate branches in California through holding companies. The Douglas Amendment may be circumvented if two states agree to reciprocal banking.

While Citibank has been stymied in California (see *EIR*, Jan. 19) by banks there that want no competition in absorbing smaller California banks, it has finally overcome opposition in New York State and forced the bill on to the floor of the Assembly. Last year the reciprocal banking bill died in committee in the Republican-controlled Senate.

Even if successful, Citibank's move may not be into California. Jack Duffy, EVP of Security Pacific, one of California's largest institutions, told reporters, "We wouldn't trade two blocks of Fresno for the entire state of New York."

Domestic Credit

Reagan to Volcker: ease up on rates

When President Reagan met with Federal Reserve Chairman Paul Volcker on Jan. 24, Washington sources say that he told Volcker that, while the Fed's independence should be maintained, Volcker must let the administration's program of tax cuts and credit easing take precedence.

Reagan adviser Alan Greenspan meanwhile publicly termed Volcker's high rates a "time bomb" that could

cause a banking panic. "A time bomb is ticking away in the financial system that could cause a massive crisis" and bankruptcies among the nation's S&Ls, he told the Joint Economic Committee of Congress. It will blow up, he said, if the U.S. does not defuse the inflationary results of high interest rates.

At the National Association of Home Builders' annual convention in Las Vegas, NAHB President Merrill Butler warned in effect that elected officials must take responsibility for economic policies. "Homebuilding industry is being driven out of the marketplace by the actions of its own government. This industry is in very serious jeopardy because of continuing high interest rates . . . [and] no longer able as an industry to properly plan for the future."

Agriculture

Stockman waves his new budget ax

In a speech to the National Press Club Jan. 21, Office of Management and Budget Director David Stockman promised that he would deliver "a jolt to the economy" to stop inflation. Stockman promised "major surgery almost across the board" on the budget. In addition to extended unemployment benefits, guaranteed student loans, and public sector jobs, Stockman targeted federal "investment" in irrigation and water resource projects for the ax. Asked if agricultural subsidies "have a future," Stockman joked, according to the *New York Times*, "Briefly, I would suspect."

As *EIR* has reported, the Heritage Foundation budget proposal for 1982 recommends a cut in core farm commodity programs of 60 percent. Don Paarlberg, author of the agriculture recommendations for Heritage, stressed in an interview with *EIR* that farm program cuts must be "deep" to move agriculture to a "free market" position. Paarlberg also emphasized his full agreement with the Carter administration's no-water approach to irrigation and water resource

development, ridiculing the idea that it was in the national interest to have cheap and abundant supplies of water for agriculture and industry. The Carter administration canceled 18 water projects.

International Credit

German business wants Third World debt relief

In a press release last week, the West German Exporters' Association called for restructuring (*Umschuldung*) of debts of developing countries. "Our organization supports a debt restructuring of the newly industrialized countries who cannot otherwise carry the burden of increased oil prices," the organization said. In addition, the statement called for an export credit policy modeled on the French program, which consists of an open central bank window at favorable interest rates for export financing.

Bankers remain vague about how the payments deficit during 1981 of the non-oil-producing developing countries could be financed. Estimates of the deficit range from \$100 billion to \$120 billion, double the 1980 level. According to the official World Bank estimates, non-oil LDCs owed \$358 billion at the end of 1979, which implies a total debt level of at least \$420 billion by the end of 1980.

U.S. Forecasting

Economists assert 'recovery impossible'

On Jan. 22, former Council of Economic Advisers head Herbert Stein testified before the Senate Budget Committee on government spending programs. Stein asserted that tax cuts must not be allowed to occur unless budget cuts are implemented first. While the new administration is also committed to budget cuts, it is unlikely that it will agree with Stein's proposed list of where the cuts should

occur. At the top of the list, according to Stein, is 1) subsidies to agriculture, 2) housing, and 3) transportation.

Another leading defender of Federal Reserve policies, Salomon Brothers' economist Henry Kaufman, foresees great storms on domestic financial markets during 1981. Kaufman told a group of Philadelphia businessmen Jan. 21, "It is difficult to say how high [interest] rates are going to go this year." Predicting that yields on top-grade utility bonds will rise to a record 15 to 16 percent, Kaufman also insisted that the prime rate will top December's 21.5 percent all-time high.

World Trade

Medvedev: the embargo boosted U.S.S.R. farming

"In general, I find that the U.S. embargo, which was designed to expose the vulnerability of the Soviet Union, has in reality made a rather positive impact on the Soviet economy, helping to mobilize its resources and potentials," Dr. Zhores Medvedev, a biochemist and former member of the Soviet Union's agricultural establishment, wrote in a detailed survey of the impact of the American grain embargo in *New Scientist* magazine.

On Jan. 2, former President Carter acted by executive order to extend the grain embargo for another year.

Dependence on foreign farm imports had never been popular in the Soviet Union, Medvedev notes. Now it was a matter of prestige. The goal of full self-sufficiency in food, he points out, led to several critical high-level agricultural planning decisions taken early in 1980 that gave an important boost to Soviet production.

Medvedev referred in particular to a March Central Committee decision concerning "additional measures for increase of concentrated and fresh animal fodder" and an April decision regarding "additional measures" for the "higher harvest, procurements of all agricultural products, and preparation of cattle live-

stock for the winter of 1980-81."

The first decision mandated the creation of a reserve stock of animal food, an increase in the area of agricultural land used for fodder, and new funds for collective farms to purchase irrigation and related equipment. City councils were made responsible for supplying farms and livestock operations with recycling fodder, and new financial bonuses were offered to farmers who fulfilled increased fodder production schedules.

The second decision mandated a special increased allocation of key materials to agriculture (trucks, lorries, machinery, gasoline, repair and construction materials) and boosted salaries of farmworkers by 30 to 50 percent.

The mass slaughter of livestock Carter officials had predicted for last spring did not materialize. In fact, by October animal numbers on collective farms were up slightly by comparison with 1979.

Petrodollar Flows

Japanese to receive Saudi financing?

Japan's business daily *Nikkei* reported Jan. 23 that the Japanese central bank and the Saudi Arabian monetary authorities have reached agreement for direct placement of yen-denominated treasury bonds with the Saudi Arabian Monetary Agency. If completed, the agreement would add petrodollar inflows on the nation's official account to a substantial Arab volume of stock purchases during the past year.

According to wire service reports, the Central Bank of Japan denied the report, saying that this form of financing "violated the principles of floating exchange rates." The bank did not comment on the implication that the floating exchange rate regime was in question.

West Germany is currently planning a \$2 billion direct placement of federal government notes with the Saudis, a measure that has received strong public support from Bundesbank President Karl-Otto Poehl.

Briefly

● **WEST GERMANY'S** Mideast Trade Association reports that German firms have made \$5 billion in bids in recent months for contracts with Iraq. The German government export insurance company Hermes recently announced it will restore financing for export deals if shipments are made to areas where there is no fighting.

● **THE SEC** may see its budget cut by 30 percent. A Reagan transition team report on Securities and Exchange Commission activities justifies the cuts by saying some of the agency's programs "raise artificial barriers in certain circumstances to the free accumulation and formation of capital."

● **HERITAGE BANK**, a small California bank, lowered its prime rate Jan. 19 to 19 from 20 percent to show political support for the new administration. Bank official Clancy Lanier explained the move as "strictly . . . patriotic to help President-elect Reagan in his fight against inflation."

● **THE IMF'S** Board of Governors voted last week to reject the Palestine Liberation Organization's demand for representation at the world financial body, Reuters wire service reported. The decision substantially reduces the IMF's chances of obtaining significant funding from Persian Gulf oil states, who last fall made PLO representation a condition for continued contributions to that organization.

● **GEORGE BUSH**, Donald Reagan, and David Stockman have asked Japan to "look after" the Chrysler Corporation, according to Japanese Finance Minister Mituo Watanabe, who told Japanese reporters that the request to aid Chrysler was made during his attendance at the Reagan inauguration.

America needs high-technology breakthroughs

by David Goldman

America will not survive as an industrial nation, and the human race will not reach the year 2000 intact, unless the new administration becomes the vehicle for a series of high-technology breakthroughs on the model of the 1960s moonshot program. This conclusion is inescapable on the strength of a comprehensive set of measurements of the American economy, generated by the LaRouche-Riemann econometric model and excerpted in this survey.

In contrast to the flawed national-income accounting methods of the Department of Commerce and the leading private think tanks, the model's measurements strip away the ideological nonsense from econometrics and present the economy's status as a physical system. The question we try to answer with these measurements is, how do our economic choices today affect our chances of making it through until a year, or 10 years, or 20 years from now?

No amount of nominal growth in the form of inflation-adjusted Gross National Product will contribute to the survival chances the U.S. still has if that growth is based on urban real-estate booms, legalized gambling, computerized electronic toys, and sophisticated office equipment. Yet that is precisely what the "Agenda for the '80s" task force of the Carter administration, under the direction of Time, Inc. executive Hedley Donovan, suggests for the U.S. economy.

GNP measurements, narrow-focus "cost-benefit analysis," and even conventional labor productivity studies miss the point. Measuring the imputed profitability or efficiency of past or projected investments must answer to one overriding criterion; that is, how they help or hinder the economy's future capacity to reproduce itself.

The economy in physical terms

Our measurements of the physical economy do not yet fully enable us to say with precision what quality of technologies we will need by what point in the future. This, the next generation of the LaRouche-Riemann model now under development, will accomplish. But they do show us some basic



Courtesy of Bethlehem Steel

truths about the economy in a strikingly clear way.

In summary, they demonstrate that the economy's rate of gross profit in *physical terms*, the amount of useful tangible product the economy yields per unit of capital and labor input, rose dramatically when the federal government backed up technological development, but collapsed during the past decade when this backup disappeared. In contrast to some econometric studies which purport to show that the technology "factor," by some ill-defined statistical weighting, is of minor importance in postwar economic growth*, we provide hard data that yield only one conclusion: the economy's rate of absorption of science through new technological applications is the fundamental determinant of our economic health and our growth rate.

In policy terms, this establishes the following requirements: the new administration and Congress must act swiftly on two legislative initiatives, the McCormack fusion bill passed in 1980 by both Houses of Congress, and the just-released initiative of Sen. Harrison Schmitt (R-N.M.) to revive the National Aeronautics and Space Administration for a three-quarter-century effort to build a manned colony on Earth's moon.

The worst cost-accounting tendencies exhibited by the new Director of Office of Management and Budget, David Stockman, must be resisted in favor of substantial funding of these frontier technology efforts. Without them the U.S. will never recapture the productivity growth rates of the mid-1960s, the absolute minimum condition for the survival of the United States as a great industrial power.

Let us examine the evidence. Taken together, the following measurements (displayed in adjacent computer-generated graphs) provide a competent set of accounts of the American economy:

- 1) the rate of surplus tangible wealth production, or "value added" in physical terms;
- 2) the rate of gross profit (or total productivity), i.e. surplus divided by capital plus labor inputs;
- 3) the productivity of labor, or surplus divided by labor inputs;
- 4) the net profit of the economy, i.e., surplus available for reinvestment into goods-producing industries (S');
- 5) the economy's net rate of profit, or investible surplus (surplus net of overhead, S' divided by capital and labor inputs);
- 6) the capital intensity of the economy.

The data for the aggregate economy display the problem clearly. The graph of surplus shows a rise (but at a declining rate of growth) from \$328 billion 1976 dollars to \$552 billion 1976 dollars between 1963 and 1981, with recessionary interruptions. However, the rate of gross profit (surplus per unit of input) went through a dramatic turnaround. From 1963 (when the effects of the moonshot program start to filter through the economy) this measures a straight-line rise from about .73 to .77 in barely four years.

After 1971—when budget managers George Shultz and Caspar ("Cap the Knife") Weinberger gutted the NASA budget—the measure begins a bumpy descent to the levels it started from. The U.S. economy is getting

no more output per unit of physical investment of capital and labor than it did in 1963! The rate of net profit twice dips into the negative during the 1970s, during the 1974-1975 recession, and again during the present bust, as does the absolute net profit.

Productivity decline

In financial terms, the effect of this decline in physical productivity has not shown. The reason is evident from other measures of the aggregate economy. Labor inputs have declined since 1973 in real terms, i.e., the American standard of living has fallen drastically. The economy is obtaining more surplus per unit of labor-time by paying its labor less (with the obvious penalties for future labor skills and family formation); hence labor productivity, or surplus/labor input, appears to rise steadily. This is a short-run phenomenon due to cost-cutting on the quality of America's future

It will not be sufficient to merely extend the existing technology base. Without substantial funding of frontier technology efforts, the United States will never recapture the productivity growth rates of the mid-1960s, the absolute minimum condition for survival as a great industrial power.

skilled labor force. It merely serves to temporarily mask the actual decline of the productivity of capital, which is a function of technology.

As we emphasized in a general multisector forecast for the U.S. economy (*EIR*, Dec. 10, 1980)—which projected the consequences of the continuation of the Federal Reserve's high interest-rate policy—the consumer sector of the economy would be virtually destroyed, in a misguided effort to maintain this fraud through a 40 percent and up further reduction in U.S. living standards during the next five years.

Energy intensity

The collapse of the American economy's efficiency in converting physical nature into useful goods (its "reducing power") is most evident in the *energy-intensive* sectors of the economy. The starting point of any

effort to examine the economy as a physical system is the efficiency with which it produces and uses energy. For domestic energy production and conversion, shown in the graphs for the petroleum and gas sector and the electric utilities sector, the problem is spectacular.

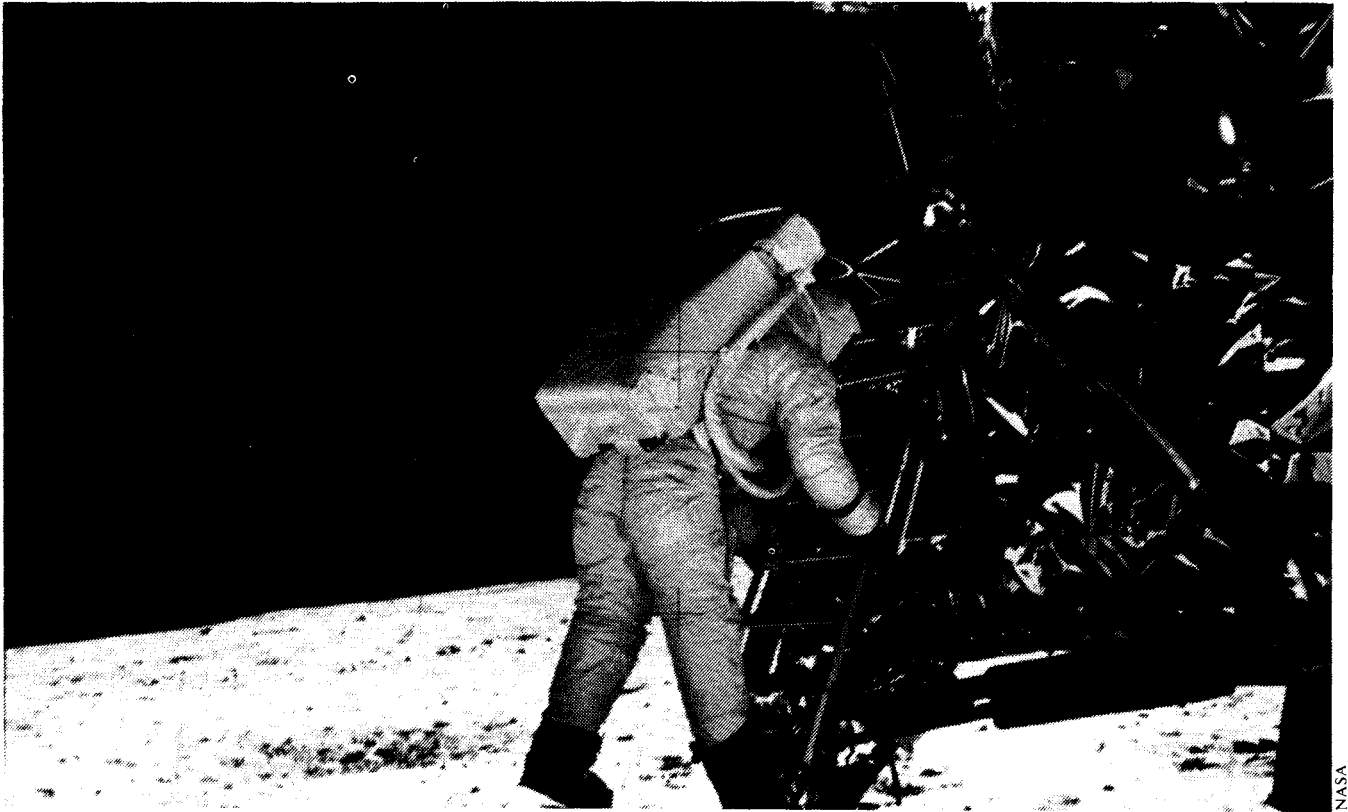
In the case of domestic petroleum and gas output the ultimate problem, resort to marginal resources which are more difficult to obtain, is evident. Of course, the emphasis on secondary recovery methods and offshore drilling in the United States is largely due to the rise in OPEC oil prices abroad. However, the marginalization problem is built into the fossil fuels economy. Moreover, the implications for an economy in which the sector attracting the greatest investment is also subject to the worst collapse of productivity in real terms are ominous.

We are measuring physical output of oil and gas, and the physical outlay of capital and consumer goods required to produce it. The graphs show a tremendous growth in activity from the oil-price rise of 1973 onward measured by net capital investment and labor input. Labor input virtually triples. But surplus, i.e., domestic oil and gas output, falls sharply during the same period, and rises at the end of the 1970s to barely the level of 20 years earlier. The rate of gross profit falls from 1.4 to 0.8, or by more than 42 percent. Labor productivity falls to a third of the 1972 peak.

That this decline is not a special case for oil and gas production, which employs more labor and capital in secondary recovery methods, is evident in the graphs showing the performance of electric utilities. Surplus grows, but at a visibly declining rate after 1973. Net capital investment drops off sharply during the same years. The net contribution of utilities to total reinvestible surplus (the industries' contribution to S') drops by about one-third in absolute terms.

Most indicative is the drop in the gross profit rate of the electric utilities sector from about 0.6 to about 0.48, a drop of 20 percent. Not only has the efficiency of energy extraction collapsed, but the efficiency of conversion of energy into its most versatile and useful form as well. Here we see the results of the abortion of the U.S. nuclear industry, along with associated environmental restrictions. Within a picture of declining net capital investment, we have an accelerating rate of plant and equipment outlays (in physical terms).

In physical terms, such outlays more than tripled on an annual basis between 1963 and 1980, from \$2.8 billion per annum to \$8.7 billion per annum, and rose at an accelerating rate during the past five years. But the content of these outlays was dominated by environmental demands: conversion from coal to oil, in some cases conversion back from oil to coal, installation of smoke-stack scrubbers, purchase of coal from more distant fields, and other expenses that make no contribution to



The U.S. moon landing in 1969.

electricity output. (Since modifications of existing plant do not add to the value of capital stock, net capital investment fell when capital outlays rose the fastest!)

The situation of gas utilities is not much better.

Declining profit rates

As the remaining sector graphs indicate, the pattern of declining gross profit rates in real terms is uninterrupted through the most energy-intensive sectors, including agriculture, mining, iron and steel, and chemicals. That is the core of the problem of the economy as a whole. In some of the highly capitalized industrial sectors, the rate of gross profit continues to rise somewhat, but this is more than outweighed in the total economy accounts by the sharp decline elsewhere.

This is the combined result of resort to emarginated resources, obsolescence, and diversion of capital into counterproductive investments dictated by the Environmental Protection Agency. There is cause for concern, but not for real pessimism. In most cases of sectoral productivity decline, the earlier growth periods are equally impressive. The electric utilities—the core of the national economy—may have registered a spectacular productivity decline during the 1970s, but they had earlier demonstrated the ability to assimilate an equally important rise in productivity with the right economic environment.

In its first actions, the Reagan administration will almost certainly grant major regulatory relief on the environmental front. That by itself will give the utilities, for example, a crucial margin of freedom to complete long-stalled projects, including speeding up the completion of more than 400 plant starts in various stages of completion around the country. Assuming that credit market conditions are tolerable, the immediate reaction of this and other industries will be to step up capital investment.

Expand nuclear energy

But it will not be sufficient to merely extend the existing technology base. Unleashing the full productive potential of the nation's existing technological base is merely a means toward transforming that base from the ground up. During the next decade our agenda must include not only mass production of nuclear reactors, the majority for export, but the building of fast-breeder reactors and crash R & D to bring on line yet more efficient breeder reactors. Otherwise, the uranium problem will cease to be a matter of apparent cartel manipulation and turn into a devastating bottleneck for nuclear energy production.

By the year 2000 the globe will contain 6 billion inhabitants. The power requirements to bring them into the industrial world can be expressed as a requirement

to build about 7,000 gigawatt nuclear reactors in 20 years, an increase by an order of magnitude in the rate of reactor construction. That, in turn, establishes a deadline for the perfection of an entire new generation of breeder technology.

Oil and uranium, however, merely indicate the general nature of the problem. Fusion power must come on line by the end of this century, in part because the mass expansion of power production with conventional nuclear technology will generate a further order-of-magnitude demand for power in the succeeding generation. But the technological implications of fusion power, including direct-reduction mining at temperatures equivalent to those on the sun's surface, are a matter of economic survival.

By the year 2000, the power requirements to bring six billion people into the industrial world can be expressed as a requirement to build about 7,000 gigawatt reactors in twenty years. That, in turn, establishes a deadline for the perfection of a new generation of breeder technology.

To cite one example: in an April 1980 Special Report, "The Industrial Development of India," *EIR* and Fusion Energy Foundation researchers demonstrated that India could achieve the status of the American or Soviet economies within 40 years. But the resource requirements to fuel such an economy would absorb virtually all known reserves of copper and other minerals before the program came to completion! Without a quantum leap in mining technology, development will grind to a halt.

The credit and tax policy requirements to avoid short-term economic disaster are, in the final analysis, a relatively elementary matter, provided that the required qualities of statecraft are available to the Reagan White House. More challenging are the tasks of setting our national course toward the goals we have no choice but to achieve in the next two decades, if this nation is to maintain its world standing as an industrial power.

* American Council of Life Insurance, *Capital, Efficiency and Growth* (Cambridge, Mass., 1980), edited by International Monetary Fund economist George von Furstenberg.

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David Goldman, Economics Editor, *EIR*

Friday, Feb. 20 7:00 p.m.

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David Goldman, Economics Editor, *EIR*

Sunday, Feb. 24 7:30 p.m.

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Jamil Diab, Honorary Consul-General,
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In Washington, D.C.

Ahmed A. H. Mirfendereski, Former
Foreign Minister of Iran, 1979;
Former Iranian Ambassador to the U.S.S.R.

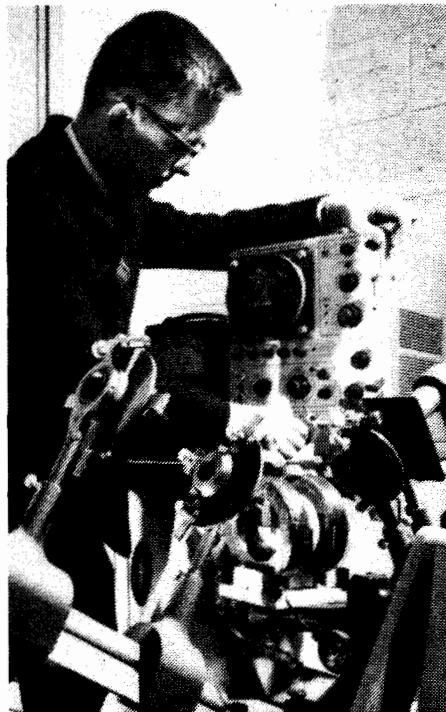
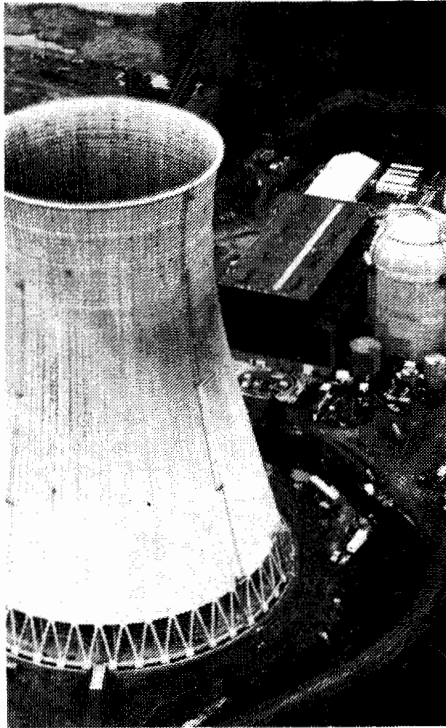
Criton Zoakos, Editor-in-Chief, *EIR*

Robert Dreyfuss, Mideast Editor, *EIR*

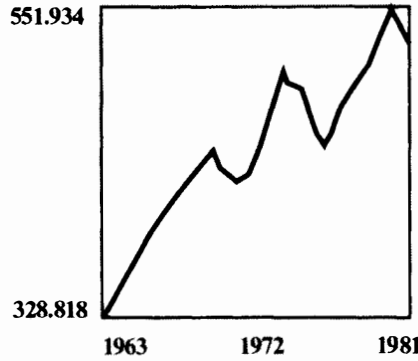
Wednesday, March 4. 2:00 p.m.

Contact: Laura Chasen (202) 223-8300

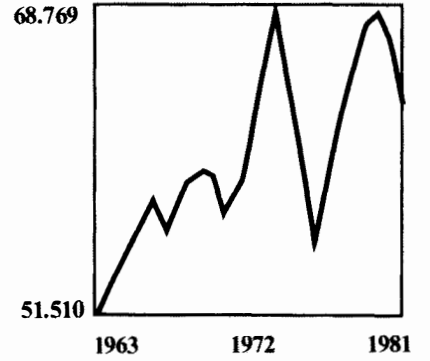
Aggregate



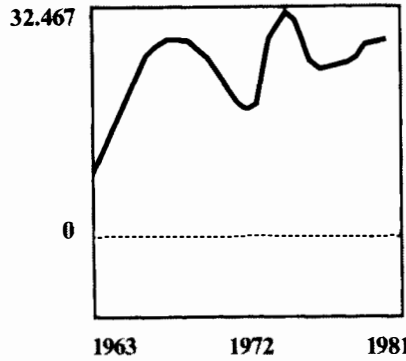
Surplus
(billions of 1976 dollars)



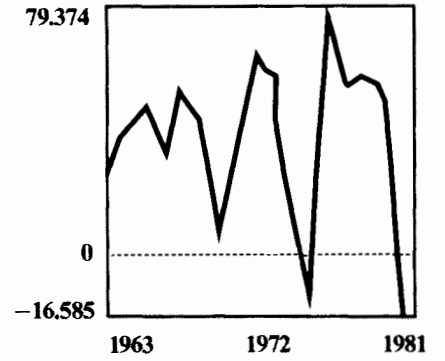
Consumption of productive workforce
(billions of 1976 dollars)



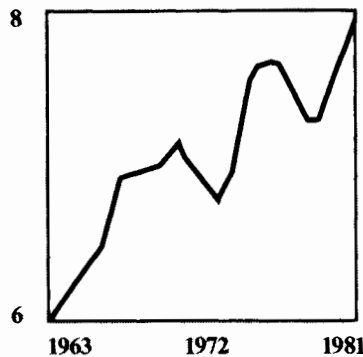
Net capital investment
(billions of 1976 dollars)



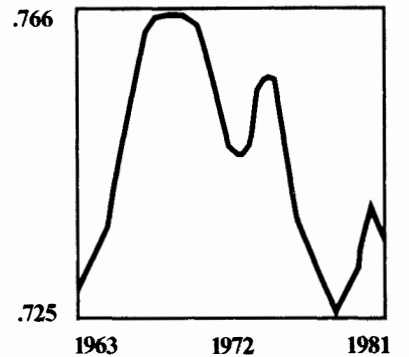
Reinvestible surplus
(billions of 1976 dollars)



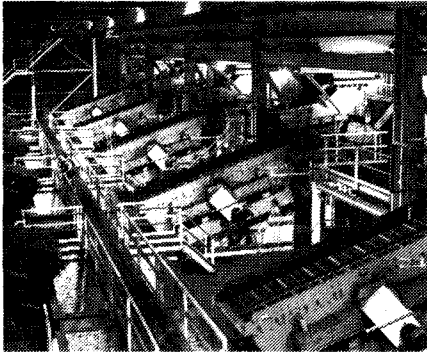
Ratio of surplus to consumption of productive workforce



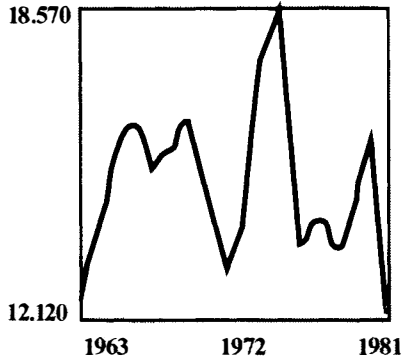
Ratio of surplus to total capital and labor inputs (Gross profit)



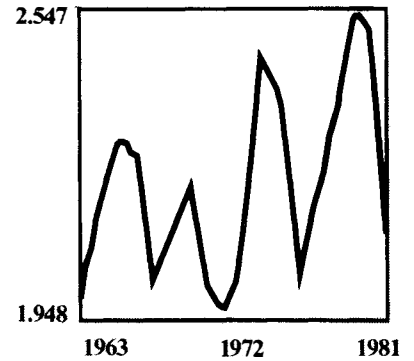
Iron & Steel



Surplus
(billions of 1976 dollars)



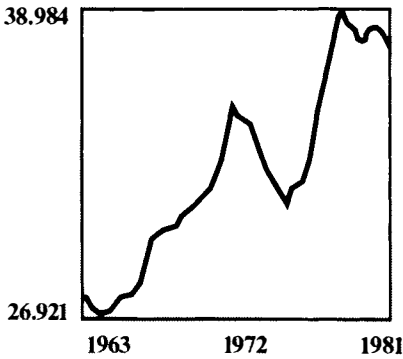
Consumption of productive workforce
(billions of 1976 dollars)



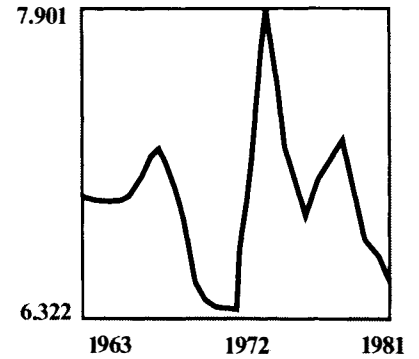
Agriculture



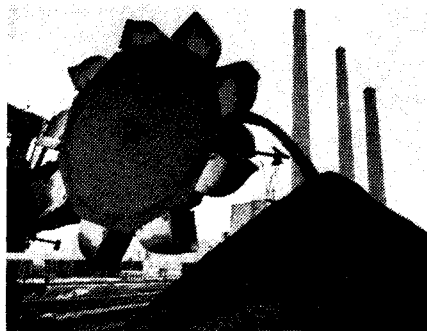
Surplus
(billions of 1976 dollars)



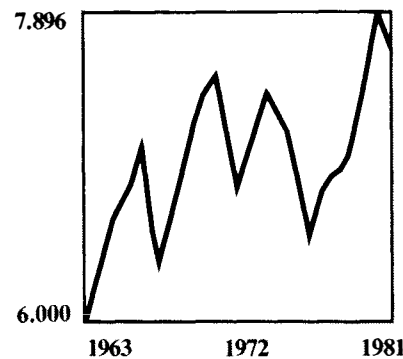
Consumption of productive workforce
(billions of 1976 dollars)



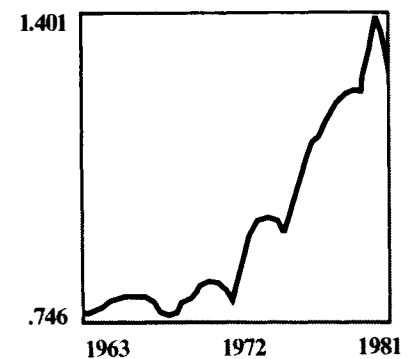
Mining



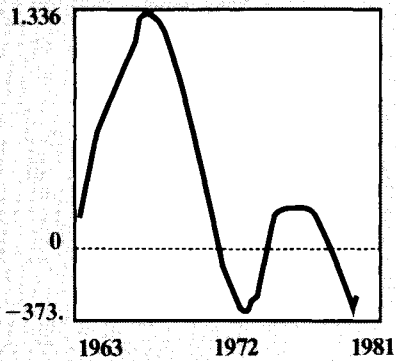
Surplus
(billions of 1976 dollars)



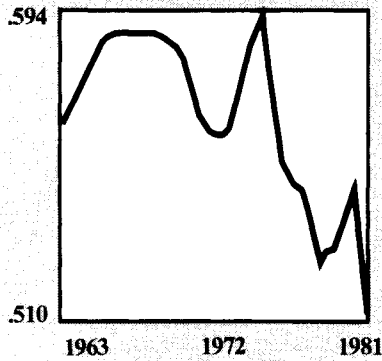
Consumption of productive workforce
(billions of 1976 dollars)



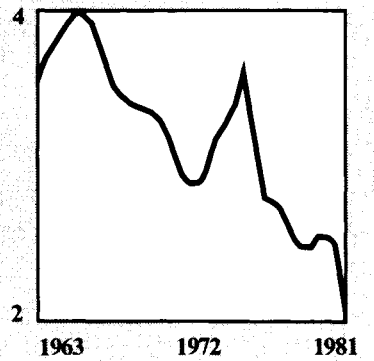
Net capital investment
(billions of 1976 dollars)



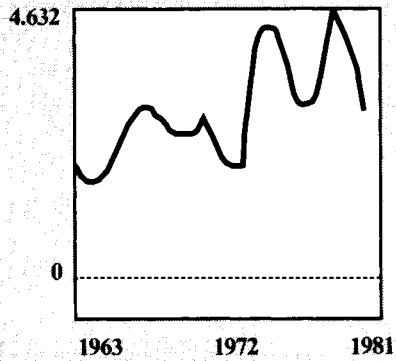
Ratio of surplus to total capital and labor inputs
(Gross profit)



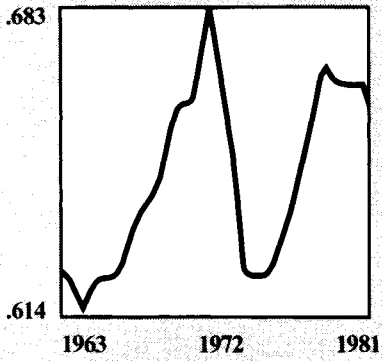
Sectoral surplus as percentage of total surplus



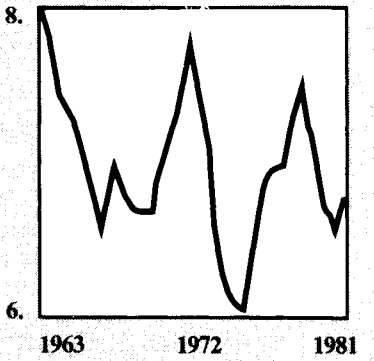
Net capital investment
(billions of 1976 dollars)



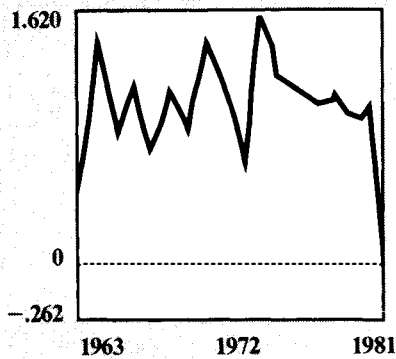
Ratio of surplus to total capital and labor inputs
(Gross profit)



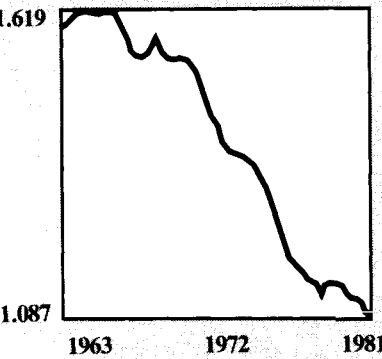
Sectoral surplus as percentage of total surplus



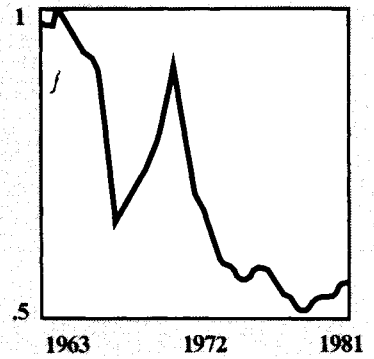
Net capital investment
(billions of 1976 dollars)



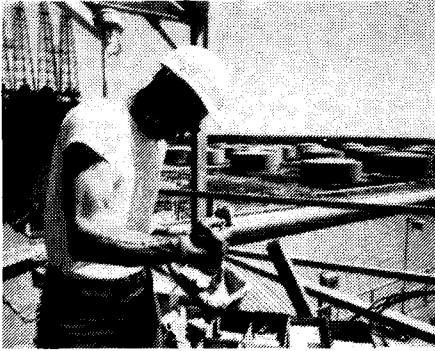
Ratio of surplus to total capital and labor inputs
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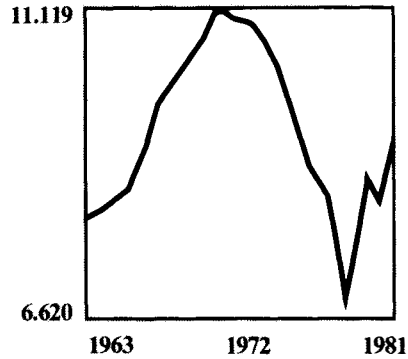
Sector surplus as percentage of total surplus



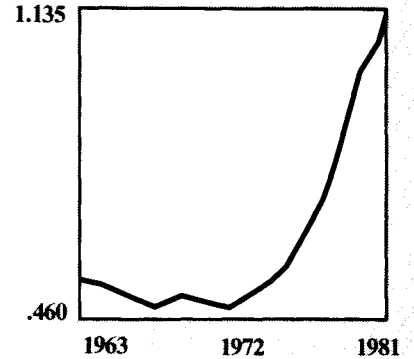
Oil & Gas



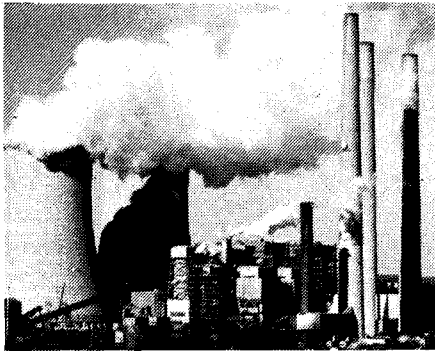
Surplus
(billions of 1976 dollars)



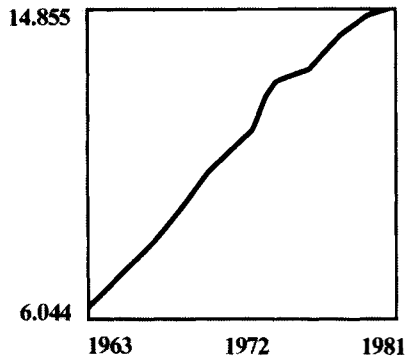
Consumption of productive workforce
(billions of 1976 dollars)



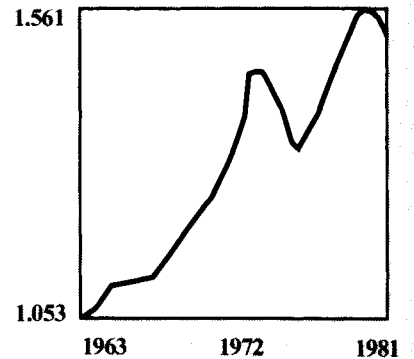
Electrical utilities



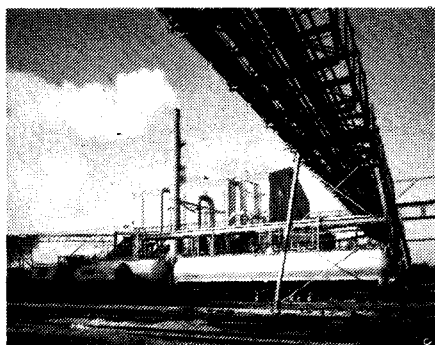
Surplus
(billions of 1976 dollars)



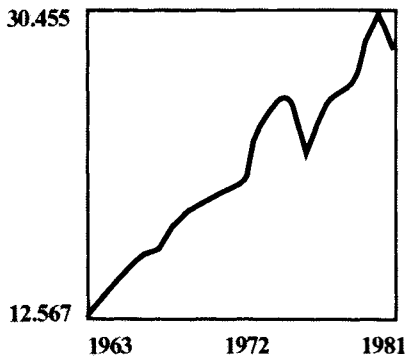
Consumption of productive workforce
(billions of 1976 dollars)



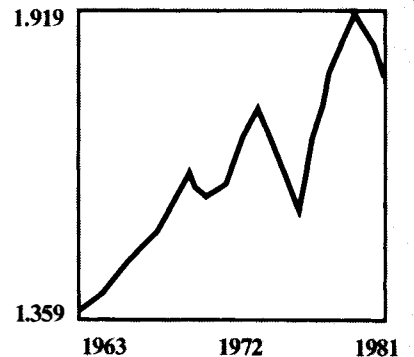
Chemicals



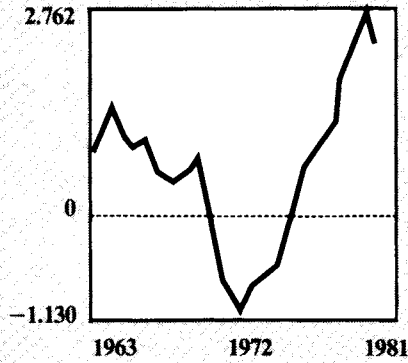
Surplus
(billions of 1976 dollars)



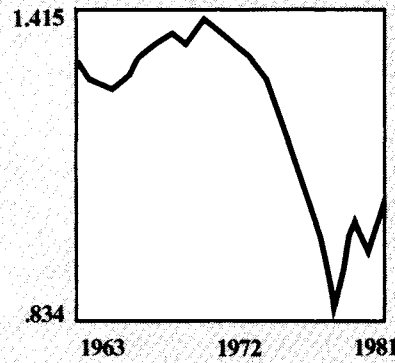
Consumption of productive workforce
(billions of 1976 dollars)



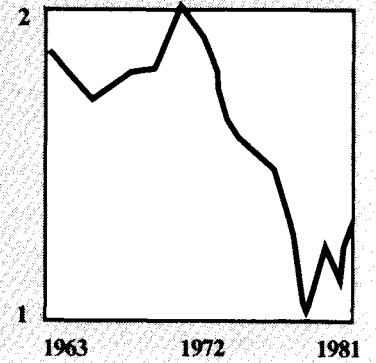
Net capital investment
(billions of 1976 dollars)



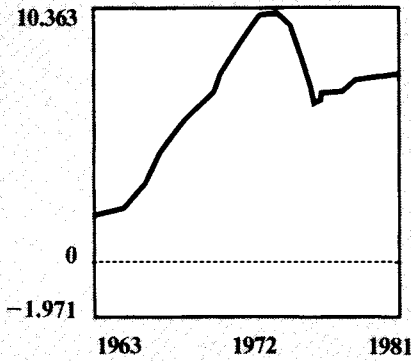
Ratio of surplus and labor inputs to total capital
(Gross profit)



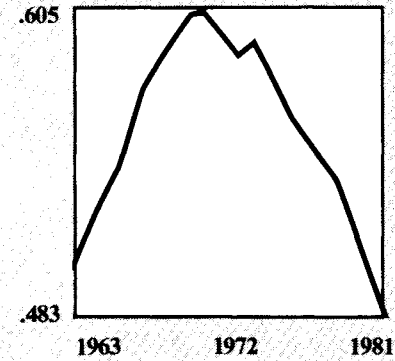
Sectoral surplus as percentage of total surplus



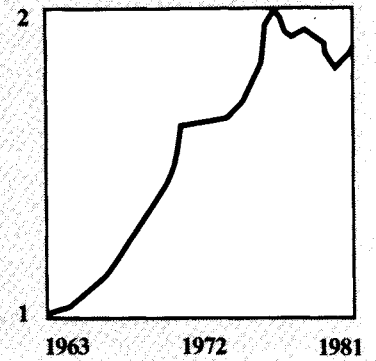
Net capital investment
(billions of 1976 dollars)



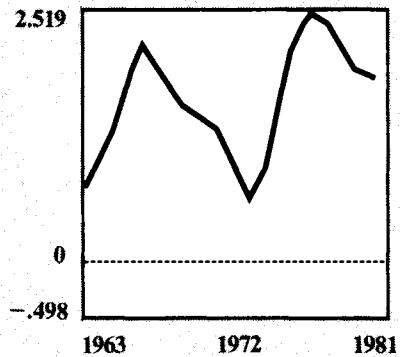
Ratio of surplus and labor inputs to total capital
(Gross profit)



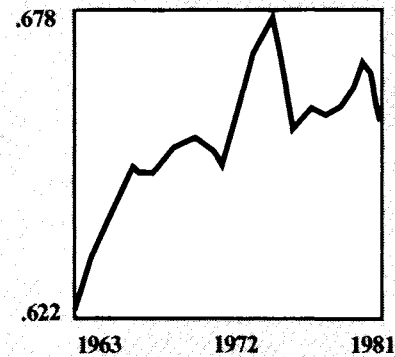
Sector surplus as percentage of total surplus



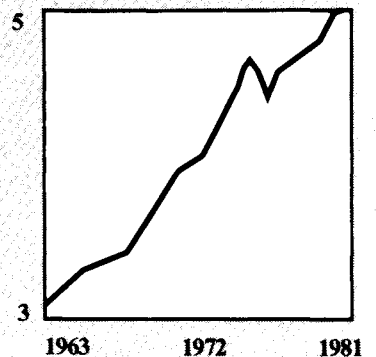
Net capital investment
(billions of 1976 dollars)



Ratio of surplus and labor inputs to total capital
(Gross profit)



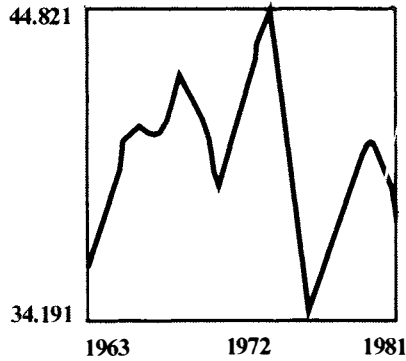
Sectoral surplus as percentage of total surplus



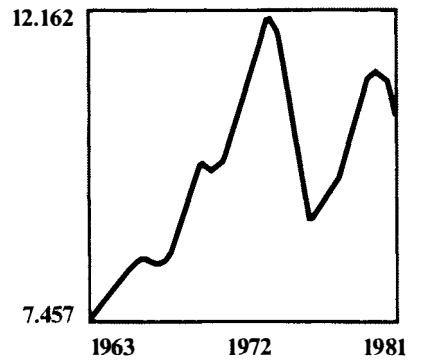
Construction



Surplus
(billions of 1976 dollars)



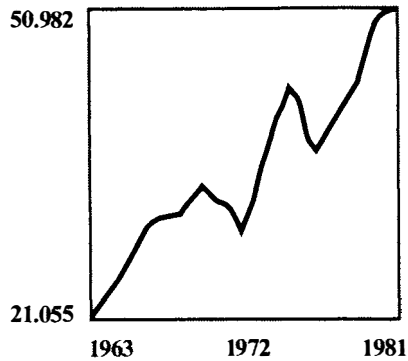
Consumption of productive workforce
(billions of 1976 dollars)



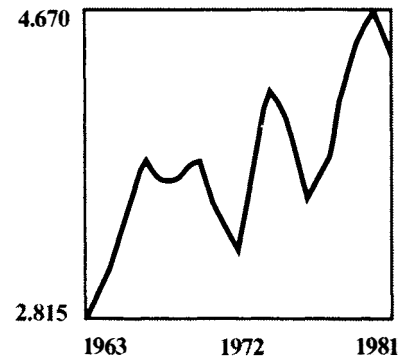
Nonelectrical machinery



Surplus
(billions of 1976 dollars)



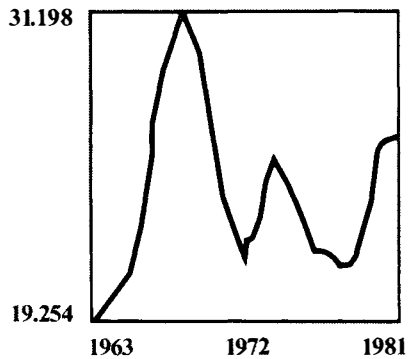
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(billions of 1976 dollars)



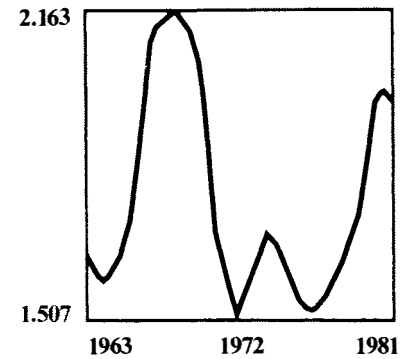
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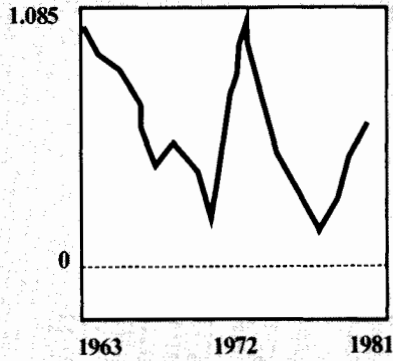
Surplus
(billions of 1976 dollars)



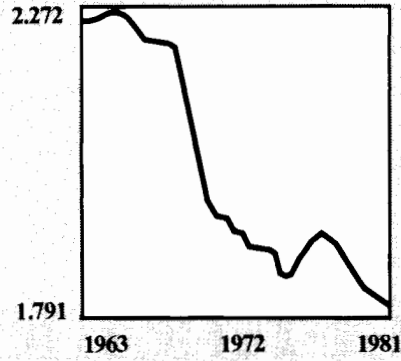
Consumption of productive workforce
(billions of 1976 dollars)



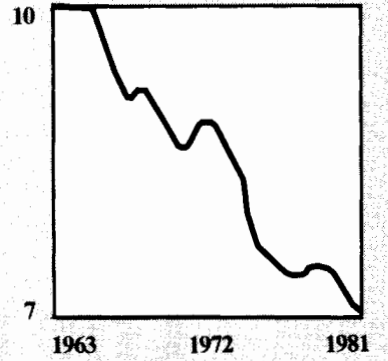
Net capital investment
(billions of 1976 dollars)



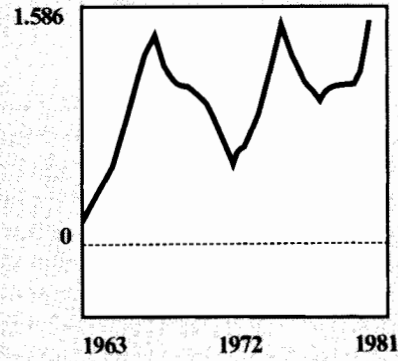
Ratio of surplus to total capital and labor inputs
(Gross profit)



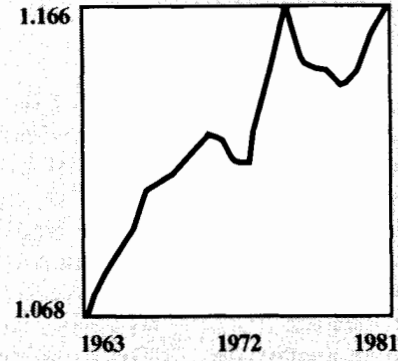
Sectoral surplus as percentage of total surplus



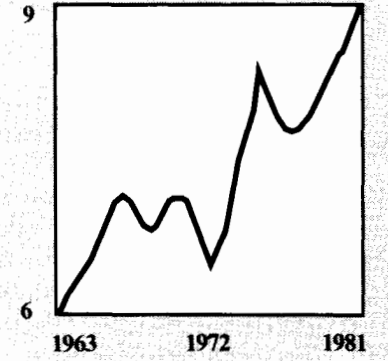
Net capital investment
(billions of 1976 dollars)



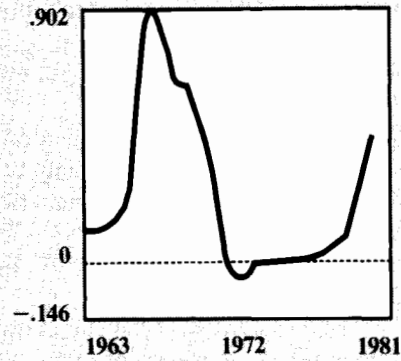
Ratio of surplus to total capital and labor inputs
(Gross profit)



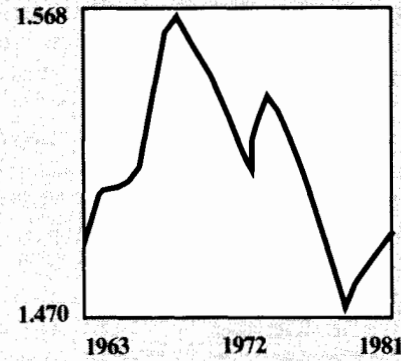
Sector surplus as percentage of total surplus



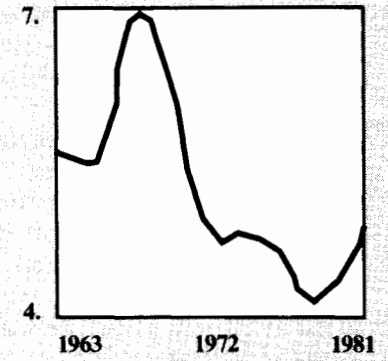
Net capital investment
(billions of 1976 dollars)



Ratio of surplus to total capital and labor inputs
(Gross profit)



Sectoral surplus as percentage of total surplus



The post-Khomeini future for Iran and the Gulf

by Robert Dreyfuss

With a little delicate diplomacy and a few signals to the enemies of the Ayatollah Khomeini, Ronald Reagan can bring about the downfall of the Khomeini regime in Iran and the restoration of a moderate, middle-class government in Teheran within a few months. The Soviet Union, leading Iranian exile leaders, Saudi Arabia and Iraq all gave indications this week that they are prepared to cooperate with Reagan to depose the dictatorship.

That conclusion is based on extensive intelligence analysis by the *Executive Intelligence Review* and is based, in part, on similar evaluations by a number of former Iranian officials now leading the opposition to Khomeini's Dark Ages terror.

The release of the remaining 52 hostages held by Khomeini's Muslim Brotherhood gang has eliminated what one Iranian official called "Khomeini's shield." Now, many opponents of Khomeini inside and outside Iran are no longer restrained by their reluctance to do anything which might endanger the hostages' lives. "Khomeini is fair game now," said one ex-Iranian military commander. "Anyone who wants to take potshots at him and his regime can do so." For over 15 months, Khomeini and the ruling clique of mullahs have used the hostages as the propaganda means to mobilize the street mobs in defense of the weakening regime, and several political challenges to Khomeini have been blunted since 1979 by constant manipulation of the hostage issue. Now, that mechanism is gone.

For Reagan, the key to unlocking the Iranian puzzle was provided by the semi-official endorsement of Soviet President Leonid Brezhnev's December 1980 plan to neutralize the Persian Gulf by none other than the former Iranian Imperial military commander, General Gholam Ali Oveissi. Oveissi, who heads one of the anti-Khomeini exile military groups, has earned a reputation as a hardline, no-nonsense military strongman and is a firm supporter of restoring the Iranian monarchy under Reza Shah, son of the late Iranian king.

Oveissi supports Brezhnev

In an editorial in the newspaper *ARA*, published in Paris by the Iranian Liberation Army, whose leadership is close to Gen. Oveissi, the Brezhnev proposal on the Gulf was cited as a means, ironically, of "keeping the left in check." Brezhnev, said *ARA*, was "sending a message" to Reagan on the possibility of an accord to jointly pledge noninterference in Persian Gulf affairs. *ARA* then bitterly attacked the British, accusing London of "hammering down nationalist forces and uplifting religious fanatics and feudalists." Said *ARA*: "The British still believe the Middle East is part of their empire of days gone by."

The statement by the pro-Oveissi *ARA* indicates a broad convergence in strategy between Moscow and certain Iranian exile forces. Broadly, that convergence is based on the following: In December, Brezhnev

proposed during his visit to India to convene an international accord to guarantee the security and stability of the Persian Gulf and the free flow of oil to the Western industrial nations by prohibiting the establishment of military bases in the Persian Gulf and Indian Ocean. According to key observers, between the lines of the Brezhnev proposal was the Soviet president's willingness to see the return of the fallen monarchy to Iran as long as the new Iran did not enter into a strategic agreement with the United States and NATO. In other words, Brezhnev—although the entire Soviet leadership is by no means united on this issue—is prepared to tolerate a military coup against the Khomeini regime, but only under certain very strictly defined conditions.

"For Reagan, it is very simple," said a leading Iranian exile. "There is only one way to restore Iran to stability. The American president must indirectly approach Moscow on the issue. Provided that Washington and Moscow can reach an agreement, then they can force that agreement on the British. And once that agreement is achieved, the mullahs will crumble overnight in Iran. Their regime will be gone immediately,

and the military will take power."

Who, in fact, will take power?

Iran's next regime

Only two real options exist for Iran. The first is a takeover of the country by an anti-Khomeini group combining the Iranian military and police with a broad coalition of civilian political groups, including the merchants or *bazaari*, to restore a constitutional monarchy in Teheran. The son of the fallen Shah, Reza, living in Cairo, has gathered around himself a loose consensus of former officials, including Gen. Oveissi and former Prime Minister Shahpour Bakhtiar. Although Oveissi and Bakhtiar do not like each other, they are reliably reported to have agreed on basic principles of cooperation.

The second option involves the eruption of some sort of "El Salvador"-style leftist insurrectionary movement that would include the Tudeh Communist Party, the fanatical Mujaheddin Islam guerrillas, the smaller Fedayeen-e Khalq, and other armed gangs. Should Reagan refuse to approach Moscow for cooperation

General Oveissi's ARA endorses Brezhnev plan

The following is an excerpt of an editorial that appeared in the Paris Persian-language newspaper ARA, the newspaper associated with leading Iranian exile military of the Iranian Liberation Army (ARA), an anti-Khomeini organization that includes General Ali Oveissi.

During Soviet President Brezhnev's recent visit to India he advocated the adoption of a neutral, non-aligned role toward Iran and Afghanistan by the superpowers. In fact, Brezhnev suggested that the two countries be neutralized. It seems to observers that Brezhnev is sending a message to the United States concerning positions advocated by both superpowers in regard to the war between Iran and Iraq. . . .

Unfortunately, the West has founded its relations with the Middle East on a profit-seeking policy of obtaining oil and selling arms. The policy is old and still in practice. The oil is to be had for the West and the arms exported—and so the region is destabilized.

London is making a mistake even though they are familiar with the situation in the Middle East and the nationalist forces in Iran. London has been hammering down the nationalists and uplifting religious fa-

natics and feudalists. During the Shah's reign the imperial army was one of the strongest forces supporting the nationalists to keep Iran united. But at the same time the British and the BBC were campaigning against those forces through their fifth column. The British still believe that the Middle East is part of their empire of days gone by.

England must be reminded of the fact that as recently as 90 years ago Iran was the only independent country in Asia. . . . London's mistake and persistence in such an attitude by the British and the West has created an opportunity for communism as an alternative for the people. . . .

Iran should therefore welcome the neutrality doctrine offered by the U.S.S.R. so that it can keep the left in check and prevent them from a further active role, at the same time keeping the West distant.

The Soviets committed a mistake when they thought that keeping the West away provides better opportunities for them. And, for the West, this also applies with respect to the Soviets, and for the same reason.

The U.S.S.R. is making the same mistake because it surveys Iran and Iranians through British-fashioned glasses. Russia needs to make an evaluation of its policy and hopefully will conclude that Pishevari [a leading Iranian communist] and Khomeini will not in fact fulfill the Soviets' wish to have Iran delivered to them.

and, instead, decide to pursue a course of confrontation by attempting to impose a military government on Iran by force, then the relative Soviet moderates in the Brezhnev faction in Moscow would lose out to the radicals, and Moscow would probably lend logistical and propaganda backing to a communist takeover of Iran after a bloody civil war.

Before examining these options further, it is necessary to consider a mythical third option, namely, the continued existence of the regime of the Ayatollah Khomeini.

With the release of the last hostages, the Anglo-American intelligence faction that helped to topple the Shah and install Khomeini in 1978-79 has mobilized its entire resources in an attempt to preserve Khomeini's dying regime in a slightly new form. For example, the former U.S. ambassador to Iran, William Sullivan, who presided over the fall of the Shah, believes that an alliance between Iranian President Bani-Sadr and chief clergyman Ayatollah Beheshti, together with elements of the old National Front liberals, can manage to rule the country even after the Ayatollah Khomeini's death.

Maneuvers around Teheran

Olof Palme, Henry Kissinger, and the Trilateral Commission took actions last week toward achieving that end.

- Henry Kissinger, who often pretends to be a loyal friend of the late Shah and opponent of Khomeini, returned from a tour of the Middle East. On that tour, according to intelligence sources, Kissinger urged both Egypt and Israel to disengage from ongoing plans to assist an eventual military coup in Teheran. Then, in a secret meeting with the young Shah held in Morocco, Kissinger reportedly suggested that Reza postpone plans for an immediate return to Teheran after a military seizure of power.

- Olof Palme, the former prime minister of Sweden, arrived in Teheran in an effort to put together a left-leaning but pro-NATO government under President Bani-Sadr. Palme, a leading figure in the socialist Second International, maintains close links with Iranian radicals and socialists, especially with the National Front.

- The Trilateral Commission, the original sponsors of the Council on Foreign Relations' Project 1980s, which planned the Khomeini revolution, met in Washington under Arrigo Levi of Italy to discuss the Middle East. According to Levi, the prime subject on the agenda was the need for a "geopolitical" alliance between Washington and Teheran, regardless of what regime possesses control of power in the Iranian capital!

What Kissinger, Palme, and the Trilateral clique are seeking—in coordination with officials of the defunct

Carter administration—is to maintain at all costs the Islamic Republic of Iran and its "Islamic constitution," in order to preserve the policy of an imposed Dark Ages across the Third World. For them, the Khomeini regime is the model of an anti-technology, religious-based regime committed to "authentic values" and the "quality of life." In its official program, the Trilateral Commission has dedicated itself to the restriction of technology access in the Third World, and it encourages "appropriate technology," exactly the policy of the Bani-Sadr government.

According to Richard Cottam, the University of Pittsburgh professor and British intelligence agent who helped to train many of Khomeini's leading aides, President Bani-Sadr is seeking to install former Foreign Minister Sadegh Ghotbzadeh as his prime minister and to assemble a coalition of the National Front and, perhaps, Admiral Ahmad Madani, to rule the country.

Madani, currently in London, is detested by Iran's armed forces because he willingly collaborated with the Iranian government of Khomeini for over a year before he fled into exile in 1980. A member of the discredited National Front who is close to President Bani-Sadr, Madani is getting support from the Second International machine in a bid to return to Iran.

But such a policy, in most observers' view, is a pipe dream. Should the United States attempt to restore its pre-Khomeini geopolitical alliance with Iran now that the hostages are out, even with a government led by the apparent moderates like Bani-Sadr and Madani, the country would still lurch toward civil war and eventual breakup into its constituent provinces. A different policy indeed is required.

Arc of stability

So, for Reagan, the choice is quite clear. The Soviet proposal by Brezhnev has defined the options in the sharpest of terms. Already, the proposal has won support from Iraq and, indirectly, from Saudi Arabia, the two most important states in the Gulf region. The pro-Iraqi *Al-Destour* magazine, published in London, carried an article recently by an official of the Iraq Baath party, which compared the Brezhnev proposal for the Gulf to Iraqi President Saddam Hussein's proposed Arab National Charter of February 1980. That Iraqi plan called for the removal of all foreign military bases in the Gulf and the establishment of a zone of peace in the area based on the political principles of nonalignment.

Crown Prince Fahd of Saudi Arabia then declared in an interview that the two superpowers should "quit poking their nose" into the Gulf, adding that the Gulf could then become an "oasis of prosperity and stability." According to Fahd, the Jan. 24 meeting of heads of

state of 42 Islamic countries in Mecca would discuss a strategy for military and political security in the Gulf region. In fact, together Iraq and Saudi Arabia will be the dominant powers at the Mecca summit, and for that reason Khomeini's shattered regime has refused to attend the meeting.

Thus, Saudi Arabia, Iraq, and the leading Iranian exiles are all committed to a policy of nonalignment in the Gulf. General Oveissi, in a personal statement this week pledging his support for the return of the Shah to Iran, also declared that Iran would neither tilt toward the "East or the West," but would remain neutral. Quietly, French President Valéry Giscard d'Estaing is providing support to the Gulf states in their neutrality bid.

For Reagan, this means that to continue the policy associated with former President Carter's Rapid Deployment Force and associated network of forward bases in Oman, Egypt, Kenya, and Somalia will be to enter into a direct confrontation with virtually every state in the region. Such a policy will be a dangerously

destabilizing factor in the Gulf. In particular, radical and communist elements and some extremist Palestinian groups have already made plans to launch terrorist attacks on American personnel in the Gulf. According to several sources, these attacks might receive support from Anglo-American intelligence networks to provide a pretext for deploying the RDF into the Gulf and occupying certain strategic areas.

At present, there is no indication that Reagan intends to maintain the RDF policy, and in fact certain members of Reagan's "kitchen cabinet" and other envoys who traveled to Moscow for Reagan have reportedly begun preliminary discussions with Brezhnev on the Gulf stability plan. Within the administration, the new secretary of state, General Alexander Haig, remains a strong advocate of continuing the Brzezinski RDF scheme.

Should Reagan choose to abandon the RDF concept, it is virtually certain that he can easily bring about a coup d'état in Teheran and guarantee the long-term stability of the Gulf.

Trilateral spokesman: 'a geopolitical ally'

On Jan. 14-15, a secretive meeting of a special Trilateral Commission task force on the Middle East was held at the Cosmos Club in Washington, D.C. Participants included George Franklin, North American director of the Commission; Ambassador Kidehara of Japan; Arrigo Levi of Italy, a regular contributor to La Stampa, a daily owned by the Agnelli FIAT firm; and Joseph Sisco, a former undersecretary of state and underling to Henry Kissinger. The draft report of the task force will be one of the two working papers at the Commission's annual meeting this March at the L'Enfant Plaza Hotel in Washington, D.C.

An investigative journalist provided EIR with the following extracts from a discussion with Arrigo Levi in Washington.

Q: What is your assessment of the recent Brezhnev proposal for the demilitarization and effective neutralization of the Gulf area?

A: We must take into account former Soviet actions. Afghanistan cannot be simply set aside. Inevitably, the West must answer what the Soviets have done in Afghanistan. The nations in the region won't accept what has happened in Afghanistan. Nor will Europe,

especially with the recent Soviet warnings to Poland.

Q: But aren't there signs of a Soviet shift, against the clergy inside Iran? Doesn't this suggest a more general policy reorientation in the region by Moscow?

A: Attempts by Afghanistan to come to a détente with Pakistan should be seen in this light. But there is something more basic going on. The changes in the Gulf situation may be dramatic. After the hostages are released, the geopolitical situation will make of America the natural ally of Iran. Clearly, the disturbing factor of the hostages will soon become a thing of the past. In contrast, the geopolitical realities are permanent. Once the hostages are released, the relations of Iran to both the superpowers will change radically. We will see a growing rapprochement of Iran with the West. Once the hostages are out of the way, the West still will have to develop a policy toward the Islamic movement.

Q: What then is the future for Islamic fundamentalism?

A: Not much in its extreme form. In that form, it will disappear. In that form, it is creating too many immediate reactions and counterreactions; it can't sustain itself. We are moving into a new period, and everybody is maneuvering. When the hostages are released, geopolitical factors will become paramount, irrespective of the exact government in power in Iran.

Soviet shift on Middle East policy creates possibilities for Reagan

by Rachel Douglas

On the eve of Ronald Reagan's inauguration as President of the United States, the Soviet Union began to execute a shift in its Middle East policy which could become the basis for reversing the disintegration of Soviet-American relations.

The centerpiece of Moscow's emerging policy is Soviet President Leonid Brezhnev's proposal for Persian Gulf security guarantees to be joined by the superpowers, Western Europe, Japan, and China. The clearest accompanying signal from Moscow to Reagan that the Brezhnev proposal is for real, is that the Soviets began to reject Islamic fundamentalism, previously endorsed by Soviet commentators as "progressive," thereby rejecting the destabilization operations associated with this form of radicalism.

The purveyor of Soviet attacks on the fundamentalists was a journalist speaking for Brezhnev's policy line, Alexander Bovin of the Moscow newspaper *Izvestia*, who linked Ayatollah Khomeini's Iran policies to the Muslim Brotherhood organization functioning throughout the Middle East—the British intelligence-founded Brotherhood exposed by *EIR* for launching the Iranian revolution.

In a joint interview that Bovin and Central Committee official V. Kobyshev gave to the weekly *Literaturnaya Gazeta* Jan. 1, Bovin also became the first Russian to justify Iraq's war on Iran. Here is what he said:

What is called "the Islamic renaissance" largely means an attempt to return to times when Islamic doctrine determined the character of political life. A renaissance of theocracy, if you will.

There are frequent reports on the terrorist, subversive activities of the Muslim Brotherhood. It is this organization . . . that headed the counteroffensive of Islamic orthodoxy some decades ago. . . . It is no accident that Nasser went after them dead or alive. The present Syrian regime is also fighting them. Turkish authorities, too, find they must combat Muslim extremists who oppose the

secular government.

The overthrow of the Shah of Iran and coming to power of the elite of the Shiite clergy, extremely close in their views to the Muslim Brotherhood, breathed new strength into the Islamic fundamentalist movement.

Imam Khomeini repeatedly and openly called on Iraqis, Iraqi Shiites—I'll quote—"to rise up against the infidel and treacherous regime of the Iraqi Baath [party]. . . ." And finally Baghdad responded with war. . . .

The second important feature of the Bovin-Kobyshev interview is that this groundbreaking attack on the Iranian mullahs was framed by an overture to Reagan to shed the legacy of Jimmy Carter, starting not so much with the sticky question of strategic arms talks, but with the Mideast. Kobyshev lambasted Carter:

Let me start with saying that the outgoing administration . . . is intent on bequeathing to the new government the burden of Soviet-American relations that are as spoiled as possible. . . . I don't think that Reagan and his team are too happy with this. . . . Reagan's own statements and those of his advisers show . . . that they see the normalization of Soviet-American relations as a top priority. . . . The significance of Soviet-American relations is substantially broader than the interests of just our two countries.

I would say, for instance, that were these relations in a different condition, it is possible that there would have already been success in settling the Mideast conflict or, say, dousing the fire of the senseless war between Iraq and Iran.

A Jan. 8 article by V. Matveev, Bovin's colleague on the editorial board of the daily *Izvestia*, traced Brezhnev's Persian Gulf initiative to the Soviet Union's diplomacy of the 1920s, which anchored everything else to the foundation of expanding international trade.

If Brezhnev's bid for Gulf demilitarization and maritime transit guarantees is not taken up by the Reagan administration, it could fizzle out because it has serious and powerful opposition inside the Soviet Union.

According to a well-informed Arab source, the entire Arab "left"—including Moscow-linked Arab communist parties—is frantically opposing Brezhnev's proposal. In this they are joined by Moscow's own destabilization faction, centered around the KGB and the Soviet Communist Party International Department, which has provided backing for Khomeini's Iran and the Arab leftists. This grouping does not want to see Brezhnev realign with Saddam Hussein of Iraq, whose Pan-Arab National Charter shares key points with Brezhnev's Gulf plan, or with France's efforts for Middle East peace and industrially based economic development.

The Soviet news agency TASS advertised that this confrontation fraction is waiting in the wings, when on Jan. 11 it released a dispatch critical of Reagan's attitude to Khomeini. Said TASS:

A number of U.S. officials make insulting statements in respect to Iranian leaders with an obvious intention to disunite them. . . . Reagan said in an interview with *U.S. News and World Report* that there are grounds to believe Ayatollah Khomeini is no longer regarded as the leader of Iran but is heading only one of the factions existing in the country.

In *Izvestia* of Jan. 13, Anatolii Gromyko, son of the Soviet foreign minister and head of Moscow's Institute on Africa, presented an interpretation of Brezhnev's plan from a standpoint that undercut the idea of stabilization.

He compared the initiative not to the 1920s diplomacy, but to the great-power negotiations of the cold war period—negotiations which in reality were exercises in crisis management serving only to perpetuate the cold war division of the world.

Anatolii Gromyko in effect told Persian Gulf countries not to pay attention to the Brezhnev package because security could not really be protected. The proposals, he wrote, do not mean that "pro-Western" regimes will be safe: "The people cannot give guarantees to Washington that a fate [like the Shah of Iran's] will not hit other regimes."

Whichever Soviet policy for the Gulf prevails, the one voiced by Bovin and Matveev or the Africa Institute's scenario for superpower-managed disintegration, depends largely on how and with what perspective the United States acts on Brezhnev's Persian Gulf security proposal.

Afghanistan

Openings for talks follow pressure on Zia

by Daniel Sneider

For the first time since the Soviet intervention more than a year ago, the possibility of a political settlement of the Afghanistan crisis is being seriously discussed. Hopes for a negotiated political solution have been spurred by diplomatic moves from Pakistan and Afghanistan, backed by the Soviet Union, toward holding negotiations under United Nations auspices.

The crucial break in the Afghan situation came with a signal from the Babrak Karmal regime in Kabul of their willingness to enter talks with Iran and Pakistan under United Nations auspices, without insistence on any preliminary formalities. This signal was conveyed in a message from Karmal to Indian Prime Minister Indira Gandhi at a Jan. 5 meeting in New Delhi between the prime minister and Afghan Education Minister Anahita Ratebzad.

The Afghan move followed a Pakistani letter from Foreign Minister Aga Shahi to U.N. Secretary General Kurt Waldheim the previous week asking for the appointment of a special U.N. representative to promote a dialogue among Iran, Pakistan, and Afghanistan. Pakistan has dropped an earlier approach under the auspices of the Islamic Conference that called for talks involving Iran, Pakistan, and representatives of both the Afghan rebels and Kabul authorities, in their capacity as leaders of the People's Democratic Party of Afghanistan.

Soviet shift

While Pakistan still refused to talk with the Kabul regime as a legitimate government, the insistence on Afghan rebel presence and the involvement of the anti-Soviet Islamic Conference has been dropped.

The crucial shift, though, comes from Moscow, which had previously refused to consider any discussions which did not include a formal recognition of the legitimacy and authority of the Karmal regime.

The timing of the Soviet decision to soften their stand and that of their Afghan clients is linked to the overall Persian Gulf peace and security proposal unveiled by

Soviet President Brezhnev during his visit to India in early December. That proposal clearly indicated a willingness to resolve the Afghan question in the context of a general agreement of all powers and states in the region to stabilize and neutralize the West Asian region.

The Afghan signal is directed in part at the incoming Reagan administration, as part of the Persian Gulf proposition, including a neutralization of the Iran situation. According to well-informed observers in New Delhi, the move is also aimed at the upcoming nonaligned foreign ministers' meeting which takes place in early February in New Delhi. Moscow and Kabul—with concerned support from the Indian government—are eager to avoid a confrontation over the Afghan issue at that meeting, where the subject is sure to come up.

The Indian role

The Indian role in opening up the possibility of serious political talks and in encouraging Moscow to pursue this path is quite significant. India's position in favor of a peaceful settlement and eventual withdrawal of Soviet forces from Afghanistan was reiterated, and obviously discussed, during the Brezhnev visit. The first response came in a statement by Karmal at the end of December, warmly praising Mrs. Gandhi as a "valiant, patriotic, and enlightened stateswoman of the world." The Ratebzad visit immediately followed; it is not insignificant that she is also Karmal's "girlfriend," and that New Delhi and Mrs. Gandhi were chosen as the avenues for delivering the Afghan offer.

The Indian government responded with the dispatching of Indian Foreign Secretary R. D. Sathe to Kabul on Jan. 7 for three days of talks with Afghan officials. The talks related to the upcoming Nonaligned meeting, but also involved an elucidation of the Afghan negotiating position.

Sathe returned, according to Indian press reports, "with a clear indication from the Afghan leaders, including President Babrak Karmal, that they wanted to hold early negotiations with Islamabad and Teheran without standing on formalities."

Questions outstanding

By no means are the obstacles to the convening of such talks, much less their successful conclusion, overcome. Moscow's opening is very thin and tentative and the slightest provocative behavior from Pakistan, particularly on the issue of the authority of the Kabul government, could close that opening. Pakistani sources in New York say that the Soviets are calling privately for bilateral talks between Kabul and Islamabad (and between Kabul and Teheran), with U.N. involvement to come at a second stage. Nor has Waldheim chosen a U.N. representative yet.

More importantly, the commitment of the Pakistani regime of General Ziaul Haq to serious talks is far from clear. Up till now the military dictatorship in Pakistan has shown little willingness to seek a negotiated solution and has backed the efforts of Afghan rebels operating from bases within Pakistani territory. Indian sources have noted, however, that the military situation within Afghanistan is significantly stabilized, and that as a result the Zia regime's ability to get a favorable deal with Moscow is lessening day by day. There is also the question of the more than one million Afghan refugees camping in Pakistan, creating not only a burden on the economy but a source of tension among Pakistanis opposed to their continued presence.

The Zia regime has been able to use the Afghan issue as a means to prop up an unpopular and unstable regime. They have leveraged the crisis to procure significant economic and military assistance from the United States, from China, and recently from the International Monetary Fund, which gave Pakistan \$1.7 billion, the biggest loan ever granted a developing country.

How long the Zia dictatorship can continue to exploit the Afghan situation is doubtful. One question mark is the response from the Reagan administration; despite obvious hopes in Islamabad that Washington will adopt a "pro-Pakistan tilt" (and implicitly an anti-Indian stance), there is as yet no evidence to support such expectations. Pakistani Foreign Minister Shahi met with Vice-President George Bush shortly after the election, and Pakistan sources at the United Nations suggest that he got little in the way of concrete assurances, an outcome that encouraged the regime to hedge its bets with Moscow.

The other crucial factor for Pakistan is Arab support, both politically and economically. The Saudis and others are major bankrollers of the regime. General Zia embarked on a week-long tour of the Middle East on Jan. 11, taking him to Turkey, Qatar, Bahrain, Kuwait, and Oman. Sources suggest he was taking soundings on the Afghan overture prior to the Islamic heads of state summit which starts in Saudi Arabia in late January. The Iraqis and others have indicated support for the Brezhnev Persian Gulf approach, and if the Saudis join in, as recent reports indicate they will, that could influence Pakistani willingness to seriously pursue the Afghan talks.

Meanwhile, Moscow knows perfectly well that the Afghan crisis has been Zia's prop, and they want to remove it. For its own reasons, New Delhi wants to remove Afghanistan as a source of tensions. Zia, who would have to abandon his backing for the Afghan rebels to reach any final deal on the crisis, may be forced to take up the opportunity at hand or risk losing everything.

'Social convulsions' for Europe?

Susan Welsh describes plans for 1968-style upheavals in Germany and Italy, and the moves already taken.

With the forced resignation of the mayor of West Berlin, Dietrich Stobbe, on Jan. 15, the Socialist International and the Washington, D.C. Heritage Foundation scored an initial success in their effort to put Western Europe through what one member called "the most profound social crisis since 1967-68." Through waves of "social convulsions," they intend to topple, or at least neutralize, West German Chancellor Helmut Schmidt and French President Valéry Giscard d'Estaing.

Willy Brandt, chairman of the Socialist International, "wants a social convulsion in Europe around which to reorganize and reinvigorate the Social Democracy for the entire period ahead," said a leading American Social Democrat.

What the Heritage Foundation and the Eurosoci- alists hope to do is to isolate President Reagan from his best potential European allies, Schmidt and Giscard. The Heritage/Socialists have a common social and economic philosophy, favoring a "post-industrial society" and the elimination of "big industry" and "big government." Thus, they are united against Giscard and Schmidt, who have fought for policies of high-technology growth and state-aided export expansion.

Using such geopolitical situations as the aftermath of the Iran hostage affair, the threat of "permanent revolution" in Latin America and the Caribbean, and the threatened economic collapse of the United States, the Heritage/Socialists hope to channel Reagan away from his inaugural pledge to work for world peace and national sovereignty, and push him toward the cold-war and austerity policies exemplified by Britain's "Iron Lady," Prime Minister Margaret Thatcher. While the Heritage Foundation hopes to dominate the Reagan administration with these battle conditions, the Socialists plan to take over the Democratic Party and use it as a weapon to keep President Reagan destabilized and under control.

A "new axis" will be built, a new "concert of powers," said one high-ranking official of the Heritage Foundation to a reporter recently. This will consist of West Germany without Schmidt, Great Britain under Thatcher, and the United States under Reagan and Alexander Haig. Thatcher's "mission" will be to draw Reagan into "a right-wing alliance to stabilize the free world. . . . It is very important that this relationship between Reagan

and Thatcher be established early and that it be primary to creating the new alliance."

This "reactionary" prospect does not dismay the left operatives of the Socialist International in the least. At their Dec. 5-7 meeting in Washington, D.C., entitled "Eurosoci- alism and America," the Eurosoci- alists hailed the incoming Reagan administration for the opportunities it provides them. Anthony Wedgwood Benn, the leader of the left wing of Britain's Labour Party, declared: "I can't help stressing how ripe conditions are to build a mass movement. If now is not the time, then it will never be. If you can't mobilize an opposition to Reagan, then you are not the kind of people you are. . . . What Thatcher did is radicalize the Labour Party, the mainstream of the party; the party has gone back to its roots, radicalized by its struggle, and Reagan will radicalize the Democratic Party."

At the center of the Heritage/Socialist strategy is the wrecking of Europe's political parties, to the extent that these parties constitute the base of support of leaders like Chancellor Schmidt. This is especially the case in West Germany, where Schmidt's Social Democratic Party (SPD) is chaired by leftist Willy Brandt. The British Labour Party, affiliated to the Socialist International, is on the verge of splitting after a year of radicalization of the left wing. This is expected to be the first major party split, leading to similar developments throughout Europe.

A Heritage representative was perfectly frank about his scenario for collapsing the Schmidt government first laid out at a conference jointly sponsored by the Heritage Foundation and the Hans Seidel Foundation, the think tank of Franz Josef Strauss's Christian Social Union, that was held in Munich Dec. 18-20. According to the Heritage representative, "First, provoke a left-right fight inside the SPD. Then have the Free Democratic Party leave the coalition. . . . The FDP then walks over to the CDU-CSU [conservative Christian Union parties] and the centrists in the SPD and says 'let's form a new government. . . .'"

"The small minority of the left, the radicals, the environmentalists, the left wing of the SPD, they are actually forcing a realignment which will give power to our people. The more Brandt screams from the left, the more

it helps us build the center. We are looking to a Germany in which we build a new center formation. The parties themselves may stay, but they will split apart from within. The SPD is finished. It is in the beginning stages of the same crisis as the British Labour Party.”

Brandt caught in move against Schmidt

From this standpoint it becomes clear why Willy Brandt, the chairman of the Socialist International and of West Germany's SPD, personally masterminded the fall of the Social Democratic mayor of West Berlin, Dietrich Stobbe, as the liberal weekly *Der Spiegel* reported Jan. 19. Stobbe headed up a shaky coalition government in a city wracked with scandals and corruption. Stobbe, a former official in Chancellor Schmidt's office, ruled in a coalition with the Free Democratic Party, the same coalition that makes up the Bonn government. Stobbe's difficulties, therefore, will set up "shock waves" threatening the Schmidt government, as the *New York Times* commented Jan. 14, the day before the mayor resigned.

The real question posed by the West Berlin crisis, said Brandt in an interview to the daily *Die Welt* Jan. 19, is whether "Europe, and Germany especially, are still governable." Brandt intends to make sure they are not.

According to *Der Spiegel's* report, Brandt undermined the mayor's efforts to stabilize the city administration. He coordinated his strategy at a Dec. 2 meeting with his erstwhile enemy Herbert Wehner, the aging chairman of the SPD's parliamentary grouping in Bonn. Schmidt's coalition partner, Foreign Minister Hans-Dietrich Genscher of the Free Democratic Party, concluded that a plot was underway to topple Chancellor Schmidt.

Wehner is the SPD's "gray eminence" who sits astride the party's competing factions, "holding the party together" by means of political deals. In 1974 he orchestrated the fall of Willy Brandt himself from the chancellorship, installing Helmut Schmidt.

Now the 75-year-old Wehner is expected to retire soon, which will further the scenario for a disintegration of the party, which will lose even its present degree of cohesion.

Brandt's and Wehner's next targets for destabilization were announced in the Swiss daily *Neue Zürcher Zeitung* Jan. 18: the city of Hamburg and the state of Hesse, where SPD-led governments are "doomed to fall" in a chain reaction following West Berlin. Hesse is governed by one of Brandt's main enemies, Holger Börner, the only remaining Schmidt ally among the SPD-governed states. Börner has been waging an exceptional fight for nuclear power and industrial expansion against the Brandt-allied leftists in the state party organization.

The Socialist-Heritage Foundation destabilization

of Europe calls for keeping Italy in a "state of permanent devolution"—in the words of one insider—while unleashing scandal after scandal against the Giscard government in France. The Socialists count on whipping up immigrant workers and university students into a replay of the 1968 rebellion that ended the government of President Charles de Gaulle, defeating Giscard in this spring's presidential elections and replacing him with Socialist Party Secretary General François Mitterrand.

If Giscard wins the election, these circles plan to "knock him off his high horse and isolate him." The Socialist Party will be radicalized and split, along the lines of Britain's Labour Party, and leftist Michel Rocard will replace Mitterrand. American socialist leaders have declared in recent interviews that they will work to rip up the constitution of the Fifth French Republic. Forged by de Gaulle, the constitution grants the president, who is elected for a seven-year term, broad-ranging powers in domestic and foreign policy and the ability to bypass the parliament in emergency situations.

This Article 16 of the constitution "is dangerous, sooner or later it will have to go . . . and seven years is just too long," said one source.

The Socialists have their strongest hold over Italy, where Socialist Party leader Bettino Craxi has used the recent outbreak of terrorism to dangerously undermine the institutions of the Italian republic. By foisting on the government of Christian Democrat Arnaldo Forlani his policy of negotiating with the Red Brigades terrorists, Craxi has created what one newspaper called a "parallel policy"—a dual government.

Paese Sera, a daily linked to the Communist Party, warned of "a parallel policy . . . unofficial, not assumed directly by the government, but encouraged by one of its parties, the PSI [Socialists], through their Radical alter ego [the tiny but highly visible Radical Party, whose members served as emissaries for the terrorists to the press—S.W.]. A parallel policy that is secret—but not too secret—apparently dictated by humanitarian motives, but realized in a certificate of credit granted repeatedly to the Red Brigades. Thanks to this parallel policy, the Brigades have won today what they did not succeed in obtaining with the Moro case; that is, to be recognized as a kind of component, even if an abnormal one, of the Italian political system. Abnormal, yes, but qualified to determine the fate of a government posed on the brink of a crisis."

This "parallel policy" of subverting republican constitutional government is the same policy which Jimmy Carter perpetrated on the United States through his unconstitutional deal to release the terrorist-held hostages in Iran. The Socialists and their friends will now try to force President Reagan to accept it, as Italy's government has.

Faction fight spurs Deng's threat to end 'normalization' of U.S. ties

by Richard Katz

China has castigated the United States for the recent Dutch decision to sell submarines to Taiwan—including a threat to downgrade diplomatic relations with America. Behind the vehemence of Peking's protest is a fierce faction fight threatening the position of Deng Xiaoping.

Deng has staked his job on the course of China's economy and on his relationship with Zbigniew Brzezinski and Henry Kissinger. But the economy is in shambles, as the Chinese themselves report, and the inauguration of Ronald Reagan now threatens the alliances Deng has carefully built up in the U.S. Reagan, in a Jan. 19 interview in *U.S. News and World Report*, when asked about possible arms sales to China, of the sort discussed for a Carter second term, was quite blunt: "There has to be a very considered look at that, because we never want the experience again of finding out that the weapons we've provided were being used against us."

Deng's most serious opposition comes not from Jiang Qing and her radicals—though the reported decision not to execute her shows the residual strength of that faction—but from the military.

Military purge

Deng has for weeks been purging his leading opponents among the high-ranking officers, and Western intelligence now reports a dismissal of 280,000 military personnel due to age and "chronic discipline problems."

In this fight, a *Washington Post* editorial Jan. 18 warned, Deng's opponents could charge him with selling out Taiwan to get a deal with the United States, should he show any softness on this issue.

Earlier this week, the Dutch government reaffirmed its decision to sell submarines to Taiwan. On Jan. 19, China informed the Netherlands that it was expelling the Dutch ambassador and downgrading diplomatic relations to the *chargé d'affaires* level.

This had been expected. But China also lashed out at the United States, blaming both Carter and Reagan for the Dutch decision. China's news agency Xinhua reported that on Dec. 4, the Netherlands had disclosed it had consulted with Carter on the sale to Taiwan, and had been told China would not retaliate. Xinhua further

charged that Reagan officials had told the Netherlands that the incoming administration would look favorably on the sale: "The current perverse trend in some countries to create two Chinas and to interfere in China's internal affairs may be tracked down to the pro-Taiwan forces in the U.S.," charged Xinhua, meaning Reagan.

Guangming Daily, a paper restricted to Chinese intellectuals, said the sale could "cause China-U.S. relations to retrogress to the period before normalization"; i.e., China would send American and Dutch ambassadors packing and downgrade diplomatic relations as well.

Ta Kung Pao, an informed pro-China newspaper in Hong Kong, quotes Chinese leader Liao Chengzhi, vice-chairman of the National People's Congress (China's nominal legislature), saying, "China is prepared to go as far as Reagan on the Taiwan issue. . . . China is preparing for a reversal in Sino-U.S. relations."

China-U.S. relations jeopardized

Besides the Dutch submarine sale, China has protested Reagan's invitation of Taiwanese officials to his inauguration, even though they were invited as individuals. But the real cause of Deng's panic is not Taiwan, except as his opponents can use that against him. Rather, it is fear that the entire strategic-military relationship built up since Kissinger's 1971 visit may go down the drain. Even the appointment of China-card supporter Alexander Haig as Secretary of State does not allay these fears.

As one Chinese diplomat recently told the *Los Angeles Times*, "Beyond the basic recognition that Sino-American relations have a global implication, the Reagan administration does not appear to have a China policy. We welcome remarks by Haig that U.S. relations with China would not be a function of Soviet-American relations . . . and we were reassured by the priority he put on Sino-American relations . . . but we don't know how the new administration envisions the development of Sino-American relations. . . . It might take six months, perhaps a year."

Deng hopes his tantrums will cause Reagan to back

down and force the Netherlands to halt the sale. His internal position may depend on it. The inability to execute Jiang Qing is a sign of weakness, but Deng's problems go far beyond that. The *People's Daily* warns that "social and economic chaos" may result if the economic crisis continues for much longer. Deng is having trouble replacing the thousands of military personnel already purged, which reportedly could finally amount to 2 million—a total remaking of the army.

In addition, organized gangs throughout China are setting off bombs in public places and posting antigovernment posters, according to the Chinese press, leading to speculation on who is supplying them with explosives.

If, in the midst of this economic and political turmoil, Deng cannot prevail on Washington to show its support for Peking and Deng's faction, then the shakiness of his rule can only increase, no matter how many more people he purges.

Opposition to the China card from Ray Cline and Soviet spokesman

The following are excerpts from an op-ed column in the New York Times by Ray Cline, the director of the Georgetown University Center for Strategic International Studies (CSIS) and an adviser to Ronald Reagan on Asia policy during the campaign period. Following a speech Cline gave in Singapore in November criticizing the China card policy of Jimmy Carter, China attacked Cline (and by implication Ronald Reagan) for "crudely interfering" in China's affairs. This is Cline's response:

Somehow, the Carter administration, by the violently anti-Soviet rhetoric of its last year in office, had aroused expectations in Peking that a second-term administration would both ignore the security provisions of the Taiwan Relations Act requiring modern defensive weapons for Taipei, and provide China with modern military weapons intended to frighten the Soviet Union but actually more likely to permit China to establish control over Taiwan and dominate other non-Communist neighboring countries.

Did Mr. Carter promise these two major policy changes to Peking without public or congressional discussion? The answer is probably "not quite" . . . But spokesmen . . . leaned so far in this direction that high

officials in Peking may have thought they had these vital concessions in the bag for the asking after the election. . . .

In my view, making a military alliance with China would be, to understate it, unwise. Arming the massive but ill-equipped Chinese military forces would take billions of dollars and five to ten years before the Soviet Union would be in real jeopardy. In the meantime, such a policy would indeed diminish American chances of maintaining a *modus vivendi* with the Soviet Union, and would also threaten our non-Communist friends on China's borders. Regardless of this military-alliance issue, the rising expectations in Peking with respect to Taiwan spell trouble for any President who proposes to carry out the law with respect to the security of the nearly 18 million people of Taiwan and adjacent islands.

*The following letter to the New York Times, from which we print excerpts, was written in response to Cline's column by Mikhail Sladkovsky, the director of the U.S.S.R.'s Institute of the Far East and a member of the Soviet Academy of Sciences. The letter, which appeared in the Dec. 18 issue, is in line with the efforts of Soviet President Leonid Brezhnev to reach a *modus vivendi* on major international issues with the Reagan administration:*

Ray Cline's article . . . shows that there is still a heated discussion in your country over whether or not the U.S. should supply weapons to China. . . .

Mr. Cline, who believes that making a military alliance with China would be unwise . . . does not take into account that the Soviet Union will not sit idly by while the other side attempts to attain superiority.

Mr. Cline is undoubtedly right that the arming of China . . . "would threaten our non-Communist friends." . . . the arming of China, with its territorial claims and aspiration to dominate the region, is dangerous first of all for militarily weak states, including non-Communist friends of the U.S. China's socialist neighbors can defend themselves.

He pays great attention to the Taiwan issue. However, this is not the only area where differences and contradictions between Washington and Peking do, or can, manifest themselves. Another problem, for instance, is their respective influence in the ASEAN countries [Association of Southeast Asian Nations]. . . .

To play the China card successfully, the U.S.A. . . . would like to see a strong China. It may seem at first glance that the further military buildup of China will meet this aim. It is well known, however, that Mao Zedong's course toward turning the country into a "single military camp" resulted instead in an economic crisis and political instability, and his followers' policies are having a similar effect.

A new spirit in the White House

The Nigerian oil question and southern African destabilizations are being thrown against it.

In a recent message to Africa, Ronald Reagan pledged U.S. assistance to African nations to aid their economic development and meet their security needs. The message encouraged African leaders who are watching their economies be destroyed as a result of credit cutoffs dictated by the advocates of "controlled disintegration" of the world economy, or are in many cases seeing their security threatened by Libyan dictator Muammar Qaddafi.

Reagan's statement was delivered to the African American Institute Conference which took place in Sierra Leone the second weekend of January. The annual AAI conference is where U.S. policy makers, government figures and business interests hash out U.S. Africa policy with African leaders.

In his statement, Reagan vowed to "strengthen our African ties" by increasing U.S. "investment, trade and economic assistance and security-related support" for Africa. The statement continued: "The world today is faced with mounting challenges to the independence, freedom, security and well-being of men and nations," which "require that Africans and Americans maintain a candid dialogue and a shared appreciation of our many mutual interests.

"We can neither afford to neglect each other nor to take each other for granted. America's historical and cultural links with Africa as a result of the African heritage

of black Americans are today reinforced by an unprecedented two-way flow of people, goods and ideas between our two continents."

Reagan's approach portended a radical departure from the Africa policy of the Carter administration, which had extremely close ties with Qaddafi, and which accelerated the "controlled disintegration" policy in Africa under the guise of protecting "human rights," pushing only primitive or so-called appropriate technologies that would not conflict with backward tribal belief structures.

However, an array of self-described conservative think tanks and institutions have begun predicting a flareup of hotspots in Africa, especially southern Africa, which would wreck any chances for a successful Reagan Africa policy.

If Reagan responds to the heating up of African hotspots in a simplistic, hardline manner, it will be impossible for him to develop a positive Africa policy. That this is the tactic which will be taken by those opposed to his development of such a policy was made clear by a spokesman for the Heritage Foundation: "There will be a lot of confrontations in Africa in the next four years." He ticked off all the possibilities in the Horn of Africa, southern Africa, and among Qaddafi's targets: "Add all this up and you have a very unstable situation which will be more violent than even the last few years." He asserted that the various hotspots were

not susceptible to settlement, which would prevent Reagan from launching a development policy.

The critical test case for the development of a positive U.S. policy toward Africa is Nigeria, the most heavily populated country in Africa, and the second largest oil supplier to the United States. According to Africanist Peter Duignan at the Hoover Institution, which is attempting to determine Reagan's policy, a conflict involving South Africa could be used to drive a wedge between Nigeria and the U.S. if Reagan could be induced to support South Africa. In such a case "Nigeria would cut off oil shipments to the U.S."

A spokesman for the Heritage Foundation made explicit the intention to ally the U.S. with pro-tribal South Africa: "I think South Africa will have a big role in whatever we do in southern Africa. The U.S. will have to come to terms with South Africa." He added that terrorism would trigger the U.S. shift to the right side of this right-left setup: "I expect a major terrorist campaign in South Africa," citing Mozambique-based Joe Slovo as the mastermind. Slovo is connected to both Soviet KGB and British intelligence networks.

Meanwhile, *EIR* has learned that very high-level members of the Nigerian ruling elite are concerned that leaks about Nigeria's willingness to declare an oil boycott of the U.S. will be played up in the U.S. to poison their relations with the administration. These Nigerians are strongly opposed to using oil as blackmail to affect U.S. policy. Since then *Business Week* and the Newhouse news chain have asserted that Nigeria is prepared to cut U.S. oil shipments.

A new shakeup in Turkey

The IMF partisans have strengthened control; if they ebb, a coup within a coup is planned.

Internal strife over economic policy continues in Turkey. *EIR* has learned that the Turkish generals who took power in Ankara last September may be having second thoughts about following through on demands by the International Monetary Fund and related agencies for the complete dismantling of Turkey's large state-sector industrial enterprises.

The generals, wrote the London *Guardian* last month, "hanker after a return to protection, intervention, and the state sponsorship of ailing industries." For, although the junta is "pushing ahead with the monetarist, free-market IMF reforms associated with the Demirel administration," deep down the generals realize that the IMF "cure may yet prove worse than the disease," and that nothing may soon be left of the industry-based dirigist economy that Kemal Atatürk, Turkey's founder, built.

The *Guardian* editorial noted that the "ruling junta is badly divided," and warned that if the generals don't cooperate, there "could yet erupt another coup within a coup," within the next year, removing the moderate head of state, General Evren, and his deputy General Saltik.

The likely coup-makers would be a clique of right-wing officers who are pressuring Evren to release their mentor, the self-professed neo-Nazi Col. Alparslan Türkeş, who has been held in an army pris-

on since the military takeover because of his role in fomenting terrorism.

Earlier this month, the generals capitulated to this pressure by releasing not Türkeş but six former parliamentary members belonging to his Nationalist Action Party. The NAP hold over the junta is underscored by the fact that there have been no personnel shake-ups in the several ministries—most notably Agriculture—that are controlled by the NAP.

The British threat of a coup within a coup is hardly surprising. In the past, any Turkish government that dragged its feet in implementing the IMF's policies has suddenly found itself out of power. A case in point is former Prime Minister Süleyman Demirel; although Demirel was more than willing to cooperate with the IMF, as a civilian leader he risked a great public backlash were he to have gone all the way with the IMF's unpopular austerity measures, whose central feature is the deindustrialization of the Turkish economy.

Because of this stalemate, Demirel was replaced on Sept. 12 by a military junta, which, at the behest of the IMF, proceeded to implement the standby agreements worked out between Demirel and the fund in 1980.

The IMF's key operative in the entire affair was and is Turgot Ozal, described by insiders as the "man who really runs Turkey." The eco-

nomie czar under Demirel, Ozal was elevated to his current post of deputy prime minister within hours of the coup and was granted extraordinary powers "to do whatever was necessary to impose the IMF's austerity demands," according to one source.

Despite the fact that all cabinet ministers appointed by the junta had to agree to the condition that they not interfere with Ozal's running of the economy, Ozal's perfunctory adherence to the IMF's Friedmanite economics has not gone unchallenged.

In January, Ismail Hakki Aydinoglu was suddenly kicked out as governor of the central bank because of his opposition to Ozal's monetarist policies. Aydinoglu had stirred the IMF's ire by writing a hard-hitting attack on Ozal's policies in the Izmir daily *Yeni Asya*. In particular, Aydinoglu criticized Ozal's standby arrangement with the IMF and his efforts to jack up interest rates Volcker-style.

Picking up the line, a number of other papers issued attacks on the handling of the economy, and were quickly shut down.

The dismissal of Aydinoglu is doubly scandalous, given the fact that central bank governors by law cannot be dismissed. The official line is that Aydinoglu "resigned."

The ouster of the central bank governor has given Ozal dictatorial control over the Turkish economy. He states categorically: "If there is an alternative model, I will not be the one to implement it."

Aydinoglu's replacement is Osman Siklar, a career central bank official who is known to be very close to and in agreement with both Demirel and Ozal, and who has no intention of bucking the IMF.

A president a la italiana?

Mexico City's mayor wants to pave the way for his own aspirations in 1988.

Mexico's highest political circles are buzzing about Mexico City Mayor Carlos Hank González's increasingly open presidential bids.

The powerful mayor of the country's capital is what in the U.S. could be called the Aquarian candidate. He is the most vociferous spokesman for environmentalism, local control, and deindustrialization. As one-time governor of the State of Mexico, and now as mayor, Hank González has put together a powerful machine within the government, the PRI governing party, and the media, that has increasingly promoted the "back to the countryside" dismantling of Mexico's cities while building Hank's image as a populist strongman.

Nonetheless, the mayor has two very substantial obstacles on his way to the Los Pinos presidential residence: Article 82 of the Constitution, which prohibits sons of foreigners from being president (he is the son of a German national), and strong opposition in the government and the Partido Revolucionario Institucional (PRI) to his Aquarian approach, opposition which could be neutralized only by a series of political destabilizations and chaotic events. Hank is moving rapidly to remove both obstacles.

In the first weeks of the new year, top politicians such as Carlos Sansores Pérez, former president of the PRI, and Ignacio Burgoa, the "lawyer of the landowners" and a top figure in the "right-wing" judi-

cial apparatus, took over the headlines to announce that it is time to change the "obsolete" Article 82 of the Constitution.

Similarly, January 1981 has witnessed a series of disturbing incidents that have threatened to unleash a wave of political chaos in the country. One of them was a still unexplained massive blackout Jan. 15 which left Mexico City and 60 percent of the country without electricity for five hours.

Only days before the blackout, the head of the electricity workers' union, Rodríguez Alcaine, had also publicly supported a change of Article 82.

On Jan. 18, a group of armed peasants took over and blocked the roads leading to the large petrochemical center of Cactus, on the border between the southeastern states of Chiapas and Tabasco, Mexico's richest oil region. The peasants accused Pemex of "polluting" the area. Although Pemex rapidly moved in and settled the dispute, the possibility that powerful political circles set the peasants into motion did not escape some press columnists. A government official interviewed by *EIR* asserted point-blank: "I cannot dismiss the hand of the mayor in these events."

True or not, the fact is that such thoughts are certainly on the minds of more than one official. These officials also wonder who is letting into the country, and even promoting, a variety of highly destabilizing

individuals, such as the schismatic French bishop Marcel Lefèbre, who is now here agitating among extreme right-wingers and drug-connected cults such as the Hare Krishna. According to very reliable government sources, everything seems to point to a Hank-connected faction in the interior ministry.

Most analysts are convinced that Hank is out of the running for 1982. The mayor himself seems to agree; according to insiders, last November a distraught Hank wept openly in a luxurious New York bar over his inability to change Article 82. He was consoled by a group of close friends, including Mexican TV commentator Jacobo Zabudovsky, actor Mario Moreno "Cantinflas," the director of the magazine *Siempre*, José Pages Llergo, and cartoonist/industrialist Abel Quezada.

Despairing of victory in '82, the mayor is now apparently flexing his political muscles to shape next year's choice and guarantee himself the presidency in 1988. On Jan. 7, Manuel Buendía, a widely read political columnist for the daily *Excelsior*, said Hank wants the successor to President López Portillo to be a man the mayor trusts, who would be "a kind of president *a la italiana*, that is, somebody who allows the emergence of an unequaled figure in the cabinet, a real decision-maker. One of those decisions . . . would be the reform of Article 82."

According to Buendía, Hank added "it is necessary to finish off this political system and replace it with another one." Otherwise, "the perspective is for domestic unrest and even foreign intervention."

"Nobody can listen to Hank without feeling deeply shaken," reported Buendía.

International Intelligence

French, Soviet spokesmen send messages to Reagan

Jacques Kosciusko Morizet, a former French ambassador to the United States, wrote in the daily *Quotidien de Paris* on Jan. 22 that the Reagan administration should end the era of economic warfare against France and Europe. "Trade war should be curbed," said Morizet. "The policy of high interest rates should cease, as well as the deliberate manipulation of dollar rates on the money markets. . . .

"Political solidarity means economic solidarity," he concluded. The former ambassador further commented that the new administration must think about committing itself to the industrial development of the Third World, since "the replacement of 'Castros' with 'Pinochets' serves no useful purpose." Morizet added that France will continue to pursue her own European and Third World policies in any case.

On Inauguration Day, Soviet President Leonid Brezhnev telegraphed the new U.S. President: "It is our belief that, at present, it is essential for all nations to press for improving the international situation and promoting peace. . . . I am confident that the positive development of relations between the Soviet Union and the United States, and their constructive cooperation in handling vital international issues—and, on our part, we do favor such cooperation—would further the achievement of the above-mentioned goals."

France challenges Israeli jet sales

In the middle of negotiations between Israel and two Latin American nations, Mexico and Colombia, for sale of Israeli Kfir jets, France has warned it may try to block the deals.

According to an article in the Israeli daily *Haaretz* Jan. 15 reported on in the

Mexican press, French diplomats are warning that the Kfir jet includes pirated technology and that the maker of the French Mirage, Dassault, may go to court to prevent Israeli sales of the planes without paying royalties.

Mexico is negotiating for 20 planes in a package with a reported \$250 million pricetag. Colombia has stated that it is seeking 12 planes. Mexican press correspondents in Israel report that if Israel loses these sales, it may have to close down part of its aeronautics industry.

Mexican Defense Minister Félix Galván López, completing a visit to Israel Jan. 15, made an unscheduled stop in Paris on his return to Mexico. He stated as he left Israel that the Mexican decision will be made known in two to four weeks.

U.S. claims against Iran diminish Carter's bounty

Following Jimmy Carter's transfer of assets to Iran's Khomeini government and its banking creditors, a 100-company group of U.S. corporations, the New York Plaintiffs Steering Committee, is making a legal challenge to the arrangement under the 1969 Vienna Convention, which deems treaties void if they are concluded "by threat or use of force in violation of the principles of international law."

Members of the Steering Committee include Brown & Root, Xerox, Ingersoll-Rand, and Halliburton.

Four billion dollars or more in Iranian deposits was still in U.S. domestic bank branches as of Jan. 22. Carter had wanted to transfer these funds as well, but the corporations raised "serious constitutional and other legal questions" in federal courts to deter him.

What Mr. Carter already transferred in return for the hospitality shown to U.S. citizens by the mullahs: \$1.4 billion in U.S. Treasury bills, sold for cash and deposited at the Bank of England and released to the mullahs; \$960 million in gold (1.3 million ounces) yielded to the

BOE and released to the mullahs; \$4.7 billion in Iranian deposits in U.S. bank branches overseas to the BOE, of which \$3.6 is being held to cover Iran's foreign debts. To this \$7.1 billion sum is added a billion in interest accrued.

Meanwhile, Saddam Hussein, president of Iraq, issued a statement Jan. 19 accusing Carter of making his agreement with Iran in order to release arms shipments to the Khomeini regime. Some European sources report that such shipments had already begun, and that the Bank of England has negotiated new loans to Teheran.

El Salvador conflict goes international

The Salvadorean civil war is rapidly assuming international proportions. According to the Mexican press, up to 3,000 troops from Honduras and 2,000 from Guatemala are now engaged in the conflict on the side of Salvadorean government forces.

The leftist guerrillas have also enlisted the support of international brigades. It was the landing of a 100-man foreign guerrilla invasion force in mid-January, reportedly from Nicaragua, that was used by Carter to justify the resumption of military assistance.

In a replay of the "bring the war home" anti-Vietnam war mobilizations of the 1960s, the Jesuit circles that created the Junta are now launching a campaign to protest U.S. involvement in El Salvador. The Washington Office of the Jesuit Missions has arranged for the purchase of a large ad in the *New York Times* to denounce U.S. support for the "illegitimate" Christian Democratic Junta. Jesuits are also circulating a statement in the U.S. claiming that the Junta enjoys no popular support in El Salvador, and one Jesuit spokesman says major protest demonstrations will be staged, including one at the United Nations headquarters in New York during the coming weeks.

The decision by the former Carter

Briefly

administration to restore \$5 million in military aid—including helicopter gunships and, more significantly, additional military advisers—to the ruling Junta in El Salvador has increased the danger of United States involvement in a ground war in that Central American country. "This could make them [the Salvadorean military] more and more dependent on U.S. technical advisers," the *Washington Post* commented Jan. 14. "That's what happened in Southeast Asia," the newspaper noted.

India-Mexico summit to steer North-South policy

Mexican President José López Portillo told the *Times of India* that he considers his visit to India, which begins Jan. 25, of "fundamental importance . . . a South-South dialogue . . . in its widest ramifications." International policy questions, not bilateral relations, are the focus of the talks, including "prevention of catastrophic conflict between the two major powers."

The discussions precede by less than a week a foreign minister-level conference of the Nonaligned Movement in New Delhi. Mexico and India are known to want to move Cuba out of the movement's leadership. Prospects are growing for a Mexico-India-Iraq leadership of the underdeveloped sector, prepared to work with the new U.S. administration and Western Europe on technology transfer and global credit reorganization.

How to conduct China trade

Two representatives of an American chemical firm recently described the process of selling to China:

"First, you have to be invited in. That means they have already investigated

you. No one will talk to you without an invitation. Then the conversation goes:

"'I will sell for such-and-such a price,' you begin.

"'That's too high a price,' he replies but refuses to name a counterprice.

"'Well,' you continue, 'I can be flexible on the price, but that depends on the quantity. How much do you want to buy?'

"'That depends on the price.'

"The man you are dealing with is not the final factory user of the chemicals, but an Export-Import Corporation official. He says he, in turn, can sell to the factory, so much at one price and less at a higher. Finally, you name a price and quantity, you will sell to him, and the deal is clinched."

Malaysian warns of Peking threat

The chairman of the Communist Party of Malaysia (CPM), who has been living in Communist China for 24 years, is now warning of Chinese subversion of his and other Southeast Asian nations after his reappearance in Malaysia last month.

Musa bin Ahmed, chairman of the CPM, told a Kuala Lumpur television audience Jan. 6 of the continuing Chinese threat to Malaysia. Musa emphasized that China's long-term objective is to support underground pro-Peking guerrillas, and warned other Southeast Asian nations not to fall prey to Peking's treachery.

The Malaysian government had kept Musa's return a secret for two months, and timed disclosure of his return to coincide with an official visit by a Chinese minister.

Musa's about-face on China contradicts the soothing claims of Singapore's Socialist International-linked Premier Lee Kuan Yew, who, following a recent trip to China, sought to assure ASEAN leaders that Peking would abandon support for the communist underground in Southeast Asia.

● **HANDELSBLATT**, the West German business daily, comments that the Carter administration's hostage deal means that in the future there will be even more barbarous hostage-taking. The *Süddeutsche Zeitung* calls it a defeat for international law. London's *Daily Telegraph* recalls how Carter and Vance ignored warnings about the hostage seizure in September 1979.

● **CHIAPAS'S** state government in the southeast Mexican oil region defused within 48 hours a "peasant" upsurge that blocked access to the Cactus petrochemical center. Tensions remain, according to Mexican reports, as the group of 2,500 to 10,000 peasants set a 30-day deadline for the national oil company, Pemex, to compensate them for land and end "pollution."

● **BOGOTA'S** Superior Tribunal Court on Jan. 15 lifted an arrest warrant against Fausto Charris Romero, president of the Colombian Anti-Drug Coalition, permitting Charris to attend an international symposium in Rome at the end of March. Charris announced that he and the coalition will vigorously campaign for expanded U.S.-Colombian antidrug cooperation in the wake of the Reagan inauguration.

● **ALFRED GROSSER**, a distinguished French historian specializing in German history, writes in the current issue of the business magazine *L'Expansion* that Friedrich von Hayek's theories are "scandalously immoral" and "totally contrary to the principles enunciated in the beginning of our Constitution. . . . And he is honored! And he is acclaimed by the National Assembly! And economists claim to be his heirs!"—a reference to Prime Minister Raymond Barre.

Abscam on trial as NBC prepares a 'Reagangate'

by Jeffrey Steinberg

A high-level source within the News Division of NBC-TV has leaked the fact that the major networks are already in the advanced stages of unleashing a flurry of scandals aimed at wrecking the Reagan administration within its first 100 days in office.

According to the source, detailed scandal sheets are being prepared linking the President to California-based organized crime elements, and these scandal sheets will be saturating the national media within 60 days, creating a scandal climate around Ronald Reagan that will "put Abscam and Brilab to shame."

The efforts of Kennedy hatchetman Walter Sheridan to block the confirmation of Ray Donovan, a respected New Jersey construction executive, to the post of secretary of labor represent the currently operational feature of this effort. Sheridan, a 30-year asset of a subversive network housed in the National Security Agency and its allied FBI Division Five, has been working in league with NBC since 1967 when he played an out-front role in smearing then-New Orleans District Attorney Jim Garrison after Garrison indicted the NSA-linked Permindex for the assassination of John F. Kennedy.

'Extremist methods'

In effect, Donovan's confirmation, according to the NBC source, is being determined in Brooklyn federal court hearings to determine whether or not the Department of Justice and the FBI used unconstitutional and illegal methods in obtaining the Abscam indictments of Rep. John Murphy, Rep. Ozzie Meyers, Mayor Angelo

Errichetti, and others.

This Pratt hearing, which has now recessed until Feb. 2, has already cast a dark shadow on the methods of the Criminal Division of the Justice Department and particularly on Brooklyn Organized Crime Strike Force chief Thomas Puccio. Justice Department and FBI documentation has already been presented before Judge Pratt showing massive violations of federal criminal codes by Puccio, who has acknowledged to officials of the Newark, New Jersey U.S. Attorney's office that "without those extremist methods, Abscam would have never been possible."

The NBC source reports that Puccio has already obtained a grand jury indictment against Donovan relating to sewage contract kickbacks on Long Island, N.Y. Whether the NBC information is accurate or just so much hot air, the implication is clear that Puccio is himself working in league with NBC—in further violation of federal criminal statutes.

What is at stake in the Brooklyn courtroom is the very question of the United States' viability as a constitutional republic. On Nov. 4, 1980, in a massive demonstration of popular will, the American electorate swept Jimmy Carter and the entire Trilateral Commission administration out of office. That result represented a mandate to the incoming administration to not only restore economic growth, but to halt the persecution of constituency-based leaders who make the American System work.

Judge Pratt is in a position to restore the Constitu-

tion to its rightful place as the law of the land by overturning the Abscam verdicts and placing the full burden of criminal responsibility on the relevant figures in the Department of Justice and the former Carter administration. Evidence already exists that a thorough prosecution of those criminally complicit in Abscam frameups and coverups would lead directly to the Plains, Georgia doorsteps of Jimmy Carter and to the Baltimore law offices of Benjamin Civiletti.

Such a bloodletting may very well be the only basis for ensuring that the apparatus deeply entrenched in the Department of Justice since the decade of Robert Kennedy, Nicholas Katzenbach, and Ramsey Clark does not succeed in deploying its legion of criminals and frameup artists to bring down the Reagan administration before it even has the opportunity to implement the electoral mandate of Nov. 4.

Carter justice

Under the Carter administration, the Office of the Attorney General was turned into a protectorate for terrorists, drug traffickers, and persons flagrantly involved in actions tantamount to treason against the United States.

- By executive order, on the personal “humanitarian” appeal of Attorney General Civiletti, no fewer than 20 hardcore terrorists were either freed from federal prisons or let off scot free from 1977 through 1980. In no case were these terrorists released on the grounds that they had been rehabilitated and had reversed their prior commitments to violence. In the case of the four Puerto Rican nationalists who attempted to assassinate President Harry Truman and successfully carried out an armed assault on the U.S. Congress, Attorney General Civiletti authorized their release from federal custody with full foreknowledge that they were committed to immediately returning to their pro-terrorist agitations.

- Beyond his public statements in support of legalization of marijuana, Attorney General Civiletti personally intervened on documented occasions to block federal enforcement agencies from cooperating with state officials in pursuit of known narcotics smugglers.

- The attorney general further put his personal stamp of approval on the decision to block prosecution of FBI Division Five asset Philip Agee for his public actions to illegally expose CIA station personnel abroad and for his blatant turning over of classified information to Cuban and Soviet intelligence services.

- Under Civiletti, the Community Relations Service project of Ramsey Clark was deployed to incite at least one riot, in the Liberty City section of Miami, Florida, and to lay the groundwork for a nationwide string of civil disorders within the first six months of the Reagan presidency.

At the same time, under Civiletti Justice Department policy guidelines, the Federal Bureau of Investigation was transformed into a full-blown political police, conducting frameup and extortion campaigns against perceived political opponents of the Carter administration. According to the Annual Report of the Attorney General, the four-year tenure of President Carter saw over 20,000 Americans jailed as the result of over 85,000 separate “white-collar crime” investigations launched by the FBI and DOJ. During the same period, while the nation experienced an overall escalation of drug addiction, the number of arrests and convictions on narcotics violations was halved.

There is compelling evidence that the Federal Bureau of Investigation has been so contaminated by the methods of Abscam and Brilab that it is beyond repair as a viable law-enforcement agency. Contributing Editor Lyndon LaRouche has called for the disbanding of the FBI and the return to more constitutionally viable forms of national crime prevention (see page 53).

What Smith faces

As the hearings before Judge Pratt indicate, there are elements within the Justice Department and the FBI itself who have been appalled at the criminal methods adopted by those agencies in the pursuit of “Carter justice.” These elements themselves, according to highly reliable sources in the nation’s capital, are being hounded by Puccio and other corrupted elements in the department who fear that a public airing of evidence in the Abscam matter could result in their own conviction for “white-collar crimes.”

Attorney General-nominee William French Smith, a respected California lawyer with tough conservative credentials, will be walking into a Justice Department building peppered with land mines following his anticipated confirmation. The Civil Rights Division, the Community Relations Service, the Organized Crime Strike Force section, and the associated FBI Division Five are all deeply encrusted political baronies broadly associated with the Kennedy-McGovern machine and the Eastern liberal establishment.

It is these protected networks-in-place that represent the critical “fifth column” resources for NBC and those related powerful interests intent on using smear and frameup tactics against the incoming administration as a means of smothering the Reagan mandate in the mud of organized crime. A long-overdue purging of these networks, best achieved through a thorough investigation into the practices of Abscam and Brilab—including the role of the media agencies presently engaged in a rigorous blackout of the events in Judge Pratt’s courtroom—is perhaps the number-one priority for the incoming attorney general.

'Old boys' run FBI-Justice witchhunts

by Scott Thompson

Walter Sheridan, former head of the "Get Hoffa Squad," is being used as the political hit-man against the confirmation of Raymond Donovan as secretary of labor. In his campaign to get Donovan, Sheridan, who is today Sen. Ted Kennedy's investigator on the Senate Labor and Human Resources Committee, has resorted to the same "trial by press," dummed testimony, and other smear tactics that have led federal courts to toss out recent Abscam-Brilab cases.

The chief irony of Sheridan's charge that Mr. Donovan is corrupt is that Sheridan has used his government powers over the last 20 years to commit dozens of crimes—all to protect the \$100 billion internationally syndicated gambling and narcotics cartel.

Many of Sheridan's former cronies on the "Get Hoffa Squad" today hold highly paid jobs with such gambling syndicates as Resorts International and Emprise/Sport-systems. Investigators who have traced the link between these firms and organized crime figures known to be involved in the laundering of narcotics money believe that the corrupt Justice Department "old boys" around Sheridan fear what an uncontrolled Secretary of Labor may uncover. This is especially true of various dirty deals around Resorts' casino operation in Donovan's home state of New Jersey.

Resorts' New Jersey casino was financed by Prudential Insurance, the same firm that financed the union-busting National Right to Work Committee's new Springfield, Virginia headquarters. Prudential has been engaged for many years in purging labor-oriented local machines like that of Mayor Hugh Addonizio in Newark, New Jersey. Prudential also helped the Justice Department train a team in insurance fraud to set up its Brilab entrapment in the Southwest, and it vouched for Joseph Hauser, the chief Brilab informant, as a Prudential representative.

A 'whacko' protected witness

The principal witness to Donovan's alleged corruption is Ralph "Little Ralphie" Picardo, who has charged that Donovan personally made "payoffs" to the Teamsters union to "buy labor peace" for his firm, the

Schiavone Construction Company of New Jersey. "Little Ralphie," convicted of murder in 1975, did a deal with the Justice Department which put him under protection of the Justice Department's Federal Witness Protection Program.

It is members of the FWPP, frequently paid salaries of over \$60,000 per year plus expenses, who were used to entrap respected business, labor and political leaders in Abscam-Brilab. Melvin Weinberg, the principal Brilab witness, was promised by Civiletti's Justice Department that he could carry out swindles on the side and receive a reduced sentence on a prior conviction if he produced indictments against four political leaders in Abscam.

Jimmy Fratianno, the FWPP informant used by NBC to conduit its smear against President Reagan, literally got away with murder, carrying out two contract hits while he was on the FBI payroll. Fratianno was granted almost total immunity for this and nine other murders as long as he continues "testifying."

In one case against former Teamster vice-president Tony Provenzano, "Little Ralphie" Picardo was described by the government's own witnesses as a "pathological liar" and a "whacko," according to articles in the *Newark Star Ledger* in mid-May 1979. In that trial, presiding Judge Curtis H. Meanor described the evidence presented by "Little Ralphie" as "sparse." The charge was the same one Picardo has now leveled against Donovan, namely, selling labor peace or extortion.

Yet Senator Kennedy, Sheridan's nominal boss as ranking Democrat on the Labor Committee, is firmly committed to promoting Picardo. "These are very serious allegations," a Kennedy spokesman said. "They will require full investigation by the FBI. We will not set any artificial time deadline."

Sheridan's 'old boy' patrons

Despite appearances that Walter Sheridan acts as a Kennedy family retainer, strong evidence presented by the authors of *Dope, Inc.*, a bestseller that probes the \$100 billion international narcotics cartel, points to the fact that Sheridan has been a longtime asset of the British Special Operations Executive (SOE), which was run during World War II in the U.S. by Sir William Stephenson.

It was SOE which trained the "old boys" circuit around Sheridan in the Kennedy Justice Department and Division Five ("counterespionage") of the FBI. It was the same SOE group, operating on a world scale from bases in the Bahamas, Canada, and elsewhere, which reorganized the Dope, Inc. narcotics and gambling cartel after World War II.

Walter Sheridan was introduced to the SOE elite

within U.S. intelligence, first as a member of Division Five circles in the FBI, then as Chief of Counterintelligence for the newly established National Security Agency. The NSA was established in the early 1950s as the most secretive electronic snooping agency by SOE-trained operatives and private firms such as RCA. A virtual Official Secrets Act has been created around NSA to protect part of the U.S. core of the "military-industrial complex" against which President Eisenhower warned.

In 1958, a "church friend" introduced Sheridan to Robert Kennedy, who was then general counsel of the infamous McClellan Committee. As special investigator for the committee, Sheridan turned it into a witchhunt against the Teamsters.

When John F. Kennedy was elected President, Sheridan was appointed "confidential assistant" to Attorney General Robert Kennedy with a secret office next to the Oval Office in the White House. From this post, Sheridan headed the "Get Hoffa Squad" and rapidly turned it into a barony which after a point not even the Attorney General could penetrate.

Why they fear Donovan

According to Kennedy Justice historian Victor Navasky, the Sheridan strike force "had free access to the files of the McClellan Committee. It was in touch with grand juries throughout the country. It had an undercover air of mystery about it. Its modus operandi was cloak and dagger."

The modus operandi of Sheridan's private army was also flagrantly illegal. According to author Jim Hougan, Sheridan created "a top-secret private intelligence agency with contracts from the CIA, IRS [Internal Revenue Service], and other government agencies" known as "Five Eyes": International Investigators, Incorporated of Indianapolis, Indiana.

Though it was not incorporated until 1966, a full five years after its founding, Hougan states that almost from the beginning "the still imaginary firm expanded throughout the Midwest, opening offices in Chicago, Detroit, Louisville, Memphis, and Minneapolis . . . the same cities in which Hoffa experienced intensive surveillance, including a great deal of illegal wiretapping." The "evidence" from these illegal methods was used to bring over 30 frivolous indictments against Hoffa.

That Sheridan might be motivated to trump up charges against Donovan to protect Resorts' New Jersey base and other dirty deals is perfectly in keeping. The publicity around Sheridan's vendetta against Hoffa in the 1960s was used to cover up what the Kennedy Justice Department Organized Crime Drive was really all about, namely, smashing all local constituency machines that might oppose SOE's gambling syndications

and political takeovers.

Outfits like Resorts and Emprise moved into the power vacuum left by the persecution of local business and labor leaders. Emprise, an SOE-linked firm, came to own or control over 450 companies involved in food concessions, professional sports, and dog and horse racing, whose high cash flow is a perfect laundromat for drug money.

When Sheridan "old boys" crony Robert Peloquin was sent to Buffalo, the base of Emprise, he reported back that there was "no organized crime" in the city. A few years later Emprise board members would be indicted and a journalist probing the firm's mob links murdered. Instead of pursuing Emprise's links to organized crime, many Kennedy Justice "old boys" found posts on its board.

A similar arrangement was worked out with Resorts, which helped underwrite the founding of a "Three Eyes," commonly known as Intertel, which uses the same tactics as Sheridan's "Five Eyes" to provide security for such syndicates. It is the "old boys" located in Resorts, Emprise/Sportsystems, and Intertel who continue to direct the Justice Department and FBI, including its recent Abscam-Brilab purge trials and the bogus investigation of Raymond Donovan.

The Permindex connection

In February 1967, Walter Sheridan was hired by NBC as an "investigative journalist" to do a special television report on the probe by New Orleans District Attorney Jim Garrison into the assassination of John F. Kennedy. By July 1967, Sheridan would be indicted by Garrison for his part in the coverup of SOE links to the assassination of the President.

According to Garrison, and to testimony entered in a separate trial in Chicago, Sheridan used his NBC White Paper team and others to harass several key witnesses. The second charge against Sheridan was made on Aug. 19, 1967, when Zachary Strate of the Teamsters union testified to a deal Sheridan had offered. In return for helping Sheridan to "get Garrison," Strate testified that Sheridan promised to give Strate classified government documents proving that the Teamsters' conviction on extortion in a case involving Hoffa had been obtained by illegal wiretaps.

What was the focus of Garrison's investigation? A firm known as the Permindex Corporation on whose board sit several veterans of the SOE, including some who are directly linked to the circles that control Resorts and Emprise/Sportsystems. It was the Permindex Corporation which French intelligence named as being responsible for over 30 assassination attempts against President Charles de Gaulle during the early 1960s.

Challenge mounts to entrapment tactics

by Barbara Boyd and Richard Magraw

The Civiletti Justice Department's illegal Abscam and Brilab operations against targeted politicians and their supporters in organized labor have exploded in a Brooklyn, New York federal courtroom. Two U.S. attorneys from New Jersey, Edward Plaza and Robert Weir, who were intimately involved in the investigation and indictment of Sen. Harrison Williams, have been disclosing to Federal Judge George Pratt the illegalities and misconduct represented by all the "sting" investigations.

Edward Plaza, chief assistant U.S. attorney for New Jersey, presented the following evidence:

- Mel Weinberg, the convicted swindler who is the key government agent in Abscam cases, admitted to willfully entrapping Abscam defendants. The Justice Department paid Weinberg a bounty for prosecutions Abscam won.

- Throughout all the Abscam investigations, Weinberg continued his own criminal activities, with the full knowledge of the Justice Department.

- There are gross irregularities in the tapes and documents that the Justice Department submitted as evidence in all Abscam convictions. This fact supports the thesis that these materials have been deliberately altered by government officials.

- Plaza's investigation into the Justice Department's irregularities was blocked, stonewalled, and reprimanded by Justice Department officials supervising Abscam.

The damning evidence Plaza has placed in the record is the basis for an urgent call by the National Democratic Policy Committee, an organization whose advisory board is headed by Lyndon H. LaRouche, Jr., for immediate hearings by the Senate Judiciary Committee into the entire Abscam-Brilab investigation and Attorney General Benjamin Civiletti's role in initiating what is now documented to be a political witchhunt.

Such an investigation could proceed utilizing the evidence already on trial court records in the numerous prosecutions, without jeopardizing any pending *legitimate* prosecution. Judge Pratt is using this procedure carefully in the post-trial, due process hearing for seven convicted Abscam defendants.

The victims' defense attorneys are seeking a ruling that the convictions should be thrown out on the basis of

entrapment and "outrageous" prosecutorial misconduct. On Nov. 26, 1980, U.S. District Judge John P. Fullam threw out the Philadelphia Abscam convictions of Harry Jannotti and George Schwartz on precisely these grounds.

Abscam on trial

In his testimony, U.S. Attorney Plaza told the court about his own investigation of Abscam and Weinberg. Plaza began the probe after an August 1979 meeting, in which Weinberg answered Plaza's charges that he was deliberately entrapping Abscam victims. Plaza has testified, "I viewed that several things were giving public officials a criminality test. I viewed that as wrong." Said Weinberg, "If I don't put words in people's mouths, we won't have a case."

Plaza stipulated that Weinberg was referring to the way he coached Abscam victims to portray themselves as criminals in order to impress "the Arab mind." The "Arab" in question was always a paid agent of the FBI.

In the Abscam ploy, victims were told that huge financial deals offered to themselves and their constituencies by the "sheiks" would not come through unless the sheiks thought they were connected with criminal elements, whether or not such connections existed.

Plaza found that several of Weinberg's coaching sessions with Abscam defendants had not been taped or otherwise documented. He also found that the FBI had "lost" control of 100 tape recordings, for an unspecified period of time, breaking the chain of custody, and that there is no clear indication in many of the Abscam tapes of when a session with the phony sheiks begins or ends. The defense has charged that the tapes have been tampered with to favor the prosecution.

Plaza also testified that stolen certificates of deposit, which the Justice Department alleged had been provided by Abscam victim Mayor Angelo Errichetti of Camden, N.J., as a fence, were in fact provided to Errichetti by Weinberg. These stolen certificates had been filled out to demonstrate to the sheiks that Errichetti was a powerful criminal politician.

The Justice Department marked the sections of the tape of this meeting that showed Weinberg setting up Errichetti in this way as "inaudible" or "not pertinent." They were therefore not shown at the defendants' trial.

Plaza testified that Weinberg collected a bonus from the Justice Department for his criminal action in securing the stolen certificates of deposit. Justice pinned their theft on Errichetti, and thus claimed that Weinberg had "recovered stolen property."

Plaza also testified that he uncovered several other instances in his investigation in which Weinberg and the FBI would *initiate* criminal activities in order to entrap Abscam defendants in a chain of criminal events. Weinberg, Plaza charged, was running a "scam within a

scam” by receiving gifts intended for the sheiks and profiting from his own criminal activities—with full FBI and Justice Department knowledge.

Weinberg was promised unspecified bonuses by the Department of Justice for the numbers of politicians he successfully entrapped.

Plaza testified that as soon as he began expressing his concerns about Abscam illegalities, along with those of Weir and former New Jersey U.S. Attorney Robert Del Tufo, to Justice Department superiors, he was blackballed by Abscam prosecutor Thomas Puccio of the Eastern District of New York. Puccio said Plaza was “an enemy of Abscam.” Plaza’s attempts to interview Weinberg and continue his investigation were continuously blocked by Puccio and FBI Special Agent Good, who is Weinberg’s FBI controller.

Plaza is a well-respected U.S. Attorney who is considered to be honest and aboveboard. Nevertheless, Puccio tried to portray both Plaza and Del Tufo as motivated by their political connections in New Jersey. Puccio brought out in court that Del Tufo knew Harrison Williams when Del Tufo was a state legislator, and that Plaza knew Williams’s lawyer, George Koelzer, who was formerly with the Newark U.S. Attorney’s office. Puccio then stated that he had a tape in which George Katz, Senator Williams’s co-defendant, stated that he knew a New Jersey politician who was in trouble, but was protected because he had a “fix in” with Del Tufo.

In cross-examination, however, the local politician turned out to be a “mayor” who had a “fix in” with President Carter, who would lean on then-Attorney General Griffin Bell, who would in turn lean on the New Jersey U.S. Attorney, Del Tufo. Further, both Del Tufo and Plaza had recommended “vigorous prosecution” of this mayor, but Justice’s Tax Division in Washington had turned the case down.

Justice Department Criminal Division head Philip Heymann has telegraphed Judge Pratt that Plaza is violating Department of Justice procedure by turning over certain documents to defense counsel and that he is considering a possible censure of Plaza.

Despite constant impugnation of his motives by his Justice Department superiors, Plaza insisted in court that he is trying to prevent “a terrible embarrassment to law enforcement” in the United States.

The due process hearing is scheduled to continue next week before Judge Pratt. Then it will recess for about two weeks while defense attorneys research the entire Abscam investigative file, now being turned over to them under a previous order from Judge Pratt. The full file is sure to produce more blatant illegalities in Abscam and will be critical as other Abscam cases proceed to appellate court review and hearings on entrapment and governmental misconduct.

Why Reagan must purge the FBI

by Lyndon H. LaRouche, Jr.,
Contributing Editor

President Ronald Reagan will not have a chance of delivering on his campaign promises to the U.S. citizens unless his administration begins with a deep-going political purge of the Federal Bureau of Investigation. Like many innocent, average citizens, President Reagan may not yet know the truth about the FBI; now that he is entering the White House, he can and must be told that truth.

From its beginnings under the Quaker “Torquemada,” J. Mitchell Palmer, the Bureau of Investigation (later FBI) and its famous spokesman, J. Edgar Hoover, were closely tied to the forces which created and which still control Willy Brandt’s Socialist International. Its purpose, from the beginning, was to become a political “Gestapo.” In the value judgments of most citizens, the FBI’s political side has been outrightly *treasonous*.

Today, at this moment of writing, the political components of the FBI are working on the side of international terrorism in conscious and intimate cooperation with the forces behind both Willy Brandt’s Socialist International and the foreign-intelligence divisions of the Soviet KGB. It is understandable that the majority of average citizens, given the facts, would tend to denounce the FBI as “treasonous.”

Let us be fair. Not all FBI Special Agents are guilty of what the majority of average citizens would view as “treason.” During the 1930s, under President Roosevelt, and under Attorney General Robert Kennedy, the FBI went through the motions of becoming a crime-fighting organization. In this connection, the FBI developed operatives and capabilities which were dedicated to tracking down actual felons.

Sincere and dedicated as the “honest cops” of the FBI crime-fighting forces may have been, from the standpoint of the special interests which controlled Director J. Edgar Hoover, the FBI’s crime-fighting activities were always a “public relations stunt.” From its beginnings under Quaker-linked Attorney General J. Mitchell Palmer, the FBI was intended to become a political “Gestapo,” serving the interests of foreign, supranational powers dedicated to subverting and taking over the United States.

It was this same subversive dedication which guided J. Edgar Hoover and his accomplices in their largely

successful efforts to destroy the CIA.

Three examples indicate why the FBI is not what most citizens presently believe it to be.

According to official FBI records revealed by the U.S. Senate, as early as the autumn of 1968 the FBI was collaborating in political support of the Mark Rudd-linked faction of Students for a Democratic Society (SDS) which later became the hard core of the Weatherman terrorists. This 1968 FBI collaboration with the future Weatherman terrorists is key to understanding why the FBI failed to track down the Weatherman bombers over years, and also why Attorney General Benjamin Civiletti recently intervened to grant the Weathermen immunity from federal prosecution.

According to the direct and extensive knowledge of European security services, and to the direct knowledge of my associates and myself, the FBI has been massively complicit in providing a political screen of protection around international terrorist organizations such as Italy's Red Brigades, partly through legate channels of embassies and consulates abroad.

At this moment, under the fraudulent cover of "on-going investigation," the FBI is in direct and witting collaboration with the Soviet KGB and other interests in providing a political screen around activities of the Armenian Secret Army terrorists—the same Armenian terrorists directly linked by European security services to the terrorism against Jewish targets in France.

In addition, the counterespionage division of the FBI has continued to run the leadership of the Communist Party U.S.A. jointly with Soviet foreign-intelligence agencies (KGB, IMEMO) since no later than 1938.

Furthermore, J. Edgar Hoover and the FBI have been marginally decisive in the continuing suppression of investigation into major known facts concerning the forces, including an FBI contract agent, implicated in preparing the assassination of John F. Kennedy.

The forthcoming publication of the second edition of *Dope, Inc.* summarizes the principal facts concerning the connection of Hitler protégé Ferenc Nagy and others to the preparing of the assassination of President John F. Kennedy. Those factual revelations are the fruit of disclosures made to the writer and his associates by foreign and domestic security and intelligence channels, and through investigation of original records of the Rome branch of the international organization behind the assassination.

This material is directly linked to two key U.S. intelligence arms, the FBI's Division Five (counterespionage) and the Office of Naval Intelligence (ONI). The wartime coordinator of personnel for both ONI and FBI Division Five, Major Louis M. Bloomfield, was the corporate head of the Permindex organization behind the attempted assassinations of France's President Charles de Gaulle and the assassination of President Kennedy (among

many others). The Canadian-based Permindex, headed by Bronfman-linked Bloomfield, was actually a conduit for European fascist organizations headed by figures such as Ferenc Nagy and including forces such as the Ukrainian fascist NTS.

This is the same combination behind the Canadian-based organization Space Research, publicly documented as running weapons from Canada, via locations such as Grenada, into the Republic of South Africa. This is the same combination of fascist organizations which created and which control the various right-wing and left-wing terrorists, such as the Red Brigades, and which were directly involved in the terrorist-kidnapping of former Italian Prime Minister Aldo Moro. These are the same forces which Carter's ambassador to Rome, the FBI, and other U.S.-allied interests defended with direct and massive interventions on behalf of terrorists into the internal affairs of Italy.

In the Western hemisphere, these forces behind the assassination of Kennedy are centered in the SOE "retirement colony" at Montego Bay, Jamaica, and are deployed throughout other bases in the British West Indies and Costa Rica, as well as based in the fascist "black nobility" circles of the Mexican "jet set" capital at Acapulco. In addition to their deployments into the U.S.A. via British West Indies drug traffic and offshore financial channels, the other chief conduit into the United States is through some of the most respected financial and related circles of Canada, including leading figures associated with the Bank of Nova Scotia and the Bank of Montreal. The dirtiest channel via Canada is associated with the old prohibition booze-smuggling interests, such as the Bronfmans, today.

In addition to New Orleans Permindex connections, the most notable other corporate connection of the Permindex organization during the period of the Kennedy assassination was the former toy train firm, the New York-based Lionel Corporation, then transformed into a holding company for assorted "military-industrial complex" ventures. At that time, the Lionel Corporation was headed by a partnership of Joseph "Joe Bananas" Bonanno and Hoover protégé Roy M. Cohn.

Why Hoover wrecked the CIA

The fact that J. Edgar Hoover was key to wrecking the CIA does not imply that that agency was an institution of unblemished virtue. It did employ present FBI and KGB joint-protégé Philip Agee, for example.

Hoover had two motives for his part in wrecking the CIA. More narrowly, Hoover and his successors have not abandoned their determination to establish an FBI dictatorship, like that of the Soviet KGB, over all foreign and domestic political-intelligence authority. From the standpoint of the foreign influences behind Hoover, the CIA—and allied currents within the mili-

tary-intelligence establishment—were to be destroyed because those institutions were a vehicle for expression of a variety of “American nationalist” impulses, including the variety of American nationalist outlook associated with Gen. Douglas MacArthur and his friends.

President Dwight D. Eisenhower was not Douglas MacArthur, a point on which the late Douglas MacArthur was never reported to be in the slightest doubt. Although Eisenhower was afflicted with a certain disabling pragmatism—which some critics called “opportunism”—throughout his later career, and was royally suckered by Arthur Burns et al., Eisenhower was essentially an American patriot, and for such reasons did come into head-on conflict, as did then-General Electric celebrity Ronald Reagan, with such Socialist International and British intelligence “asset” scoundrels as Irwin Suall (currently of the Anglopagan Defamation League). Eisenhower also slammed Britain’s Anthony Eden, and crushed Roy M. Cohn’s crony, Gen. John Bruce Medaris. (This was the same Medaris who moved on to the Lionel Corporation, but disassociated himself from it months prior to the deployment of the Kennedy assassination.) Medaris, Cohn, Joseph Bonanno, and the Canadian crowd around Major Louis M. Bloomfield were the heart of what Eisenhower named “the military-industrial complex,” the same New York-Boston group of investment banking and related financier interests which have established almost a monopolistic lock-grip on electronics-related high-technology ventures to the present date.

J. Edgar Hoover was an integral and important part of this combination Eisenhower opposed.

The Socialist International, which deploys both a “right-wing” (e.g., Jay Lovestone, et al.) and a “left-wing” (e.g., Michael Harrington, et al.) inside the U.S., is historically and presently a “front organization” for the supranational, “one-world” financial interests which created and used J. Edgar Hoover.

These are the same forces which were behind the Socialist International “left” spinoff, the Communist International. It is that Communist International apparatus which still controls, to the present date, the leadership of the majority of Communist parties in the world, and which operates through the Soviet Comintern apparatus most visibly headed by Brezhnev’s factional opponent, Communist Party Central Committee Secretary Boris Ponomarev. That is key to the present close and witting cooperation between the political arms of the FBI and the foreign intelligence division of the Soviet KGB in such connections as the case of the terrorist Armenian Secret Army.

That is the reason the political arms of the FBI supported the future terrorist offshoots of SDS back in the autumn of 1968, and failed to catch a single leading Weatherman during the period following.

In some respects, cleaning the corruption out of the FBI requires the same approach as cleaning up the corruption which the Knapp Commission and Patrick Murphy superimposed on what was once one of the world’s finest forces, the New York Police Department.

1) Put an outstanding professional police officer, with credentials as a bitter open opponent of Patrick Murphy, in to replace Judge Webster as FBI director.

2) Place a dedicated opponent of the Socialist wing of the U.S. intelligence establishment under the director as head of counterespionage. This person should be a political adversary of such Socialist International-linked figures as Jay Lovestone, Sidney Hook, and Irwin Suall—since the Socialist International and its assets are the most important single conduit of adversary actions against the vital interests of the United States.

3) Strengthen the position of the Director of Intelligence, such that the Director of Intelligence coordinates the information-gathering and evaluations aspects of all counterespionage and counterintelligence, including that of the FBI, and the FBI and other appropriate law-enforcement arms responsible to the attorney general control the law-enforcement aspects of counterespionage and domestic counterintelligence. This ensures the combination of checks and balances required to prevent abuses.

4) Establish, under a new attorney general, a special task force to improve radically the FBI’s information-gathering and evaluations procedures for counterespionage and counterintelligence activities. The documented files of the FBI, as sampled by FOIA releases, reveal the FBI to be one of the most incompetent and irresponsible intelligence agencies in the world today, representing a standard of performance which should not be tolerated by the Timbuktu local police department. Present FBI procedures are designed to fake allegations against targets of political opposition selected by Hoover and his would-be Gestapo successors. The FBI records examined conclusively reveal a virtual absence of any concern to discover truth.

On performance, the political (would-be Gestapo) elements within the FBI are essentially liars and frame-up artists, like Himmler’s Gestapo, who rely on press leaks and the Justice Department’s millions spent on a single case. The FBI tactic is to bleed a harassed target of frameup into extinction, simply to defend himself or herself against fraudulent charges walked through the sort of irresponsible, ignorant grand juries who will rubberstamp any proposed bill of indictment a federal attorney walks in front of them, whether or not they understand a single word in the indictment read to them.

Purge the FBI, and one giant step toward true freedom will have been made in the internal affairs of the United States.

Jimmy Carter's hostage deal: an unconstitutional assault

by Judith Wyer

The terms upon which the Carter administration arranged for the eleventh-hour release of the 52 American hostages from Iran represent a flagrant capitulation to terrorists which threatens to shred the U.S. Constitution. On two counts, the final agreement is patently unconstitutional. First, the Carter White House set a deadly international precedent for future acts of terrorism against both the United States and its allies. Had Carter followed the advice of Democratic presidential candidate and *EIR* Contributing Editor Lyndon LaRouche, the entire affair might have been short-lived. LaRouche urged Carter to expose the Muslim Brotherhood, the clandestine terrorist movement which runs the Khomeini regime, and to cooperate with the governments of France and West Germany in rounding up the fanatical Islamic extremists. Instead Carter gave the Muslim Brotherhood and international terrorism a newfound credibility. The American ambassador to Algeria, Ulrich Haynes, who was involved in the negotiations, upon submitting his resignation warned that he was fearful that Washington "had set a dangerous precedent" that might lead to increased international terrorism.

Second, at the behest of Khomeini, Carter has undermined the American judicial system by having agreed to a demand to establish a foreign-based Arbitral Tribunal to replace American federal courts in settling outstanding claims against Iran by American corporations.

An authority on international law observed on the day of the hostage release that the establishment of such a tribunal is a "massive violation of the Constitution." By taking litigation out of the American court system through executive fiat and placing it before a tribunal whose members must be approved by Iran, Carter has opened the way to a dangerous conflict between the executive and judicial branches of government which threatens a full-scale constitutional crisis. He has imposed limited sovereignty over the judiciary's ability to carry out the law of the land. The source noted that no treaty or agreement with a foreign state "can abrogate the right to trial by jury of any party whose aim is to settle claims through legal process." Ambassador Haynes commented that he was disturbed by Carter's

decision to create the tribunal and order American citizens to give up their legal right to sue a foreign government.

Former Attorney General Benjamin Civiletti, who played a central role in railroading the deal, stated on the day of the hostage release that he expected the legality of the agreement to be challenged in American courts, since Carter overrode 380 lawsuits to attach Iran's frozen assets and pay up to \$3 billion in unpaid Iranian debts to American companies.

Hours after the hostages were released, Secretary of State Edmund Muskie praised Khomeini for the release of the American captives, and gloated he himself had heeded the demand from Iran that the U.S. admit guilt in its relationship with the former Shah of Iran.

Blackmailing Reagan

The question now is whether the Reagan administration will abide by the terms of the Iran-U.S. agreement. There are already indications that Reagan may be faced with more extreme terrorist actions if he attempts to break the agreement. It has been learned that the same human-rights mafia that dominated the Carter administration and supported the Khomeini takeover of Iran is preparing to trigger a wave of international terrorism against American interests abroad, including embassies, to blackmail Reagan into abiding by Carter's unconstitutional agreement.

Robert Woetzel, president of the Foundation for the Establishment of an International Criminal Court, boasted that he and United Nations Secretary General Kurt Waldheim worked together to write the blueprint creating the tribunal. Woetzel, a professor at the Jesuit-run Boston College, warned that Reagan would face "severe retaliation" if he broke the deal, including not only terrorism and perhaps further hostage taking, but an oil boycott organized by Algeria, the key mediator between Iran and the United States. The same day, the Boston-based National Council of Churches (NCC) warned of further embassy incidents.

Carter's envoy to Iran, former attorney general Ramsey Clark, is a prominent American personality in

this conspiracy to impose limited sovereignty on the United States. Former secretary of state Cyrus Vance, and Carter's envoy to the Mideast Sol Linowitz, too, are active conspirators in undermining American sovereignty for a new "one-world order. Both men are on the board of the Jesuit-led Interreligious Peace Colloquium, which held a seminar at Harvard in March 1979 to promote a "transnational" order superseding the "state-centric" view of the world. Terrorism was discussed as one "transnational actor" in challenging the power-hungry nation-state.

Princeton University Professor Richard Falk, also a collaborator of the Interreligious Peace Colloquium, contributed to the Council on Foreign Relations' 1980s Project studies, a project Vance and many others of Carter's cabinet oversaw. Falk argues that both human rights and terrorism will create the pretext for an international legal apparatus as part of the new world order that will override the law of nation-states.

The Arbitral Tribunal represents such a transnational institution, not bound by any sovereign legal code. It is no coincidence that it should be located in the Hague, Netherlands, the home of the World Court, which like its sister, the United Nations, was established to override national sovereignty.

Further, it is rumored in Washington that prominent Socialist International figure Olof Palme will be named to the Tribunal. A U.N. source reports that it will take up to five months before the Tribunal will be ready to hear the claims of American business against Iran. Should Reagan be forced to play along with Iran and its Socialist International supporters in accepting the tribunal, it is expected that the tribunal will be a menagerie of "anti-big-business" ideologues like Palme, who will make a travesty out of law and American corporate standing.

Documentation

Clark, Falk, Woetzel on the implications

The following are excerpts from a Jan. 22 interview with Ramsey Clark made available to EIR.

Q: There is growing speculation that the Reagan administration will decide to scotch the hostage deal with Iran. What consequences do you think would flow from that?

A: My prospective concern is that the agreement that

was negotiated at great length and with such great concern would no longer be an agreement. People would try to take advantage of that fact.

I have to assume that the 1980s will be considerably wilder than the 1970s. Tension is growing considerably, and all the phenomena are tending toward greater turbulence in this decade. There will be a billion more people on the planet, a lot more terrorism, a lot more hunger, a lot more violence. Tensions will increase.

I want to maintain the possibility of peaceful resolution of conflicts, which would be more difficult if this agreement is not adhered to by the new administration. People won't want to negotiate, there will be no purpose in doing so.

Q: Do you see new international legal institutions being formed on the Iran deal precedent that will supersede more limited national sovereignties?

A: It has that potential. There is a need for new institutions, foremost an International Court of Criminal Justice. We also need an International Mediation and Conciliation Service when nations won't talk to each other. The Iran situation is only an ad hoc version of what must happen.

Q: When you talk of the 1980s, you echo the President's Council on Environmental Quality Global 2000 report warning of worldwide shortages and unrest. What do you think of that report?

A: It's the sort of thing we have to analyze and recognize and do something about. We're facing a stunning pace of change in the next few years.

Q: Do you think this pace of change will include Iran hostage-style events elsewhere in the future?

A: It could happen in any number of places—Central America, El Salvador, Guatemala, Nicaragua. It could happen in the Persian Gulf itself. There is peripheral friction in the region arising from the Rapid Deployment Force we are sending there. Probably 20 Americans have been recently killed in Turkey. It could happen in South Africa too.

Embassy seizures are not even the main point. They can be prevented. It's harder to prevent assassinations.

Q: There is talk growing in Washington of an investigation into the hostage seizure. Are you apprehensive that your own role will come under investigation?

A: What causes concern is that people are so totally unwilling to look at the past twenty-seven years. If President Reagan calls the hostages prisoners of war, then when did the war begin? In 1953, with the CIA's toppling of Mossadegh? What about the tens of thousands who died under the Shah? Why aren't these things

being investigated?

Q: Do you know of any lobbying effort being mounted to raise these questions?

A: Me. Also, the Committee for Reconciliation that was formed out of various efforts during the time the hostages were in Iran.

From a Jan. 22 interview with Prof. Richard Falk of Princeton University, who aided the installation of the Khomeini regime in 1979.

Q: There is growing talk that President Reagan will decide not to abide by the recently signed deal with Iran. What consequences do you think this will have?

A: The consequences would be very negative. It would be much less likely that any third party would want to get involved in such negotiations in the future. Also, it makes it much more likely that in future incidents like embassy seizures, the militant view demanding spy trials will prevail.

Q: What lessons are to be drawn about necessary revisions in international law?

A: There must be created a different way to investigate the charges of some revolutionary group against a deposed leader; also new rules for asylum and exile for deposed leaders. These are some of the world-order implications of the Iran affair.

New institutions are absolutely needed to deal with such situations. The absence of such institutions could lead to breakdowns as occurred in the Iran situation. Mechanisms are needed for charges like those against the Shah. We will have more incidents in the future like this if no mechanisms are created.

Unfortunately, many of the inferences that will be drawn by Third World revolutionary leaders in this affair will be colored by the fact that the situation was not handled well by the Iranians. They have weakened Iran from a nationalist way.

We can expect more such events, possibly from another Islamic country. I don't think it will happen in the Western Hemisphere; there's too much fear of a U.S. intervention there.

Below are excerpts of an interview with Robert Woetzel, the president of the Foundation for the Establishment of an International Criminal Court.

Q: Do you think Reagan will abide by the terms of the agreement which Carter worked out with Iran?

A: In principle he has to. But there are other elements to this situation which I think you cannot forget. Don't forget there are other Americans still in Iran. If Reagan tries to go back on the deal, I think things could get very messy for him. Don't underestimate the amount of pres-

tige and power Algeria has built up as a result of its role in this situation. I think Algeria will not allow Reagan to get out of this.

Algeria has a lot of influence in OPEC; backtracking by Reagan would force severe retaliation by the Third World. Algeria, Iran, and Libya have a unique pressure they can bring to the U.S. I could see Algeria working to organize an oil boycott with Libya if Reagan hedges.

Q: The tribunal idea was first floated shortly after the hostages were taken. How did it evolve?

A: I wrote the document in conjunction with the legal office of the United Nations forty days after the hostage taking, warning the White House that it had no recourse but to submit to international arbitration. Had the White House taken this advice then a lot of pain could have been avoided, but they didn't. It really wasn't until Muskie came in that there was a change. Muskie made the concessions that Iran was demanding. They came in a second letter when he said that the U.S. would never interfere again in Iran's affairs. This implied for the first time an admission of guilt on the part of the U.S. This letter really got the ball rolling . . . it opened the way for an agreement on the tribunal. . . .

What all this shows is that we need international standby machinery which can move into action in these kinds of situations. The idea for this tribunal came during a meeting in Barbados two years ago, at a conference sponsored by the U.N. and my foundation. . . .

Q: Are you working with the International Law Association?

A: I have worked very closely with members of the ILA. We worked under U.N. Article 71, which calls for conflict resolution, looking at allegations of one government of interference into another such as those which Iran charged.

Q: I understand Reagan isn't going to buy this deal; what do you think that means?

A: Watch Libya now. They aren't satisfied with the agreement, they think Iran should have gotten more. There are many messy legal problems. One thing I think we are definitely going to see is terrible mudslinging between the Democratic and Republican parties. The Republicans are really going to discredit the Democrats. They are already on the defensive. Look at what Weinberger and Haig have been saying—then when these investigations get underway, it's going to cream the Democrats. The partisan arena is going to be very volatile.

Now, if there are further acts of terrorism against American embassies abroad, assuming Reagan tries to slide out of the deal, this will only frustrate things here at home. I wouldn't discount this possibility, not at all.

The question of national sovereignty

by Nancy Spannaus, Contributing Editor

A bipartisan group of Congressmen has pledged to undertake an investigation of the events that led to the takeover of the U.S. embassy in Teheran. An appropriate starting point is the infamous Khomeini sympathizer Ramsey Clark. At every stage of the Carter administration's collusion with the Khomeini regime, the key frontman was none other than the former U.S. attorney general Ramsey Clark.

While Khomeini was still in exile in Paris, Clark visited with him to discuss action against the Shah. Clark was well known as a leading organizer of the "human rights" movement that began seriously organizing for the overthrow of the Shah as soon as Carter and Brzezinski came into power. Even when the Shah had been replaced by the Bakhtiar regime, Clark continued his collusion. In January 1979 he actually led street demonstrations for Khomeini in Teheran.

It should be noted that the main focus of such rallies was the desecration of the American flag and riling up of anti-American sentiment among the Iranian population. Yet as soon as Khomeini came to power, a few weeks after Clark's trip, Carter named Clark his official emissary to the Khomeini government.

Clark's role in Iran

But Clark's role with Iran did not end there. He continued to support Khomeini's anti-American actions, which started with the drastic curtailing of oil production and exports. And according to reports confirmed by Clark himself, Clark was responsible for sending a letter to Iran Foreign Minister Ibrahim Yazdi in October 1979 that led directly to the hostage-taking one month later. On Oct. 12 Clark sent a letter to Yazdi advising him: "It is critically important to show that despots cannot escape and live in wealth while nations they ravaged continue to suffer. [I urge] the new government of Iran to seek damages for criminal and wrongful acts committed by the former Shah and to recover properties from the Shah, his family, and his confederates unlawfully taken from the Iranian people."

It was only a few days afterward when the Iranians, especially Yazdi, began their public campaign for the extradition of the Shah and his wealth, that led, with

the collusion of Henry Kissinger and David Rockefeller, to the taking of the hostages as soon as the Shah was let into the United States.

Yet, even after the United States government had declared sanctions against Iran, Clark continued his collusion with the declared enemies of the United States. Shortly after the hostage seizure, Clark violated the U.S. ban on travel to Iran. His reason? To attend an international conference in Teheran that was a gathering of pro-terrorist and terrorist Middle East groups in sympathy with the Khomeini regime!

Clark was widely suspected at the time of conducting money from Iranian Foreign Minister Ghotbzadeh to various pro-Khomeini terrorist groups in the United States. But whether he conducted money or not, Clark's political support campaign for pro-Khomeini exiles in the U.S. makes him complicit in the acts of terrorism that they did carry out, including the murder of Iranian exile leader Ali Akbar Tabatabai in his Washington home in July 1980.

A fifth column

Ramsey Clark is simply the most prominent of a group of so-called liberal intellectuals who have acted as a fifth column within the United States, Western Europe, and even the Soviet Union to support the outlaw Khomeini regime. With the "settlement," negotiated by Clark's longtime collaborator and subordinate during his Justice Department days, Warren Christopher, the power of this grouping has been institutionalized in the form of a tribunal with binding arbitration powers over the financial claims and counterclaims of the U.S. and Iran.

Clark and his network, which includes leading leftist lawyers in socialist party circles in France, Algeria, and the United States, as well as "mediating" Social Democrats like Olof Palme, have been the leading advocates of such an "impartial" tribunal. They have made it clear that their intention is to "try" the United States for crimes against Iran on the basis laid out by Clark collaborator Richard Falk—that the export of high technology and scientific culture to developing countries is the crime of "ethnocide" against backward people.

The ultimate aim of Clark and his crew has been laid out in plain print in international plans such as the Brandt Commission report for a "new international economic order." According to this blueprint, there should be supranational institutional control over the export of technology, in order to guarantee that developing nations are allowed to starve in their own culturally relevant poverty. To ensure this outcome, the Socialist International networks, of which Willy Brandt is the most infamous member, have targeted the very institution of the sovereign state for destruction.

Agenda for 'guild socialism'

Laurence Hecht's exclusive coverage of Heritage Foundation and Fabian Society collaboration in Washington.

Three subjects of the British Crown, among them Stuart Butler of the U.S. Heritage Foundation, proclaimed in Washington, D.C. Jan. 15 that what America needs is "guild socialism." By this, the three Britons made clear, they mean the elimination of big industry, repeal of the minimum wage, and a general lowering of wage rates, replacing employed labor with the unemployed.

These recommendations for the Reagan administration and the new Congress were put forth at the second session of the National Urban Policy Roundtable, called to promote the creation of "enterprise zones" in U.S. inner-city areas. Modeled on Hong Kong and Singapore, the proposed enterprise zones would offer tax and other incentives, including repeal of minimum wage laws, to lure sweatshop industry into the area.

The enterprise zones have already become law in Great Britain since a March 1980 announcement of Chancellor of the Exchequer Sir Geoffrey Howe. Howe had endorsed the Heritage Foundation's Stuart Butler's proposal for introducing the zones into the United States.

Sponsors and proposals

Sponsors of the enterprise zone event included a purportedly conservative U.S. think tank, the Heritage Foundation, the American Council of Life Insurance, and the Willy Brandt-founded German Marshall Fund. The Fund, which features Carter advisers Cyrus Vance and Averell Harriman, entirely paid for the Socialist International's conference on Eurosocijalism held in Washington in December. The German Marshall Fund has adopted implementation of the enterprise zones as the major focus of their U.S. activity this year.

The enterprise zone proposal, as speakers Stuart Butler, senior economist of the Heritage Foundation, and British socialist Fabian Society leader Peter Hall agreed, is part of a plan to adjust America to what they call "postindustrial society."

This notion, which is shared by the Socialist International, the Heritage Foundation, and the Carter-appointed presidential Commission for a National Agenda for the '80s, argues that the era of industrial

expansion is over. The United States should prepare to lose its basic industries such as steel, auto, and heavy manufacturing, and shift approximately 70 percent of the labor force into services.

"Once you have sweatshops and people work in them, they move on as in Japan, Hong Kong, Singapore," Prof. Peter Hall told a questioner in the educated accent appropriate to a scion of Britain's Vickers munitions family. "The question is whether enterprise zones can do that, as I think sweatshops, now existing illegally and employing illegal aliens, are doing," Hall said.

"I would like to concur with that," said Stuart Butler, the 34-year old graduate of St. Andrews University in Scotland, who joined the Heritage Foundation in 1979.

"I see the enterprise zone as being a step on the ladder up, in terms of input and skill. Thus the labor opposition. But if paying less than the minimum wage gives people a job, you are starting an upward movement."

Heritage socialists

"And with regard to the peculiar coalition around this idea," Butler continued, "it is also true in Great Britain as here. Peter Hall is an active member of the Fabian Society, and I am a conservative, and we are not in any real disagreement at all. I think this is also true of neoconservatives and the liberal movement, especially urban liberals and radical leftists in the cities here. We are seeing a very important coming together of people who should have been together for a long time. The enterprise zone is a way of bringing them together," the Heritage Foundation economist declared.

Reporting on the British development, Peter Hall told the Washington audience, "These zones could be administered as a British Crown Colony on the Hong Kong model." Paul McQuail, Britain's shaggy undersecretary in the Department of the Environment was brought over, at the expense of the German Marshall Fund, to report on this "experiment."

A bill to promote enterprise zones in the United States was introduced into the last session of Congress



Peter Hall at the Washington conference.

NSIPS

by Representatives Jack Kemp (R-N.Y.) and Robert Garcia (D-N.Y.). A new version of the Kemp-Garcia enterprise zone bill is being planned for introduction this year.

A lesser evil?

Outrageous as the enterprise zone proposal is, its proponents are offering it to troubled cities as “lesser evil.” The “greater evil” is the scheme exposed six years ago by this news service and now revived by the President’s Commission for a National Agenda for the ’80s, to let the northern industrial cities die and move the population south and west.

The report of the President’s Commission was conveniently leaked to the press prematurely last month, creating a furor among big city mayors and politicians, and setting them up to accept the enterprise zones.

In fact, the proponents of the enterprise zone sweatshops and the boxcar relocators base their proposals on the same theory—Harvard sociologist Daniel Bell’s thesis that America must move into the “postindustrial era.”

Asked what he thought of the proposal that New York’s South Bronx residents simply relocate to jobs elsewhere, enterprise zoner Butler replied: “I don’t think there should be obstacles to stop them.”

Rutgers University Professor George Sternlieb who appeared at the event as the house opposition to the enterprise zones, simply puts forward another way to destroy American labor and industry. “This is the post-industrial era,” Sternlieb told the *Executive Intelligence Review* last week. “Cities like Scranton, . . . Wilkes Barre [Pa.] and Newark [New Jersey] are going to have to go. Youngstown, Ohio, is going to have to die, and the faster it dies, the less will be the human agony accompanying the tragedy.” Sternlieb said that dis-

placed workers ought to move south, to replace “wet-backs”—undocumented Mexican laborers—in low-wage jobs.

As Peter Hall, his eyes darting around the room as he furiously chewed off a hunk of romaine lettuce from the buffet lunch, told me: “We are introducing a new idea here that may not be accepted by everybody right away. . . . But you could say that the enterprise zone is a lot like the old guild socialism.”

Peter Hall discusses America’s future

From an interview by Laurence Hecht with Peter Hall of the University of Reading, England, former chairman of the British Fabian Society.

EIR: I’m interested in what you said about the convergence of left and right in adopting the enterprise zone concept. It seems to me unlikely that the labor movement would accept this idea.

Hall: Yes, well, much of the Labour Party in Britain is opposing it, saying it’s an attempt to break the union’s power and so forth. But you have to distinguish the attitudes of people in politics and the philosophical development of ideas. We are introducing a new idea here that may not be accepted by everybody right away. You could say that the enterprise zone is a lot like the old guild socialism.

EIR: But the union wing of the social democracies and the major corporations both are based on big industry. Won’t they oppose it?

Hall: Well, some socialists see the model of large public bureaucracies failing completely or not performing. Even most left-wing socialists believe this.

EIR: And the major corporations?

Hall: Well, the large interests will act as a brake on development.

EIR: As I see it, you view the whole industrial structure changing so that many of the major corporations and industries today may not exist much longer?

Hall: I do firmly believe that many corporations that came from innovations of a century ago—General Motors and Ford for example—if you think about it, I think you would admit that these industries are really a century old—they are in deep potential trouble.

National News

Transition team seeks cuts in fusion program

President Reagan's transition team, in one of its final recommendations, called for a \$50 million cut in the nation's fusion energy development budget for fiscal 1982. According to fusion scientists in the Department of Energy, the original \$525 million budget is the minimal amount necessary to keep the fusion energy development program on schedule as mandated in the Magnetic Fusion Engineering Act of 1980, passed by Congress late last year.

Under that bill, 1981 is the first year of a crash program to develop fusion energy by the year 2000. However, incoming Energy Secretary James Edwards, in contrast to the transition team recommendations, has assured Republican senators of his personal commitment to carrying forward the fusion program, according to informed sources.

Transition team recommendations are not binding, and will be reviewed by the new administration.

Schmitt to Stockman: don't cut NASA budget

Senator Harrison Schmitt (R-N.M.) sent a letter to incoming OMB Director David Stockman outlining his proposals for cuts in U.S. energy programs, *EIR* has learned. In his letter, Schmitt warned, "Your program to rectify the nation's economic emergency cannot ignore the danger posed by the erosion of our research and technological base . . . the basis of our economic strength, national security, and which is crucial to the motivation of our young."

Schmitt recommended that budget cuts should be made in the areas of solar energy marketing, ocean energy systems research, biomass and coal conversion energy research, and the synfuels program, "which will waste billions."

Schmitt emphasized that cuts should not be made in NASA, basic R&D in the Department of Energy, and certain activ-

ities of the National Science Foundation, National Institute of Health, and the Agriculture Department.

Instead, Schmitt called for an energy department geared toward R&D, not regulation, with a separate nuclear power administration that combines all non-nuclear regulatory agencies into one. In addition, Schmitt called for opening up federal lands to increased minerals exploration, scrapping the strategic petroleum reserve, and the United States to develop its own fleet of oil tankers.

On Jan. 22, Stockman's office announced that he is planning no cuts in NASA's budget, but proposes the elimination of the entire synfuels program.

Conservative elected as RNC head

Richard Richards, a lawyer from Ogden, Utah who headed Ronald Reagan's election campaign in the West, was unanimously elected Jan. 17 to replace Bill Brock as head of the Republican National Committee.

While Richards, who is a devout Latter-Day Saint, is widely viewed as a long-time conservative, he devoted special attention in his inaugural address to asserting that he would not let right-wing splinter groups take over the party. Instead of adopting a sectarian approach, Richards said, the GOP must devote itself to grassroots organizing to transform itself into a new majority party.

"The right-wing organizations consider me to be friendly and one of them," Richards said. "But I honestly believe they have overstated their case. They helped us, sure. But Reagan was elected by the people."

"My emphasis will be on continued grassroots efforts. While the election was to a large extent a personal victory for Ronald Reagan, at the same time the party had a victory, the kind that comes from hard work at the precinct level, for senators, governors, congressmen, state legislators. Too many times and too many places, as Republicans we have not

only failed to reach out and bring people into our party, we have hung out the 'No Help Wanted' sign."

Emphasizing the systematic nature of building organization and political coalitions around key issues, Richards added, "Winning is not an art; it is a science."

Senator Biden demands action against drug traffic

Joseph Biden, Democratic senator from Delaware, has called for greater coordination between the Justice Department, the State Department, and law-enforcement agencies to attack the growing problem of drug trafficking. Biden's call came during confirmation hearings for incoming Attorney General William French Smith.

According to Biden, improved international coordination between law-enforcement agencies is crucial to halting the flow of drugs in the United States, including the need for action against the flow of "hot money" drug revenues.

Unionists express support for Donovan

Trade union officials and Democrats from New Jersey have sent a telegram to President Reagan urging the speedy appointment of Raymond Donovan as Labor Secretary.

The telegram states in part: "It is ironic that at the very time the truth about the Justice Department's Abscam witchhunt is beginning to publicly surface . . . Walter Sheridan should launch a similar attack on [Labor nominee] Raymond Donovan. . . . Your choice for Labor Secretary is a man who clearly represents the labor-industry partnership that is essential to make this nation's economy work. It is this combination which gave you your Nov. 4 mandate, and will be the one necessary to 'put America back to work.'"

Briefly

The signers included Jim Kostibus, secretary-treasurer, Locomotive Engineers Division 135, Hoboken; Henry Helstoski, former U.S. congressman, 9th District; Phil Koster, former executive director, Democrats for Reagan, Middlesex County; Quint Casciani, president, Paperworkers Local 657, Trenton; Sam Naples, president emeritus, Italian-American Democratic League of New Jersey; Alice Riley, Democratic National Platform Committee, 1980, Trenton; Jesse Mayers, president, Steelworkers Local 4526, Elizabeth; Jack Ackerson, business agent, Laborers Local 509, Mahwah; D. Ryan, Steelworkers president, North Bergen; Tom White, business agent, Ironworkers Local 545, Orange; Leo Miller, business agent, Laborers 221, Plainfield; and John Sullivan, business agent, Laborers Local 112, Kearny.

Anti-Volcker resolutions in California, Texas

Texas State Rep. Gene Green introduced a resolution, H.R. 19, into the Texas state legislature Jan. 15 calling for the resignation of Federal Reserve Chairman Paul Volcker. According to Green, his initiative is designed to force the Fed to ensure cheap credit for productive enterprise. Even though Texas has so far been insulated from the worst effects of Volcker's high interest-rate policy, the collapse of the housing industry and auto dealerships in Houston signals the end of that city's growth if the Fed's policies are not reversed.

Green's resolution, which has 16 cosponsors from urban labor and west Texas farm layers, calls for 1) Volcker's resignation from the Fed; 2) stable, low interest rates geared for productive industry; 3) elimination of obstructions to energy development; 4) 90 percent parity for farmers; and 5) tax abatement for productive industry, while taxing speculative nonproductive capital flows.

Green has endorsed the National Democratic Policy Committee's national

drive to oust Paul Volcker.

In California as well, NDPC spokesmen and State Rep. Chester Wray announced at a press conference in Sacramento the introduction of a resolution sponsored by Representative Wray and four others of a similar anti-Volcker resolution into the state legislature.

NDPC spokesmen report that a resolution will soon be introduced into the Washington state legislature, as well.

Philadelphia rejects '80s Agenda

Within hours after the president of Philadelphia's Chamber of Commerce endorsed the report of former President Carter's President's Commission for a National Agenda for the '80s, the Philadelphia City Council called him on the carpet to explain his support for the destruction of the cities.

By a 10-5 vote in the City Council Jan. 8, blueblood Philadelphia Chamber of Commerce President Thatcher Longstreth was reprimanded for his endorsement of the '80s Commission report calling for phasing out America's cities to move into the "postindustrial age."

The council charged Longstreth with making "statements which demean the people of Philadelphia and the entire Northeast region of the United States." The council then passed a second resolution calling upon President Reagan to reject the '80s Commission policies:

"Whereas Philadelphia is a great city with a proud heritage;

"... And federal incentives have driven industry from the Northeast to the Sunbelt resulting in the loss of jobs and intensifying urban problems;

"And whereas the President's Commission... condemns the older cities like Philadelphia to wither and die;

"Therefore, be it resolved by the council of the city of Philadelphia that we memorialize... President Ronald Reagan to reject this report as detrimental to the best interests of our nation."

● **ARTHUR FELLWOCK**, national commander-in-chief of the Veterans of Foreign Wars, has issued a statement calling on President Reagan to "renounce every part of the [Iran] deal not clearly in our national interest" as "extortion under duress," and demanding a full congressional investigation of the events leading to the Nov. 4, 1979 embassy seizure. Fellwock adds pointed questions about the role of then-deputy NATO commander Robert Huyser and State Department Iranian desk officer Henry Precht.

● **VIRGINIA** has become the fourth state with actions pending to demand that the Federal Reserve lower interest rates. HJR 156, a joint Senate-Assembly resolution introduced Jan. 22, has four cosponsors including Assemblyman Owen Pickett, the state Democratic Party chairman.

● **ELIZABETH CUMMINS**, a writer for the *Flint*, Michigan *Journal*, has received three threats on her life since her commentary on rock musician John Lennon appeared in the *Journal* Jan. 1. Cummins charged that as a "despicable" spokesman for the drug counterculture, Lennon "hoodwinked a generation." The January issue of the prodrug monthly *Flint Voice*, linked to Michigan contacts of Philip Agee, strongly attacked her and her husband, Max Dean, an official of the Genesee County Democratic Party.

● **JESSE HELMS (R-N.C.)** and several other conservative senators have written a letter to Alexander Haig vowing to block some of his key prospective appointees, including Lawrence Eagleburger, slated to become assistant secretary for European affairs; John Holdridge, in line for the assistant secretary for Asian affairs post; and Paul Wolfowitz, Haig's choice for director of policy planning.

Uranium production threatened

The U.S. could be forced to import nuclear fuel, if New Mexico environmentalists get their way.

It is very possible that within 50 days one of the nation's largest uranium mines may be shut down for no good reason. The New Mexico State Environmental Improvement Division (EID) has demanded from the Church Rock uranium mill facility, owned by United Nuclear Corporation (UNC), a plan for discharge of liquid tailings from its operation.

What makes the Church Rock case worth noting is an attempt to set a precedent which, if successful, could shut down uranium production throughout the Western states, raising for the first time the specter of the U.S. as an *importer* of uranium fuel from South Africa, Australia, or Canada. Let's see why.

Right now, UNC is in the unfortunate situation of all too many domestic uranium producers. The past four years under Carter have created a temporary stagnation of nuclear power plant projects. The delay or cancellation of billions of dollars of nuclear construction in the past two years alone has softened the market for uranium. In this vulnerable situation, in classic style, certain major uranium sellers, mainly from Canada, have begun "dumping" onto the U.S. market, forcing prices here to plummet from \$43 a pound down to about \$27 in recent months. As a result, many U.S. uranium mining companies are being forced to close.

The case of the Church Rock mill involves a facility that began

operation in 1977, and in its peak year, 1978, produced some 2 million pounds of the "yellowcake," uranium oxide. To give an idea, that amount provides enough reactor fuel to fuel five 1,000 megawatt reactors per year, or the power needed to supply a city of about five million, or the equivalent to 50 million barrels of oil annually.

EID has demanded that UNC satisfy the environmental officials that an estimated 7,000 gallons per day of tailings solution left from the milling process in holding ponds do not affect the underground aquifer.

State EID Director Tom Baca contends "they should not be operating. They are leaking a significant amount of acidic, radioactive, and toxic materials into the ground water." This sounds pretty frightening until you consider that this is in an area of quite definite "radioactivity," and that by definition, uranium *is* radioactive.

As for the so-called toxic materials, well, a lot of materials found naturally in the ground can be toxic if we swallow them. But, most of us more civilized folks, perhaps unlike some ardent lovers of nature, do not go around eating the subsoil, at least not indiscriminately.

UNC has spent more than \$1.5 million and 29,000 hours of work in "trying to satisfy the EID" on the safety of their operations since the highly antinuclear environmental subcommittee chaired by Sen. Morris Udall called them to testify

late in 1979 on a dam leakage at Church Rock. And there is not a shred of evidence from anyone, including the EID, that any underground water system in the Church Rock area existed before the milling operation began.

The EID is demanding it prove this, rather than the more customary proof of damage before requiring a plant be shut. In short, they are demanding that a mine with an estimated 35 million pounds of uranium in the ore body, which could be mined for another 20-25 years according to company spokesmen, be shut for failure to *disprove* an arbitrary notion of alleged hidden damage.

Of course, this is not in midtown Manhattan. The property, some 90 miles from Carlsbad, borders on one side a Navajo Indian reservation and on another, property owned by the Kerr-McGee Corporation, also a recent target of anti-nuclear demonstrators.

As of this writing, the company is working to design water evaporation ponds to control the amount of water needed to process and dispose of the chemicals. "These are the best, most elaborately designed evaporation ponds in the U.S.," a UNC spokesman told me. But what if the environmentalists at the EID say, "So what?" This points up the limitations of "states' rights" as a solution to excessive (and misdirected) federal power: in many of the states, we have a loose network of young, antigrowth zealots, and state agencies staffed with them, who make the task of resuming healthy growth in industry and energy doubly difficult. What happens in Church Rock will affect more people than the employees or stockholders of UNC.