

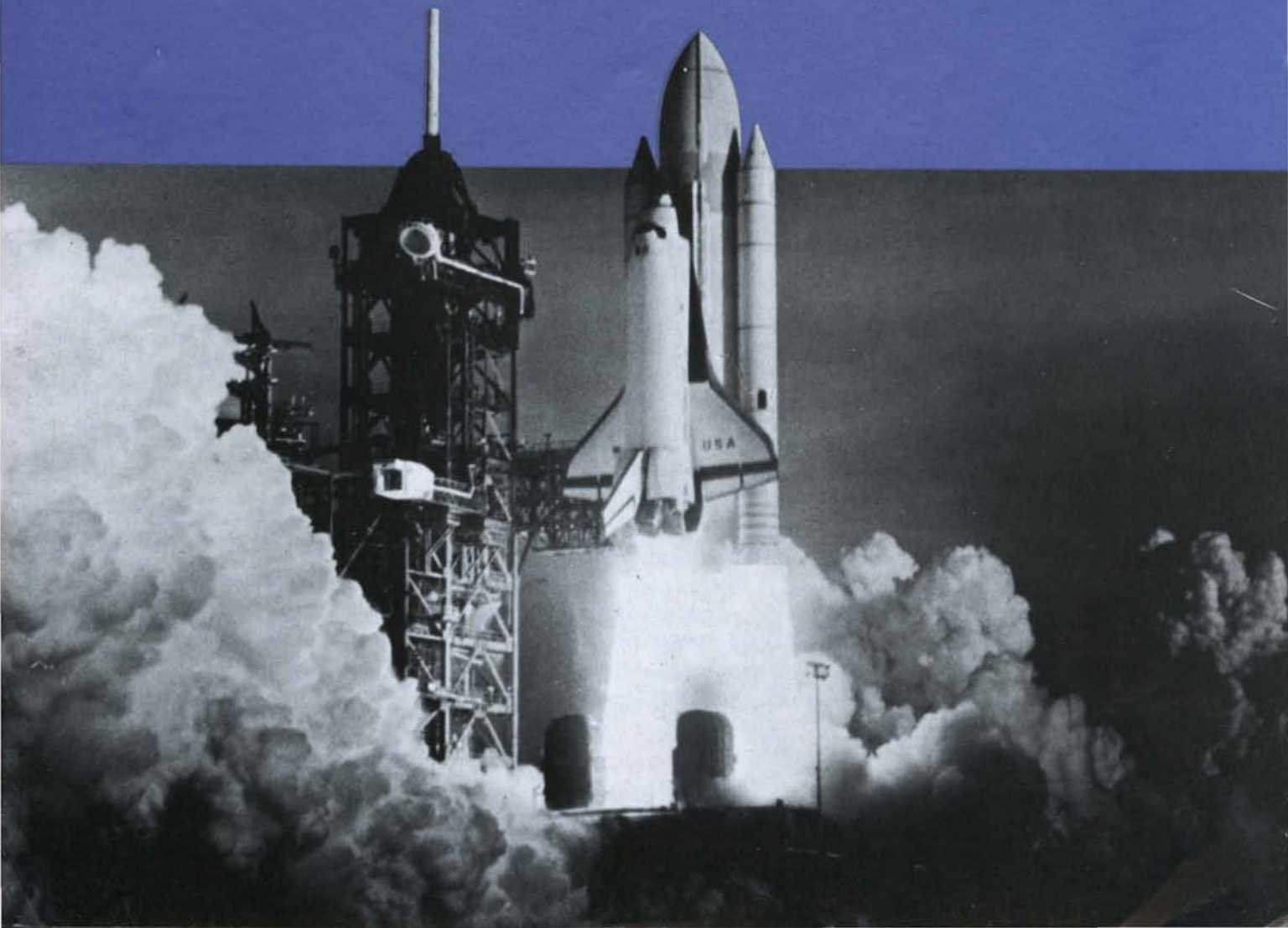
EIR

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Will the Shuttle relaunch America?



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EIR

From the Editor

The Space Shuttle confirmed that the American system works—that by pursuing the frontiers of science and technology, man can create progress. Our Special Report this week argues that the space program and the institutions NASA has created are key to the nation's economic recovery. Prepared under the direction of Fusion Energy Foundation Plasma Physics Director Steven Bardwell and *EIR* Science and Technology Editor Marsha Freeman, the report elaborates how, by putting civilization into space via the Shuttle, and carrying out NASA's full program of scientific research, the United States will upgrade its scientific capabilities, re-establish a sound basis for defense, and rescue generations of American youth from scientific illiteracy. The Shuttle *can* relaunch America if its applications are understood and supported as absolutely necessary for mankind's future.

Our Economics lead article outlines a new level of international plans to dismantle both the industrial and financial clout of what used to be the advanced sector of the West, while our National coverage reveals how the U.S. rail system has been systematically drained as part of a "postindustrial" blueprint. These are the credit and investment questions that have to be taken on if the Reagan administration is to join the European-Arab entente offered by the Saudis and the European Monetary System—a potential reported on in our International section. Also in International, Counterintelligence Editor Jeffrey Steinberg puts the sudden wave of terrorism against chiefs of states into precisely this perspective of the growth potential and its opponents.



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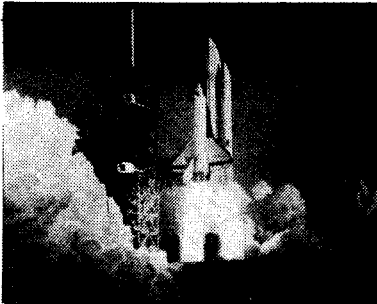
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NICs and the shape of things to come

by David Goldman

Slightly over a year ago, the Royal Institute of International Affairs, or Chatham House, commissioned a study on the economic impact of the growth of the Newly Industrialized Countries (NICs). Funding for the Chatham House study came from the German Marshall Fund of the United States, the same organization sponsoring the December meeting in Washington, D.C. of the Socialist International. The old National Planning Association, an important but low-profile think tank created by the Morgan bank in the 1940s to examine postwar industrial reconversion to civilian production, is in the final stages of producing the report.

The pre-release fanfare for the Chatham House study began last week, when the former president of Italy's central bank, Dr. Guido Carli, reported on a hypothetical "Venice Economic Summit of 1984" before a luncheon meeting of the New York Council on Foreign Relations, the sister organization of the Royal Institute. Carli gave a tongue-in-cheek sketch of a summit of the "Big Seven" industrial countries in the ancient merchant city, excluding the United States and Great Britain. The attendees, he forecast, would include Brazil and Mexico as well as the Japanese, French, Germans, Italians, and Canadians. By this time the NICs would have grabbed so much of the world market in textiles, electronics, auto, steel, shipbuilding, and other "older industry" products that those nations heavily dependent on such older industries, e.g., the U.S., would have fallen from their major industrial-power status.

Carli played the first half of his talk for laughs, but

then pointed out the reality of this picture: the share of the NICs in world exports of manufactured goods increased from 2.5 percent in 1963 to 7.1 percent in 1976, a rate of growth much faster than the rise of their share of world output (5.4 percent of world industrial production in 1963 to 8.9 percent). The advance of the NICs since then has been more rapid still. Even the electronics industry of a big exporting country like West Germany is now vulnerable to competition from the Southeast Asian NICs, while the U.S. textile industry stands to lose some 300,000 workers over the next five years. The "Venice in 1984" scenario, Carli concluded, is already more advanced than most of his audience were aware.

Carli's point is accurate in one respect only, that events have moved much quicker than business—let alone elected governments—in the advanced sector are aware. But his futurology is phony. The underlying assumption in his remarks is that cheaper labor costs in the developing sector will naturally draw investment away from the industrialized countries, and that labor in the industrial countries will shift from the old heavy industry sector to the new services sector. This fraudulent assumption pervades economic planning from the Office of Management and Budget to the planning departments of large corporations, and *EIR* has addressed it before. But Carli's decision to start the hype for the Chatham House report early—"he walked Dick Janssen [of the *Wall Street Journal*] through the scenario when he was in town," a Carli spokesman said, and Janssen published it on April 20—makes an early response mandatory.

If a few unpleasant practices are not stopped, something like Carli projects will happen, although not for the reasons he cites. The "Venice in 1984" scenario itself contains a double pun, first, on the George Orwell novel, and secondly, on the Venetian colonial method. Venice organized colonies not principally for loot or cheap labor, but to interdict the trade routes of its European competitors from the 13th century onward. It set up military bases in Crete, Rhodes, Corfu, and other Mediterranean islands; occasionally they produced exploitable wealth locally, but their value to the Queen of the Adriatic lay in the disruption of the trade of Genoa in the earlier period and, after 1492, of Florence.

Lending patterns

A simple grid of major financial flows to the developing sector shows that the bulk of investment in the NICs has nothing whatever to do with industrial productivity, but, instead, furthers the creation of political bases for the Carli-Chatham House policy. Starting with the International Monetary Fund, for which Carli (now a consultant to First Boston Corporation) has played the role of theoretical adviser and senior statesman since the early 1960s, we find that *political* rather than *economic* motives appear to guide lending policy.

During the first quarter of 1981, the International Monetary Fund lent a record amount, or \$5.16 billion, three times the \$1.44 billion that the IMF lent during the first quarter of 1980. The funds were put out as follows:

Yugoslavia	\$2 billion
Morocco	\$970 million
China	\$450 million
South Korea	\$691 million

A number of countries who desperately need funds (e.g., Turkey, Zaire, Sudan, Kenya, and others who can barely pay their oil bills) did not obtain funds. The political distribution of the loans, in the case of Yugoslavia and China, is clear to the extent that those countries are Eastern and Western borders of the Soviet Union. Morocco, for that matter, is the most important North African outlet for the French and Italian oligarchy, and a wild card in Mideast politics.

But the Chinese role is even more important in the context of the Carli scenario. China, after the cancellation of \$1.5 billion of industrial projects this year, has become an unwelcome beggar at the doorsteps of finance ministries from Japan to Bonn, although not the Monetary Fund. But where its internal economic development has lapsed miserably, China has compensated by building up its overseas operations, particularly through Hong Kong. China, allied with expatriate overseas Chinese who control some \$50 to \$100 billion

in assets among the "newly industrialized countries" of the region, is a major *trading* power.

What is extraordinary about China's presence in what might well be named "greater Hong Kong" is the direct link between Peking and an emerging Caribbean version of the Hong Kong free port concept: an axis centered in Venezuela and extending to Colombia (and Bolivia) and Jamaica. China and Venezuela have exchanged high-level delegations during the past several months, as well as a trade treaty and a great deal of mutual praise. Former Venezuelan President Rafael Caldera visited Peking while the Chinese vice-minister for foreign affairs arrived in Caracas.

Hong Kong West

The affinities between the two unlikely diplomatic partners are real. China is a major force in the Asian free market, centered in Hong Kong, which is gradually becoming less a British city (with the recent defeat of Keswick family influence in the premier trading house Jardine, Mattheson) and more a Chinese one. A mainstay of this market is a volume of opium and heroin traffic exceeding \$10 billion. Venezuela has become the financial center for an illicit market that handles a vast amount of flight capital, including a not much smaller amount of Bolivian-produced and Peruvian-processed cocaine, as well as Colombian and Jamaican marijuana. The big export market for both the Asian and Caribbean illicit products is the United States. Although very little narcotics appear to be produced in Venezuela itself, Caracas has emerged as the financial capital for money-laundering and investment of narcotics-related revenues. 400,000 Venezuelans (out of a population of only 15 million) visit the United States annually, and Venezuelans are reportedly the most important factor in the foreign purchase of Florida real estate.

Since the election earlier this year of Jamaican Prime Minister Edward Seaga, that island nation has been integrated into this "Hong Kong West." Seaga had told a national television audience in the United States that marijuana was such an important part of the Jamaican economy that nothing could be done about it. With this established, he proceeded to return Jamaica to British colonial status, including the return of sugar estates nationalized by the Manley government to the British sugar giant Tate and Lyle, and the reintroduction of British knighthoods among Jamaican citizens.

It is parenthetically of interest that Venezuela will be one of the largest recipients of private-market credits during 1981 among all Third World countries. Its projected borrowing of \$10 billion this year will, according to banking sources, only be exceeded by Brazil's projected \$16 billion borrowing and Argentina's \$15 billion.

In both the Atlantic and Pacific spheres, the major

flows of investment have found their way to "free-market" zones which have little to do with industrial investment. On the contrary, Venezuela's growing presence as a Caribbean financial center coincided with 1980's 3.2 percent drop in Gross National Product, which represented an even steeper drop of industrial output under the guidance of the self-described "globalist," President Herrera Campins.

Nor is Venezuela a financial rogue operator. The adviser to its central bank is Geoffrey Bell of Schroeders Bank, the founder of the Group of 30, an advisory committee to the International Monetary Fund.

From Guido Carli's standpoint, the foundation of the NICs' profitability is not so much industrial policy as the advantages of linking a plentiful labor pool to a regulation-free port of the Hong Kong type, where cheaply assembled electronics trade with the same fluidity as narcotics, and unregulated "gray money" is always available for different investment purposes.

The U.S. dimension

That is the most important feature of the entire "Venice 1984" scenario which presently concerns the United States. As Kathy Burdman discusses in this issue (see Banking), the Federal Reserve is taking steps that would hard-wire the United States banking system into the offshore "free banking market." Under the electronic funds transfer system and associated regulatory changes the Fed plans to introduce before the end of this year, American regional banks will have a strong incentive to place spare funds in the Caribbean or in the Singapore money market. They will be able to do this through a terminal attached to a computer in New York, as easily as they presently sell funds to Bankers Trust or Morgan in the domestic U.S. money markets, and same-day clearing.

The mediation for this system, in the Federal Reserve's scheme of things, will be the proposed "International Banking Facilities," or reserve- and tax-free centers for international banking in the United States. The free zones of the United States will meet the free zones of Asia and the Caribbean.

That is the only real "development" to be expected under the regime Carli describes. Brazil might now be the world's tenth largest auto producer, as Guido Carli explained to the *Wall Street Journal's* Janssen, but Brazilian economics minister Delfim Neto has now accepted cutbacks in automotive and other industrial investment as the price of credit from the international banks. Since the 1979 oil shock and the imposition of a credit regime in the dollar sector characterized by double-digit interest rates, the economic growth prospects of the developing sector have been, if anything, worse than those of the stagnating industrial countries.

If the credit austerity and high oil-price regime

persists, then the major growth in the Newly Industrialized Countries will have peaked out even before the big studies appear to hail their ascendancy. What will continue to grow will be isolated runaway shop sectors, built for effective *trade warfare* against the economies of the industrial world. This is even more true in the Asian sphere, where the generation of Chinese immigrants to Southeast Asia that began early in this century with an opium franchise from the British have graduated to manufacturing, shipping, financial services, hotels, and airlines.

The relative distribution of the weight of international trade that Carli foresees would only take place inside the confines of global economic regression. The observer need only ask how it is that Carli expects growing economic dominance from countries that are past bankruptcy (see International Credit).

Capital drain

A hint to the answer to this question appeared in a report circulated last week by West Germany's BHF bank. BHF notes that (from OECD projections) the developing nations' current-account balance of payments deficit will worsen substantially between 1980 and 1981, from negative \$50 billion to negative \$60 billion. (Morgan estimates \$73 billion, while Bank of America's economists not long ago were considering a \$100 billion deficit in the ballpark.)

The only means to finance this gigantic deficit, BHF concludes, are to be found not in the thinly capitalized and unsafe Eurocurrency market, but in the home capital markets of the industrial countries. In other words, they project an export of capital to jerry-rig, once more, the balance sheets of the developing sector, at the expense of the capital requirements of the industrial countries! Presumably the events in the banking system that Kathy Burdman warns against in this issue would lubricate such a capital export.

The evidence shows that Dr. Carli's "Venetian" approach to the developing sector comes down to a plan for the industrial countries to organize a trade war against their own economies. For the economists of Chatham House or the National Planning Association, that is what we have come to expect of them. But there is no need to credit this as a forecast.

All the United States need do to prevent Carli's forecast from happening is to reverse the underlying process: suck funds out of the speculative, half-legal free markets in the Caribbean and Hong Kong, and route money instead through the Export-Import Bank of the United States. By channeling capital toward those developing countries who can buy and put to good use our capital goods, *on the Mexican model*, the United States can reserve first place at whatever economic summit takes place in 1984.

Congress scurries behind Stockman budget plans

by Barbara Dreyfuss

Office of Management and Budget Director David Stockman's budget approach underlies the two main budget proposals on the table, proposals that will dominate the early-May congressional agenda. The President has announced that he will support the bipartisan version of the original administration proposal that was drafted by Stockman.

The new version, known as the Gramm-Latta alternative, was co-authored by House Democrat Phil Gramm of Texas, a leader of the Democrats' Conservative Forum, and by Delbert Latta of Ohio, the ranking Republican on the House Budget Committee. The White House reports that the third author of the plan was—David Stockman.

The Gramm-Latta proposal

The Gramm-Latta plan would trim a further \$6 billion from the budget by cutting the strategic petroleum reserve and the contingency fund for national emergencies. Additional funds would come from overcharge fines on oil companies. Since it has substantial Democratic backing, the Gramm-Latta version is given a better chance of passage than the original.

The other major budget proposal before Congress is the Democratic leadership's plan, introduced by House Budget Committee Chairman Jim Jones, a conservative Oklahoma Democrat. What news reports have played up is the Jones bill's effort to restore about \$4 billion in social-service cuts while taking close to \$7 billion out of defense. This, however, is not the most notable aspect of the proposal.

The Gramm-Latta bill, like its GOP predecessor, prescribes slashing cuts in the internal improvements needed to revive stagnant U.S. productivity, as a precondition for economic growth. In both versions, Stockman intends to sharply cut farm loan guarantees, water projects, U.S. highway funds, and rail line subsidies.

The NASA programs, which through their technological breakthroughs and scientific advances add more by far to the economy than they take out (see Special Report), would also be chopped down. Cuts are planned as well for nuclear fission and fusion programs vital to providing energy for industrial expansion. And Stock-

man would also eliminate access by the Rural Electrification Administration (REA) to the Federal Financing Bank. The FFB issues bonds for the REA at low interest rates, so that the REA in turn can support electrification of the nation's farm areas, aiding utilities, industry, and consumers.

The Jones cuts

The Democratic alternative budget introduced by Representative Jones does not challenge Stockman on this sabotage. In fact, in some cases it goes even further in cutting essential programs. It deducts an additional \$100 million from the administration's proposal for nuclear fission, and an additional \$150 million out of the water projects budget. It also maintains the proposed NASA cuts and the slash guarantees.

Thus all the "intense bargaining" over the budget has yet to witness a legislative challenge to 1) the myth that it is the budget deficit per se that fuels inflation, or 2) the Federal Reserve's high interest-rate regime, which not only vastly increases nonproductive federal outlays in the form of interest payments on the Treasury debt, but undercuts the industrial investment needed to counter inflation. Those preoccupied with the deficit have done nothing about the fact that high interest rates account for \$35 billion of this year's deficit and \$40 to \$60 billion of next year's.

Then there is the question of the divergent tax projections on which the budget proposals are based. The Jones proposal assumes that Congress will not pass the Kemp-Roth tax cuts favored by the administration, and instead uses the income projections of the tax plan announced April 9 by Rep. Dan Rostenkowski (D-Ill.), which are \$14 billion lower than those of Kemp-Roth. Rostenkowski's proposal is geared toward increasing savings and capital investment in industry, as compared with the across-the-board Kemp-Roth bill, but specific formulas are not yet included. It is true, as the Democrats charge, that the Kemp-Roth approach will not work, because it will allow continued industrial collapse.

Thus, as long as the administration continues to focus on Stockman's multi-version budget cuts and the Kemp-Roth bill, and as long as it neglects the catastrophic interest rates, it is walking into a giant economic trap.

It cannot be excluded that new initiatives will surface toward a well-targeted tax plan favoring industrial capital formation. Meanwhile, Congress is operating on a May 15 deadline for the First Concurrent Budget Resolution. If a resolution passes—a close vote is expected—each committee decides within the budget guidelines for its area how the budgeted funding will be spent.

Time runs out for a challenge to Eurodollar takeover of the U.S.

by Kathy Burdman

Shifts in the way the U.S. banking system clears funds will bring the entire national banking network "online" with the international Eurodollar markets by early next year. When this happens, according to plans proposed by Citibank, Prudential Life Insurance, and other financial giants, the assets of the nation's 20,000 commercial and thrift institutions will become inextricably tied to the Eurodollar markets.

In this situation, then, any potential default on the Eurodollar market, where the big New York and California banks get into trouble for bad Third World loans, will now become the problem of the entire U.S. banking system. The shifts include:

- The May 1, 1981 shift of the Federal Reserve System to full, simultaneous national electronic funds transfer (EFT), creating a national bank clearing system.
- The Oct. 1, 1981 shift of the New York banks' Clearing House International Payments System (CHIPS) to an EFT settlement between New York and Europe, creating a same-day international clearing system.
- The planned startup early next year of International Banking Facilities (IBFs) in the United States, which would allow Eurodollar-style reserve-free deposits across the country, creating large new speculative deposits and loans domestically.
- Expansion of the life insurance sector into takeovers of major brokerages—exemplified by the Prudential takeover of Wall Street's Bache, Halsey Stuart—an expansion that is rapidly leading to total deregulation of U.S. banking.

Closing the time gap

As of May 1, the Federal Reserve consolidates the basis for an interstate banking system in the United States that could make the nation's 14,000 regional commercial banks and 5,000 savings and loan institutions obsolete in a matter of days. On that day, the Fed's nationwide internal EFT system, Fedwire, extends its clearing day, which now ends at 3:30 p.m. Eastern Standard Time, to 6:30 p.m. EST. This is designed to bring the major money-center banks of California, led by Bank of America, and others in the Pacific and

Mountain time zones onto the same basic clearing schedule as the New York and Boston banks.

Until May 1, Fedwire's closing at 3:30 p.m. EST has meant that California banks had to scramble to close out federal funds and other trading positions by noon Pacific time, and to clear many positions the next day. This put them at a competitive disadvantage vis-à-vis New York in many transactions, and made direct clearing with the London Eurodollar market, in particular, much more difficult.

Extending the Fedwire closing means that the big California banks, as well as the major Chicago and Texas banks, who are an hour behind New York, conduct transactions, and in particular loan fed funds during broadly the same time as the major East Coast banks. This will considerably enlarge the nationwide market for federal funds.

The new Fedwire system is not in itself a bad thing; it is in fact a potentially welcome streamlining of the system, which in an environment of economic growth could facilitate capital flows and productive investment. The problem is that the Fed's intended use for the system has nothing to do with such a potential.

The new Fedwire system, Fed sources say, is in fact designed expressly to go with the other elements of the international EFT system now being put into place. Extending Fedwire is a prerequisite for the New York banks' Clearing House International Payments System computer to move to same-day settlement beginning Oct. 1. CHIPS is the large computer system operated by the 12 leading New York banks. It currently clears some \$180 billion per day between the New York majors and their foreign branches in the London Eurodollar market, as well as in the Nassau-Cayman Islands, Hong Kong, Singapore, and other offshore dollar markets.

Currently, CHIPS calculates at the end of the day the size of the global imbalance among New York banks, and who owes how much to whom. But the banks do not actually settle with each other by buying and selling federal funds on Fedwire until the next morning. When CHIPS moves to same-day settlement,

these banks will all be in the market for fed funds, creating a potentially huge new daily demand for up to \$10 billion in net funds.

Without the extended Fedwire hours, this would cause a major disruption in the fed funds rates and the financial markets generally. Fed sources say that the lengthening of Fedwire's hours is not geared to this problem per se but is "really designed basically to deal with the new CHIPS program." "With Fedwire extending its hours, there will be so many more banks in the fed funds market during the time that CHIPS members are clearing that the CHIPS clearing will be able to take place smoothly, since more funds will be available," said a source.

The beneficiaries

This does not merely represent increased banking efficiency. The bottom line of the innovations is the plan to link the streamlined EFT system directly into the Eurodollar market through the establishment of International Banking Facilities based in the United States. Federal Reserve sources confirm that the major beneficiary of this new international EFT system will be IBFs.

International Banking Facilities, as we have reported in depth (*EIR*, Oct. 21, 1980), would be branches of U.S. banks authorized to take Euromarket-type deposits in major cities across the nation. By Eurodollar deposits, we mean deposits free of reserve requirements; free of regulations on interest rates; and free of all U.S. federal and local taxes.

This plan, when linked up to the new Fedwire and CHIPS systems, would create an integrated Euromarket banking deposit network dominating the nation's credit base.

The very existence of the fast-clearing mechanism between Fedwire and CHIPS, Fed sources say, will mean that IBFs in Chicago and San Francisco banks, for example, will be able to hook directly into Europe via Fedwire and CHIPS virtually simultaneously. This will encourage a far greater volume of deposits to be created in a Chicago IBF, for example, than a normal Chicago bank now deposits in the London Euromarket.

The reason is that reserve-free deposits are cheaper for banks to maintain, since holding reserves at the Fed costs them money. Therefore Euromarket banks today may offer higher returns to depositors and still profit, as they do. With such marginally higher-rate deposits available at IBFs across the United States, all linked into the local Fedwire, any bank or corporation in the country with excess funds to lend will have an incentive to move its funds into IBFs.

Technically, IBFs are only allowed to take deposits from outside the United States, but banking experts agree that by appearing to book IBF deposits from

foreign branches, many American banks and corporations will be able to take advantage of the new deposit facilities.

In particular, local banks and savings and loans, who would never have bothered to sell deposits to London with the complicated telex procedures involved, will now do so, hope the Fed and the New York banks, and hence find it much easier to entangle themselves in IBFs.

What the mergers mean

The final factor in the major shift now going on is the overt move to legalize interstate banking and merge banking with the life insurance and brokerage companies. Financial giants such as Citibank, Prudential Insurance, and Merrill Lynch will "go national" and bankrupt local commercial and savings banks through cutthroat competition. And the new EFT moves will most benefit these giant institutions.

April alone has already seen two takeovers of major Wall Street brokerages by nationally based finance companies. After Prudential Insurance bought the Bache Group, Inc. for \$385 million, American Express announced its \$915 million purchase of Shearson Loeb Rhoades. The idea, say Wall Street analysts, is to use the ability of the insurance, finance, and brokerage companies to go interstate—since banking prohibitions don't apply to these "nonbanks"—and set up "financial supermarkets" conducting all sorts of transactions, including taking deposits and making loans, that banks currently perform.

Already, the two brokerages offer banking services called "cash management accounts," whereby a customer can keep deposits and write checks on his stock investment account. With an American Express card, a Shearson customer will soon be able to write these checks and make deposits across the country. "By the end of the decade," says Amex chairman James D. Robinson III, "a typical consumer may have a stockbroker in California, a banker in New York, insurance agent in Maryland . . . all on the American Express card, of course."

Not only will these giants be able to go interstate, making mincemeat of laws against interstate banking. They will obliterate the distinction between banking and brokerages established by the 1939 Glass-Steagall Act. The Amex-Shearson plan "makes a total mockery out of Glass-Steagall," says deregulation sponsor Walter Wriston, the Citicorp chairman who himself is on record pressing banks in turn to go interstate and move into other financial industries. The merger "has driven the final nail into the coffin of bank holding-company regulation," he says.

If that happens, the nation's regional banking system will be next in line.

BIS joins Wharton on crisis debate

Manipulating banking opinion, not resolving the Euromarket squeeze, is the purpose.

Peter Cooke, former Bank of England governor and chairman of an influential subgroup at the Bank for International Settlements (BIS), recently stopped over in Washington, D.C. for an informal session with top-level U.S. regulatory officials. Among the issues he reportedly discussed was the response of U.S. business and government circles to a recently released report by the Wharton School econometric institute that warns of a global banking collapse.

Cooke chairs the "Group of Ten Committee on Banking Regulations and Supervisory Practice" formed in the autumn of 1974. Since then, he has been the leading spokesman at the BIS for pushing the argument that solvency on the Euromarkets can be enhanced if Western governments merely adopt more stringent regulatory practices to gain "oversight" over the banks. This argument has been used to arm-twist Western governments into "hocking" domestic banking assets on a vast scale into "bailout" mechanisms for the bankrupt \$1 trillion international gambling casino known as the Euromarkets.

For example, it was on the basis of some seemingly innocuous recommendations from the Cooke Committee that in 1979 both the United States and Britain introduced "consolidated banking sheets," making the U.S. banking system accountable for any bankruptcy of a Euromarket subsidiary

of a U.S. money-center bank.

In February, Wharton School economists Jack Guttentag and Richard Herring began limited releases of a draft paper, "Financial Disorder and International Banking." The paper discusses in detail—as did Guttentag in an April 27 interview with *EIR*—what might happen when some off-shore banking branch made the discovery that a major default on nonpaying loans had wiped out its capital.

Guttentag reported that he had met with Cooke during his recent stopover. Other sources report that when the first draft of the Wharton study had been completed in February, it was also reviewed by the New York Council on Foreign Relations (CFR). It was only after the CFR's top banking circles had a chance to approve the report that its contents were leaked to the financial press.

The careful high-level attention accorded the Wharton study, alongside Guttentag's own remarks, has led *EIR* to the following conclusion: the BIS, Cooke's regulatory network, and the CFR are currently more concerned with exercising control over public debate about a possible collapse of the Euromarkets than they are with designing any sensible solution to the crisis they appear to be debating.

For example, Guttentag told *EIR*: "You have to define your scenario. The difficult problem that arises is if you have a solvency

problem, where the bank's capital is wiped out because major countries have defaulted on their loans. Do you keep [the bank] going by having the government invest money into it? Do you phase it out by merging it into another bank? That could still cost the government a lot of money. Do you liquidate it? . . . If it's a big bank, you probably can't do that because it would have tremendous impact on countries. So the result would probably be a massive infusion of federal funds into these banks to prop them up, to keep them from going under."

It is as a result of the imposition of Cooke's "consolidated banking sheet" hoax in 1974, which incorporates all U.S. money-center "off-shore" lending into the parent company balance statement, that Guttentag can assume that the resources of the U.S. economy would be thrown behind any bankrupt Euromarket branch. Cooke and Guttentag describe this relationship as "lender of last resort." In our discussion, Guttentag insisted that the U.S. government ensure this bailout service to Euromarket branches.

It is an added tipoff to the BIS/CFR intentions to engineer a "controlled debate" that the Wharton paper never discusses *why* the Euromarkets are bankrupt. As *EIR* emphasized last week in our own analysis of world debt, the short-term, high-interest lending policies of money-center foreign subsidiaries condemned the Euromarkets to bankruptcy. The weakness of Euro-lending operations was critically worsened when U.S. interest rates rose in 1979—condemning borrowing countries to low levels of real productivity, making it impossible for them to repay their debts.

Commerce announces GNP miracle

Government statisticians have conjured up an economic recovery despite the U.S. industrial collapse.

A little bit of con artistry was practiced by the Commerce Department April 20, when it announced that the nation's Gross National Product (GNP), corrected for inflation, leapt by 6.5 percent in the first quarter of 1981. In response to the ostensible upsurge, the Dow Jones average closed up 10.5 points on the day, and the April 21 *Journal of Commerce* proclaimed, "The economy gave its strongest showing in almost three years."

This upsurge is not visible in the workplaces around America, which have been blitzed by the interest-rate policy of Federal Reserve Board Chairman Paul Volcker. For example, the industrial production index published by the Fed stood in December 1980 at 150.9 and for first quarter of 1981 it averaged 151.4, that is, the index remained absolutely flat. Official unemployment and the unemployment rate have remained constant—about 7.8 million—while housing starts, the gauge for one of the nation's largest industries, sank from a 1.6 million to a 1.2 million units per year level during the first quarter.

Then what accounted for the "upsurge in GNP"? Parenthetically, GNP is a concept that indiscriminately lumps together industrial output, like steel production, with the revenue from gambling casinos, real estate speculation, currency arbitrage, and useless services.

On top of this, the Commerce

Department has exerted itself remarkably to pump up the size of GNP. With a sleight of hand that would make any three-card monte operator jealous, Commerce did the following: it artificially understated the rate of inflation, and thus, by the same means, overstated the GNP.

This is how they did it. First, in calculating inflation, the Commerce Department can use either a fixed-weighted basket of industrial and consumer goods, whose prices rose 9.9 percent in the first quarter, or a "variable weighted basket."

Second, the lowered consumption of energy by the economy, and consumers' substitution of hamburger for more expensive and inflation-prone steak—both of which occurred in the first quarter—changes the market basket on which GNP is based to a lower level of price inflation. By this second method, inflation was only 7.8 percent in the first quarter. By adopting this fraudulent second method, the Commerce Department is saying that a lower level of consumption and energy "decoupling" is a positive development. Extend this reasoning and a population whose living standard is based on bread and water would experience remarkably little inflation.

This contrivance understated the inflation rate by 2.1 percent and artificially raised the GNP by 2.1 percent or one-third of the total 6.5 percent GNP "upsurge."

• In the first quarter, the auto industry applied a heavy two-month rebate program on which auto dealers *lost* money. Nonetheless, because of the rebates, autos sold at a 10 million units plus level, and auto sales rose for the quarter to a \$105.2 billion annualized rate from \$94.6 billion in the fourth quarter of last year. The sales were in large part "borrowed" from the second quarter. When the rebate program ended in April, sales fell to 5.5 million units. The auto sales combined with the feeder production of steel and rubber comprised 1.5 percent of the GNP, and thus, with the inflation scam, accounted for 3.6 percentage points or over half the 6.5 percent GNP "upsurge."

• In the first quarter, rents rose by \$10.6 billion, faster than the rate of inflation. This was one-ninth of the \$96.2 billion increase in the first quarter GNP level to \$2.835 trillion. This helped add to the GNP growth!

• In the area of business spending, the increase from fourth quarter last year to first quarter 1981 was \$12.6 billion, or 4.2 percent. But of that, "soft" purchases included \$500 million for the purchase of computers; \$1.1 billion for the purchase of company cars, and \$2.1 billion for the construction of office buildings, part of the real estate boom. When this \$3.8 billion is deducted, the increase in plant and equipment spending was only \$8.8 billion. After correcting for inflation, the increase in capital spending was only 1.5 percent.

When all is said and done, the GNP boom is a fraud. If you still believe in it, write to me, and I will send you a prospectus with a good buy on the Brooklyn Bridge.

Why the Treasury threw a tantrum

The Treasury's decision to return to 'benign neglect' is a response to a bold European plan.

Returning from a meeting with other members of the Group of Five finance ministers' club in London April 12, Treasury Secretary Donald Regan told a New York financial writers' audience April 14 that the U.S. would limit intervention in the foreign exchange markets to a level below that conducted during the last two years of the Carter administration. In press statements later in the week, Treasury Undersecretary Beryl Sprinkel, the department's keeper of the monetarist faith, reiterated the decision to stay out of the markets.

The Treasury's statements drew an immediate outcry from bankers, including former Treasury Undersecretary Robert Roosa, now a partner at Brown Brothers Harriman, and from Dennis Weatherstone, vice-chairman of Morgan Guaranty Trust and a foreign-exchange market specialist. Both bankers had helped draft the elite Group of 30's report on the functioning of foreign exchange markets, published in February 1980. The upshot of Roosa's comments was that the Treasury's statements were dangerous and unnecessary, and opened the dollar to new turbulence of the 1978 variety.

The motivation for the out-of-the-blue switch to a "benign neglect" foreign exchange markets stance had nothing to do with Sprinkel's University of Chicago ideological bias. In reality, it was a response to a plan formulated by the finance ministers of the Europe-

an Monetary System in mid-March at a Brussels closed session, approved by the March 24 summit meeting of European heads of governments at Maastricht in the Netherlands, and presented to the Treasury at the April 12 London meeting.

Europe proposed to peg the dollar to a narrow band of fluctuation against the European Currency Unit (ECU), the numeraire of the European Monetary System. This would return the world to a regime of fixed rates for the first time since the aftermath of Aug. 15, 1971.

The European plan was the subject of a memorandum circulating among White House staff in early March.

Nor is the European plan an ideological exercise, motivated by the longstanding French commitment to fixed exchange rates. Europe offered it by way of concrete implementation of its major proposal at the April 12 meeting, namely, a global lowering of interest rates. This avenue toward lower rates is more indirect than the approach which the French and Germans have adopted as a matter of domestic economic policy, namely, the institution of a two-tier credit approach (see *EIR*, April 28) aimed at providing low-interest credits for long-term investment. However, it is hoped that the currency approach will be easier for the Reagan administration to swallow, given its "free-market" bias against directed credit.

The logic is simple and impeccable: at present the great single source of credit demand in the dollar sector is borrowing for foreign exchange hedging purposes. Total borrowing to hedge against the fluctuations of the dollar against other international trading currencies now amount to over \$150 billion, by an *EIR* staff estimate, or more than the entire U.S. mortgage market. The presumption is that a commitment to currency stability will persuade traders to abandon some costly hedges, thus reducing credit demand and interest rates.

According to Federal Reserve officials who reported the European plan to *EIR*, the West German mark will tend to weaken because the Bonn government has adopted an "expansionary" program. This estimate is not necessarily to be taken at face value; the Fed last November predicted that the mark would be at 2.50 to the dollar by this time. If anything, the foreign exchange markets will be subject to greater fluctuation in the near term due to the Treasury's tantrum over intervention policy.

Indeed, there are serious prospects for a new attack on the dollar, especially if the Reagan program fails to go through, in which case the Fed itself believes that the dollar will come under strong attack. A further explosion of U.S. money-supply growth could also weaken the dollar. It is significant that on April 23 the dollar was at DM 2.16, off its highs for the week despite slowly rising U.S. interest rates. The West German expansion program, especially if it continues to attract foreign investment at double last year's rate, could turn into a plus for the mark.

World Trade

by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
\$1.7 bn.	Saudi Arabia from U.S.A./ France	Blount of Alabama and Bouygies of France have signed contract to construct new academic center for Riyadh University. Blount has 45% of \$1.7 bn. contract.	U.S.A., Canadian, and Saudi private bank loan.
	Japan/ U.S.S.R.	Soviet Union and Japan reached agreement in April on new trade and payments agreement, replacing one expired last year. It runs to 1985. Japan will import about 90 commodities, including coal, oil, and natural gas. Soviets will import about 70 items, including industrial plants.	Pact initialed; may be signed in May. Routine renewal. Tokyo govt. remains opposed to big Japan-Soviet projects.
\$367 mn.	Iraq from Japan	Marubeni won contract to build 400-bed general hospitals in 7 Iraqi cities. Marubeni now building 5 similar hospitals ordered by Iraq in 1979.	Marubeni says big orders show Iraq again stressing social investments.
\$272 mn.	Mexico from France	Empain-Schneider subsidiary has won contract for 150 electrical power units for Mexico City subway cars. Alstom-Atlantique has received order for 25 9-car trains.	New credit line for subway: \$54 mn. from French Treasury and \$218 mn. from French banks; 10 yrs; 7.75% on francs.
\$322 mn.	India from World Bank	World Bank's IDA soft-loan affiliate is joining Japan, United Kingdom and govt. of India in financing Gujarat fertilizer complex. The \$1.3 bn. project will turn natural gas into 2,700 tpd ammonia and 4,400 tpd urea. It includes electric power plants and a new town for workers.	IDA for 50 yrs.; 10 yrs. grace; at ¾% interest on SDRs.
\$200 mn.	India from United Arab Emirates	Canadian and Indian entrepreneurs based in the Emirates will help organize financing for \$106 mn. cement plant and \$93 mn. sponge iron plant being built by India's Gujarat State. Joseph Zappia and M. Patel will put up 25% of project's \$27 mn. equity.	Iron ore for sponge iron plant will be barged from Goa.
\$130 mn.	Kuwait from U.S.A.	Kuwait Airlines has chosen Pratt & Whitney JT-9D engines for the 11 Airbus A-310s it recently ordered.	Puts P & W ahead for Mideast A-310 market.
\$40 mn.	Zimbabwe from U.S.A./ Kuwait	General Motors won competition for 25 diesel-electric locomotives for Zimbabwe's broken down rail system. Financed on soft terms by Kuwaiti Fund for Arab Development. Part of special aid package.	Former Rhodesia only has 120 of 217 locomotives needed.
\$50 mn.	Poland from U.S.A.	U.S. announced it would sell 30,000 tons milk powder and 20,000 tons butter to Poland at about \$23 mn. below market price for humanitarian reasons.	New Zealand objects to the U.S. reducing dairy stockpile at low prices.
\$85 mn.	Saudi Arabia from Sweden/ Finland	Saudis awarded contract for huge industrial waste water treatment plant at new Jubail industrial complex to Swedish and Finnish contractors.	
\$209 mn.	Libya from Sweden	Skanska Cementgjuteriet will build 3 resort hotels for Libyan govt. social security.	Signed; turnkey basis.
\$97 mn.	Egypt from France	CGEE-Alarhom and CFEM have won a \$39 mn. share of second Cairo airport terminal project, worth a total of \$97 mn. Remainder of project held by Egypt's Arab Contractors.	British won an earlier chunk of airport building.
\$35 mn.	East Germany from West Germany	AEG-Telefunken won contract to supply electrical generators for new steel rolling mill.	

How an auction works

A recent London sale illustrates the way monetary value is assigned to a painting.

The major spring Old Master painting sales in London took place on April 8 and 10, and the results confirm a trend that has become clear over the past two years: major pictures bring very high prices, whereas the recession is depressing the prices of middling works. A great painting, the *Adoration of the Shepherds* by the French 17th-century master Nicholas Poussin, was sold for £1.65 million at Christie's, which comes, with commissions, to around \$4 million. Otherwise, however, prices were sluggish for the attractive but average Dutch paintings.

Perhaps it's best at this point to give a better idea of how these auctions work; more is involved than simply putting up your hand.

The auction room provides more than just the service or convenience. It establishes a guide to the money value of a work. Since works of art have always played the dual role of spiritual object and treasure, this activity in the sales room of making liquid the treasure invested in a painting is important. Let's take the sale of the Poussin.

The painting belonged to the Duke of Devonshire. In consigning his painting to the auction, the duke and his agent, Christie's, set a reserve, the minimum price necessary to reach before a transaction is completed. This is to protect the owner against having his work sold at below its estimated market value, and it's up to the auctioneers to get

that price if they are to earn their commission.

This is where the fun begins. The buyers, largely dealers, try to get the works at the lowest possible prices, principally by forming syndicates to buy together, so as not to bid each other up. Such agreements can range from the casual handshake by two friends on the spot, to elaborate syndicates. The Italian dealers are well known for forming such rings, illegal under English law. They buy together at the public auction, and then, in a hotel room after the sale, hold a second private auction among themselves, known as the knockout. The Italian rings always stand as a group at the back of the sale room to survey the room.

The great dealers of the establishment fill the reserved seats in the center and front. Among these are the London houses like Agnew and Colnaghi's, Koetser from Zürich, and Wildenstein, the biggest of all. Each scouts the room to locate his potential rival.

To return to the Poussin, Christie's opened the bidding at £500,000, about \$1.2 million. Within four to five bids, it was at about £1 million, and now Wildenstein entered for the first time. Bidding continued at increments of £200,000, so it was against Wildenstein at £1.6 million. At this point, instead of bidding £1.8 million, Guy Wildenstein made a voice bid of only £1.650 million. There followed a bid from the back of the

room of £1.680 million. Incredibly, Wildenstein refused to go any higher. Three times, the auctioneer, Patrick Lindsey, inquired of Mr. Wildenstein, "Any more?" Wildenstein sat stoically. Lindsey thereupon brought down his hammer and to all the world it appeared that an unknown bidder had outlasted the great Wildenstein.

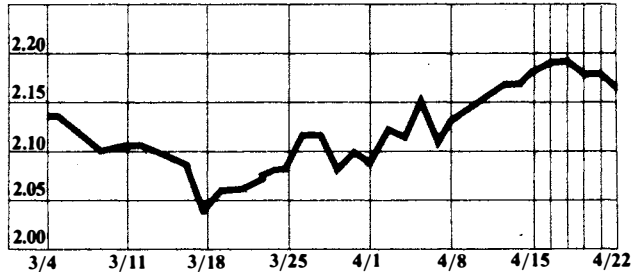
Not so. The bid of £1.680 million is what the trade calls a "chandelier bid," that is, a bid made by the auctioneer himself to try to force the genuine bidder to go above the reserve. If the auctioneer fails to do so, the sale is transacted and he loses his commission. Christie's and the duke had set the reserve at £1.7 million. This explains the peculiar change in the rhythm of the bidding: £1.6, to £1.650, to £1.680, meaning the next bid would be £1.7. But it appears that Wildenstein knew or guessed the price of the reserve, and so bid only to the point where they were confident they could force the owner and Christie's to lower the reserve to make the sale. This drama was possible because Wildenstein was the only bidder once the price reached £1.6 million.

What does this signify? First, the sale room is the arena of professionals, where the real auction is first between the auctioneers and buyers, and only second among the buyers themselves. The reserve is a crucial element in this competition. In a setting where, in the space of 60 seconds, the price of an object can rise by between several hundred and ten thousand dollars for a "modest" work, the sizing up of the room and the decisions made or unmade can be very expensive to the buyer, the seller, and to the auctioneer.

Currency Rates

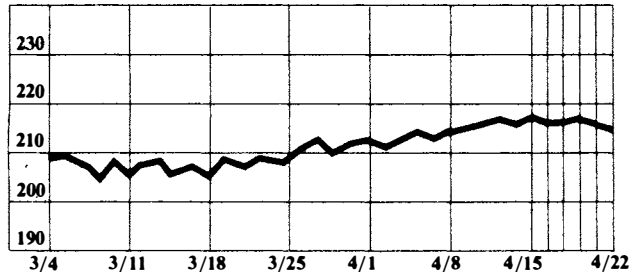
The dollar in deutschemarks

New York late afternoon fixing



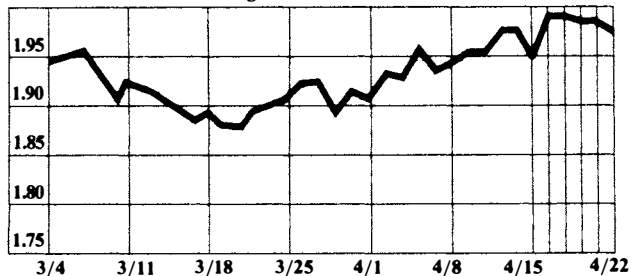
The dollar in yen

New York late afternoon fixing



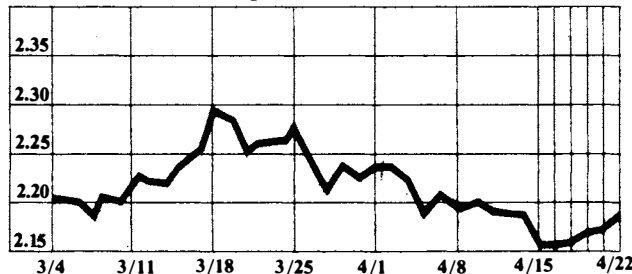
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



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Fusion Engineering, TRW, Inc.

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Business Briefs

Farm Exports

Congressman meets on U.S.-Soviet grain trade

James Sensenbrenner (R-Wis.), in Moscow on a ten-day "private" trip, has reported that Soviet officials indicated they may no longer be so interested in buying American grain once the embargo is lifted. Sensenbrenner said the Soviets told him they were considering buying more meat from Australia instead of importing livestock feedgrains from the U.S.

Sensenbrenner, whose trip included meetings with officials to discuss both the embargo and a possible new U.S.-Soviet bilateral grain supply agreement, was to meet with Vladimir Suchkov, deputy minister for U.S. trade, and Victor Kimpelktov, the minister for U.S. trade.

Sensenbrenner said that he had explained to the Soviets that he thought it was a mistake to impose the embargo after the Soviet invasion of Afghanistan, but that lifting it now would send the wrong signal. The State Department had briefed Sensenbrenner before his trip, but reportedly gave him no instructions. An aide to the congressman explained that Sensenbrenner "supports the President's position on the grain embargo."

The Agriculture Department has been working on a set of contingencies for proceeding with negotiations on a new bilateral agreement.

Agriculture

Farm equipment sales remain flat

Vincent J. Malanga, senior economist with A. Gary Schilling & Co., pointed out to the *Wall Street Journal* recently that the prevailing interest rate on loans for farm equipment was 14.1 percent in the first quarter of 1981, up from 12.7 percent a year ago, and 12.8 percent at the end of 1980, compared to the 11.8 percent rate that crippled farm producers

in the 1974-75 crunch. Since farm producers are generally highly leveraged, interest rates are the key factor in both income and capital equipment prospects for 1981. Last year, farm income dropped by 20 percent, and the farm equipment production index fell 8.8 percent.

Despite a hopeful outlook at the end of 1980, and farm banks' improved liquidity, farmers have refused to commit themselves to heavy equipment expenditures so far this year. Equipment manufacturers have virtually written off the first quarter, when business should be brisk for the spring planting, and are setting their sights on the second half, when they hope to make gains in fall harvesting equipment.

Industry analysts point out that farmers are under some pressure to replace equipment, because many avoided it last year. But market uncertainty, the uncertain status of Soviet bilateral agreements, and interest levels hold them back.

International Credit

Venezuela debt nearly out of control

With \$20 to 25 billion in short-term debt accumulated mostly in the last three years, Venezuela has one of the fastest growing debt backlogs in the Third World. Venezuelan law asserts that public corporations must receive approval from Congress to assume long-term borrowings. To avoid congressional wrangling, the corporations since 1978 have piled up short-term borrowings, about \$10 billion of which comes due this year. The size of the debt contrasts with Venezuela's on-budget allocations for 1981 of \$17.6 billion. International creditors have urged the central bank—the focus of political scandal this past February leading to the firing of the former governor—to take oversight responsibility over the public companies, and help the banks decide the timing of when the companies should line up for loans.

This year, Venezuelan entities are

asking the markets for more than \$10 billion in new borrowings, the great majority of which will be used to convert short-term into medium-term debt.

Because the country is very concerned about its image, its financial press was ecstatic this week when Venezuela reported a record foreign exchange surplus for the first quarter of 1981. Enthusiasm soon turned to disappointment, however.

The reserve surplus was due 80 percent to oil receipts, based on several oil price rises since December 1980. The disappointment came with Saudi Arabian oil minister Yamani's announcement that Saudi Arabia wants oil prices globally to level, and premiums to drop off.

Stock Markets

U.K. stocks leap to record highs

Even as British stock jobbers expected the onset of Easter holidays to wind down trading volumes, on April 16 the London stock market leapt "vertically" by a record 19.4 points in one day. After Easter, the bull surge eased mildly downward from the new posted record hit on April 16 of 568.5 points.

The London financial community may keep the market strength afloat for the foreseeable future.

Two policy moves by the Thatcher cabinet paved the way for the speculative bull entry. In March, Thatcher got passage of the most extreme austerity budget Britain has faced in decades, putting the full penalty of the country's decline in real tax income on living standards, and heavy industry incomes.

At the same time the fight over the budget was being waged, the U.K. Treasury started winding up a very heavy volume of first-quarter borrowings, allowing it to substantially reduce its second-quarter borrowing requirements. This freed up market funds for the private sector.

Importantly, though, the "private sector" now benefitting from the availa-

bility of funds is made up of the multinational companies that have increasingly abandoned the U.K. in recent years for overseas acquisitions. On April 18, the *Financial Times* noted that "heavyweight engineers" like Hawker Siddeley and Northern Engineering were top of the list in the stock rise. Siddeley's pre-tax profits rose 5 percent this year, and Northern's 44 percent—both due to overseas activities. "Northern prospered on South Africa and the U.S. and Hawker in Australia and the U.S." the *FT* noted.

The bull entry is also being encouraged by Thatcher's decision to lower interest rates this year. London's base rates are now on a par with West Germany's (about 12.5 percent) although its inflation rate is three times higher.

European Finance

Germans debate central bank's 'independence'

"The legislators assigned to the central bank the job of supporting the economic policy of the federal government. That means that policy is primary. The law obligates the central bank at the same time to guarantee the stability of the currency. Thus, policy and the bank of issue are poised in a relationship of conflict," reported Germany's *Frankfurter Allgemeine Zeitung* April 21 in a detailed commentary on the ongoing confrontation over interest rates between Chancellor Schmidt and central bank chief Karl-Otto Poehl.

Poehl's refusal to lower interest rates, despite demands from Schmidt that he do so, has unleashed widespread debate over the content of the legal "independence" which Germany's constitution assigns to central bankers. As the *FAZ* correctly points out, "If the chancellor were to support" critics of Poehl who have gone so far as to call him the "number-one" problem in economic policy, "that would constitute a political act of the highest order."

FAZ doesn't support Schmidt's demand for lower rates—as *EIR* emphatically does. But the recent commentary signals that a healthy political debate is underway in Germany in which the old financial adage that "defense of currency stability" can be allowed to take priority over all other economic policy goals, is under intensive review. The debate calls into question the central bank's "independence," since defense of the currency is its responsibility.

FAZ comments, "The chancellor would be the last person who could legitimize the central bank adopting a policy of easier money. That could quickly lead to a collapse of the mark's exchange rate." What *FAZ* ignores is that Schmidt's economic growth goals to upgrade real productivity—if not sabotaged by Poehl, a danger which has been publicly mooted—could defend the mark without interest rate manipulation.

World Trade

Saudi-produced glut drops prices

Following the announcement by Saudi Oil Minister Sheikh Yamani that the Saudis were intentionally pumping at their 10 million barrel per day maximum in order to force oil prices down, the Kuwaitis have just negotiated new contracts without their previous surcharges.

British Petroleum is said to have signed a pact for only one-third their previous volume and without premiums. Shell and Gulf oil are expected to be accorded the same treatment by Kuwait, indicating that the Saudi policy is working. Current world oil production is estimated at 3 million barrels over demand.

Saudi price lowering efforts have also been aided by the heavy slump in imports by the economic giants. U.S. crude imports in the second week of April were running at 3.8 million barrels a day, down 1.7 million barrels a day from a year ago. German and Japanese oil imports dropped 20 percent and 10.1 percent respectively over a year ago.

Briefly

● **MILTON FRIEDMAN**, the Nobel laureate and economic adviser to the Chilean government, has been invited to address the Second Congress of Third World Economists meeting in Havana, Cuba April 26-30. Also invited were Wassily Leontief, Gunnar Myrdal, and Paul Samuelson, all noted for their advocacy of Chile-style economics for the Third World. Will they get the red carpet treatment?

● **VENEZUELA** is trading its oil under a "concept of globality" based on the Club of Rome's notion of "global scarcity." Thus, Venezuela makes long-term deals with trading partners to guarantee oil supplies in return for goods Venezuela expects to become scarce, like Brazil's sugar, Italy's agricultural implements, and Costa Rica's dairy cows.

● **A PRIVATE STUDY** by one of America's largest corporations projects an unprecedented drop in total electricity usage between last summer and the summer of 1981, due to the combined impact of recession and shift away from energy consumption.

● **SEN. DAVID BOREN** is expected to introduce a bill next week which will grant savers tax-free earnings on special accounts pegged to three-quarters of the Treasury bill rate, to be used exclusively to finance residential housing. The Boren proposal parallels a plan circulated last month by the U.S. League of Savings and Loan Associations.

● **L. FLETCHER PROUTY**, the former CIA briefing officer who wrote *The Secret Team* to expose CIA and Pentagon operations, claims that to solve the nation's rail problems, "What we really need is a World War II and Curtis LeMay to bomb our system out and start all over again." Prouty is currently PR director for Amtrak.

Will the Shuttle relaunch America?

by Marsha Freeman



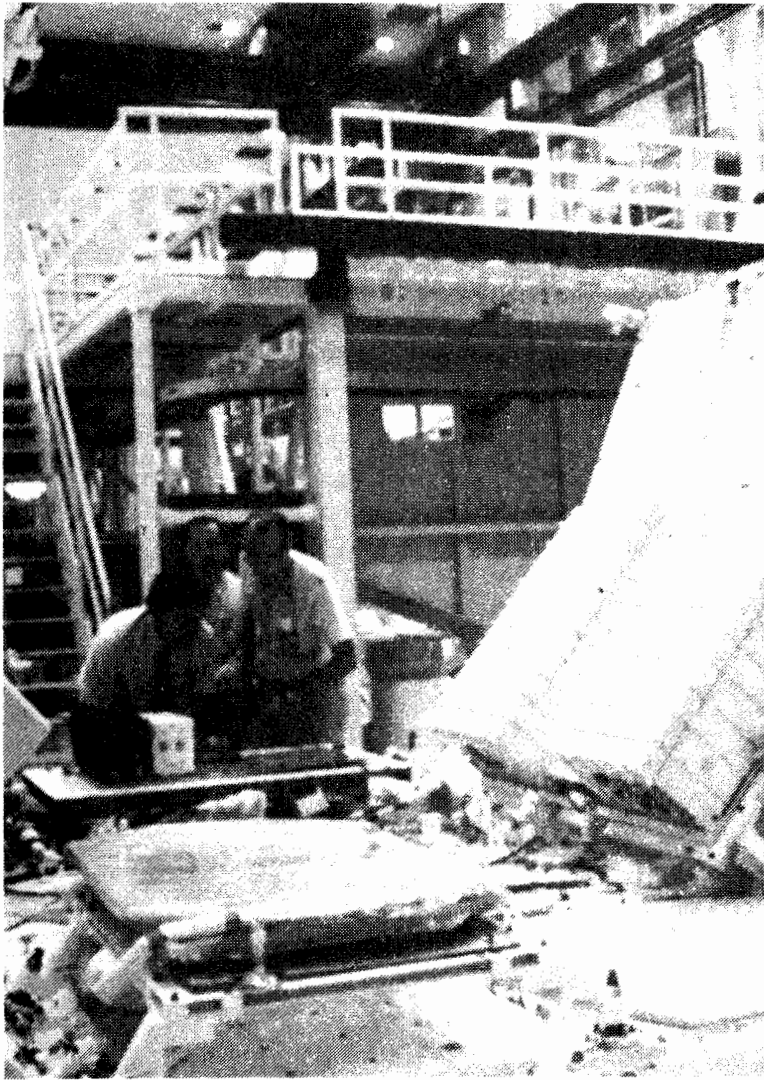
The magnificent performance of the Space Shuttle Columbia was a vivid reminder of the promise of the U.S. space program and what it did for America in the 1960s and early 1970s.

In the economy, the space program returned \$14 dollars for every \$1 invested in it, creating new jobs, new factories, and new products. In education, the space program infused an entire nation with a new understanding of science and trained hundreds of thousands of scientists, engineers, and technicians. In science, the space program not only put man in space, but opened far more detailed knowledge of the universe. The space program has suffered the same fate as other U.S. high-technology programs, such as fusion and magneto-hydrodynamics, under the knife of Budget Director David Stockman. And its true contribution is not really understood by many of its military supporters. The Shuttle *can* relaunch America if the policies of the zero-growth military faction and the civilian Malthusians are defeated. The Shuttle is the keystone of the family of technological innovations that can transport the world economy to the fusion age.

That near-perfect success of NASA's Space Shuttle Orbiter Columbia is not merely a technological and engineering marvel. It is an even greater testimony to the ability of U.S. science, engineering, and industry, considering the fact that the program was never funded at a level adequate to keep it on schedule or to do all of the testing and check-out work that industry and NASA would have liked to do.

Given these restrictions, the capability demonstrated by the Shuttle test flight is a spectacular but greatly reduced example of the capabilities the United States could have in space science, exploration, manufacturing, and eventually colonization if NASA were adequately funded.

Since 1965, at the peak of the Apollo project to land a man on the Moon and return him safely to Earth, NASA's capabilities have been eroded. To carry out Apollo planetary probes, a series of communications, military, and weather satellites, and myriad scientific experiments, NASA built an institution of national laboratories, university education programs, cooperative agreements with other nations, and a working relation-



ship with American industry that produced a nearly unbroken chain of successes throughout the 1960s and 1970s.

But although NASA's programs have been a success, its plans for necessary and exciting experiments in space were constantly being trimmed down. When Apollo ended its most active phase in 1969, for example, tens of thousands of engineers were laid off. The Space Transportation System, or Shuttle program, is the only U.S. manned space effort that remains.

If the U.S. space program were to have the same number of scientists and engineers, laboratory facilities, and array of programs that it had 15 years ago, the NASA budget today would have to be about *\$14 billion*. This means that with the \$6 billion level of funding proposed by the administration, nearly two-thirds of NASA's capabilities have been eliminated or put into cold storage since the mid-1960s.

NASA's program

Before leaving the government as the administrator for NASA early this year, Dr. Robert Frosch submitted



a NASA budget request for FY82 that included a 20 percent increase in funding over FY81. This \$6.7 billion budget level would have given NASA a 9 percent increase after inflation, to begin some of the programs deferred during the Carter administration and earlier.

The budget "gives us some leeway for some expansion, but not for as much as I would like to have seen, given NASA's extremely tight budget over the past decade," Frosch said in a budget briefing Jan. 15.

The scientific research programs included in NASA's FY82 request give some sense of the exciting scope of the space science frontier. The FY82 budget request included:

- A start for the Venus Orbiting Imaging Radar (VOIR) spacecraft, to be launched by the Space Shuttle in 1986. VOIR was designed to probe Venus's dense cloud cover while in orbit and map its surface, investigate its geophysical and atmospheric makeup, and continue the process of penetrating the shrouded planet with the most sophisticated nonphotographic technology to get beneath its clouds.

- A Geological Applications Program (GAP) to study the utility of remote sensing of the Earth's geological resources on a continental scale. Ultimately, this data would contribute to the discovery of vital resources such as minerals, oil, and gas. GAP is part of the technology applications from the Landsat series of satellites, which has opened up Earth exploration and monitoring from space.

- Instrument development and continued research activity for the National Oceanic Satellite System (NOSS), a joint program of three government agencies. Its mission is to demonstrate global observation of the world's oceans from space through the use of satellites.

Within the decade, the NOSS system could help predict optimum maritime routes, forecast regional fish catches, help avert coastal disasters, and provide other useful information on the world's oceanic and atmospheric processes that help determine both weather and climate.

- An upper Atmospheric Research Satellite and a Numerical Aerodynamic Simulator to improve large-scale computer technology, which measures and records airflow over three-dimensional aerodynamic surfaces as part of NASA's aeronautics research program.

International missions

In the area of planetary exploration, NASA had planned to continue the Galileo mission to Jupiter on course, with a proposed budget increase to \$108 million from the FY81 allocation of \$63.1 million. The International Solar Polar Mission, a joint program with the European Space Agency (ESA), was to be kept on target with a budget of \$58 million, from the reduced FY81 level of \$39.6 million (see below).

The Gamma Ray Observatory, begun in 1981 at a funding level of \$17.6 million, was to be geared up to a level of \$52 million; and the Spacelab testing was to be kept on schedule with adequate financial support.

Spacelab, also being built by ESA, is a laboratory that will fly in the Shuttle orbiter and allow nonastronaut scientists access to the unique environment of space. The highly flexible laboratory will permit experiments in space physics, life sciences, materials processing and many other project areas, and will in many areas shorten R&D time by 10 or more years.

In the area of technology development and applications, Frosch outlined missions to demonstrate and transfer space-related technology for benefits on Earth. For example, the Landsat data, in addition to the geological applications mentioned above, are very important for worldwide agricultural monitoring, planning, and development. The FY82 budget presented by NASA included \$33.1 million for the Agristars program. Under this program, worldwide data on crop and water inventory, disease and damage monitoring, and soil condition, all available from Landsat, would be used for better management and planning around the globe.

In sum, as Frosch put it, the FY82 budget request "produced in a highly constrained fiscal environment, is good, but not as good as it should be if we are to revitalize NASA as the cutting edge of our scientific and technological progress. We need a long-term investment philosophy for NASA," he continued, "which recognizes that the payoffs will include not only improved knowledge of the Earth and the universe but improved economic performance and more jobs here at home."

Stockman sabotage

It has been well documented that the economic payback from government investment in NASA's research, development, and technology programs and related scientific missions has the greatest return to the civilian economy of any investment the government can make.

Chase Econometrics, for example, has estimated that for each dollar spent by NASA, 14 dollars are returned to the economy in new jobs, new plant and equipment, and entirely new technologies for industry, transportation, and agriculture. In this light, none of the rationalizations for cutting the NASA budget for FY82 in order to "save money" or "balance the budget" to restore the economic health of the nation makes any sense.

Yet the Office of Management and Budget proposals released March 10 cut the funding for NASA by \$605 million, about 10 percent. (This was actually less than what OMB Director David Stockman had pro-

posed early in the budget process, when he said he thought NASA's budget could be cut by one-third, because all its projects were long-term and could be deferred.) Now, since there is no "fat" in the NASA budget—all of it is spent on science and scientific and engineering manpower—many of the programs Dr. Frosch hoped to see kept on schedule or initiated are to be dropped.

In a press conference Feb. 23, before the Reagan budget was released, Sen. Harrison Schmitt (R-N.M.), a former astronaut and the most ardent, articulate congressional supporter of the space program, agreed with this reporter that many of the NASA programs could indeed be economically justified because of their civilian payback; but the senator held fast to the argument that *some* cuts would have to be sustained by the space agency in line with the President's overall budget effort.

The present task

On April 2, nearly two weeks before the flight of the Columbia, the Space Science and Applications subcommittee of the House Committee on Science and Technology, chaired by Rep. Ronnie Flippo (D-Ala.) reprogrammed the proposed NASA budget for FY82 to add \$60 million to NASA's programs that were in jeopardy.

Although the subcommittee worked within the ceiling set by the administration budget, restoring only 10 percent of the projected cut of \$604 million, the subcommittee decided that no promising future space missions would be *cancelled*, although some were reduced and many deferred.

For example, the subcommittee held open the option that the United States could participate in a mission to study Haley's Comet when it veers near the Earth in 1986. And the International Solar Polar Mission—whose cancellation created a diplomatic storm in Washington by the Europeans who would have wasted the \$50 million they have already spent on the joint mission—was restored.

Spacelab cuts, of great concern to the Europeans who are building the facility, were lessened. The full House committee, which passed the revised Flippo NASA budget out of committee, also restored the life sciences program, the technology transfer program, and support for the science missions at a reduced level.

Ignoring the facts of the matter, a good part of the nation's media and some short-sighted congressional spokesmen squawked that the Space Shuttle is "a waste of money." (The same kind of press coverage, of course, played a large role in the erosion of NASA after Apollo.)

Almost as if anticipating this media reaction, Sen. Howell Heflin (D-Ala.) submitted a statement to the *Congressional Record* a week before the Shuttle launch,

summarizing the studies on NASA's economic impact and chiding the administration for its short-sighted view of the NASA programs:

The contribution of the National Aeronautics and Space Administration productivity in aeronautics and space activities is worthy of praise and study as an example of how government and industry can work together to make conditions better for all of us. Yet for the past 10 years America's productivity has steadily declined. . . .

I have no doubt that a major factor is the decline in support of research and development, the base on which productivity ultimately rests. It is my conviction that America's R&D effort has long been underfunded and its relation and importance to productivity and employment and confidence greatly underestimated.

Thus, it might be instructive to examine an institution which exemplifies what a government-industry-academic partnership can mean to this country in terms of productivity, economic growth, technological superiority, jobs, new industries, better methods and goods, and, perhaps, even more important, national pride and prestige. It would, in my judgment, be difficult to find an R&D team which has made more significant contributions to our country's well-being than NASA. NASA's budget represents less than 1 percent per year of federal spending, yet its impact on our economy and on our national life is substantial.

In 1965, at the height of NASA's funding, the space program budget was 3.79 percent of the total federal budget, Heflin showed in a chart. This percentage has declined steadily downwards, falling to a level of 0.82 for 1981.

After reviewing many of NASA's programs that have directly affected growth potential on Earth, such as the communications satellites and Landsat earth resources satellites, Heflin concluded:

In my judgment, we must unleash the creativity, the imagination, and the technology innovation of these superb teams of scientists and our space program and provide them with the funds necessary to move these daring programs forward. We must, for our own sake, provide new challenges to aim toward, not watch as they surpass the old ones. I am convinced that NASA is the best hope for retaining aerospace leadership and markets. I am convinced that far greater support is needed. In a larger sense, I am convinced that research and development is essential to our growth and productivity and to our spirit—the spirit that is recognized everywhere as "American."

NASA creates new economic leaps

by Dr. John Schoonover

Each new technology derived from science has a permanence that continues to benefit society indefinitely into the future. Thus capital represented by discovery outlives all other forms. Consequently, the investment in basic research should be written off over an indefinitely long time against the permanent gains acquired by society.

—Dr. Lloyd Berkner, former chairman of the Space Board of the National Academy of Sciences.

Every dollar spent by NASA during the Apollo program brought \$14 back into the U.S. economy—in the form of new technologies, factories, jobs, and related benefits. That conclusion from a 1976 Chase Econometrics study, confirming Dr. Berkner's observation, punctures the notion that projects like the Space Shuttle are merely a shot in the arm for national prestige, or perhaps for national defense. Rather, new technologies are a payoff that rapidly enters the U.S. economy from the NASA programs.

Advances in the computer and electronics industries are the best-known spinoffs from the American space program. They resulted from the stringent requirements of the control and communication systems needed for satellites and spacecraft. These, and now the achievements of the Shuttle, are transmitted to industry by the regional branches of NASA's Office of Technology Utilization. The concept of transforming new discoveries into commercial products and processes was built into NASA at its start.

The Space Shuttle itself has delivered a large payload of new materials, devices, and processes. They were developed while creating a craft that combines the capabilities of a space capsule and an airplane.

- The protective tiles, which kept the vehicle from burning up during reentry, are the most talked about new material developed for the Shuttle. The tile material for the reusable Shuttle is such a good insulator that, while its surface reached a temperature of 2,800 degrees, the aluminum orbiter shell beneath it was kept below 350 degrees. This was achieved with a layer of tiles from one-half to three inches thick. The extremely light material was initially developed by Lockheed in the 1950s.

One likely application for tile material is in energy production technology, where energy loss through heat escape is a major problem.

- To build the engine's combustion chamber, which must sustain repeated reactions, and where the ignited mixture of liquid hydrogen and liquid oxygen reaches a temperature of about 6,000 degrees and pressure of more than 200 atmospheres, Rocketdyne Division of Rockwell International had to develop both a new alloy and a new manufacturing technique. The new alloy, commercially called Narloy, combined the heat-conducting properties of copper with increased strength and machinability.

Special ducts had to be constructed for the passage of the extremely cold liquid hydrogen into the combustion chamber—resulting in a new manufacturing process, employing the new alloy.

- Out of this engine-building experience, Rockwell has launched a number of applications in the energy field. One is a down-hole steam generator for the oil industry. This device extends production from otherwise spent wells by forcing very hot, high-pressure steam into the well. Rocket technology is helping with the problem of transporting the hot steam, and with space-saving insulation.

Rockwell is also developing a high-performance pump for moving coal slurries. The pump will be able to withstand the highly abrasive coal mixture, yet require servicing only once a year. Current pumps are serviced monthly.

- Computerized electronic control of aircraft is a Shuttle innovation that came of age before the Shuttle itself. In 1972, when the project was just getting under way, the Shuttle was the only vehicle designed with "fly-by-wire" digital electronic control of its maneuvering and stability. In standard aircraft, the pilot controls the ailerons, flaps, and rudder by cables connected to his steering mechanism. The far greater precision required during shuttle re-entry led to the introduction of computer-steering for the control system.

Fly-by-wire is now coming into widespread use, and is expected to increase the already high safety standards of commercial aircraft.

- A comparison with the system for the Saturn V rockets used to launch the Apollo spacecraft shows the leap in computer technology represented by the Shuttle. Columbia's computers are forty times faster, with five times more memory and eight times as many instructions in their programs. They weigh only two-thirds as much as Saturn V's, and occupy only one-third the volume.

Shuttle scientists have developed significant new computer languages for the project. One, called GOAL, gives commands in something very close to everyday language. The program automatically scans a multitude of operating parameters bringing potential problems to the pilot's attention.

U.S. strategy: unprepared for the era of beam weaponry

by Dr. Steven Bardwell

The current debate over the military impact of the Space Shuttle began by assuming that the United States has a strategic military posture. This is untrue. The “doves” contend that the Shuttle is at best a waste of money and, more likely, a dangerous escalation of the arms race; the “hawks” take the position that the Shuttle is a military vehicle usable for countering Soviet military expansion. Both arguments begin from the old—and now outmoded—premise of a balance of intercontinental nuclear artillery constrained by a technological reality of mutually assured destruction (MAD).

Neither that balance of nuclear power nor the constraint of MAD exists any longer. We are entering a new military and strategic calculus, soon to be centered on the ability to destroy an adversary's missiles in the air, and defined by a new set of technological frontiers of which the Space Shuttle is but the harbinger. Unfortunately, the debate that should be developing this new U.S. strategy for the 1980s and 1990s has yet to begin.

The current predicament

The period from 1978 through the early 1980s demarcates a crucial conjuncture in the world military-strategic predicament. During these five years the military balance as measured by old standards is shifting from the United States to the Soviet Union; and, during the same five years, the technologies that defined the old military equation are being outdistanced.

The story of the relative decline of the United States' military power has been told in exhaustive detail.¹ Since it is no longer a point of contention for any participants in the strategic debate, let it be taken for granted. However, the developing technological situation is not so well known.

In the past two years, there has been a fundamental change in the nature of strategic nuclear war. This change involves two components: first, both the Soviet Union and the United States now possess an arsenal of nuclear armed missiles with essentially infinite accuracy. Using satellite guidance systems and sophisticated com-

puters, these missiles can be targeted within a few hundred feet of their objective after traveling thousands of miles. Since there is no known method for defending any target against a direct hit by a large nuclear explosive (past passive systems were designed for protection against the blasts occurring one-half to several miles from the target), this new level of accuracy means that there is no passive defense system capable of protecting missile silos, airfields, industrial concentrations, or other targeted objectives.

Secondly, superseding the MAD doctrine, there now exists on the drawing boards of U.S. laboratories, and in test facilities of the Soviet Union, a design for a directed energy beam weapon capable of destroying strategic nuclear weapons in flight. In the words of a Pentagon official: “[This weapon] has the potential of tipping the battle in favor of the defense for the first time in the history of nuclear warfare.” Edward Teller was recently quoted as saying that the latest step in the development of this weapon was the “most significant breakthrough in military technology since the hydrogen bomb” was invented.²

Both these technological developments, whose implication is a qualitative change in the strategic doctrine that has governed warfare for the last 30 years, depend on the Space Shuttle and its associated technologies. The guidance and control systems for advanced targeting of intercontinental ballistic missiles or cruise missiles use satellite positioning. The Space Shuttle and the beam weapon make this satellite-based surveillance and guidance practical, and relatively cheap. Similarly, the large number of small satellites required to implement a credible beam weapon antimissile system can only be practically launched with the large payload and low cost of a reusable space vehicle like the Space Shuttle. It is not so much that the Space Shuttle is a military machine itself; it is an essential part of a broad front of technological developments in computers, space travel and high-energy physics that are now under development, and whose cumulative impact is to revolutionize

military strategy.

The conjunction of these two processes creates a singular point for strategic policy-making. The United States has two options: we can pretend that the technological equation has not changed and attempt to come to terms with the growing Soviet dominance, or we can embark on the exploration of the new frontiers opened up by the Space Shuttle. The first option is certainly hegemonic in policy-making circles today and, in fact, is the common starting point for both "sides" in the never-ending debate over MAD, nuclear proliferation, arms control, and the rest.

It is essential to understand that both the hawks and doves are in fundamental agreement on the two facts, one irrelevant and the other false. Both concur that the Soviet Union is rapidly overtaking, or has already overtaken, the United States in military power (true but essentially irrelevant) and, that this balance of power must be dealt with on its own terms. Of course the hawks and doves differ about how to redress this balance, and their disagreement, while illuminating, should not obscure the more basic point: both believe that technological innovations are alternately dangerous, unlikely, or too expensive and can be put aside in assessing the military situation.

The dove position holds that total nuclear war is unthinkable, unwinnable, and certainly unpleasant. To quote them:³

Nuclear war, once begun, is likely to create a disaster of such magnitude that it is not meaningful to plan in terms of its actual occurrence. It makes little difference how things will be "after" the attack, as there will be no viable civilization remaining for either us or the Soviet Union. There will be no winners and the living will envy the dead. No *meaningful* civil defense is possible. Nuclear superiority is meaningless and impossible. The notion of "winning" strategic approaches is outmoded, dangerous and irrelevant to nuclear conflict.

This position has become less and less fashionable as its proponents now find themselves on the short side of the nuclear balance. Yet this current of thinking has devised some ingenious arguments—it has now concluded that military weakness may be the source of strategic strength:⁴

Unless either a true first-strike capability or a virtually leakproof defense becomes technically possible, that basic relationship [of mutually assured destruction] is not going to change. Thus, the central reality of MAD is *enforced by technology*. Consider the currently popular scenario of a *limited Soviet counterforce strike* that essentially

destroys the U.S. land-based intercontinental ballistic missile (ICBM) force. Some claim that the United States would be forced to choose between surrender and national suicide, that is, by attacking Soviet cities with our residual forces and expecting a response in kind. Nonsense! If "surrender" means literally that—giving up political control or making any concession fundamental enough to risk continued existence of the United States as a sovereign state—no foreign leader could blithely assume that the United States would simply give up because it had lost part of its strategic force. One perfectly effective political response by the United States to this particular Soviet attack might be to do nothing. The Soviet strategy would have failed. Suppose the idea of the Soviet attack is to extract a lesser concession on some peripheral issue. By simply refusing to make whatever concessions the Soviets demand—concessions that the Soviets could not *force* the United States to accept—the United States wins again. It is therefore the *weaker* side that controls the rules. And it is the weaker side that ultimately decides how the quarrel will be settled. In brief, it is only if the weaker side is willing to concede that the additional weapons of the other are worth something politically that they are. In fact, the only certain way that Soviet strategic power can have political value in these peripheral conflicts is for the United States to concede that it does.

For the doves, arms control then becomes predominantly a means to accomplish the larger end of technology control. Advancing technology, especially at the frontiers of the physics of high-energy densities (space technologies, directed energy beams, and nuclear fusion), by its very nature, destabilizes this military balance, and the development of these technologies is opposed in principle. The focus of SALT III is control of these new technologies much more than it is weapons control. The fear of these new technological developments has become the crux of their perception of the current national situation. A spokesman for the Office of Technology Assessment, a stronghold of the dove tendency, put it succinctly:⁵

Our being behind the Soviets is just proof of the fact that we have a free market economy. That's the price we pay for a free market economy. The Soviets and the Japanese have a planned economy and we don't want that, because it's like Nazi Germany. A planned economy would be worse than being behind the Soviets.

The opposition to the Space Shuttle emanating from this quarter is not unique to the Space Shuttle—they

oppose it because it represents new technology.

Ironically, the nominal opponents of the doves, Secretary of Defense Weinberger, Undersecretary Fred Iklé, and their cothinkers, share the same fundamental anti-technology bias. They too argue as if military strategic questions are addressable in terms of existing technologies. They differ only in that they propose a buildup of these existing weapons to match the Soviets—a classic “in-width” expansion of the U.S. military. The Weinberger budget (analyzed in detail in *EIR* March 24 and March 31) plots a course of triple disaster for the United States:

1) **A game of military catch-up.** Trying to match the Soviets piece-by-piece in armor, aircraft, and manpower is absurd when the technological rules are changing. Of course, such military hardware and manpower should be funded at greater levels than today, but *this is not a military strategy.*

2) **Assured economic destruction.** Careful econometric studies show that a military buildup of this kind would destroy the U.S. economy. The U.S. economy needs innovation, new technologies, and increases in productivity that can only come with an aggressive science research program. The Weinberger/Stockman budget selectively cuts the National Science Foundation, NASA, and advanced energy research because they are long-term investments. The military budget specifically downgrades the role of advanced research and development projects.

3) **A war over resources.** As some of the proponents of this position have recognized, a military buildup “in width” would run almost immediately into the problem of resource availability. New resources are created by new technologies, and conversely, a stagnant technological base forces an economy to rely on existing resources. Oil, for example, remains absolutely critical for an economy that has little or no nuclear investment. The unpleasant irony is that the United States under the hawk proposals would be pushed into fighting a war over resources, a war which we would lose for the same reason that we had to fight in the first place—insufficient technological progress.

The content of the Weinberger/Stockman budget has now been elaborated into a military-strategic doctrine.⁶ This military outlook accepts the reality of MAD:

The officials said the plan sheds the concept that any war with the Soviet Union would probably be of short duration and settled by negotiation or enlarged into a nuclear conflict. Instead, they said, it envisions the possibility of a long conflict with conventional weapons in several parts of the world at the same time.

The new strategy would require investing huge sums of money in weapons and ammunition,

transport, equipment and supplies. It would also require a vast mobilization of support and revitalization of the defense industry, the officials said.

The administration would retain the long-standing reliance on strategic and tactical nuclear weapons as a deterrence, the officials said, but would strive to make the military command and communications apparatus invulnerable to nuclear attack.

To these military thinkers the Space Shuttle, along with fusion and beam weapons, is a tertiary consideration—useful as a cheaper way of launching satellites, perhaps a better platform for anti-submarine detection, or maybe a more secure communication facility, but not essentially different or distinguishable from any other space technology. These same planners have had to be forced to make every technological innovation for the past 20 years—they opposed the development of the ICBM; they opposed the research to perfect the ICBM; they opposed research on advanced penetration guidance at the highest levels of the Air Force for years; they continue to oppose it now; and they would today slow down research on beam weapons and the Space Shuttle.

The significance of the Space Shuttle

The Space Shuttle is our introduction to the technological innovations avoided so assiduously by both the doves and the hawks. Its strategic significance comes from its role as the centerpiece of a program of space exploration, advanced energy development, and technological innovation. In itself, the Shuttle is merely a large, long-range truck, but in the context of an aggressively funded, broad-based program of basic science research, capital investment, and forward-looking military deployments, the Shuttle appears in its true light. A properly conceived national military strategy is, in fact, not essentially military, but rather uses the military requirements of the country to address the problems of energy research, space exploration, industrial investment, and education. Such a program, in the end, creates the conditions of material abundance and progress that go a long way toward preventing war in the first place.

1. John Collins, *U.S.-Soviet Military Balance*, New York: McGraw-Hill, 1980.

2. *Aviation Week and Space Technology*, Feb. 23, 1981, page 23.

3. *The Bulletin of the Atomic Scientists*, April 1981, page 22.

4. Glenn Buchan (Institute for Defense Analysis), “The anti-MAD Mythology,” *The Bulletin of the Atomic Scientists*, April 1981, page 13.

5. Personal communication.

6. Richard Halloran, “U.S. Said to Revise Strategy to Oppose Threat by Soviets,” *New York Times*, April 19, 1981, page 1.

Soviet space plans reach for the stars

by Marsha Freeman

During the Columbia's triumphant descent, commentators on both sides of the television screen were heard boasting that the United States is now far beyond the Soviet Union in its space effort. The enthusiasm is welcome, but the conclusion is misplaced and misinformed.

It is well known that since the 1950s, the U.S.S.R. has carried out a long-term, well-funded space exploration program. What is far less well known is that over the past decade, the Soviets have continued to launch nearly one spacecraft per week for communications, weather, reconnaissance, or manned exploration. In 1980, when the United States performed 13 missions, the Soviets launched 89. The U.S.S.R. has clocked twice as many hours of manned space flight as the United States. And the U.S.S.R. has sent up nearly three times as many spacecraft of all types.

The current Soviet view of space exploration is appropriately summarized in an often-quoted passage from a pioneer of Russian rocketry. "Man will not always stay on Earth," wrote K. E. Tsiolkovsky in his 1903 book *Exploration of the Earth with Rocket-Propelled Instruments*. "The pursuit of light and space will lead him to penetrate the bounds of the atmosphere, timidly at first, but in the end to conquer the whole of solar space."

The idea of manned exploration of the universe has been a long-term goal of the Soviet space effort, and since the 1957 launching of Sputnik, they have developed a manned space program that now far surpasses in scale its U.S. counterpart.

The Salyut spacecraft

Throughout the 1970s, the Soviets launched a series of spacecraft into near-Earth orbit to study the long-term effects on man of the space environment. The Salyut series of spacecraft has provided the Soviets with



1975 Soyuz orbit team. American commander Thomas P. Stafford and Soviet commander Aleksei A. Leonov.

a strong confirmation of the human ability to withstand long periods of weightlessness and near-isolation in space.

Salyut 6, launched in September 1977, provided cosmonauts with a well-equipped laboratory to experiment in materials processing, space photography, and medicine, as well as astronomy and physics. When Valerii Ryumin and Leonid Popov returned to Earth, they had set a 185-day record for continuous time in space—a half-year in zero gravity with few biological ill effects.

The longest mission by a U.S. team was an 84-day tour aboard Skylab. At the point when that ill-fated vehicle was falling to Earth because the Space Shuttle designed to boost it to a higher orbit had not been funded sufficiently, the Soviets' Salyut became the largest spacecraft in Earth's orbit.

Salyut's endurance record permitted scientific efforts that far outstripped American experiments. A crystallography laboratory aboard Salyut led to production of over 200 samples of crystal alloys, including cadmium mercury crystals impossible to form on Earth, with wide-ranging electronics application. A metal-smelting furnace in space took advantage of the zero-gravity environment to mix metals in ways impossible to achieve on Earth, including high-temperature-resistant steels and other prized alloys.

The Soviets plan to follow the Salyut success and its scientific breakthroughs with a permanently manned 12-person space station in the mid-1980s. Ten times the size of the manned Skylab scheduled to fly within the U.S. Space Shuttle, the Soviet station will be launched with at least double the thrust of the Saturn rockets that put Apollo into space. It will have multiple docking ports, permitting ships to permanently attach them-

selves to the unit with open docking ports for still more craft, in a modular "honeycomb" formation.

The Soviets clearly plan the permanently manned station as a base for planetary exploration, probably before the turn of the century. Numerous landings of unmanned Soviet craft have already occurred on Mars, performing many of the experiments needed to prepare for manned landing parties.

The Progress shuttle

During the three and a half years Salyut 6 has been in orbit, it has been visited by 28 Soviet spacecraft. The Progress series of unmanned vehicles delivers scientific instruments, fuel, and other supplies to the Salyut cosmonauts. Eleven Progress supply vehicles made visits; Progress 7 delivered a new cosmic-ray telescope and used its engines to boost Salyut to a higher orbit—the way the Shuttle was originally supposed to boost Skylab.

The Progress ships burn up on re-entry, unlike the U.S. Shuttle; the U.S.S.R. is also developing a reusable space shuttle. American specialists say the Soviet shuttle design resembles the Dyna-Soar program NASA pursued in the 1960s. In March 1978, *Aviation Week & Space Technology* reported that since 1975 the Soviets have been drop-testing a free-floating glider (like the U.S. Shuttle). *Aviation Week* suggested that the delta-winged Soviet shuttle would be launched by a totally reusable booster, perhaps launched horizontally along a runway used by commercial aircraft.

International effort

The Soviets' manned space program has another aspect that the U.S. program has downgraded by comparison. The U.S.S.R. effort is international, training cosmonauts from the East bloc, France, and developing nations, including Vietnam and India. The U.S.S.R. also signed a bilateral space agreement in 1966 with France; the two nations have conducted joint experiments in outer-space physics, studies of the Earth's magnetosphere, and joint communications transmissions.

Meanwhile the U.S.-Soviet cooperation program—which entailed an exchange of dozens of scientists and engineers in preparation for the 1975 Apollo-Soyuz mission—has languished.

In the days following the Columbia's return, Soviet President Leonid Brezhnev renewed an offer to the United States to cooperate in space development. At a point where, as in fusion energy development, future missions in space will be costly and long term, the opportunity for international cooperation is an attractive course.

The Reagan administration has made no comment as yet either on the future of the U.S. space program or on the Soviet offer of cooperation.

Aleksandrov on the Soviet space goals

On April 10, the Soviet Academy of Sciences celebrated the 20th anniversary of Yuri Gagarin's flight into space, the first ever by any man. A. P. Aleksandrov, president of the Academy and a major figure in Soviet science and technology policy, addressed the commemorative meeting in Moscow. We excerpt here from his speech.

One of the main levers for the intensive development of the national economy is technological progress, which is based on major scientific discoveries and deep penetration into the phenomena of nature. The study and mastery of space holds a worthy place in its acceleration and in solving the most urgent theoretical and practical problems of the comprehensive utilization of scientific achievements in the national economy.

In turn, the achievements of space exploration are linked to the entire course of scientific and technological progress. The very fact of the emergence and perfection of space exploration should be viewed as an integral indicator of the might of the productive forces and the scientific and technological potential of the country, the high degree of its economic development and the educational and cultural level of the population. . . .

The 20 years since the triumphant flight of Yuri Gagarin have been filled with intense and fruitful work by Soviet space explorers. Going into space has changed from an extraordinary event to a constant factor. . . . Soviet space science today means powerful rockets, satellites, automatic interplanetary stations, piloted ships, and orbiting stations. It also includes long-distance radio communication, the global collection of meteorological information, study of the Earth's environment and natural resources, and the solution of many basic problems of science. . . .

If you sum up the days spent on the Salyut-6 [space laboratory] by the four main expeditions, you get over a year and a half of constant work. Valerii Ryumin holds the record, which will not soon be surpassed, of 362 total days in space. . . . I can say with confidence today that thanks to this, the basic technical and physical problems of long-term stays by man in space have been solved.

What are the prospects for developing orbital stations? Today, comparatively small, but long-lasting, apparatuses equipped with one or more docking joints, which allow new modules and equipment to be docked to the station, are now fully justified. The main purpose of such stations is to make possible ever new types of scientific research and to develop methods of measurement especially for this apparatus. Automatic space probes will also be improved, and automatic flights will become a reliable instrument for knowing the universe.

Allies protest the NASA cutbacks

by Dana Sloan.

"The European Space Agency's survival may be at stake" as a result of the cancellation of the joint ESA-NASA Solar Polar mission, declared French state secretary for scientific research Pierre Aigrain on a visit to New York April 17.

In an interview with reporters, Pierre Aigrain explained how ESA was jeopardized after budget cuts here forced the cancellation of the joint project, on which ESA has already spent large amounts. The cancellation and ESA's public protests, covered by *EIR* on March 11, have gone largely unreported in the American press.

The International Solar Polar Mission was a cooperative ESA-NASA venture, in which two spacecraft, one developed by ESA and the other developed by NASA, were to be launched by the Space Shuttle. Their trajectories were to take them on paths overflying the poles of the Sun after using Jupiter's high gravity as an accelerating force to throw them out of the ecliptic plane. This was to be the first time that a spacecraft would go out of the ecliptic plane.

In testimony before the congressional Subcommittee on Space Science and Applications last month, ESA Director-General E. Quistgaard warned that as a consequence of the decision, which at the time was not final, "European scientists from no less than 17 scientific institutes who are participating in experiments to be flown on the NASA spacecraft would no longer be able to fly them. This will have profound consequences on the long-term research activity of these groups and nullify the efforts already invested in the mission."

Aigrain told *EIR* that he hoped Congress would give NASA more funding now, after the success of the first Space Shuttle flight, to give a fresh start to the same or a similar project. And despite some announcements that the Spacelab, which ESA is building to fly on the Space Shuttle, was in jeopardy, Aigrain appeared confident that funding problems have been resolved.

The French minister issued an appeal for international cooperation, particularly between the United States and Western Europe in basic science projects. As an example, he cited the case of the Large Electron Positron (LEP) particle accelerator currently being built by the European Center for Nuclear Studies and Research (CERN) based in Geneva.

In a striking presentation to members of the French community in New York, Aigrain explained how the government's ambitious program for scientific and technological R&D has come to be shared by the citizens of the country. Because the government has taken the pains to educate them on the necessity for nuclear energy, for example, it is now common to find vacationing French citizens touring nuclear plants. But 1990, 80 percent of France's electricity requirements will be met by nuclear power.

As he explained it, France has only one unlimited natural resource: the scientific and creative capabilities of its population. "And gray matter has one enormous advantage," he declared. "It is the only raw material that doesn't get used up when you use it. In fact, the more you use it, the more you have of it."

Aigrain emphasized that "it would be inconceivable, it would not permit our population to satisfy its aspirations, if we were not engaged in a research effort placing us among the first in the world. . . . We have great ambitions, but they can only be realized if the population as a whole considers scientific and technological research to be the future of the nation."

To that effect, the French government published a White Paper on scientific research and circulated it widely, especially in the media. "It had the impact we wanted," he said, "which is that for the first time, research became the main preoccupation of the nation."

Americans should take a hard look at Budget director Stockman's budget cuts into research after considering that.

France has the "world's most ambitious research program" for the next seven-year period. The Eighth Plan calls for 7 to 8 percent increases in research spending per year for the next seven years. The 1981 research budget, adopts the 8 percent increase figure over 1980. According to Aigrain, this is the highest growth rate in the world, including Japan.

Interview

French official calls for U.S. push

The following are excerpts of an interview with Pierre Aigrain, state secretary of France in charge of research, which was conducted on April 17 by EIR's Dana Sloan.

EIR: The Ariane will be launched in June of this year. What is the perspective after that?

Aigrain: After that there will be another launch, assuming that this one is successful, of course, so that the

launcher can be considered qualified. The rule is that it has to be launched three times successfully, or four times with one launch that may have missed, if the reason for the miss is known—which is the case. We know why we did have a miss. If we have two successful launches now, the launcher will be considered qualified for “commercial use.”

I say “commercial use,” because some of the things which will be launched will not really be commercial, like *Meteo-Sat*, which is a meteorological satellite. We have a number of customers who have already placed orders for a launching satellite, including *Intelsat*, and we have different projects, German-French projects, telecommunications satellites, and a direct TV satellite which will be put in orbit around 1983 or so. We are very optimistic about a reasonable number of customers for *Ariane* launchers.

And I don't believe we are really in competition with the Space Shuttle with this. Space is enormous, there are different sections of space, and there is room for everybody. In fact *Ariane* was much more in competition with the four *Delta* launchers, which is an old launcher not really being used anymore.

EIR: You have said that the cancellation of the NASA Solar Polar mission “threatens ESA's existence.” Can you elaborate?

Aigrain: Here's the problem. [The European Space Agency] ESA is a fairly large organization and during a long period ESA was concerned with experimental satellites in telecommunications and things of that kind. And of course, it was concerned with the launcher and the Space Lab project. Now that the launcher project is almost over, of course we will have development of the [*Ariane*] launchers, since every launcher has evolved, become bigger and so on. But that part of ESA's work is finished. The television and telecommunications satellites are becoming commercial, and so they are taken over now by other types of organizations, for example, by the minister of telecommunications of various countries. So they are getting out of ESA. ESA has done its job.

So, while I'm oversimplifying somewhat, what ESA was left with was basically the scientific missions. And here you have one of the important scientific missions it was involved in falling apart. So we have come to the point where ESA's fixed costs are becoming too large compared with the workload.

EIR: Do you have any reason to believe that the Solar Polar decision could be reversed at this point?

Aigrain: The U.S. knows this better than I do. But I would hope so. I would hope that possibly other projects could be found in cooperation with the U.S. in this area of basic science.

EIR: Perhaps with the success of the Space Shuttle there will be a mobilization of support.

Aigrain: Yes, we can hope that Congress will give more money to NASA, and that NASA will be able to start either the same project or a new project.

EIR: Some people, particularly in the Club of Rome and related world institutions, claim that we have entered what they call the postindustrial society. Do you think this is true, and if not what role can research play in the future of industry?

Aigrain: I think that it's partially true. *If* what is meant by that is that the share of the Gross National Product of a new type of service—which by the way is strongly technology dependent—like information storing, treatment, and so on is increasing and is going to go on increasing. And if you call a society, an economy in which the share of that type of service has become large and may possibly become a majority, then it's true that we are moving toward a postindustrial society, or we are already in it.



Pierre Aigrain.

The point I would like to make is that the postindustrial society is a big user of science and technology. Second, it is obvious that it can only exist if the industrial hardware part of the system is there. The cost of that hardware, the proportion of that hardware in the GNP may be small and may even be decreasing, but it is essen-

tial. If it is not there, then the rest is not there.

For the same reason, the number of people involved in primary agriculture in the developed countries has been going down. But it doesn't mean that food production is going down. Fortunately not; food production has been going up, and I believe that industrial production will be going up and certainly will be going up in terms of included R&D. So it's true, we have entered the postindustrial society, but in the postindustrial society the role of industry is enormous.

EIR: It seems from what you are saying that there are two different concepts of what is called the “postindustrial society,” the one that you have just given and the one being put forward by the environmentalist movement, for example?

Aigrain: That's not the postindustrial society. That's the *pre-industrial*, and even to some extent the *pre-civilization* society. I don't believe, and I hope this is not, the way we are moving. I don't believe we should have a society which is a combination of stone age economics plus philosophical discussions.

Yamani offers price drop, and Middle East stability

by Robert Dreyfuss

Saudi Arabia's Oil Minister Ahmed Zaki Yamani pledged this week to use his country's enormous oil and financial resources to bring down oil prices, stabilize the world oil market, and establish a basis for a lasting settlement of the Arab-Israeli conflict.

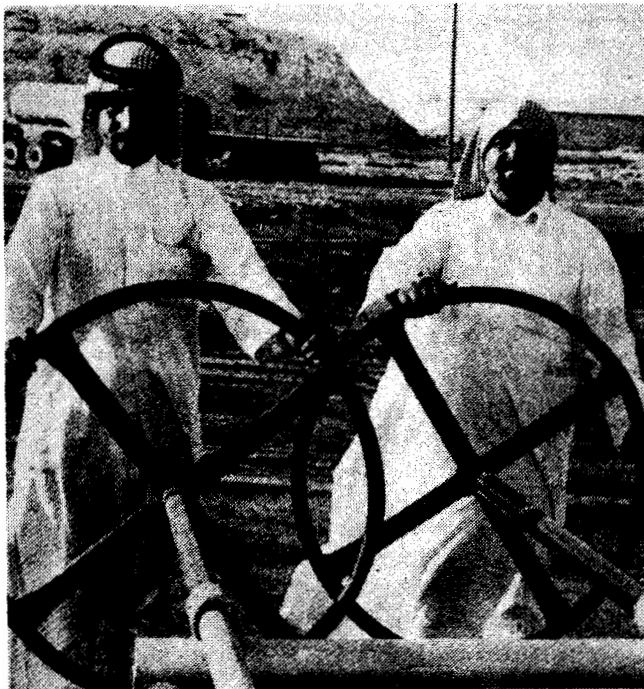
By reaffirming Saudi Arabia's commitment to maintain its oil production at a high 10.3 million barrels a day, Yamani brought about a potential revolution in world energy prospects. For the first time since Henry Kissinger's rigged 1973 oil price shocks that followed the October War, and the tripling of oil prices again during Zbigniew Brezezinski's 1978-79 Iran crisis, the world is confronted with the likelihood that oil prices will start to come down. Predictions by the Aspen Institute, British Petroleum, Armand Hammer, and the Trilateral Commission that energy costs would continue zooming upwards during the 1980s could now, following Yamani's statement, be headed for the trash bin.

Specifically, Yamani declared that despite heavy pressure to cut Saudi production because of a severe oversupply of oil—the so-called glut—the Saudis would not reduce their current production levels until other members of the OPEC cartel reduced their prices between \$3 and \$8 down to the Saudi level. In addition, Yamani extended an Arab peace offering to Israel, in the belief that a continuing Middle East conflict can only contribute to renewed instability in the world's oil supply.

But Yamani was not speaking just for Saudi Arabia. The Saudi policy decision to force a reduction in world

oil prices was closely coordinated with Saudi Arabia's allies in France and West Germany. Earlier in April, Saudi government and the Franco-German axis which, in the French and West German governments. That loan consolidated the ever closer partnership between the Saudi government and the Franco-German axis which, in 1978, established the European Monetary System. The loan gave Paris and Bonn additional clout in their international battle against the high-interest policies of the City of London and Paul Volcker's U.S. Federal Reserve System, and will be used in a wide range of French and West German industrial and energy-related fields. President Valéry Giscard d'Estaing of France, in an interview on French television, called the loan "unprecedented" in history since it involved two states on the borrowing side, and he declared that the loan underscored that Franco-German relations had passed beyond a mere partnership into "entente."

Next week, Chancellor Helmut Schmidt of West Germany will pay a state visit to Saudi Arabia. In an interview published in Saudi Arabia April 20—timed to coincide with the arrival in the Saudi capital of Riyadh of the veiled figure of British Prime Minister Margaret Thatcher—Schmidt praised the "wise and moderate policy" of Saudi Arabia and called that country "an excellent stabilizing factor" in the Middle East. He said that during his visit he would discuss with the Saudis the international situation as a whole, the role of the big powers in the Middle East, and the current situation in



Producing Saudi Arabia's deliberate glut.

Europe. And, in a slap at certain Anglo-Zionist interests, Schmidt declared that "no third party" would be allowed to stand in the way of West Germany's intent to sell arms, including Leopard tanks, to Saudi Arabia.

The Franco-German strategy involved with the Saudi initiative is roughly as follows: if Saudi Arabia can bring about a stable world energy market, then the EMS countries can effectively launch a worldwide economic recovery program to restart industrial production in the developed countries through export credits granted to the Third World. The core of that program will be oil-for-technology agreements with the OPEC states and non-OPEC oil producers such as Mexico, along with the development of high-technology energy resources, like nuclear energy and fusion research. According to well-informed sources, the Saudis are considering several plans that involve Arab investment in fusion energy research and nuclear power development. "The Saudis want to invest in high-technology alternate energy," one expert said.

In this context, the decision by the White House to include the sale of five AWACs radar planes in the U.S. arms package for Saudi Arabia represents a major signal that President Reagan wants to get the United States in on the Saudi-European deal.

The announcement that five of the \$400 million AWACs aircraft would be delivered to Saudi Arabia by 1985 came as a surprise to many Washington observers. Not only had the Israelis committed themselves publicly

to oppose the sale, but Secretary of State Alexander Haig had staked what remains of his declining prestige on his own opposition to the AWACs deal. But Reagan, backed by the White House staff, overrode Haig, and the AWACs are now included along with the fuel tanks and other add-on equipment for 62 McDonnell Douglas F-15s, the KC-135 in-flight refueling craft, and a number of Sidewinder air-to-air missiles.

Though congressional opponents of the AWACs sale may force the White House to postpone its official submission of the package for a few months, the Saudis are satisfied that the White House is committed to the security of Saudi Arabia. And, in fact, by waiting until after the June 30 Israeli elections, Reagan will avoid handing warlike Prime Minister Begin a re-election issue to use in whipping up votes against opposition leader Shimon Peres.

Now, the question is whether Reagan will follow through on Middle East policy. Chancellor Schmidt, in the Saudi interview, said that he intends to place the issue of the Middle East high on the agenda when he comes to Washington later this month. According to highly informed Arab sources, Schmidt intends to use his visit to Saudi Arabia to explore the possibility of mediating between the White House and the Palestinians, including the PLO.

The Saudis are doing some effective lobbying of their own. Yamani met April 22 with Secretary of Energy Edwards and other U.S. officials.

'We engineered the glut'

In his televised interview, Yamani said publicly for the first time that it was the deliberate intention of Saudi Arabia to produce so much oil that other countries would have to reduce their prices. In speaking of the oil surplus on the world market, Yamani asserted, "We engineered the glut in order to stabilize world oil prices." For at least a year, the Saudis have been producing up to 10.3 million barrels per day, leading many to suspect that the Saudis were deliberately flooding the market. Now Yamani confirmed this idea. He added that his country would continue to pump more than 10.3 million barrels per day for even another year, until the price breaks.

The main cause of the oil surplus, of course, is the drastic decline in industrial production in the West caused by high interest rates and inflation since 1978, which has led to extremely sharp cutbacks in consumption of oil, especially in the United States. But during this period, the Saudis were expected to cut their production from 9 million barrels per day to about 6 million barrels per day to sustain the upward price trend. Instead, with the elimination of Iranian and Iraqi output, Saudi Arabia increased its output even more.

Other oil producers are feeling the pressure. Mexico, Nigeria, Iran, Kuwait, and Qatar have all had to institute price reductions in the past week or face losing customers to Saudi Arabia's much cheaper oil. Several oil companies cancelled contracts worth \$900 million with Nigeria, and Persian Gulf nations that jacked up prices with add-on "premiums" are now quietly removing those premiums to continue to sell their oil. Mexico, not an OPEC member, is finding it difficult to sell 70 percent of oil exports of the heavier Maya crude, now overpriced despite a \$3 price cut.

To intensify the pressure, the Saudis cut prices from \$36 to \$34 on the 600,000 barrels a day that it produces to make up for the loss of some Iraqi oil output. Most Saudi crude sells for \$32.

In the spot market, where the price floats free, the spot price has suddenly fallen below \$36, putting it at a level below that at which most OPEC oil is sold in long-term contracts!

Saudi offer to Israel

While acting to stabilize the world oil markets, the Saudis also extended a hand of peace to Israel and to Shimon Peres, a candidate for prime minister in Israel's June 30 vote.

Yamani was quite explicit about his country's offer to deal with Israel. "The only way for the Israelis to get peace is for them to shake the hand that is offered to them" said Yamani. But he disagreed publicly with General Haig's policy of subordinating the Arab-Israeli dispute over Palestine to the "larger" issue of the Soviet threat. Instead, Yamani suggested, only by solving the Palestinian issue could the Soviet Union be stopped effectively in the region. "If you solve the Palestinian problem, you stop the Soviets," he said. "The Soviets are entering our area only through the Israeli door."

Asked about the idea of an American troop presence in the Middle East, Yamani said, "We don't think an American presence will help. We think it will invite a Russian presence somewhere in the area."

Equally interesting, Yamani declared that those forces in the United States trying to prevent Saudi acquisition of American weapons are siding with Israel's Menachem Begin in the elections. No American would oppose the sale of arms to Saudi Arabia, Yamani declared, "unless you want to help Menachem Begin win the election." With that statement, Yamani made it pretty clear that the Saudis favor Shimon Peres in the June vote.

The basic Saudi strategy, worked out in coordination with the French and West Germans, is for a moderate Arab bloc including Saudi Arabia, Iraq, Jordan, and eventually Egypt to join with a Shimon Peres-led Israel to reach an immediate preliminary accord on the basis of a Palestinian solution.

Will Haig succeed in splitting Lebanon?

by Judith Wyer

A full-scale blowup of Lebanon was narrowly averted last week when the French government interceded with the Reagan White House to restrain Israel from invading Lebanon. It is rumored that Reagan went so far as to deliver a message to Begin that should Israel invade, the United States would immediately halt all arms shipments to Israel.

For the moment, this Franco-American diplomatic effort has undercut a ploy by Secretary of State Alexander Haig to trigger a limited Syrian-Israeli showdown over Lebanon. Reliable sources confirm that during his visit to Israel in April, Haig "gave Israel the green light" to go into Lebanon in defense of the Falange forces that have been fighting Syrian troops. The same sources report that behind the scenes, Syria and Israel have been plotting a war in Lebanon that would leave the country partitioned into ministates under the control of Syria in the north and Israel in the south.

Haig sees a renewed Lebanese war as the way to keep the discredited Camp David step-by-step negotiations on track. According to Haig's scenario, a controlled Israeli-Syrian war would result in Israel's agreement to return the Golan Heights to Syria in exchange for control of southern Lebanon. This scenario is not originally Haig's; it is the work of his good friend Henry Kissinger, who contrived the 1975-76 Lebanese civil war as part of the diplomacy that led to the Egypt-Israel Camp David treaty.

The Jordan option

Haig, along with National Security Adviser Richard Allen, aims to destroy the so-called Jordan option, i.e., the option of bringing Jordan into expanded peace talks that would include Palestinian representatives. France has been the strongest advocate of the Jordan option as a means of resolving the Palestinian problem, which Camp David bypasses.

Jordan's King Hussein has refused involvement in the Camp David talks and has called for a return to an

overall framework of negotiations including Palestinian representation. Pre-empting the Jordan option is the basis of a potential alliance between Syria, which has been feuding with Jordan, and Israel.

According to Georgetown University Prof. Edward Luttwak, the concept of an agreement between Israel and Syria against Jordan is now being actively considered in Israel. Luttwak remarked: "There's a body of opinion in Israel that thinks that the Jordan option is foolish. This school thinks that when the Syrians come around to make peace, Jordan will follow. They think that the key now is a deal with Syria. They think it is the right moment. . . . Syria is beleaguered, isolated, so now's the time to move in."

Luttwak identified one faction favoring this "concept" as centered around former Ambassador to Washington Simcha Dinitz, a long-time Kissinger confidant. Dinitz is leading a hawkish faction of the Israeli Labour Party in opposition to the pro-Jordan overtures by its chairman, Shimon Peres, who is challenging Begin for prime minister in the June elections.

Luttwak himself was charged with writing a position paper for Richard Allen on the strategic implications of partitioning Lebanon not long before Haig's departure for the Middle East.

France's motive for support of the Jordan option is to resolve the Palestinian problem, which Paris sees as the main roadblock to stronger Euro-Arab economic relations. This is one reason France so aggressively exercised its influence to halt a Lebanese war. French sources confirm that during his visit to France, Haig intervened to sabotage delicate French diplomacy with the Soviets and certain Arab states to bring about the removal of Syrian troops from Lebanon.

The Israeli wild card

The Israeli government is reportedly worried that the potential French-American rapprochement might seriously hobble Israel in future Middle East negotiations, if the French position should gain capital with the White House. A Washington source who is close to Begin circles complained that "there is pressure on the White House to veto Haig's granting to Israel a 'free hand' in Lebanon. France is the key to this. . . . French-American relations are direct now right up to the top."

With Haig's setback and this week's announcement from the White House that it intends to sell Saudi Arabia a full package of arms over the strenuous objections of Israel and Haig, the danger intensifies that Israel may defiantly pursue its invasion scheme.

Since the announcement of that White House decision, fighting in Lebanon has dangerously sharpened. For its own part, Syria is adding fuel to the simmering Lebanese fire. One day after the worst fighting since the imposition of last week's ceasefire, Syria's *Al Baath*, a

daily of the ruling Baath Party, editorialized that the Lebanese government should call in Syria to liquidate the Lebanese Falange sect, since "the Falangist link to the Israeli enemy no longer needs proof."

At the same time, fighting flared again between the Falange and Syria in Beirut and the eastern city of Zahle, last month the site of the worst fighting in three years.

Israel, meanwhile, has intensified its warnings that it is prepared to come to the military aid of the "besieged" Falange. Moshe Arens, the head of the powerful Israeli parliamentary committee on security and intelligence, last week called upon Begin to intervene if Syrian-Falangist hostilities continued.

Arens was echoed by Israeli Deputy Defense Minister Mordechai Zippori, who publicly warned that Israel is now prepared to take "vigorous action" in pursuing Palestinian terrorists in southern Lebanon. Less than 24 hours later, Israel conducted a sea raid on the port of Tyre, a southern Lebanese town with a heavy Palestinian presence.

An Israeli source observed that if the administration continues its policy of arms sales to Saudi Arabia, it will "be tit for tat. The Israelis will push in Lebanon." He cynically concluded that the "strategic consensus" between France and the United States that had pre-empted Israel "will go nowhere, like all the past dreams of a comprehensive settlement." The source estimated, "It would take three days to clean out the goddamned PLO—let the world scream."

Extremist elements within the PLO itself are providing Israel with every excuse to invade Lebanon. Palestinian shelling from Lebanon into northern Israel resumed the week after Easter, following a Palestinian National Council meeting in Damascus where both Syrian President Assad and the more moderate PLO leaders took an unusually hard line toward Israel and the United States for heating up the Lebanon crisis. It is no secret in the Middle East that Israeli intelligence covertly controls elements of Palestinian terrorist cells.

The question is whether the divided Reagan administration will be able to restrain Israel. Last week, Lebanese Major Saad Haddad, the Israeli stooge who heads a Christian militia in southern Lebanon, led a bloody bombing raid against the southern Lebanese port town of Sidon, killing scores of civilians. But immediately after the raid, Haddad was suddenly taken ill and whisked to Israel. It is believed that Begin may have reined in Haddad following stern warnings from Washington not to escalate the Lebanese warfare.

French sources are worried that Israel will nevertheless intensify its intervention into Lebanon. *Le Matin* this week reported that Israel will now step up its "pursuit" of Palestinian terrorists in southern Lebanon, a move that could get out of control dangerously fast.

Unholy alliance with the KGB's Arabs

by Mark Burdman

Evidence has mounted that a faction within Israel's Mossad intelligence service has effectively struck a deal with a Soviet KGB faction to heat up the Lebanese crisis. The aim of this emerging arrangement is to heighten tensions throughout the Middle East, and, most immediately, to secure Menachem Begin's re-election when Israelis go to the polls on June 30.

The KGB partners in this deal, who belong to the Soviet "Comintern" group headed by Central Committee members Boris Ponomarev and Mikhail Suslov, are promoting Begin's re-election because his cabinet's annexationist policies toward the West Bank and other areas guarantees the radicalization of the Palestinians, Syrians, and other Arab elements, thereby increasing KGB influence in the region.

By contrast, a solid victory by Begin's challenger, Labour Party chief Shimon Peres, opens the possibility that Israel will embark on a program for "regional economic cooperation to combat fanaticism and terrorism," a program enunciated by Peres in a March 25 interview with the Jerusalem Domestic Service and reiterated in an April 21 interview with the *Washington Star's* Georgie Ann Geyer. Peres's offer to Saudi Arabia, Egypt, Jordan, Iraq, and other Arab nations would serve to isolate radical KGB networks in the Middle East.

Lebanon enters into this electoral game in the following way. By all reliable estimates, Begin has no chance of winning the election without a military crisis in the region. Despite recent signs of slippage in the pre-electoral polls, the Labour Party is universally expected to gain at least a plurality in the June 30 vote. In the words of an Israeli source in Washington, "If I were Begin, I'd escalate the Lebanese crisis for purely electoral considerations, leaving aside the strategic reasons. The tension in Lebanon at a lower level of fighting has already hurt Peres. A full-fledged confrontation involving Syria would be the best thing in the world for Begin."

PLO endorses Begin

The KGB-Begin deal is being carried out on the Soviet side through KGB activation of its Arab assets into a hard-line anti-Israel, anti-Western posture. Individuals in Begin's high command have proceeded to use

this posture as a pretext for proposing to invade Lebanon.

Thus, at the recently concluded biannual Palestine National Council meeting in Damascus, decisions were taken to reintegrate the proterrorist Popular Front for the Liberation of Palestine into the Palestine Liberation Organization and to reject the Middle East peace overtures from the Western European countries.

Vis-à-vis the Israeli elections, the PLO foreign minister, Farouk Kaddoumi, told the April 6-12 issue of the Beirut weekly *Monday Morning* that the PLO has an "advantage" in Begin's being in power. "Before Begin's victory [in 1977], the Israeli Labour Party was able, to a certain extent, to hide its fascist activities in the occupied territories. Begin did us a great service by exposing Israel as an expansionist, fascist entity and an advance post for international imperialism in the Middle East."

According to Shalom Cohen, the correspondent for France's daily *Le Matin*, superhawks in Begin's cabinet are responding in kind to the PLO profile.

On April 21, Cohen reported that a spokesman for the Israeli Army "justified" Israel's growing number of raids into Lebanon on the basis of the "intransigence of the PNC meeting" just concluded in Damascus.

No sovereignty

According to Cohen, Agriculture Minister Ariel Sharon heads a significant cabinet faction that sees the current moment as "a time as never before" to destroy the infrastructure of the PLO in Lebanon.

The Sharon grouping, Cohen asserts, is actively considering "preventive war" with Syria, ostensibly to stop a massive Syrian arms buildup projected for between now and 1985. Sharon's advocacy of such a strategy, of course, promotes the opposite effect; it will increase the Soviet KGB and military presence in Syria while generating an even greater arms buildup in the country.

Sharon is echoed by key leaders in the Israeli high command. The Hebrew-language newspaper *Davar* on April 19 published an interview with Northern Forces Commander Gen. Avigdor Ben-Gal, who is responsible for many of Israel's raids into Lebanon. Ben-Gal, a close ally of Chief of Staff Rafael Eytan, proclaimed that Israel should support the Lebanese Falangist militia "in the hope that they would take over the entire country." Should this "war of liberation" destroy Lebanon's present national structure, Ben-Gal noted, Israel would deal with "the something else" that would rise "from the ruins."

Ben-Gal was backed by Israeli General Even, who proclaimed on April 17 that "we are on the offensive. We are the aggressors. We are penetrating the so-called border of the so-called sovereign state of Lebanon, and we will hit [the PLO] where they hide."

Emergency U.S. policy toward the endangered nation of Lebanon

by Lyndon H. LaRouche, Jr., Advisory Council, NDPC

The following statement was issued by the National Democratic Policy Committee on April 14.

During the 1980 campaign for the U.S. presidency, President Ronald Reagan received extensive support for his election from among both Christian and Islamic Arab-Americans of Lebanese extraction, as I received significant help from among leaders of the same community on behalf of my own candidacy for the Democratic Party's presidential nomination.

The time has come for both the President and I to discharge our obligation to those supporters. We are not obliged to adopt precisely the proposals offered by various sections of the Lebanese-American community. We are obliged to take a course of action which represents efficient justice for the endangered nation and people of Lebanon.

It is my direct knowledge of matters, that since before the destabilization of Lebanon began openly, during April 1975, Henry Kissinger and elements of the U.S. State Department have pursued a policy toward Lebanon which is most charitably described as inept in conception and bloodily immoral in consequences. This role of the State Department in the fate of Lebanon has not been corrected to date by the incumbency of Secretary of State Alexander Haig.

It is not necessary to adopt final judgment on the reasons for the ineptness of Secretary Haig's performance to date. We need not conclude that this ineptness is chiefly the influence of Kissinger and Carter holdovers within the State Department. We need not conclude that it is either Secretary Haig's close past association with Henry A. Kissinger, or the Secretary's excessively passionate affection for British foreign policy influences. It is sufficient to recognize that the continuing policy to date is inept in respect of U.S.A. vital strategic interests, and immoral in consequences for the endangered nation and people of Lebanon.

It is sufficient to emphasize that this policy must be changed promptly, and that, clearly enough, only the authority of President Ronald Reagan can change it. Therefore, I appeal not only to President Reagan, but

also to others whose support the President will require to make such urgent changes.

I appeal to members of the Congress to consider and support the policy I outline here.

I appeal to the Lebanese-American community to rally with us to mobilize the conscience of their fellow citizens on behalf of justice for Lebanon at last.

I appeal to the admirable President Saddam Hussein of Iraq to weigh the wisdom and justice of what is proposed.

First, I outline the proposed emergency policy, and then I elaborate the principal strategic and other considerations to be taken into account respecting the timing and consequences of such a policy.

I. U.S. Lebanon policy

1) There is only one practical policy for Lebanon. This is a policy consistent with the sovereignty of that nation and its people, and a policy which will contribute substantially to strengthening the preconditions for stability and peace in the Middle East.

2) The only workable policy toward Lebanon is the immediate and full restoration of its status as a sovereign, multireligious state, under the constitution and within the borders, as existing prior to the April 1975 outbreak of overt, bloody destabilization within the nation.

3) This requires that the asserted spheres of influence of both Syria and Israel within Lebanon's borders be terminated, and that the only military forces tolerated within Lebanon's borders are: a) the military forces commanded by its own government, b) advisers and auxiliary units attached to the Lebanese military under treaty arrangements negotiated by the sovereign government of Lebanon under conditions of negotiation consistent with the principle of sovereignty.

4) The stability of the reconstituted sovereign nation of Lebanon requires economic reconstruction measures either repairing the damage done since April 1975, or providing new elements of industry, agricultural development, and infrastructural development offsetting the damage done over the course of the intervening period.

5) This serves the vital interests of the United States, continental Europe and the nations and peoples of the Middle East region.

Although the term "buffer state" has unhappy connotations, the stability of a sovereign nation of Lebanon on the indicated basis significantly lessens the elements of instability in the region as a whole, to the advantage of all concerned. Therefore, Lebanon should not be defined as a "buffer state," but rather the valuable "buffering" effects of a sovereign nation of Lebanon should be a principal strategic consideration.

II. The urgency of action

1) The perceived political expediencies of the incumbent governments of Syria and Israel have visibly prompted both governments to seek a fresh confrontation between Israel and Syria through bloody provocations conducted on the territory of Lebanon.

During the period of the fraud-permeated Jerusalem conference on terrorism, cosponsored by British intelligence service interests, a bloody insurgency by Muslim Brotherhood terrorists was in progress within Syria. Under these circumstances, Prime Minister Begin stated, in the context of that Jerusalem conference, that unless President Hafez Assad joined the "Camp David" agreements, the Muslim Brotherhood's rampages inside Syria would continue. It is well established that factional elements within the Israeli command are in collaboration with Muslim Brotherhood forces, including elements of the Muslim Brotherhood within or proximate to the Palestine Liberation Organization.

Under these circumstances, the Syrian government of President Hafez Assad negotiated a mutual-defense treaty with the Soviet Union. This treaty is assessed as of deep strategic implications, in contrast to previous relatively lower-commitment relationships between the Soviet Union and Arab governments of the Middle East region.

2) This treaty arrangement intersects the principal factional conflicts within the Soviet Union's command. A summary of the nature of those factions is indispensable for proper evaluation of the implications of President Assad's current adventurist actions in Lebanon.

a) The leading Soviet factions are most efficiently identified as divided between two currents. One current is best described in thumbnail as "Soviet nationalist," with pedigrees traced back to the Stalin faction's version of "socialism in one country," and based chiefly in the Soviet state apparatus. The opposing current is associated with Mikhail M. Suslov and Boris Ponomarev of the Soviet Central Committee, and is otherwise centered in the largest of the Soviet foreign intelligence organizations, IMEMO, overlapping the principal foreign intelligence elements of the Soviet State Security Apparatus, the KGB.

IMEMO is a post-1956 reconstitution of the foreign intelligence apparatus of the former Communist International, the "world revolution" faction formerly associated with such competing factions of world-revolutionists as former Parvus (Alexander Helphand) protégés as L. D. Trotsky and N. Bukharin, and with G. Zinoviev. Essentially, these elements associated with the policies of Boris Ponomarev are most usefully described as "neo-Bukharinites."

b) To understand Soviet relations to President Assad, President Qaddafi of Libya, and to the Muslim Brotherhood, one must focus attention on two former British Secret Intelligence executives presently occupying leading policy-making positions with both IMEMO and the KGB. Donald Maclean has been a leading policy adviser for IMEMO since 1963, and Harold "Kim" Philby is presently a Soviet KGB General with great influence over Soviet policies in the Middle East, Libya, and elsewhere.

Several executives of Arab nations' intelligence services have corroborated, independently of one another, our own findings on the continuing connections between Soviet KGB Gen. Harold "Kim" Philby and British SIS. Not only are the Communist parties of the region directed by IMEMO and the KGB, but these parties are also directed through British foreign intelligence agencies of the same areas, with British SIS *usually* supporting the same tactical line as IMEMO-KGB.

Although the principal Russian policy of British SIS has been the fragmenting of the "Russian Empire" even before the adoption of the "geopolitical" policy of Milner and MacKinder, British SIS and IMEMO find it expedient to collaborate with one another against certain common adversaries—such as the United States, President Valéry Giscard d'Estaing of France, and Chancellor Helmut Schmidt of the Federal Republic of Germany: even though the Soviet state-apparatus faction prefers Giscard, Schmidt, and President Ronald Reagan to the British and leftist opponents of those figures.

Philby's special importance to the Middle East arises from the fact that Philby inherited from his Khrushchev-decorated father, St. John Philby, many of the Islamic assets the older Philby had developed over long service in both the India Office and the Arab Bureau of the British SIS. These include the Muslim Brotherhood networks designed, created, and controlled principally by British SIS to the present date. CAABU, for example, is a branch of British SIS, and CAABU agents are British SIS agents wherever they appear in the Arab world.

Although the Brezhnev faction is on top in the Soviet command, the IMEMO faction is determined to cooperate with British SIS (for its own reasons) in

promoting a "cold war" situation between Moscow and Washington. IMEMO uses its preponderant influence over foreign communist parties and related advantages to attempt to manipulate situations to produce "cold war" confrontations.

The case of El Salvador is illustrative.

During December 1980, Cuba's Fidel Castro openly embraced an alliance proposed to him by Willy Brandt's Socialist International and the left-Jesuit Liberation Theologists. Although neither Moscow nor Cuba has any significant presence in El Salvador, despite a single shipment of arms from the Nicaraguan government to El Salvador rebels, IMEMO-KGB forces seek to exaggerate Soviet complicity in a destabilization of Central America, controlled entirely by Western-based forces including the Socialist International and church-affiliated organizations.

Similarly, while Brezhnev was seeking to avoid Warsaw Pact intervention into the internal political affairs of Poland, elements of the IMEMO faction were working together with assets of British intelligence's London Tavistock Institute (owners of the KOR organization and of the Future and Perspectives organization) in the effort to force an East-West confrontation through aggravation of the Polish situation.

It is that factional situation within the Soviet command which, combined with complicity of elements of British intelligence (e.g., CAABU), makes the antics of Hafez Assad and Libya's Qaddafi so dangerous at this time.

c) Since Hafez Assad first rose to power, each time Assad's control of Syria has been threatened, Syria has been involved in bloody confrontations with its neighbors. Hafez Assad is in deep trouble at home again. Now, he is exploiting his recently developed strategic treaty with the Soviet Union, and complicity of factional elements (IMEMO) within the Soviet command, to attempt to force an East-West confrontation through bloody encounters between Israel and Syria in Lebanon.

d) A complementary situation exists on the Israeli side. With imminent elections ahead, the government of Prime Minister Menachem Begin is in deep political trouble. Barring some diversionary new war, or the important factor of the charismatic Moshe Dayan, Shimon Peres is expected to be elected this spring, and to shift Israel's approach to solving both rampant domestic inflation and relations between Israel and its Arab neighbors. Israel is in "danger," in some persons' opinion, of shifting to less emphasis on "Zionism" and more emphasis on an Israeli-nationalist interpretation of Zionism.

Each time some faction within Israel moves "dangerously close" to serious negotiations with Arabs generally, on past performance, some of the British intelligence controlled elements of Palestinian or other terrorists obligingly provide the pretext for Israeli military repris-

als against neighboring countries, and the prospects of serious Arab-Israeli negotiations vanish once again for a time. Since 1975, each time such a game has been played out once again, more bloodshed is imposed upon tortured Lebanon.

e) Under these circumstances, any approach which involves mere adjustments of the respecting Israeli and Syrian positions of influence within Lebanon must lead to increased destabilization, more suffering for the Lebanese people, and possibly to the edge of a superpower confrontation.

f) We must act to take the gambit-pawn of the would-be destabilizers away from all such adventurous parties. The solution is simple, long-overdue justice for Lebanon: Lebanon must be re-established as a totally sovereign multireligious state within its pre-April 1975 borders. *No foreign nation has any rights within those borders.*

III. Practical implementation

1) The United States must repudiate openly and without toleration of any exception the policy of destabilization of Middle East and adjoining nations known variously as the Aspen Institute's "Bernard Lewis Plan" or Zbigniew Brzezinski's versions of that policy: "Arc of Crisis," "Islamic Fundamentalism Card."

2) The United States requires and must demand a zone of truly nonaligned stability of sovereign nation-states in the area including Turkey, extending into India, and extending throughout sections of Africa populated by Islamic populations. The United States requires of the Soviet Union its subscription to that policy of strategic neutrality of the existing nation-states of that region.

3) There must be agreed withdrawal of all Soviet, British, and U.S.A. military forces and related treaty obligations from this region. Necessary military aspects of peacekeeping guarantees for the region should be provided by those nations of Western continental Europe which, unlike the Federal Republic of Germany, have no constitutional prohibition against deployment of military action outside continental Europe.

4) There should be no military involvement by either superpower in this region on condition that no violation of the treaty is made by the Warsaw Pact, Britain, or the United States.

5) Such an agreement would be consistent with the policies of the anti-IMEMO factional forces of the Soviet Union, as exemplified by President Leonid Brezhnev's repeated proposals for Gulf neutrality agreements. This negotiation with Moscow could be approached as an enlargement of the discussion of the proposed Gulf agreement, and should include agreements by both powers to permit Iran to be reconstituted as a nation freed from the obscene mullahs and Socialist International assets such as Bani-Sadr.

6) To make the implementation of such agreements effective, there must be a frank and practical appreciation of the history, significance and present role of the British intelligence-sponsored Shiite and Sunni branches of the Muslim Brotherhood. This must be recognized for what it is in fact. It is a *criminal association* by the same general standards of international law cited by U.S. Justice Robert Jackson and others in the Nuremberg proceedings, which must be outlawed efficiently by all the signatory powers, including recognition by all powers that members of this association and its branches and principal covers is membership in a criminal association, denying to members visa and residency privileges as well as privileges of conducting business within or across the borders of signatory nations.

7) There are other actually or potentially criminal associations threatening the peace of the indicated region, but as Kemal Ataturk understood and the father of the deceased Shah of Iran failed to acknowledge in efficient practice, the neo-Asharite cults overlapping the Sunni and Shiite branches of the Muslim Brotherhood are the indispensable margin of threatened destabilization of the governments within the region and of peaceful relations among those governments.

8) Although economic growth does not ensure stability of nations in and of itself, wretchedness is the enemy of domestic and foreign peace of all nations. We must co-sponsor institutionalized arrangements for fostering the economic prosperity of Lebanon. The geographic position, literacy, and other features of Lebanon make this nation eminently suited to viable investments in industry, agriculture, and infrastructure. Some form of special *Bank for Reconstruction*, providing medium- to long-term credits for agricultural and industrial goods-producing and infrastructural investments at low borrowing costs, must be created. This bank should be designed to attract private investment in these designated categories of investment, through availability of low-cost, medium- to long-term credit for such undertakings.

9) In return for this, we rightly expect Lebanon to aid humanity generally through efficient measures of suppression of the international drug-traffic and growing of marijuana, hashish, opium, and such materials through and within its borders.

The Palestine question

1) It is rightly argued that there can be no general and curable peace in the Middle East until the plight of the Palestinian Arabs is remedied.

2) Except as we must reckon immediately with the included matter of Palestinian Arab refugees living within Lebanon, we should not tie the question of immediate restoration of the full sovereignty of Lebanon to the Palestinian Arab issue more generally.

Rather, we should view the stabilization of Lebanon's true sovereignty as an indispensable precondition for subsequent negotiations concerning the situation of the Palestinian Arabs more generally.

3) As for the Palestinian refugees within Lebanon, we must take a practical interest in ending the situation under which the condition of these refugees continues to be one of the focal points of actual or potential destabilization of Lebanon itself. The economic and social conditions of these refugees must be remedied as a matter of immediate action on behalf of elementary human rights.

4) If we restabilize Lebanon, as we propose here:

a) If we eliminate the ulcer of madness spawned by great-power complicity in destabilization of Iran;

b) If we act to secure key Arab states, including Iraq, Jordan, and Saudi Arabia, from the destabilizations now projected by elements and accomplices of British intelligence services;

c) If we promote the right to nuclear energy and other essential economic development by all states of the region, including the overdue economic development of the energy resources, water resources, and agricultural and industrial development of the keystone nation of Egypt;

d) If we negotiate successful strategic disengagement from the Middle Eastern and immediately adjoining nations;

e) We shall have created the indispensable climate of preconditions for settling with justice the issue of the Palestinian Arabs.

f) The only alternative to such a solution is a new war, more devastating than those of the postwar period to date, and possible superpower Armageddon through miscalculation piled upon miscalculations by the superpowers and others involved at present.

5) The first concrete steps to be taken for a solution of the Palestinian Arab human rights issue now are 1) a government in Israel which not only moves to provide regional autonomy for Israeli-occupied regions outside the 1967 borders—with minor possible adjustments as negotiated by Israelis and Arabs, 2) increased consultation, even semi-officially, for purposes of defining options for an agenda of official negotiations, and 3) mutual recognition of political existence of Israel and a rightful Palestinian Arab state by the two principal parties, as representatives of the PLO have tentatively proposed in the past.

6) These steps of rapid approach toward a comprehensive peaceful settlement become possible if the powers act to change the present political geometry of the region in a way which makes such steps practicable. The restoration of full sovereignty in fact to Lebanon is the first, presently indispensable step of such transformation of the political geometry of the region.

Behind the terror outbreak

Jeffrey Steinberg analyzes the coordinated assassination moves against Reagan, Schmidt, Giscard, and Lopez Portillo.

It happened in less than a three-week period.

President Ronald Reagan was shot by a would-be assassin as he left a Washington speaking engagement. French President Valéry Giscard d'Estaing came within moments of being killed or severely wounded by a pair of powerful bombs that exploded in an airport lobby in Ajaccio, Corsica, where he had been scheduled to hold a campaign rally. Police in Tijuana, Mexico, arrested two Americans and two Mexicans—all members of the Che Guevara Commandos—on charges that they were plotting the assassinations of President Reagan and Mexican President José López Portillo when they were to meet for a three-day summit in late April. In Germany, a Baader-Meinhof Red Army Faction supporter died after a two-month prison hunger strike, setting off a wave of urban riots, building occupations, bombings, assassination and kidnapping threats in every major city. The publicly advertised target of the terrorist outburst: West Germany's Chancellor Helmut Schmidt. In short, since the March 30 aborted assassination of President Reagan, the nations of the West have been hit with the most concentrated terrorist activation in 13 years.

In an even more directed fashion than 1968, the current terrorist wave has openly singled out four heads of state for elimination either by outright murder or by the route of violent political destabilization. These heads of state—Giscard, Helmut Schmidt, López Portillo, and Ronald Reagan—represent the core of a global prodevelopment alliance that now stands on the verge of bringing a decade of peace and unprecedented prosperity on the basis of policies first concretized in the January 1979 founding of the European Monetary System (EMS).

To the extent that the EMS combination accomplishes its most urgent present tasks—forcing down the ruinously high U.S. interest rates and bringing U.S. policy into phase with the gold-backed long-term credit potential of the EMS—the political power now in the hands of a cabal of Venetian, Genoese, and London financial agencies will be severed.

To retain their centuries-old grip on the world, the Venice-London group is prepared to take any measures, including measures that risk unleashing global strategic

confrontation. Indications surfaced over the past several days that during the first week of April, a serious effort was made to trigger an Israeli invasion of Lebanon—a move that would have set the United States and the Soviet Union on a collision course. That war was averted at the eleventh hour as the result of “hot-line” discussions between Soviet President Leonid Brezhnev, French President Giscard, and U.S. President Reagan, resulting in an emergency Reagan call to Israeli Prime Minister Menachem Begin. Begin was delivered notice that an Israeli-instigated escalation in Lebanon would entail an instant cutoff of U.S. aid.

The combined Reagan-Brezhnev-Giscard intervention into the Middle East crisis further underscored the intensity of the ongoing strategic struggle for power. A similar ringing message was delivered at the Group of Five finance ministers meeting in London on April 12, where emissaries of Chancellor Schmidt and President Giscard publicly invited the United States to join the EMS, a move that drew fits of rage from Federal Reserve Chairman Paul Volcker, among others.

The international assassination bureau

Contrary to the lies forthcoming from Alexander Haig and from the authors of the recent bestseller *The Spike*, the terrorist activation is not the work of any single nation's intelligence service—including the Soviet Union. Nor is the past month's action to be written off as “sociological phenomenon” (despite the large number of sociologists deployed in the terrorist mobs). The source of the terrorism is a transnational clandestine army representing the combined assets of three subversive agencies: the Socialist International, the faction of the Soviet foreign policy intelligence apparatus associated with the old Comintern (“Communist International”), and the Theology of Liberation wing of the Society of Jesus. Each of these agencies in turn operates through a wide range of fronts infiltrated into the political life of sovereign nation-states of both the East and the West. Since the early 1960s, the combined deployment of these transnational agencies has been primarily known as the “New Left Project,” which has in turn spawned the

environmentalist movement worldwide.

On Dec. 5-7, 1980, leading representatives of these three networks gathered in Washington under the sponsorship of the Socialist International. At that meeting, all of the essential features of the subsequent political terror wave were spelled out.

At the Socialist International session, war was declared against Reagan and Schmidt in particular. Willy Brandt, the head of the Socialist International, announced plans to build a worldwide "peace movement" in protest of anticipated U.S. intervention in El Salvador. Brandt's declarations were backed up by several days of secret meetings conducted between Spanish Socialist Party head Felipe Gonzales, Cuban President Fidel Castro, and representatives of the Society of Jesus headquartered in Nicaragua, Panama, and El Salvador.

In the intervening four months, dozens of followup conferences have been held throughout Western Europe, the Middle East, and North America, drawing in the various assets of the three subversive internationals.

• **In the Middle East:** At the Palestinian National Congress in Damascus, Syria, in early April, Palestine Liberation Organization head Yasser Arafat announced plans to conduct military operations against U.S. bases in the region—and to extend collaboration with "liberation movements" throughout the Third World, particularly in El Salvador. These statements were immediately backed up by a surfacing of radical Palestinian networks in the United States and Mexico associated with the American Ramallah Federation, the Palestinian Human Rights Campaign, and the Palestinian Congress of North America. These organizations, closely interfaced to the already violently active Khomeinac student organizations, have broadcast their official collaboration with the Committee in Solidarity with the People of El Salvador, the principal umbrella group of domestic U.S. radicals sponsored by the Washington-headquartered Institute for Policy Studies. The Palestinians have also effectively merged their activities with the IPS Mexican-American proterrorist apparatus centered around the Crusade for Justice and La Raza Unida, both recipients of Ford Foundation money. La Raza-IPS operative Schaeffer-Corona recently traveled to the Middle East for a series of private meetings with leading Palestinian radicals.

• **In Western Europe:** Institute for Policy Studies cofounder Richard Barnet spent the month of March touring West Germany for meetings with representatives of the Evangelical Lutheran Church, the World Peace Council, the Humanist Union, and the European Group for the Study of Deviance and Social Control. Barnet and fellow IPSer Michael Klare provided documentation prepared at the Washington Center for Defense Information on the siting of all NATO missile stations in West Germany. Those sites are now targeted

for violent demonstrations beginning in the spring. Among Barnet's closet collaborators within West Germany are the West Berlin "Das Netzwerk" movement of urban squatters who have turned whole sections of Germany's major cities into barricaded terrorist zones, where almost daily battles take place with local police.

At the end of April, a three-day conference was held under the auspices of the Center for Defense Information in Groeligen, Netherlands at which leading radicals from the Socialist International networks in the West gathered to plan out those spring NATO riots.

• **In North America:** The effort to build an anti-Reagan movement in the United States is being directed by the Socialist International front that sponsored the December Washington conference: the Democratic Socialist Organizing Committee (DSOC). In conjunction with the National Black United Front, the KGB-sponsored International Association of Democratic Lawyers, and the Institute for Policy Studies itself, the DSOC has constituted a string of umbrella agencies to build for a May 3 attempted replay of the late 1960s marches on the Pentagon.

Amnesty International

One of the principal agencies coordinating the activities of Socialist-Jesuit-KGB efforts is Amnesty International (AI), the London-centered "human rights" agency. In the past week alone, AI has intervened in West Germany to demand the easing of prison conditions for the jailed Baader-Meinhof terrorists; has made similar demands on behalf of the M-19 terrorist gang in Colombia; and has sent former U.S. Attorney General and Khomeini backer Ramsey Clark to Northern Ireland on behalf of a jailed IRA member there.

Amnesty International is closely associated with another transnational "support organization," the International Law Association. The ILA is run to an important extent out of Montreal, Canada offices of Major Louis Mortimer Bloomfield. During the 1960s, Bloomfield was exposed in both the French and American press as one of the leading conspirators in over 30 assassination attempts against French President Charles de Gaulle and for the successful 1963 assassination of U.S. President John F. Kennedy. His commercial front organization, Permindex, was a central component of the "International Assassination Bureau" originally created by the British Special Operations Executive during 1938. It is that network of Venetian and London-linked professional assassins that maintains to this day the professional "hit" capability. Unlike the 1963 period of bloody "executive action," or even the 1968 street insurrections, today's "International Assassination Bureau" hit-men have an exhaustive international network of terrorist cells, umbrella protest groups, and liberation movements into which they can be plugged.

Brandt faction mounts offensive against West German government

by Susan Welsh

With the death April 16 of an imprisoned hunger-striking German terrorist linked to the Red Army Fraction (Baader-Meinhof Gang), law enforcement officials in the Federal Republic are braced for a new explosion of terrorism expected to escalate throughout the spring. When Baader-Meinhof supporters issued a leaflet April 12 prematurely claiming that a striking terrorist had died, 500 people rampaged through the city of West Berlin, smashing shop windows over a 3-kilometer square area and causing over a million dollars worth of damage. Such riots, bombings, and sabotage of military facilities are becoming virtually a daily occurrence.

This is the "spring offensive" against the progrowth government of Chancellor Helmut Schmidt, prepared by the Socialist International at meetings throughout the winter. The aim is either to topple the Bonn government or to immobilize it and set it on a "left-wing" confrontation course with the Reagan administration.

Willy Brandt, the chairman of the Socialist International as well as Schmidt's Social Democratic Party (SPD), is fostering the conspiracy against Schmidt, as are key individuals in the Free Democratic Party (FDP). The FDP is West Germany's traditional "swing party," Schmidt's coalition partner, which received 10 percent of the vote in last fall's parliamentary election. The party's honorary president Walter Scheel, former president of the country, announced in an interview to the daily *Bildzeitung* April 16 that he no longer believes the present coalition to be viable. The present government has lost its ability to make decisions, he said, and frictions are increasing between the SPD and FDP, while the FDP finds itself more and more in agreement with the opposition Christian Democratic Union. Scheel cited his experience with the weak government of Chancellor Willy Brandt during the 1970s as evidence of his qualifications for judgment on the matter.

More dangerous than Scheel, however, is FDP Interior Minister Gerhard Baum, who is currently supervising the destruction of West Germany's intelligence services. Sources in the law enforcement field report that the police are totally unprepared to deal with the new explosions of violence, because Baum has restricted their

counterterror capabilities.

Brandt, Scheel, Baum and the young rioters share a devotion to the ideology of zero growth and the postindustrial society. They have vowed to bring down Schmidt's government, as 1968 student protesters bought down French President Charles de Gaulle.

Said Richard Barnet of the Washington, D.C. Institute for Policy Studies, in an interview made available to *EIR*: "Germany will start to resemble Italy. The collapse of Schmidt will strengthen the left and make it impossible for anyone to rule. . . . The chaos is already building, and at some point, with the economy getting worse, it will overtake Schmidt."

Barnet's Institute for Policy Studies is one of the chief outside controllers of the German left/terrorist scene. Set up in 1963 by Marcus Raskin, aide and protégé of National Security Adviser McGeorge Bundy, IPS became the center for the pro-Brandt faction of the American intelligence community. Richard Barnet, a member of the New York Council on Foreign Relations, was brought in from his post as Deputy Director of Political Research for the U.S. Arms Control and Disarmament Agency (ACDA), along with Gar Alperovitz (State Department Policy Planning Department) and other "ex-Establishment" figures. IPS collaborators included leading members of the terrorist Weatherman group, Bernadine Dohrn, Bo Burlingham, and Mark Rudd.

Barnet recently spent a month in West Germany, meeting with top SPD officials including Brandt and his sidekick Egon Bahr. He spoke at the Frankfurt Institute for Peace Research, the Hamburg Institute for Peace and Conflict Studies, and the West Berlin Berghof Foundation (founder of radical lawyers' collectives and similar leftist projects). These institutes are the coordinators of West Germany's born-again "peace movement."

Barnet predicted: "This is not a fringe movement. It is supported by the leadership figures in the SPD. . . . The demonstrations that will be held this month will be quite impressive. But this is only the beginning. They will target U.S. bases. The demonstrations are anti-American, more precisely anti-Reagan. They will add weight to the people like Brandt who are arguing for a break with

the White House," he concluded.

Barnet, along with Brandt and "several friends in the U.S. embassy," intend to force this break. While Schmidt now "leans toward collaboration with the Reagan administration," he said, the leftist activation should turn Reagan against the Bonn government, if Schmidt caves in to their demands. Barnet also spread the lie in West Germany that Reagan is behind the plot to topple Schmidt: "I told people that while I couldn't confirm a direct plot against Schmidt; if there was one, it was coming from the Reagan White House."

Brandt's role

Willy Brandt, whose control of European terrorism during the 1968-1971 period was first exposed by French and Italian intelligence sources in the "San Marco Dossier" published in 1974 in the Italian magazine *Il Settimanale*, has now mobilized his radical supporters. Since the Schmidt government was re-elected last fall, Brandt's actions have included:

- He helped engineer crisis in the government in West Berlin, his own base, soon after the federal elections. West Berlin mayor Dietrich Stobbe was forced to resign by a scandal over mismanagement of city funds. New elections will be held May 10, with a possibility that the SPD-FDP coalition will not survive which could undermine the stability of the Bonn coalition.

- Brandt's supporters in the state of Hessen mobilized against the progrowth policies of SPD Governor Holger Böner, Schmidt's only remaining ally among the SPD-governed states. In March elections in Hessen, the SPD lost heavily in areas dominated by Brandt's environmentalists.

- In Hamburg, Brandt's supporters voted against the planned construction of a nuclear power plant at Brokdorf, and SPD officials there announced they will campaign against both the Christian Democrats and the chancellor.

- Whereas Schmidt has wanted the SPD to orient its policies back toward its traditional working-class base, Brandt recently called for the party to open its doors to the new "alternatives" groupings and environmentalists. It is an illusion, said Brandt, to think that in a society where the percentage of workers is shrinking one can forget about the "intelligentsia."

- Brandt toured SPD locals in the Saarland during April, putting himself forward as the spokesman of the peace movement. Egon Bahr, the architect of Brandt's famous *Ostpolitik* issued a call April 14 for the SPD to "open a dialogue" with the peace movement—who have vowed to overthrow Schmidt.

- Institutions Brandt is associated with like the Washington, D.C. German Marshall Fund finance the environmentalists, "squatters," and other counterculture gangs rampaging throughout West Germany.

The Interior Ministry

FDP's Baum wrecks counterintelligence

West German Interior Minister Gerhard Baum, under the liberal cover of preventing "Gestapo-style" centralization of the country's police apparatus, is out to wreck West Germany's republican institutions and leave the country helpless before a new explosion of violence and terrorism.

Baum is systematically dismantling the tightly coordinated counterterrorism apparatus built up in the Federal Republic to cope with the terrorism of the 1970s. He is spreading the lie that terrorism is a "sociological phenomenon" which cannot be eliminated by law enforcement agencies. Under the guise of "dialogue" with and "rehabilitation" of terrorists, Baum is working with radical antipolice leftists to create a state of "Italian-style" chaos that will collapse the government of Chancellor Helmut Schmidt.

Baum is a leading representative of the Free Democratic Party (FDP), coalition partner of Schmidt's Social Democrats. The "liberal" FDP is backing Baum's gameplan to the hilt, amid widespread predictions that if Schmidt falls before the end of his four-year term, FDP Foreign Minister Hans-Dietrich Genscher will become chancellor and Baum will replace him as FDP chairman and foreign minister. FDP General Secretary Günter Verheugen warned in an interview in March that law enforcement authorities should not "criminalize" the antinuclear "greenies," since a major part of the German population allegedly agrees with them that nuclear energy is dangerous and cannot be controlled by man. FDP members figure prominently in the radical criminology groups supporting Baum's destruction of the intelligence services.

The FDP's role

The role of the Free Democrats is not surprising, given the party's history. Its prewar predecessor, the German Democratic Party (DDP), was the vehicle for the political ambitions of Hjalmar Schacht, the czar of German deindustrialization during the post-World War I period, following the Versailles Treaty, who later became Hitler's finance minister.

According to one source active in the antipolice campaign, the plan is to turn the FDP into an "Italian-

style radical party that would function as a bridge between the illegal and legal movement, so that the former would not become isolated."

Baum's first successful target was Dr. Horst Herold, president of the Bundeskriminalamt (BKA), the man principally responsible for the counterterrorism coordination among Germany's various police and intelligence services.

Herold swore at the graveside of his friend, federal prosecutor Siegfried Buback, who was murdered by terrorists in 1977, "I will get them all for you." And Herold was true to his word, smashing the terrorist core and dispersing the support networks.

But Herold was hounded out of office at the end of 1980 by a campaign launched by Baum and the news media against his alleged civil-rights violations through computer data banks. *Stern* magazine ran a story last fall charging that Andreas Baader (who committed suicide after the terror-killing of Jürgen Ponto) and other terrorists who died in prison several years ago were murdered by the government. The author of the piece told a researcher that he was working with Baum and others at the Interior Ministry to get Herold out. "I've done my job, and now it is up to the politicians to do theirs," he said, adding that the move had been coordinated with federal FDP leaders and the lawyers for the Baader-Meinhof Gang.

Baum has pushed through restrictions on police work comparable to the Levi guidelines in the United States, including laws permitting the collection of data only on "objects," but not on "persons." In a visit to the United States in February, 1980, he met with Attorney General Benjamin Civiletti, FBI Director William Webster, and officials from the German Marshall Fund and the Vera Institute for Criminal Justice, to discuss "prison reform" and the dismantling of law enforcement. He also met with top Carter administration environmentalists like Gus Speth of the Council on Environmental Quality.

'Decriminalize the underground'

Baum's campaign slogan is "the decriminalization of the underground" through dialogue with the terrorists. His widely publicized interview last year with "repentant" terrorist lawyer Horst Mahler (later published as a book) gave a major impetus to the movement against terrorism laws. When violence broke out anew early this year, Baum insisted that the rioting "house occupiers" in West Berlin and other cities were not linked to the hard-core terrorists (although the "squatters" included among their demands the same "prison reforms" demanded by the hunger-striking members of the Baader-Meinhof Gang).

Baum's operations are carried out through such "radical criminologist" groupings as the European

Group for the Study of Deviance and Social Control, the Humanistische Union, and the Berghof Foundation's CILIP (Civil Liberties and Police Developments). The "Eurogroup" was founded in 1973 at the University of California at Berkeley criminology school. Its members include Sebastian Cobler, a member of the secretariat of the 1977-78 Bertrand Russell Tribunal on "civil-rights violations" in West Germany, and the journalist whose interview with Horst Herold in *Transatlantik* magazine last fall was constructed so as to portray the BKA chief as a computer fanatic.

The Humanistische Union reaches directly into Baum's Interior Ministry offices, in the person of Deputy Interior Minister Andreas von Schäler. The chairman of the Humanistische Union, Ulrich Klug, is a member of the FDP, as is HU member Professor Denninger, the author of studies for the Interior Ministry recommending curtailment of intelligence exchanges between the various police and investigative agencies. Denninger told an interviewer that the liberalization effort depends heavily on Baum, alone able to counter resistance from within the Interior Ministry. Denninger boasted that he and Klug "are from the same party as Minister Baum and also have personal contacts with him, so that when we suggest something it is treated seriously."

Liberalization: drugs and environmentalism

Gerhard Baum's "liberalization" efforts are by no means restricted to relations with terrorists. He is also a leading spokesman for drug decriminalization, environmentalism, and zero growth. He has endorsed methadone maintenance programs and is working to liberalize German drug laws. His FDP associate Rüdiger Pieper issued a call last fall for the government to set up special stores to sell "soft drugs" along with alcohol and tobacco to anyone over 16. Pieper claimed that Baum agrees with him, but has not risked saying so publicly yet.

Baum submitted to the FDP national conference in December an "Ecological Action Program" calling for sweeping environmentalist reforms. His ministry is the primary source of environmentalist regulations that have stalled the construction of nuclear power stations and other projects. In recent parliamentary debates, Baum announced that he will attempt to block an initiative by Chancellor Schmidt and state governors to speed up the bureaucratic procedures required for construction of a nuclear plant. At a forum in Hannover last year, Baum declared that he endorses the "greenies'" call for "qualitative growth" instead of intensive development. Warning against the export of high-technology goods, Baum declared that it is the "materialism" of modern society that is responsible for terrorism and drug addiction.

Schmidt fights back as national leader

Following widespread rumors in the international press—once again—that West German Chancellor Helmut Schmidt was depressed and thinking of resigning, the Chancellor has resurfaced to give numerous speeches and interviews aimed to counter the operations against him. Whereas his domestic and foreign enemies hope to keep him narrowly preoccupied with the difficulties in the Bonn governing coalition, in the Social Democratic Party, and in West Berlin's weakened government, Schmidt has refused to be immobilized in his foreign policy. The agreement he signed with France in early April for a joint loan from the OPEC countries to revitalize the high-technology industry of both countries is a historic first.

Even the German trade union confederation DGB, whose leaders are normally hostile to Schmidt's policies, have issued a statement praising the Franco-German arrangement as a needed measure to alleviate unemployment.

Despite the efforts of the Socialist International to force a break between Schmidt and President Reagan, the Chancellor has reiterated in every public statement his warm regard for the U.S. President and his eagerness for a successful visit to Washington May 20-23.

Schmidt has tried to reach over the heads of the squabbling party factions, special interest groups, kooks and zero-growthers who dominate the political scene and the news media, to mobilize the positive sense of nationhood of the ordinary German citizen. His State of the Nation speech to the Bundestag (parliament) April 9 was largely devoted to this theme, including the issue of relations with the German Democratic Republic (East Germany).

"We would make ourselves insecure, void of history and faceless, if we wanted to abandon the concept of nation. . . . Unity of a nation means a common historical past with events giving cause to be proud and events giving cause for shame. The term nation is simultaneously a claim for the future, a claim we make, but a claim that commits us. . . . There is no other way of doing something reasonable for the unity of the German nation

than to continue the policy of peace and détente, to pursue the re-establishment of the spiritual, cultural and economic unity of all of Europe."

This appeal to the nation as a whole is Schmidt's strongest argument against his enemies, as the leader who has done the most since Konrad Adenauer to restore to a defeated nation that sense of national pride which the British occupiers, in particularly, attempted to extirpate.

Helga Zepp-LaRouche, the chairman of the European Labor Party and a regular contributor to *EIR*, focused her own electoral campaign last fall in West Germany around the issue of republican national identity. She challenged the government to assert a sovereign foreign policy of peace through economic progress, and German high-technology exports for the development of the Third World. In television and radio appearances during the campaign she drew the attention of the population to the heritage of German humanism to which it can look with pride; the great dramas and poetry of Friedrich Schiller, the music of Beethoven and Mozart.

Schmidt's approach can succeed, provided it is combined with more forceful actions against Willy Brandt, Gerhard Baum, and the others who are out to destabilize his government.

Chancellor of the whole nation

In meetings of the executive committee of the Social Democratic Party (SPD) at the end of March, Schmidt blasted the leftists, the spokesmen for zero growth and deindustrialization against the interests of the party's working-class base. The party apparatus has become "dominated by teachers and students—not at all representative of the SPD base," he said. "If it comes to a choice between the population's concerns and the party's concerns, I as Chancellor must decide on behalf of the population," he said. A few days later, at a trade-union conference in West Berlin, Schmidt denounced the "greenies" who are taking away the jobs of working people and destroying the economy.

Then in an unusual interview April 4 with the Lutheran *Evangelische Kommentar*, Schmidt criticized the church for fostering youth unrest. Lutheran pastors are notorious for their collaboration with the "greenies" and terrorists, and 12 theologians from Göttingen signed a statement this week accusing the government of "looking like the worst dictatorships in Chile" because of its alleged mistreatment of the Baader-Meinhof terrorists. The Protestant church, Schmidt charged, has failed to educate youth so as to integrate them into society, and has encouraged "better red than dead" pacifistic beliefs among the population. No one who takes responsibility for the well-being of the Federal Republic as a whole can possibly take such a position, he said.

Thatcher gets the deep freeze

Her visit to India drew dissension on the Pakistan arms question and immigration policy.

By the end of British Prime Minister Margaret Thatcher's five-day visit to India, the most widely asked question making the rounds in New Delhi was: "Why did she bother to come here in the first place?"

Since her arrival in New Delhi April 15—where she was met by demonstrators chanting "Margaret Thatcher go home!"—little, if anything, was achieved by the visit. On the contrary, it only highlighted the sharp differences between India and Britain. Prime Minister Gandhi even broke with normal practice and responded to Thatcher's speech to the Indian parliament.

The tone for the visit was set at the airport, when Gandhi greeted Thatcher with the reminder that "there are many problems between us"—a phrase which was repeated in almost every subsequent speech.

The most contentious issue was the proposed U.S. arming of Pakistan, which Thatcher had warmly encouraged during her visit to Washington in February. Thatcher repeatedly argued that the Soviet intervention into Afghanistan threatened Pakistan, which "had a right to defend itself."

While conceding Pakistan's right to self-defense, Gandhi expressed concern over the magnitude of arms sales to Pakistan. Gandhi also reminded Thatcher that "past experience"—that is, Pakistan's use of U.S.-supplied weapons in three India-Pakistan wars—showed that such large arms flows would only pose a threat to

peace in the region.

In responding to Thatcher's parliament speech, Gandhi warned that "military solutions are short-lived, spawning new problems with long-lasting and wide-ranging consequences. . . . That is why we feel that advantage should be taken of any opening for discussion. India," she concluded, "is a little wary of containment of one country or another. Such concepts, rather than adding to security, have resulted in destabilization."

India also expressed opposition to the introduction of foreign military forces into the Indian Ocean and Persian Gulf region, such as the proposed Anglo-American Rapid Deployment Force Mrs. Thatcher has endorsed. Saudi Foreign Minister Prince Saud, who visited India just before Thatcher, had said he opposed the introduction of foreign troops into the region. A Thatcher spokesman responded: "If you don't have a rapid deployment force, you won't have a force to deploy rapidly."

Thatcher also informed Mrs. Gandhi of her talks with President Reagan and appeared eager to identify herself with what *she* presented as the U.S. policy. She succeeded, as the Indian spokesmen and the press attacked the United States as well as Britain.

One area, however, in which the British felt the full brunt of Indian attacks was on immigration policy. The presentation of a nationalities bill before the British Parliament

and recent racial disturbances there have created heightened concern here, as many Indian immigrants live in Great Britain.

Thatcher, in her speech before the parliament and in her press conference, argued that Britain had a right to exercise immigration policies practiced in many other countries and tried to reassure her hosts that they would not be racially motivated.

But not many Indians were convinced. The *Times of India* wrote: "There is far more that divides than unites Britain and India today on bilateral and international matters and the chasm has widened a lot since Mrs. Thatcher took office. The British Premier has done more harm to race relations in Britain than any other postwar leader there. . . . She has put through a nationality bill that, like all British legislation dealing with immigration, avoids any mention of racialist intent but is in fact nothing if not racial."

As the visit progressed, the Indian press seemed to grow more and more hostile to Thatcher. On the last day of her visit, even the usually staid *Times of India* headlined its lead story "Thatcher Speaks for Pakistan."

Perhaps more revealing of the public importance attached to the visit by India's former colonial masters is the report that when Mrs. Thatcher visited a village near New Delhi, almost no one knew who the visiting VIP was. According to the *Hindustan Times*, "A woman at the woman's center, demonstrating a craft in front of Mrs. Thatcher, was asked if she knew who the lady was. 'Yes, of course, she is the Prime Minister.' Of which country? 'Russia,' she said."

Who's pushing genocide in Mexico?

*Carter's Global 2000 report surfaced in Mexico this week—
with some strange backers.*

A Spanish translation of the "Global 2000" report has begun circulating throughout Mexican government offices in recent weeks. It has appeared so far in the Health Ministry, the Mexican Social Security Institutes, the National Population Council, and elsewhere. The press has already started to give it steady coverage.

As *EIR's* regular readers know, the *Global 2000 Report* was written by the State Department on the request of President Jimmy Carter, and it has been adopted as official policy by the new secretary of state, Alexander Haig.

As we approach the 21st century, it argues that global resource scarcity requires: 1) that the Third World abandon its hopes of development; 2) that stagnation be the norm in the developed nations; and 3) that the world's population be drastically reduced by whatever means necessary.

One asks why in the world an oil-rich, optimistic nation like Mexico should show any interest in such Malthusian prophecies of gloom. Who in Mexico could possibly endorse such an outlook?

It was not hard to discover that the job of distributing *Global 2000* in Mexico was carried out by none other than the U.S. embassy in Mexico City—with some help from local friends.

Shortly before the appearance of the Spanish version, *Global 2000's* director, Gerald Barney, was

brought to Mexico by the U.S. embassy to deliver a round of speeches on the document he had co-authored. At first, Barney's talks were limited to a closed group of embassy personnel. Then he went public, with presentations at various universities such as the Colegio de México, whose director, Victor Urquidi, is a member of the Club of Rome.

Barney also actively lobbied with various government officials and business leaders, with his warmest reception coming from the opposition political parties.

After returning to the U.S., Barney himself reported that he had found considerable acceptance of his anti-growth study, but that the strongest support came from the Mexican left—especially the Communist Party. That should come as no surprise, since the Mexican Communists supported the infamous butcher of Cambodia, Pol Pot.

Mexico's major media have also been displaying their support for *Global 2000* and similar anti-progress theories. The major Mexico city daily, *Uno más Uno*, last week ran excerpts from *Global 2000*. And that same paper, along with *Excelsior*, ran extensive interviews with Mexico's environmentalist leaders expostulating on the great damage done to Mexico by its industrialization drive.

Mexico City mayor Hank González, long a partisan of this dark

ages faction, added his two bits this week by setting up an Ecological Commission supposedly charged with preventing anything from "harming the city's environment."

Exemplary of the kind of "Mexicans" who have allied with Haig's *Global 2000* and related environmentalist push in Mexico is the well-known "intellectual" and writer, Juan María Alponete, who is on record in *Uno más Uno* endorsing *Global 2000*.

Alponete, who is not Mexican but Spanish, is a queer fellow. According to some reliable Mexican sources, he uses a set of pseudonyms, including Hernando Pacheco, Enrique Ruiz García, and Restituto de la Sierva. Under these various identities, Sr. Alponete—according to published accounts in the Mexican press—1) collects a cool \$20,000 check every month from Ceestem, former President Echeverría's think tank; 2) advises the telephone workers' union, currently threatening to launch a major strike; 3) teaches impressionable youngsters at the national university, where he is viewed as "the guru of dialectics"; and 4) writes for periodicals like *Uno más Uno*, where his largely unintelligible articles are invariably focused on opposition to any plan to industrialize Mexico.

Most interesting of all is the revelation in the Mexico City press this week that Alponete, back in the 1940s and 1950s in Spain, was "always at the service of dictator Franco and was obviously a leading member of the Opus Dei. . . . He volunteered for the Blue Division, which fought against the Russians along with the Nazi army" during World War II.

Such is the pedigree of *Global 2000's* supporters in Mexico.

The mad scramble in Iran

Is British intelligence now beginning to play its Ghotbzadeh card to preserve the revolution?

With the Khomeini regime fast disintegrating as a result of the growing disaffection with mullah rule, former Foreign Minister Sadegh Ghotbzadeh, a long-time political whore, is taking steps to coopt the anti-Khomeini sentiment and to transform it into support for himself and President Abolhassan Bani-Sadr. Ghotbzadeh, who has publicly declared that the Khomeini regime will not last, is out to become prime minister under Bani-Sadr, and he is using every trick in the book to do so, including the formation of a political party.

The engineers of Ghotbzadeh's political comeback include the Heritage Foundation in Washington, which views him as a useful tool to further Khomeini's Dark Ages perspective in Iran, and Prof. Richard Cottam at the University of Pittsburgh.

It was Cottam who, as a CIA operative in Iran, "discovered" Ghotbzadeh 25 years ago and groomed him for his present role. Cottam is currently a card-carrying member of the New York-based Freedom House, an operation set up 38 years ago by a group of Anglo-Jesuits also involved in the International Rescue Committee. Under the guise of performing refugee and relief work, Freedom House centralizes a major intelligence network devoted to destabilization and insurrection in the East bloc and the Third World. Current operations include backing the

KOR dissidents in Poland, in collaboration with the Arts Council of Great Britain, a front for British intelligence.

According to reports from Iran, Ghotbzadeh, who masquerades as a "moderate" Islamic fundamentalist, has been spotted in the holy cities of Mashad and Qom trying to drum up support for himself and Bani-Sadr from disgruntled factions in the clergy. Leaders whose political support he has solicited include the Grand Ayatollah Qomi of Mashad, who several weeks ago denounced the Khomeini regime, including Bani-Sadr, as "un-Islamic."

Ghotbzadeh is also out to win over the ranks of disaffected middle- and upper-class Iranian conservatives both inside and outside the country. To dupe these factions into supporting him and Bani-Sadr, both supporters of a "softer" version of Khomeini's Dark Ages outlook. Ghotbzadeh is playing upon the rabid anticommunism that lies so close to the surface in Iran, and raising the spectre of a possible communist takeover.

Last week, in an interview with the Kuwaiti newspaper *Siyasah*, Ghotbzadeh issued a shrill warning about "communist infiltrators" in the Islamic Republican Party and accused them of planning to seize the reins of power. In Teheran alone, Ghotbzadeh charged hysterically, the IRP "communists" are spending \$27 million a week to car-

ry out their "detailed plan."

Ghotbzadeh did not simply come up with the red-scare threat on his own. It is the same line re-tailed by the Heritage Foundation, a branch of the Thatcher government's official think tank, the Center for Policy Studies. Operating as "conservative" Republican ideologues, the Heritage Foundation has muscled its way into the Reagan administration decision-making processes.

In point of fact, Heritage has little interest in "stemming the tide of communism." Rather, it is involved in a nasty operation to plant British intelligence-linked KGB moles inside the ranks of the Reagan administration to undermine U.S. economic and foreign policy.

In regard to Iran, Heritage, like Ghotbzadeh, has absolutely no intention of breaking with the deindustrialization policies of the Khomeini regime, and is in fact promoting them.

The Heritage Foundation gave itself away in the spring 1981 issue of *Policy Review*, its quarterly journal. In an article entitled "How the Shah De-Stabilized Himself," anthropologist Grace Goodell argues that the Shah's vigorous industrial programs and his commitment to wrenching his country out of rural backwardness are what ultimately destroyed him. The Shah, says Goodell, ignored the fact that small is beautiful and growth is bad, and therefore deserved his fate.

The Heritage Foundation's vision for Iran as posited by Goodell is identical to Khomeini's: a decentralized country composed of locally autonomous tribal entities committed to a feudal village life. This is what Goodell chooses to label "conservatism."

International Intelligence

Schmidt rejects RDF for Mideast

West German Chancellor Helmut Schmidt said in an interview published in Saudi Arabian newspapers April 24 that Bonn does not believe a Rapid Deployment Force for the Middle East is feasible, since it is rejected by the Arab countries. This is the first time the West German leader has openly rejected the RDF concept, although he has previously made it clear that his country would not participate in any such force.

Amidst signs that domestic opposition to a Saudi-German arms deal may ease, a leading think tank, the Near and Middle East Society, has issued a study endorsing the sale of Germany's Leopard tanks to Saudi Arabia, and stressing that the Saudis have put their trust in the Germans. The study was prepared with the help of Schmidt's Social Democratic ally Hans-Jürgen Wischnewski, a Mideast expert.

Yamani says Begin creates Soviet openings

In a major policy statement April 23 before the Foreign Policy Association in New York, Saudi Oil Minister Zaki Yamani stated that "the educated among the Saudis are fully alive to the fact that Israel is the opening through which the Russians slip into the Arab world; and the more support the United States gives to Israel, the better is the climate for the Russians in the region. This is fully borne out by the pattern of Arab-Russian relations during the last three years.

"Given this, we in Saudi Arabia find it very strange to hear that the Communist threat is the justification for the special relationship between the U.S. and Israel. We believe that Russia stands to gain from the present situation and that Israeli policies, particularly those of the current government, are at one with Russian policies."

Yamani cited Saudi scholars who believe that "American Jews themselves will gradually want to bring pressure to bear upon Israel to make it accept peace on the basis of the U.N. Security Council's resolution, which the U.S. voted for. They argue that the American Jews are very intelligent people and therefore must realize that this opportunity for peace may not repeat itself and time is not necessarily in Israel's favor."

Yamani urged the U.S. to make an "energetic contribution to the peace effort" in large part by aligning itself with "the international moves being initiated by Europe and America's other allies."

Leading scientist defuses Iraqi nuclear bomb scare

Alfred Kastler, a leading French-Jewish scientist and Nobel Prize winner, wrote a letter to the French newspaper *Le Monde* April 16 disclaiming the possibilities that French shipments of enriched uranium to Iraq, and French support of the Iraqi nuclear program, would lead to the development of an Iraqi nuclear bomb capability threatening Israel's security.

According to Kastler, "the French delivery to Iraq of a research reactor and of its combustible material has been made in accord with the treaties that submit nuclear operations to international controls. . . . It is very improbable that Iraq can utilize the delivered uranium to produce an atomic bomb."

Kastler noted that he had been asked by the French Zionist organization, *Renouveau Juif* (Jewish Renewal), a co-thinker of the U.S. Jewish Defense League, to do a study on Iraq's program. *Renouveau Juif* has been the leading proponent in France of the notion that the French-Iraqi relationship constitutes a major threat to Israeli security. But, says Kastler, his contacts with the international scientific community did not lead him to that conclusion.

The Jewish Telegraphic Agency noted April 16 that the Kastler letter had caused a "small sensation" in French

Zionist circles, since Kastler has long been active on behalf of Israeli projects and French-Israeli scientific cooperation.

Agee targets U.S. advisers in Salvador

"The scenario seems clear," states the April issue of the *Covert Action Information Bulletin*, featuring El Salvador. "A few hundred 'advisers' will be in place by May, and when the first one is shot, hundreds more will be sent in to protect the first group. Before anyone can discuss the War Powers Act . . . we will be in a full-scale shooting war again."

The bulletin is associated with Philip Agee, the former CIA agent who now functions as a joint British-KGB asset in Socialist International circles. Agee's scenario was first announced by Yippie leader Abbie Hoffman at the Yippies' National Resistance Conference in New York City on March 2. If a U.S. military adviser were killed in El Salvador, Hoffman said, U.S. involvement would greatly increase, and a "1968" climate could be created for recruitment to extremism and "youth movements."

Soviet official hits West's 'linkage'

Delivering the annual Lenin's birthday speech April 22, Soviet Politburo member Konstantin Chernenko rejected the principle of "linking" East-West relations to what happens in specific crisis spots, especially Poland. The speech contained the harshest criticism of the Reagan administration to date delivered by a Politburo member, but Chernenko, who is one of President Brezhnev's closest associates in the Politburo, also reiterated Brezhnev's proposals for East-West contacts on a number of issues.

Chernenko gave "the fuss about so-

cialist Poland" as the main example of linkage that was unacceptable to Moscow. To make détente dependent on events in Poland is part of a policy intended "to depart from negotiations on strategic arms, to heat up conflict situations, to interfere directly or indirectly in the affairs of other countries," he said. The same people who link détente to Poland, Chernenko charged, are trying to destabilize Poland. He also criticized U.S. administration policy on El Salvador and Afghanistan.

No decision on U.S. uranium fuel to India

Contrary to earlier reports, no decision has yet been reached in talks between the Reagan administration and senior Indian advisers on whether the U.S. will resume nuclear fuel shipments to the U.S.-built nuclear plant in Tarapur. The two sides have agreed to continue talks at a later date and the issue remains under consideration by the Reagan administration.

The U.S. has yet to ship nearly 40 tons of enriched uranium applied for last year by the Indian government, an obligation on which the antinuclear Carter administration stonewalled, and then dumped into the lap of President Reagan. The agreement signed by the two countries in 1963 called for nuclear fuel deliveries to be made until 1993.

The *Times of India* cites Indian Foreign Ministry official Eric Gonsalves, who met with the State Department officials, stating that the U.S. position is "flexible." Both sides agreed they did not want to make Tarapur an issue of contention, according to the *Times* report.

There were initially contradictory reports that the State Department told the Indians they would make one shipment only. It is likely that a battle is taking place within the administration on this question, as Secretary of State Haig and others at the State Department are known to oppose nuclear energy for the Third World and for India in particular.

Bhutto daughter may face death

Pakistani sources in London report that the military regime of Gen. Zia ul-Haq has put Benazir Bhutto, daughter of the murdered Prime Minister Zulfikar Ali Bhutto and leader of the Pakistan People's Party, under conditions that could lead to her death. According to the sources, Miss Bhutto was operated on in a Karachi hospital for internal bleeding, which may have been caused by torture. She was returned to her jail cell within hours of the operation.

The Pakistani community outside the country believes that the regime is intent on eliminating the entire Bhutto family, whose continued leadership of the political opposition threatens Zia's military dictatorship.

This took place as Pakistan Foreign Minister Aga Shahi met with Secretary of State Alexander Haig to discuss large-scale arms supplies from the U.S. to the Pakistani regime. Shahi told reporters that "the Reagan administration has put forward a five-year plan" for such supplies.

The Zia regime, installed by Henry Kissinger after Z. A. Bhutto's overthrow, is viewed by the State Department and London geopoliticians as a tool for re-establishing Pakistan's 1950s role as guardian of the western end of the Persian Gulf, and an aggressive instrument, in alliance with China, against India. As part of this policy, attempts to construct an indigenous national leadership in Pakistan have been consistently undermined.

Writing in the Indian weekly *New Wave*, Satchit Anand comments that the strategy is to involve the U.S.S.R. in skirmishes with China and Pakistan. The latter are unable to fully take on the Soviet Union, but "because of their inherent instability and growing opposition to their respective regimes," both seek "an external adventure to divert the attention of their people. India provides them with a ready target singly as well as in concert"; new arms will be used "against India or their own people."

Briefly

● **THE SOCIALIST PARTY** of Italy, holding its congress in Palermo, has played up party general secretary Bettino Craxi as the new Duce for the 1980s. *Corriere della Sera*, the Italian newspaper of record, reinforced the drive on April 23 with an article titled "The Craxi Phenomenon," which plays up Craxi's "extraordinary physical capabilities" and "brilliant intellect" in a manner recalling Mussolini to any Italian reader.

● **DAVID ROCKEFELLER** told the *Journal of Commerce* April 20 that U.S. policy in the Caribbean should center on Jamaica. Rockefeller heads the new U.S. Business Committee for Jamaica. Unlike Prime Minister Seaga, he has not yet endorsed marijuana exports.

● **JACQUES CHIRAC**, the neo-Gaullist French presidential candidate suspected of backing from Libya, was acclaimed on the eve of the first-round elections by international press outlets as the man who will dominate the next government, whatever happens at the polls.

● **FERNANDO LANDAZABAL**, the Colombian army chief who recently threatened President Turbay with a coup, attributes Third World violence and terrorism to overpopulation and envy of advanced-sector science and technology in his book, *Subversion and Social Conflict*.

● **JEANE KIRKPATRICK**, U.S. Permanent Representative to the United Nations, will attend a meeting of the Bilderberg Society next month. Kirkpatrick told *EIR* that she will give a major address on North-South relations to the group, which she described as "the supersecret, inner, inner elite of the NATO countries."

The Conrail sale and the new robber barons

by Leif Johnson

As if epitomizing the public distaste for pouring tax money down bottomless sinkholes, Transportation Secretary Drew Lewis and Federal Railroad Administrator Robert W. Blanchette proposed in mid-April that the federal government sell Conrail to competing private railroads.

Conrail, the debris of six Northeastern railroads which was dumped on the federal government in 1976, has, despite assurances, failed to turn a profit. Conrail has absorbed \$3.1 billion in its five years of life, and expects to ask Congress for an additional \$604 million to \$2.1 billion over the next four years.

Selling Conrail seems to many an ideal solution. The federal government would be relieved of additional subsidies; the labor costs negotiated into the 1976 Conrail package could be abrogated; and large-scale abandonments and work-rule changes could be effected with shippers and rail unions unable to use congressional leverage to block such measures.

Prevailing free-enterprise, antigovernment ideology favors the sale. As everyone knows, the government cannot continue to bail out failing private companies. Everyone also knows that rails are a marginal industry because the federal government has heavily subsidized alternate transportation modes while keeping a tight rein on rail rate increases. And featherbedding by rail craft unions is the major cause of the Eastern railroad bankruptcies.

The nodding of wise heads in consonance with the

above press-fostered ideology should make any intelligent observer pause. Moreover, a little investigation would reveal the following realities:

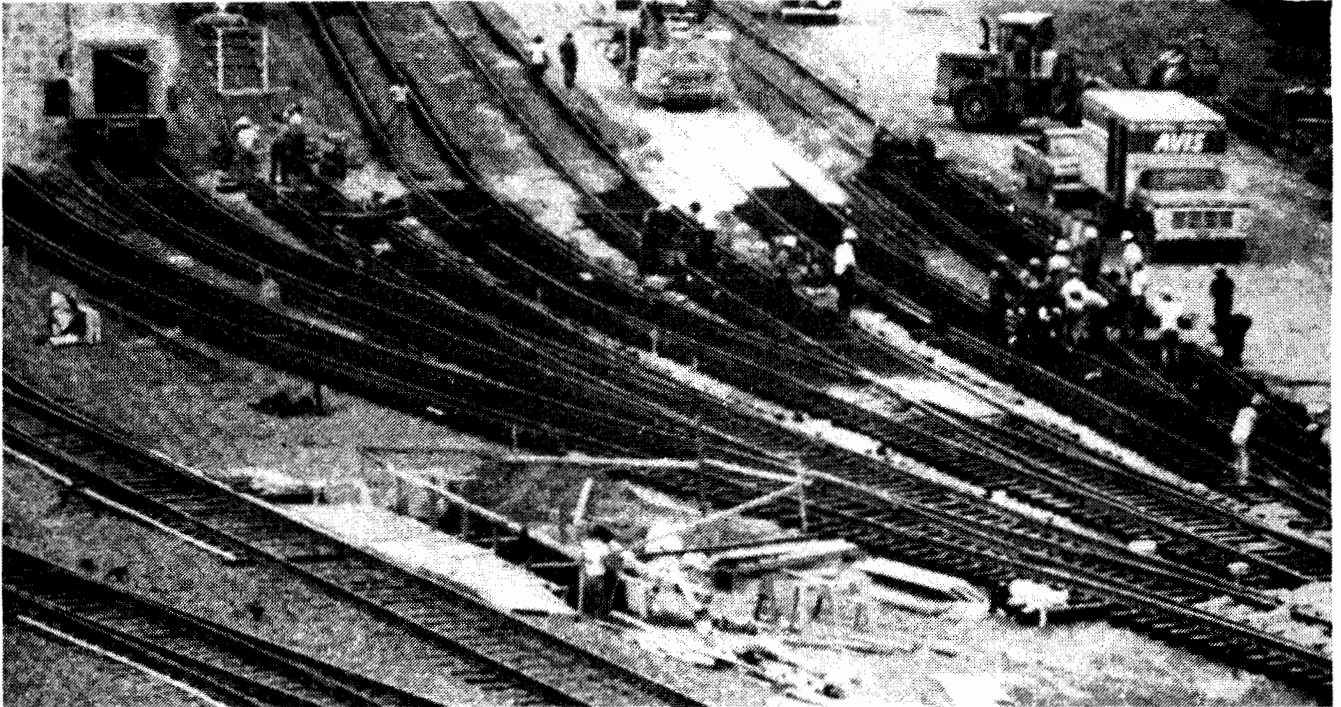
- Almost uniformly throughout the nation, the rail companies have been reorganized into conglomerate corporate forms which re-establish the 19th-century trusts, functioning as overlapping corporate layers designed to draw off profits from the operating railroads and produce huge indirect federal subsidies to the conglomerate.

- The same banking houses, most notably the Hariman and Morgan interests, are the prime movers of this trust-building as they were a century ago when they were justly called "Robber Barons."

- The railroads continue to be highly profitable, largely due to the land granted them by the federal government, much of which they continue to hold contrary to the conditions of the congressionally mandated grant. The conglomerate form was created to separate the railroad from the land and derivative mineral profits, maintaining a rail loss to shelter profits accruing to the parent holding company.

- The purpose of trustification and cartelization of the rail system is to use transportation, together with banking, to absorb the profitability of the U.S. economy and thereby assume control over it.

- Rail labor productivity has risen 50 percent faster than manufacturing productivity in the postwar period. Railroads today run 55 percent more freight tonnage



Conrail maintenance has not kept pace with high freight ton-mileage.

than in 1950 with only one-third as many employees.

- Conrail, like its predecessor, was not meant to succeed. Its intentional sustained losses were designed to facilitate large-scale abandonments of industrial lines while forcing precedent-setting concessions from the rail workers.

Conrail is the paradigm of how the railroads are now being used. If Lewis and Blanchette seriously wish to sell the railroad, who would buy it? Its competitors, of course: the Norfolk & Western, the Chessie System, Missouri-Pacific, and Illinois Central Gulf, with various smaller companies like the Providence & Worcester, Detroit, Toledo & Ironton, or the Grand Trunk Western taking smaller chunks.

With the exception of Western railroads such as the Missouri-Pacific, virtually every one of Conrail's competitors is either a former subsidiary or controlled railroad of the former Pennsylvania or New York Central railroad. The subsidiaries were split off prior to the 1968 merger or prior to the creation of Conrail. In one case, a prospective buyer, the Providence & Worcester had been an inactive lease holder of the New Haven & Penn Central for nearly a hundred years before it resurfaced as a profit-making railroad.

After Conrail was effected, the previously created competition drained traffic heavily from the truncated and ruined Conrail lines. This drain was facilitated by the 1973 Regional Rail Reorganization Act, which allowed the competing lines trackage and terminal rights over

Conrail facilities, giving the competitors through-lines that were formerly exclusively the Pennsylvania's or New York Central's. Further irrational abandonments of Penn Central trackage and poor service drove still more traffic to formerly owned or controlled competitors.

One of the present contenders for Conrail's choice lines is the Norfolk & Western, a former subsidiary of the Pennsylvania. This railroad was spun off on Interstate Commerce Commission (ICC) orders in 1968 as a condition for the Central and Pennsylvania merger. The ICC specifically stated that it ordered the spinoff to create competition with the new Penn Central.

In 1968 the N&W acquired the formerly Pennsylvania controlled Wabash and the formerly New York Central controlled Nickel Plate Road, and was forced by the ICC to take the Erie Lackawanna and Delaware & Hudson. The N&W thereby tripled its size, providing heavy competition to the Penn Central. In 1975 it dumped the bankrupt Erie Lackawanna onto Conrail.

On May 2, 1974 Federal Judge John P. Fullam ruled that the Penn Central, Reading Central of New Jersey, and Lehigh Valley (Erie Lackawanna joined the year after) could not be reorganized or find buyers for their lines. Yet these are the same lines that Lewis and Blanchette are trying to sell today. What happened in the intervening seven years?

- Conrail spent \$2.8 billion of federal monies upgrading the main lines, of which \$1.9 billion went for track and roadbed and \$900 million to repair and

purchase cars and locomotives. This sum represents the deferred maintenance from the Penn Central. Now the federal government proposes to sell these assets back to Penn Central's former subsidiaries just months after it paid the Penn Central Company, the former railroad's holding company, \$2.1 billion for the nearly worthless Penn Central railroad.

- The Staggers Rail Decontrol Act of 1980, written by Conrail and moved by Conrail's congressman, James Florio, a Camden, New Jersey Democrat, was rushed through Congress. It abolishes the ICC, permits much more rapid abandonment, and allows highly flexible rate-making, including contracts negotiated with individual shippers. This contract system was the way in which the Robber Barons made discriminatory rates, favoring some and ruining most others.

- Coal hauling has become highly profitable; the rail holding companies own great quantities of coal and demand is up due to the Kissinger oil war in 1973 and the Carter administration energy policies.

- The Penn Central Company was successfully spun off from wreckage of the railroad with an \$8 billion profit over the course of the bankruptcy. This massive profit was largely due to the existence of the Penn Central Company, the railroad's holding company. The PCC successfully shielded the railroad's real estate, pipelines, and other assets from the bankruptcy court, while subsequently using over \$1.5 billion carry forward tax losses of the railroad to shelter income from these properties. The Penn Central Company is today a fast-growing "postindustrial" conglomerate with assets of over \$2 billion.

By creating a holding company, the railroad can

transfer assets to that company, which is a nominally capitalized shell, producing subsequent tax losses for the railroad. The losses can be used either to demand higher rail rates or, by using a consolidated tax return for the conglomerate, to shelter income from other profitable operations.

The railroad can also transfer its stock to the holding company, which can then declare large dividends on the stock, even if the railroad is listed as losing money, as the Penn Central did in 1968 and 1969. This transfers large amounts of cash to the holding company, making the railroad appear unprofitable, and generating tax losses.

An ultimate step, but not necessarily one taken, is for the holding company to ultimately rid itself of the railroad, using the accumulated carry-forward tax losses for the legally remaining seven years. This was the ploy of the Penn Central and the Chicago & Northwestern. The latter sold its line to its own employees, but kept the tax losses for itself to shelter income from highly profitable operations of Northwest Chemco, a subsidiary of Northwest Industries, the parent holding company.

The greatest irony in this operation is that it allows use of the very large assets of the railroad to create "postindustrial" conglomerates which ultimately destroys the basic industry upon which the railroad depends for revenues. The new conglomerate, like the Penn Central Company, may create or buy consumer products, energy, real estate, financial services, insurance, leasing, and communications companies, some of which can be used to engage in exorbitant equipment, communications, or other leasing contracts with the railroad.

Figure 1
Ton-miles, employment and retirees

Year	Freight ton-miles (in millions)	Employees (thousands)	Productivity index 1950=100 (ton-miles/employees)	Retirees and dependents (thousands)	Employee/ beneficiary ratio
1950	591,550	1,421	100	461	3.08
1960	575,360	909	152	883	1.03
1965	697,878	753	223	990	.76
1970	764,809	566	325	1,068	.53
1975	754,252	494	367	1,113	.44
1976	794,059	496	385	1,117	.44
1977	826,292	501	396	1,121	.45
1978	858,105	491	420	1,116	.44
1979	913,669	503	436	1,107	.45
1980	918,621	480	460	1,098	.44

Source: Association of American Railroads, *1980 Yearbook*, Railroad Retirement Board, *Statistical Review*, 1980.

Inevitably, railroads that lose large portions of their most valuable assets to their holding companies become supplicants for rate increases at the ICC. With deregulation, however, the shipper rather than the ICC must prove that the railroad is asking for unreasonably high rates. It is beyond the resources of virtually any shipper to demonstrate that the railroad was asset-stripped by its holding company, even if the shipper could obtain railroad records or if the court would entertain such arguments.

Illegal lands

The new conglomerate form of the railroads is heavily based on land and mineral rights holdings. Few people today realize that the railroads, which were granted a total of 9.3 percent of all land in the United States, including nearly 20 percent of Texas and nearly a third of Florida, still hold much of that land or its mineral rights.

For example the Union Pacific Railroad's subsidiary holdings, several million acres of land and mineral rights, were transferred to its holding company and listed at a book value of \$372 million. The Union Pacific Corporation's vice-president for finance estimated the worth of these lands at \$662 million or 78 percent higher than book value. A 1976 congressional committee estimated the 1971 value of those lands and rights at \$975 million, or 162 percent above "book value," and the present value of that land is estimated at about \$3 billion.

The Union Pacific Corporation, a Harriman company, estimates that it presently owns or controls 2 billion tons of coal, 1.25 trillion cubic feet of natural gas, and several billion barrels of oil and gas equivalent in the Overthrust Belt. Income from these properties accrues to the holding company, not the railroad.

At the end of 1976, the Southern Pacific Company held 3.7 million acres with 1.5 million additional acres of mineral rights; the Burlington Northern, whose antecedent Northern Pacific received 40 million acres in grants, still holds 2.4 million acres with mineral rights on an additional 5 million acres.

Since most land was granted on condition that the railroad build its planned routes and sell the land within three to five years at set prices—usually \$1.25 to \$2.50 an acre—much of this land is held illegally. Although historically the federal government has initiated reversion proceedings against numerous railroads, no substantial action has been taken since the last depression.

Strategic Bombing Survey

The Feb. 26, 1975 U.S. Railway Association Final Report that created Conrail contained a 400-page, mile-by-mile breakdown of light-density trackage. The report claimed that if stretches of several miles can be found where no revenue or less than profitable revenue is

generated, the track in question should be abandoned. Few of these abandonments applied to spur lines, but rather to branch lines that interconnected with other lines and generated traffic for main lines.

The effect of taking out hundreds of small portions of branch lines was to reduce the traffic on main-line routes by driving branch-line shippers to other railroads, highway, or water transport.

A former Penn Central engineer recalled the abandonment of a line that shipped several trainloads of coal a week to Indianapolis Power & Light. The abandonment of a short section of track made rail access to the power plant so circuitous and costly that the power company was forced to haul the coal by truck. "The way they abandoned track was like if you took out the track in Ohio and still expected to run trains from St. Louis to New York," he recalled.

The abandoned lines were recommended for "trails, outdoor use, snowmobile runs, bike paths, nature preserves for many prairie plants which otherwise are extinct, or power lines and roadways."

The cost-benefit analysis method used was that of the Prudential Insurance Company Strategic Bombing Survey of the World War II Office of Strategic Services. The OSS found that disruption of the industrial production of Germany and Japan was much more effectively accomplished by attacking transportation links than by bombing the factories and population centers. With complete air superiority by the end of the war, Allied bombers could map and destroy transportation links to bring industrial production to a halt.

In the realm of financial warfare between financial and producer forces, the financial faction similarly finds that it is more efficient to surround the producer with insurmountable problems like environmentalist regulations, high capital costs and inadequate or exorbitantly priced transportation than to attempt a direct buyout of producers. The financiers appropriate the producers' profits, ultimately dooming further production.

What about rail labor?

Conrail's March 15 Labor Report to Congress claims that approximately \$200 million must be given back in wage and rules concessions by Conrail employees each year through 1985 if the railroad is to survive. Conrail suggests a "limited duration" 18-month wage freeze, abolition of one week of vacation and two holidays, elimination of craft distinctions, and use of remote controlled locomotives. Conrail further demands the right to fire 10,000 employees without the payments stipulated under Title V of the 1973 Rail Reorganization Act.

To enforce these demands, the report says, "Conrail must be permitted to take a strike of significant duration without government intervention . . . or the government must be prepared to intervene at an appropriate time to

determine the components of a contribution package for any union which is unwilling to negotiate such a wage package.”

Consider what Conrail has demanded: abolition of the Federal Railway Labor Act and Title V of the 3R Act, and the right to provoke a strike whose consequence—regardless of the labor outcome—is permanent loss of a portion of shippers, thereby guaranteeing the ultimate demise of Conrail itself. Thus Conrail is carrying out a policy of intentional failure, effecting desired abandonments and selloffs while also using the system as a vehicle to abolish work rules and seniority rights, and substantially reduce rail wages as a precedent for the entire rail industry

Featherbedding?

Conrail’s assertion that the workers must sacrifice is ironic in light of its own management policies. Conrail’s operating labor force has gone from 90,612 in 1976 to 72,596 in 1980, and Conrail’s freight labor expenses as a percent of freight revenues have dropped from 66 percent to 56 percent. The rail unions granted Conrail very substantial work-rule changes in 1976. Engineers and firemen negotiated the elimination of firemen on 90

percent of all runs; brakemen were phased out of many through runs; and seniority, crew-sharing, and dead-head time were heavily revised in the railroad’s favor.

Despite Conrail’s demand that Title V be abrogated, Conrail has fired engineers, incurring the Title V costs, while at the same time it has opened a training school for new engineers to replace the laid-off men.

While the number of road employees has decreased substantially, Conrail’s management employment has increased from 6,997 in 1976 to 8,455 in 1979. As a result, freight tonnage per executive fell from 141,000 in 1976 to 117,000 in 1979. Many of the new executives were recent business-school graduates who, with only weeks of training, began replacing veteran dispatchers and yardmasters. Many new management men were then recycled into the Department of Transportation, Federal Emergency Management Agency, and other federal crisis-management groups assembled during the Carter administration.

Two-thirds of the nation’s rail labor force has vanished since 1950. Yet with only one-third the number of rail workers in 1980, railroads are hauling 55 percent more ton-miles than they were in 1950. If labor productivity per ton-mile is indexed at 100 for 1950, productivity

Figure 2
Who contributes to railroad pensions

Year	Employer, employee and investment (millions of dollars)	Social Security and Treasury (millions of dollars)	Federal contribution
1950	\$ 376	\$ 0	0%
1951	378	95 ¹	12.2%
1960	722	318	31.0%
1965	799	459	36.4%
1970	1,243	589	32.2%
1975	1,763 ³	1,010	36.4%
1976	1,798	1,489 ²	45.3%
1977	2,016	1,458	41.9%
1978	2,066	1,869	47.5%
1979	2,477	1,790	41.9%
1980	2,736	1,743	38.9%

Source: Railroad Retirement Board, *Statistical Review*, 1980.

Notes: 1. Legislation introduced by Senator Paul Douglas (D-Ill.) mandated the Social Security fund to pay the Retirement Fund the amount that railroad workers would have received if they had Social Security, resulting in payments of nearly \$1.5 billion by 1980. This is the only private pension system in the nation to which the federal government contributes.

2. Under a formula worked out in collective bargaining the railroads agreed to contribute an extra 9.5% if the workers

agreed to substantially lessen wage demands. However, the entire amount of the railroad pension contribution was granted back to the railroads in a dollar for dollar rate increase, resulting in substantial wage and tax savings for the railroads. 3. Beginning in this year, legislation was passed to mandate the Treasury to pay a flat sum yearly to maintain the financial solvency of the Railroad Retirement Fund. It began at \$250 million yearly and will continue at \$313 million yearly until 2000.

in 1980 is 460. The increase in rail productivity is approximately 50 percent greater than for manufacturing in general.

Remarkably, rail productivity continues to increase while national manufacturing productivity has stagnated since 1976. Between 1975 and 1980 rail productivity went from 367 to 460 (see Figure 1).

The railroad pensions

Rail companies are the only private companies whose pensions are subsidized by the federal government. By 1950 the railroads could foresee the effects of technological improvement, reorganization and abandonments on the size of its workforce and its consequences for the Railroad Retirement Fund. In 1951, Sen. Paul Douglas (D-Ill), passed legislation to swap payments with the Social Security fund; the railroads pay for each employed worker and the Social Security fund pays for each pension beneficiary.

With the drop in the ratio of employed rail worker to beneficiary from 3.01 in 1950 to 0.44 in 1980, the railroads have a bonanza from the Social Security funds now running nearly one and a half billion yearly (see Figure 2).

Yet by the mid-seventies, the fund was depleted and Congress accepted a further direct subsidy to the Retirement Fund of \$250 million (later \$315 million a year until 2000). It also allowed the railroads to receive a dollar-for-dollar rate increase on their 9.5 percent increase in Retirement Fund contributions. However, the railroads had already negotiated a wage-pension tradeoff with the unions in 1975 that resulted in the railroads receiving double compensation for their contributions.

The federal contribution has stabilized at \$1.7 billion yearly, or about 40 percent of the payment, but congress will soon be asked for further subsidies. What would Congress say if the Teamsters asked it to pay 40 percent of its pensions?

Who is behind the railroads?

Standard history books draw colorful pictures of the Robber Barons whose watered stock, land sales, and exorbitant, discriminatory freight rates brought them huge windfalls until they were tamed by public outcry and government action.

The two leading families who were together said to control more than half the trackage in the United States were the Morgans and the Harrimans. It is precisely these two interests who today are most responsible for creating the new rail trusts—the conglomerates—and who pushed through deregulation of all transportation to return them to the bounteous days before the establishment of the ICC.

Conrail is a paradigm of Morgan-Harriman control. The former Pennsylvania Railroad was a Morgan-controlled road through Morgan director James M. Syms, chairman of the Pennsylvania Railroad's executive committee and also a director of the Wabash Railroad which went to the N&W and the Detroit, Toledo & Ironton, a Conrail prospective purchaser.

Another Morgan-Pennsylvania director was John T. Dorrance, chairman of the Campbell Soup Company of Camden, New Jersey. Paul Gorman, president of the Penn Central after the merger, is also on Campbell's board and that of the Prudential Life Insurance Company which ran the 1944 Strategic Bombing Survey.

The New York Central was a Harriman-Morgan company controlled through the Perkins family which connected Chase Manhattan bank, the Morgan banks, and their own First National City Bank, now known as Citicorp, the bank's holding company. These people flow into the Penn Central board after the 1968 merger.

The agencies that subsequently planned the reorganization of the Penn Central into Conrail were also Morgan-Harriman controlled, as is Conrail today. The U.S. Railway Association was run by Samuel P. Payne, former president of Morgan Stanley and Company. Conrail is run through director Joseph W. Barr, former head of American Security and Trust, a company on whose board sits R. L. Ireland III, the ubiquitous guardian of Harriman interests, particularly after the death of Roland Harriman.

Conrail's new chairman, L. Stanley Crane, was formerly of the Southern Railroad, another Harriman company, on whose board sits R. L. Ireland III. Reciprocally, Crane sits on the board of American Security.

In this context, some additional light is cast on advocacy of the Conrail sale from Transportation Secretary Lewis and Federal Railroad Administrator Blanchett: Lewis was a former trustee of the bankrupt Reading Railroad, which followed a holding company route into Conrail identical to the Penn Central's.

Blanchette was the general counsel who shaped the New Haven bankruptcy and merger with the Penn Central, for which he then became general counsel. After the bankruptcy, Blanchette become chairman of trustees of the Penn Central and its chief executive officer. When Conrail absorbed the rail properties, Blanchette moved to the holding company, Penn Central Company, to manage its miraculous emergence from bankruptcy. As Blanchette's official biography indicates, "he has more than a decade of first-hand knowledge of railroad affairs."

A more extensive version of this report is available from EIR's Special Services. Call Mr. Peter Ennis at (212) 247-8820.

Global 2000 author Gerald Barney praises Fidel Castro and Mexico's CP

by Lonnie Wolfe

The project director for the Carter administration's *Global 2000 Report*, Gerald Barney, has been traveling around the world since the report was released last July, in an effort to establish Global 2000 projects in major countries. Under former Rockefeller Fund executive Barney's direction, the report concluded that world population estimated for the year 2000 must be cut by some 2 billion people. Barney's stops have included most of Western Europe, Japan, Canada, Panama, Mexico, and the People's Republic of China; he plans a trip soon to Poland.

In a recent interview, excerpted below, Barney stressed that Fidel Castro praised the *Global 2000 Report* in a September 1980 speech in Havana before the United Nations Food and Agriculture Organization regional meeting.

Barney also emphasized the existence of "professionals" within the Reagan executive branch whom he counts on to maintain the Global 2000 push. The State Department, as *EIR* has documented, remains a center of specialists in mass murder, who under Alexander Haig are now actively promoting the Global 2000 documents among Third World embassies, according to diplomatic sources in Washington. The State Department officially denies that Global 2000's approach of "hit lists" for population reduction is its policy, but the net effect of State's pressure campaign is to legitimize and promote the doctrine of genocide.

Private consultants operating under the State Department, often using U.S. embassy facilities, are using computer displays to bring Global 2000 psychological warfare to Third World officials from planners to heads of state, to complement Barney's work.

From an April interview with Gerald Barney provided to EIR:

Q: Had the Carter administration stayed in office, your report would have been a centerpiece of policy. But now that we have a new administration, what happens?

A: There are a number of people in the new administration who think this is very important stuff. And there's at least one conservative columnist who thinks it's pretty important. James Kilpatrick wrote an article in *Nation's Business* that this is one of the most important things

around, a liberal conspiracy. . . . This new administration is not dumb; there are some smart people there. A smart person knows, without much coaching, that there are a lot of problems with population growth. A smart person also knows that there isn't any simple solution to the world's energy problems. And a smart person also knows that there's a limited amount of additional land that can be brought under cultivation. A smart person also knows that right here in the United States we're feeling the effects of the cost of fertilizer and other energy-intensive inputs into agriculture, and that our soils are eroding in a way that is not very satisfactory. It also doesn't take a very smart person to know that the financial institutions of the world, particularly the international banks, are on very shaky ground. And while a number of people have gone out of their way to be critical of this report, the fact is that report is not *my* opinion; that report is the best professional analysis that professionals within the U.S. government are able to do today.

Q: If the Reagan administration did the same kind of report would they arrive at the same conclusions?

A: Absolutely. There's not one of the professional people who did that work who were so concerned with the change of the administration. Those are career civil servants, the most professional the government's got, and they are dealing with global issues. Those people are all still right there. Most of them are doing the same work they were doing before. It's the government's own data. . . . There are some things wrong with it. In the second volume we describe a lot of things that are wrong. But my overwhelming impression is that if you corrected those problems, in the final analysis the picture of the world's problems would be grimmer, not more happy.

Q: People believe, especially in the aftermath of the Space Shuttle's success, that science and technology can solve almost everything, and that if we continue to apply ourselves, our scientific genius, that there is not going to be a big problem with scarce resources or energy.

A: Well, I'd answer first of all by saying that the Global 2000 study assumes that technology is going to do a whale of a lot already. Agricultural yields are projected to increase at a rate which is essentially identical with the

rate of increase during the height of the "Green Revolution." Now we don't have technologies on hand to do that. If that doesn't happen the situation is going to be far worse than projected in that report.

It has also been projected or assumed in that report that there are going to be developments in nuclear energy that are going to make nuclear energy completely acceptable, such that nuclear power would triple over a 15-year period, that's a pretty rapid increase in nuclear power throughout the world. . . . The most serious problems that are talked about in there like population I don't know of any way that technology's really going to help.

Q: Isn't this a neo-Malthusian argument?

A: I think that technology may solve some of the problems, but not in time. I would not want to call Global 2000 neo-Malthusian. I would call it an econometric/ecological analysis. Most of the analysis that was done was done with econometric tools allowing for the market-clearing mechanism to play a full role. These are not just linear projections, they are nonlinear, and very sophisticated. . . . Global 2000 does use the geometric argument which is tied into the Malthusian viewpoint, but I would not want to apply that term to the study. If we used it, it creates an automatic-type freakout, and people wouldn't look at the study.

Q: What are the prospects for a country like Mexico implementing Global 2000?

A: I've been to quite a number of countries—Mexico, Panama, quite a number of countries in Europe, Australia, Japan, China, and Poland. In all of those countries, I've found very strong interest in Global 2000, stronger than in the U.S. . . .

I was only in Mexico for about a week, but I found very strong interest there, especially among the Ceestem people [a U.N. spinoff]. I was set up to debate a Marxist professor, one linked to the CP, and after I spoke, there wasn't a debate. He said that Global 2000 was a very fair assessment. . . .

Q: You are saying it has Marxist support?

A: Well, Fidel Castro gave a speech in Havana a few months back to the U.N. Food and Agriculture Organization about the Global 2000 report. He supported it. He faulted us merely because in both Spanish and Russian the word "global" translates into "all-encompassing," rather than as we mean it, in the more geographic sense. Both Castro and the Soviets faulted us mostly because the report was not all-encompassing and it did not include a discussion of the arms race. But beyond that, Castro supported us. A very substantial part of his speech was basically quotes from the study. He said that he thought it was very important that the United States had done this, that he agreed with the conclusions, and felt that it would require a period of unprecedented cooper-

ation among nations to deal with the problems in the Global 2000 report. Castro does understand the population question. Look at the way he handled the boat people migration. He sent away his surplus people. "Want some more?" he says. "We have some more for you."

Q: Let's go back to Mexico for a moment. Mexico seems committed to U.S.-style industrial development.

A: You have to be very precise when you talk about American-style industrial growth. I don't really think that Mexico sees it that way. They have substantial wealth in oil but they have tremendous problems. One of the biggest is overurbanization. People are finding things so bad in the countryside that they are flocking to the cities. There is every reason to think that Mexico City will be the largest city in the world by the year 2000—30 million people or more. The basin on which the city is located is already in bad shape. Water is not potable. The pollution is so bad that it is affecting the ground water. . . .

Q: What would you tell them to do?

A: First of all, I would say that the government is going to be increasingly vulnerable to destabilization. This is not only because of the problems I described. People in Mexico didn't expect to get everything from their oil wealth, but they didn't expect to get poorer. But that is what happened. Wages have not gone up. They have been cut down very deliberately. Inflation is going up at 100 percent or more per year. As a result, the purchasing power of what little there is is dropping greatly. And that is a very politically unstable situation. There is a potential for a lot of unrest in Mexico for a very long time which the government of López Portillo or any government will become aware of. . . .

Beyond that, they have to develop their water. You must have a strategy to deal with the food. They have one but it may not work. They must find some way to take pressure off the cities. . . .

Q: Is there a constituency for Global 2000?

A: There is very definitely a constituency for it. Are you familiar with the science philosopher Thomas Kuhn? He talks about paradigms, which are macro, mental constructs of scientific thought that are appropriate for a particular period. They are revolutionary ways of looking at the world. Newton had one paradigm. Einstein had quite a different one. I would say that the world as a whole is going through a major paradigm shift right now. For a long time, people thought that technology could solve everything and that growth could go on indefinitely. . . . This is a whole new view of the world. This is the view of Global 2000.

I see the constituency developing before our eyes.

Justice Department outsmarts itself

by Richard Magraw

As the federal trial of three Teamster leaders goes to the jury after six weeks of testimony in Newark, New Jersey, it is clear that the Justice Department never had a shred of evidence against the defendants in its most glaring frameup to date. On April 22, the defense rested its case. Judge H. Lee Sarokin stated while the jury was out of the room: "It is my personal view that I shouldn't hand the indictment over to the jury" because of the utter shoddiness of the prosecution's case.

The Justice Department charges that Salvatore Provenzano, an IBT international vice-president and president of New Jersey Joint Council 73; Nunzio Provenzano, president of IBT Local 560, and Michael Sciarra, a business agent for Local 560, participated in a kick-back scheme. The crux of Justice's case was set forth by Federal Prosecutor Thomas McKay when he accused the defendants of not calling enough strikes during the period from 1976 to 1979! McKay declaimed that the only possible motivation for the lack of strikes was that the Teamster officials had to be receiving payoffs. As the record shows, however, the Teamster leadership, although maintaining a well-known adversary relationship to trucking management, has consistently promoted the view that the interests of their men and the country's transport are best served if labor grievances and disagreements are resolved quickly and informally at the local truck terminal level. Strikes are a weapon only to be used if all negotiations have failed.

A fourth codefendant, Irving Cotler, an Englewood, New Jersey businessman, admitted through his lawyer that he and a commodities broker, Raymond A. Dee, had concocted a scheme to solicit bribes from trucking executives and brokers using the Provenzanos' names—without their knowledge—in exchange for promises of "labor peace."

The prosecution prevented Cotler from testifying before the jury. The reason was that Cotler's testimony would undercut the assertion of a conspiracy involving the Provenzano brothers, and the charges would have been thrown out. This would not have precluded prosecuting Cotler at a later date. But, given the Justice Department's interest in destroying the Teamsters, rath-

er than obtaining criminal justice, the prosecution strenuously objected.

Justice followed its standard script, starting with a media blitz on "organized crime." The prosecutor then took a crime that had been committed—the payoff scheme by Cotler—and, through association, innuendo and circumstantial evidence tried to link his Teamster targets to it. The jury has been treated to a parade of testimony from bought-and-paid-for government witnesses who swore that the defendants were involved in the scheme. The key Federal Witness Protection Program witnesses, "Little Ralphie" Picardo and Joseph G. Szapor, both faced long stretches in prison at the time they joined the program. Both freely admitted to the jury that they would do anything to avoid prison. Their convictions and pending charges range from murder to hijacking and counterfeiting.

Defense counsel Jay Goldberg showed how each witness repeatedly changed his story on particular events depending on whom he thought the Justice Department wanted to target. Using grand jury and court transcripts and official FBI reports, Goldberg hammered away "very effectively," as Judge Sarokin put it, at Szapor's four versions of one particular meeting:

Goldberg: Did you say here that it was Mike Sciarra who made the call and gave you money?

Szapor: No. That's what I should have said.

Goldberg: You mean that's what you should have said according to the line given to you by the Justice Department?

Szapor: Yes.

The jury chuckled; the FBI agents in the courtroom groaned; and prosecutor McKay turned beet red. Goldberg continued: "Wouldn't it be fair, Mr. Szapor, to say that you would do anything in order to stay out of jail?" A befuddled Szapor replied, "Yeah."

Convicted murderer Picardo's testimony proceeded similarly. The defense asked him why in previous testimony on the incident he had cited only the name of Tony Provenzano, without mentioning Salvatore or Nunzio. He answered that the court records must be wrong.

On April 21 Judge Sarokin withheld judgment on a defense motion to dismiss all charges, based on the lack of credibility of the main prosecution witness, Szapor, without whose testimony the case would never have reached a grand jury for lack of evidence. The judge stated, however: "I certainly agree that Mr. Szapor's testimony and credibility are in serious doubt, not only because of the defendants' evidence, but also because of the cross-examination."

The defense has countered the payoff allegations by providing witness after witness who testified that the Provenzanos were exceptionally vigorous in pursuing grievance claims by union members. The jury begins its deliberations on April 27.

Reactivation of the BLA

EIR's counterintelligence newsletter, Investigative Leads, warned a year ago that the group was being reactivated.

On April 16, two New York City police officers were shot and severely wounded by two members of the Black Liberation Army as the officers attempted to inspect their van.

The BLA, composed of former Black Panthers and convicted felons, were responsible for the murder of over a dozen policemen across the country in the early 1970s. Police investigators now speculate that the BLA may be attempting to rebuild their nationwide apparatus under the leadership of Joanne Chesimard. It is believed that a series of robberies are being carried out to finance this resurgence.

The police think the BLA has joined forces with a variety of black militant organizations to build a base of support. One such group is the New Jersey-based New World of Islam, an extremist black Islamic sect responsible for over 13 bank robberies and one police murder in the last year. Police also suspect that the BLA may have hooked up with the Rastafarian drug cult.

We reprint here the *Investigative Leads* report of April 1, 1980 predicting this reactivation. If the proper counterterror action had been taken at the time, the recent shootings could probably have been averted.

IL's continuing investigation into the recent pattern of prison breakouts and the release from prison of former terrorists has de-

termined that there is a deliberate effort to rebuild the Black Liberation Army . . . [as] a "new black nation."

In early April 1978, New York City police were involved in a shootout with two BLA terrorists, Eric Thompson and Mariano Gonzales. Afterward, police discovered extensive dossiers on the BLA leadership in the trunk of the BLA vehicle and an arms cache in Thompson's apartment. This find is believed to have derailed an attempt at that time to rebuild the BLA using ex-convicts as the hard core of the group. However, the rebuilding started again with the Nov. 2, 1979 prison breakout of Joanne Chesimard, a.k.a. Assata Shakur, known as the "soul of the BLA." Chesimard has openly called for the freeing of all black "political prisoners."

Beginning in January 1980, three members of the terrorist Republic of New Africa (RNA), which is leading the fight for a "new Black nation," were freed from federal penitentiaries in the South. The three—former president of the RNA Imari Obadele, Addis Ababa, and Karim Njabafundi—are part of the RNA 11 imprisoned in 1972 on charges ranging from possession of stolen weapons to murder, federal conspiracy, and assault. Soon after, in January and February 1980, a series of prison breakouts began. These included breakouts at Rikers Island prison in New

York City, Lewisberg Federal Penitentiary in Pennsylvania, and the recent aborted breakout at the Essex County Jail in Newark, N.J. on March 25. The pattern of prison breaks follows the standard M.O. of how such organizations are created—using fugitive criminals indoctrinated in "liberation" ideologies while in prison "rehabilitation programs."

Members of such terrorist organizations as the Symbionese Liberation Army (SLA) were recruited from prison rehabilitation programs on the West Coast. The West Coast programs were run almost exclusively by members and supporters of the Revolutionary Union—now the Revolutionary Communist Party (RCP). In fact, it should be noted that H. Bruce Franklin, one of the founders of the RU, is now active in prison organizing and cultural studies on the East Coast. One piece of information pointing to this was the outburst by James Johnson and Lloyd Jones during their trial for attempted murder of a New York City police officer. When the two were found guilty by Judge Roberts, they started screaming at the judge calling him a "capitalist hog." It is important to note that Johnson and Jones are being represented by FALN lawyer Susan Tipograph.

Law enforcement officials in Florida believe that a January-February crime spree there, including two South Florida bank robberies, is linked to Chesimard. Messages in the two robberies were identical to those given in robberies committed by the BLA in the early 1970s. Chesimard had many contacts in South Florida in the 1970s; one of the bank robbers fits Chesimard's description.

Subcommittee hears water policy proposal

Undersecretary of the Interior Don Hodel appeared before the Senate Environment and Public Works subcommittee on Water Resources on April 21 to explain Interior Secretary Watt's proposed Office of Water Policy. Subcommittee Chairman James Abdnor (R-S.D.) along with Pete Domenici (R-N.M.) who has been very active in water issues for many years, initially greeted Watt's proposal with some skepticism.

The interior secretary is proposing that the existing inter-agency Water Resources Council and Interior's Office of Water Research and Technology (OWRTC) be abolished. The Water Resources Council has been viewed by many as a no-growth stronghold. In their place, Secretary Watt has proposed that the Office of Water Policy be established under the Interior Department. Undersecretary Hodel explained that the office would provide a coordinating and staff function for all of the departments (especially Agriculture and Army) who are engaged in water policy.

Senator Domenici asked Hodel why the Interior Department should be the locus of this office when other departments, especially the Army, with its Corps of Engineers, have "more experience, more resources and more jurisdiction than the Department of Interior." Hodel responded that Interior was not seeking to usurp the jurisdiction of departments such as Agriculture and Army, but was trying to provide a staff and coordinating function for all the departments. Conflicts, Hodel said, that could not be resolved at the appropriate assistant secretary or

secretary level should go to the President.

"What we are trying to avoid is a situation in which a conflict results in the deferral of a decision through inaction or through the assignment of another study." The full committee is still on record supporting the temporary continuation of the Water Resources Council and the OWRTC.

Confirmation hearings held on Mexico ambassador

The Reagan administration's nominee for Ambassador to Mexico, John Gavin, appeared at confirmation hearings held by Senate Foreign Relations Committee April 22 and elaborated for the first time some of the Reagan administration's views toward Mexico. Gavin made a particular point of underscoring the intention of the Reagan administration to work very closely with Mexico in dealing with the rest of Central and Latin America. He said, "Reagan has been in very close touch with President López Portillo whenever making any moves on Central America. They have not always agreed, but they have agreed to be agreeable."

Gavin responded curtly to Sen. Jesse Helms's (R-N.C.) attempts to portray Mexico as potentially unstable and subject to "Marxist insurgencies." Gavin declared, "We need not fear for the security of the Mexican republic. . . . The most sacrosanct tenet of foreign policy of the Mexican republic is that of no foreign intervention."

In addition, Gavin, while admitting there has been some interest in the administration in a North

American Accord, said his own view is that "the most important thing is to continue our bilateral approach on bilateral issues. . . . As for the North American Accord, I think we can study it and keep studying it until such time as all are agreed that it is something that we want to do."

On other issues, Gavin stated that Mexico will continue to be a major market for United States grain. While at first he did not want to discuss the administration's views on the question of immigration policy and Mexico pending the administration's public statements on the issue expected on May 4, he later commented, "I do think that the open border needs to be studied and seriously considered, perhaps with regulations on both sides."

Moderate Democrats targeted by NCPAC

John Dolan, chairman of the National Conservative Political Action Committee, announced April 13 that his organization has targeted the House Majority Leader, Jim Wright (D-Tex.), House Budget Committee Chairman Jim Jones (D-Okla.), and House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.) for defeat in 1982. Dolan attacked them as the "three most obstructionist" House Democrats standing in the way of enactment of the President's economic program. In fact, these moderate Democrats have served as a bridge between the liberal Democrats and conservatives in both parties.

NCPAC, it has been learned,

has also sent letters to several members of the Democratic Conservative Forum, warning them that they will be targeted also if they do not fully support the Kemp-Roth tax bill. Interestingly, NCPAC is not now targeting any of the House liberal Democrats, but in the case of the Conservative Forum, they are targeting some of the Democrats most amenable to the White House proposals.

Democratic Conservative Forum leaders back the Gramm-Latta budget proposal now endorsed by the White House, and many Forum members, while preferring a more targeted tax cut than the Kemp-Roth bill, are willing to compromise on the tax issue.

Representative Charles Stenholm (D-Tex.), the head of the Democratic Conservative Forum, told *EIR* in regard to NCPAC's activities, "I have to say that threats and intimidation would seem to be trademarks of this particular group and they just don't play well with me. I'd say to NCPAC and any other group that uses these types of tactics, come ahead. I serve the people of the 17th District of Texas, and I've always said that the voters gave me a two-year contract renewable every two years at the ballot box. I don't think the people of the 17th District can be bought and I know that I can't."

Lyndon LaRouche, chairman of the Advisory Board of the National Democratic Policy Committee, has also issued a statement on the NCPAC threats, especially in regard to House leader Jim Wright. "Anyone who attacks Jim Wright is doing a disservice to the nation and the Democratic Party. Jim Wright is a positive leading figure

of the Democratic Party who is seriously grappling with trying to solve the problems of the nation. Although I, Lyndon LaRouche, happen to differ with Jim Wright on several policies, I absolutely defend Jim against these scurrilous attacks. In short, anyone who attacks Jim Wright is an enemy of Lyndon LaRouche."

Propose Department of International Trade

Legislation to establish a Department of International Trade and Investment was introduced by a bipartisan group of senators April 9: William Roth (R-Del.), Heinz (R-Pa.), and Lloyd Bentsen (D-Tex.). The bill, S. 970 would, in the words of Senator Roth, "consolidate all nonagricultural trade and investment analysis, policy-making, negotiation and implementation functions into one agency." The Special Trade Negotiator would be combined under the bill with the Commerce Department functions of trade law administration, trade development, trade and investment policy-making, industry analysis, productivity, and technological innovation. Other Commerce Department functions such as the Economic Development Administration, the Bureau of the Census and the Maritime Administration would go elsewhere.

The new department would also take control of the international trade functions of other departments. In particular, the Treasury Department's responsibility for trade financing, East-West trade, international direct in-

vestment, energy-related trade matters, and the U.S. Customs would shift to the Department of Trade. So would the State Department's authority over international communications, investment protection and nonagricultural commodities. The Agriculture Secretary would maintain responsibility for all agricultural trade matters.

The head of the department would be a cabinet official with the title of secretary. At the same time, he would be a White House coordinator for trade matters, and would also serve as a member of the board of the Export-Import Bank and the Overseas Private Investment Corporation.

"The United States continues to be the only major economic power without a government department or ministry with primary responsibility for foreign trade," declared Senator Roth, motivating the need for the new department. "Our successful trading partners have shown us that if we are going to compete—and compete effectively—in today's rapidly changing and increasingly interdependent world, we must become properly organized."

Roth is chairman of the Government Operations Committee, which has jurisdiction over the bill. He stated that "to ensure quick action" on the legislation, he has already scheduled hearings for May 19 to discuss the proposal in the context of "government trade policy-making."

Commerce Secretary Malcolm Baldrige and Special Trade Negotiator Bill Brock indicated at an impromptu press conference earlier this month that the administration is not now interested in such a proposal.

National News

Iowa coalition formed against budget cuts

A farmer-labor coalition was formed in Iowa's predominantly Republican 1st Congressional District to oppose the Reagan budget cuts. Led by Scott County Democratic executive committee member Elmer Goetsch, a farmer, the group is also calling for 100 percent parity and lower interest rates.

The coalition was initiated several weeks ago by Goetsch and the president of the 1st C.D.'s AFL-CIO Committee on Political Education (COPE). Representatives of the Iowa-Illinois "Quad Cities" Federation of Labor, the Iowa Union Retirees Organization, several Meatcutters shop stewards, members of the American Agriculture Movement, and the Iowa director of the National Democratic Policy Committee attended.

Explaining the economic impact of cuts in agriculture supports, Goetsch said, "In things like steel or forestry every dollar multiplies seven times. A year ago corn was at \$2.35. The parity price on that, at 100 percent, is \$4.35. So you've lost \$2. Multiply that by 7, and for every bushel of corn sold the economy lost \$14 in its growth factor. There's only one way to get to people on salary," he continued. "Just ask them, would you like to pay 73 percent of your wages on food? We've just got to get the people educated."

Democratic chairman forms 'strategy council'

Newly elected Democratic Party national chairman Charles Manatt has put forward a proposal to Washington, D.C. Democrats to form a "strategy council" to rebuild the party as an alternative to the Reagan administration.

In a memorandum circulated since early April, Manatt calls for a central council of no more than 30 leading Democrats to include House Speaker Tip O'Neill, Senate Minority Leader Robert

C. Byrd, and Manatt that would become the basis for a new party infrastructure.

From 1953 to 1955, party chairman Paul Butler created a similar council that met stiff opposition from southern Democrats, including Lyndon Johnson and Sam Rayburn. Because of this previous fiasco and the significant opposition within the party to "parliamentary" party organization, the Democratic National Committee is saying the council is "just an idea right now."

The DNC is also insisting that this is a "strategy," not a "policy" council. DNC policy director Ann Lewis insists that the central policy of the party is to defeat Reagan's budget and replace it with the Democrats' version of the same cuts.

At the December 1980 conference of the Socialist International in Washington a social democratic takeover of the Democratic Party through just such a council was elaborated. The strategy included driving conservative Democrats out of the party. Michigan Democratic Party chairman Morley Winograd has predicted that Tip O'Neill would become the "parliamentary faction leader" of a social democratic party.

The science press on the science cuts

What do the major science publications say about the administration's proposed budget cuts? A review of the science press reveals little indication that the major scientific institutions will fight to save American science.

Writing in *Science*, the magazine of the American Association for the Advancement of Science, Philip Handler, president of the National Academy of Sciences, excuses the Reagan administration's hatchet job on science in the spirit of fairness: "Certainly managers of the federal budget, seeking to reduce total expenditures by tens of billions of dollars, cannot be expected to treat science as a sacred cow," Handler wrote in a March 20 editorial.

Handler's greatest worry appears to

be that the social sciences took a greater beating than the physical sciences: the cutting should have been more even-handed. "Patently, our knowledge of the natural world and our technology have outrun our wisdom in their use—witness the need for the very effort in which OMB is currently engaged."

Writing in the March 23 issue of *Aviation Week & Space Technology*, editor-in-chief William H. Gregory applauds the fact that the defense budget is slated for a hefty increase. He notes, however, "relatively little research and development funding is included in the Reagan defense budget amendment" and "the lack of big research and development add-ons or new program initiatives does not translate into a shift toward proved rather than new technology."

The weekly *Science News* expressed no editorial opinion, except for that implied by the cover of the March 14 issue, headlined "Carving the Science Budget."

As of its April issue, *Scientific American* had yet to comment on the budget situation. A telephone call to the editorial secretary elicited that she is unaware of any future article on the budget up through the July issue.

The March issue of *Physics Today*, published by the American Institute of Physics, reports the bare facts of the budget cuts titled "1982 Budget: Carter Giveth and Reagan Taketh Away."

Cuts in DEA budget criticized

At April 21 hearings before a Senate Appropriations subcommittee, the crippling budget cuts proposed for the Drug Enforcement Administration came under attack by the National Democratic Policy Committee. The NDPC, the only group at the hearing to testify on the DEA budget, called for restoration of the cuts proposed by the Reagan administration. Rather, the NDPC called for increasing the DEA's budget to wage an effective war against "the infrastructure of crime known as 'Dope, Inc.'"

The NDPC representative pointed

out that the Reagan administration had proposed to do away with the planned Southwest Asian task force that would deal with the influx of heroin from the Golden Crescent. In addition, the administration wants to eliminate funds for 50 percent of the crucial federal-state-local task forces which provide the only interface between federal and local drug enforcement efforts.

These proposed cuts come on top of four years of cutbacks in international drug enforcement capabilities by the Carter administration. "We could not carry out a 'French connection' bust even if we wanted to," said the NDPC representative. "We have disarmed ourselves in the war against the international drug traffic."

Congressman works on pro-industry tax bill

Rep. Don Bailey (D-Pa.) is working with House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.) to draft the party's tax bill. In an April 21 interview with *EIR*'s Kathy Burdman, Representative Bailey stated, "I've made the key issue in the tax program the question of targeting, and within targeting, the number-one issue is refundability. We need a tax cut in particular geared to tax credits to refund unused tax incentives to our basic heavy industries which are already operating in the red. The Kemp-Roth tax program and the corporate tax program that goes with it are . . . primarily for the retail and service sectors. . . . But companies in research and development, or in heavy capital-intensive industry, get very little advantage . . . when they're already in the red."

Stated Bailey: "I also believe we can do something about the skilled labor shortage. We have a shortage of 65,000 skilled machinists in this country, to name only one area. We're not turning out enough engineers either." He proposes tax credits for vocational training schools and corporate apprenticeship programs. "This can be done in partnership with the unions. We did this back

when everyone got upset about Sputnik.

"I also believe we need to tie water resource management into this idea. We will need to greatly expand water consumption in the future. We'll need to vastly increase our agricultural capacity . . . that requires a huge amount of water. Our utilities will need a tremendous amount of water for their nuclear cooling systems. . . . We need tax and other incentives for large new programs to capture new sources of surface water."

Bailey concluded, "Many of these things I'm calling for might smack of planning—that's a frightful word to some people. But it must be done, and one of the best ways to do all this through the free market is to make these things profitable in the market." He added, "High interest rates are not good for economic growth and I'd like to see them come down."

NASA's budget still up in the air

Despite the capitulation of the Democratic-controlled House Space Science Committee, which agreed to a minor rewrite of NASA's budget within the limitations imposed by OMB Director David Stockman, there is still a possibility to restore a portion of NASA's cut funds.

According to staffers on the Senate Science, Technology and Space subcommittee, the full committee had actually voted March 15 to restore \$178 million of the \$600 million sliced off the original \$6.7 billion NASA budget.

Committee staffers also told *EIR* that it was problematical how much of the restoration of funds will be kept by the full committee when it marks up its budget request at the beginning of May. Staffers said that various options would be presented to subcommittee chairman Harrison Schmitt (R-N.M.), who in turn will present his recommendations to the other members of the full committee for their approval. Once the committee's budget request is passed, it will go to the Senate Commerce and Appropriations Committee for final approval.

Briefly

● **SIERRA CLUB** Executive Director Michael McCloskey has denounced Interior Secretary James Watt for being in favor of economic growth. "Watt's a prodevelopment extremist," McCloskey said at an April 16 San Francisco press conference to announce a hate campaign against Watt. "People are chomping at the bit to get rid of him."

● **ED MEESE**, White House chief of staff, told 250 prosecutors from around the U.S. that the Reagan administration is going to combat international drug smuggling in "a more massive and extensive way than has ever been tried before." The counselor to the President made his remarks in an April 22 speech to a Washington, D.C. conference sponsored by the Institute for Law and Social Research.

● **DR. EVERETT KOOP**, President Reagan's nominee for surgeon general, is still under fire for his "prolife" views. A congressional challenge to Koop's nomination has been prepared by California Democrat Rep. Henry Waxman, chairman of the House subcommittee on Health and the Environment. Citing Koop's "intolerant views," Waxman reportedly will parade an array of women's libbers and gay rights activists to testify against Koop because of his opposition to the "right to die" policies that were boosted under the Carter administration.

● **ED KOCH**, mayor of New York City, has affronted lovers of great music everywhere by giving New York's highest cultural award, the Georg Friedrich Handel award, to Yoko Ono in honor of her late husband, John Lennon. Koch has also signed a law renaming a portion of New York City's Central Park "Strawberry Fields," after Lennon's song that describes an LSD hallucination.

The economics of nuclear and coal

A recent analysis by a major utility upsets the cost claims of the New York Times.

The prestigious *New York Times* has once again demonstrated its characteristic intellectual dishonesty in an April 12 feature titled "Hard Times for Nuclear Power." The thesis of their former reporter, Anthony Parisi, is worth comment only because it is a calculated fraud based on another fraud by Charles Komanoff, who has just issued a study of the relative economics of coal and nuclear power generation.

Coal-fired generation in 1980 accounted for just over 50 percent of total electricity, while nuclear surpassed oil as number two, with 11 percent of all generated power in the U.S. With no new orders for nuclear plants by any utility in the past two years, antinuclear advocates like the psychedelic Mr. Komanoff, a Harvard whiz kid, are now using economic arguments against building nuclear plants.

Komanoff's latest study argues that "megawatt for megawatt," the cost of building a nuclear plant has risen about twice as fast as the cost of building a coal-fired station from 1971 to 1979. Further, Komanoff asserts, even with cheaper fuel costs, the presumed higher capital costs of nuclear will make it cost 20 percent more than coal by 1988.

I don't intend a diatribe against coal here; if we are to have real industrial growth and capital export to developing nations, we will need nuclear, coal, oil and gas, as well as breeders, reprocessing and fusion. But there is a vicious fraud

being perpetrated here.

I spoke with one of the leading representatives of the electric utility industry, Gordon R. Corey, retired vice-chairman of Commonwealth Edison in Chicago. Corey recently completed an analysis for testimony before the Federal Energy Regulatory Commission on March 6, 1981, an economic comparison of nuclear and coal based on the 6 nuclear and 6 coal plants operated by Commonwealth Edison.

Since Commonwealth Edison is motivated by the need to return on their shareholders' investment, they can be assumed to be less biased than Komanoff.

Commonwealth Edison makes their comparison using a three-year availability of nuclear of 79.5 percent against 67.6 percent for coal plants, with an average capacity of 63.5 percent total nuclear capacity to only 45 percent for coal.

This refutes Komanoff's arguments that coal is more "reliable and available" than nuclear. On operating costs, Commonwealth Edison found, allowing for uranium fuel inventory, spent-fuel disposal, and carrying and maintenance charges, that their nuclear-generated system averages 17.3 mills/kilowatt-hour compared to 32.6 mills/killowatt-hour for coal.

Let's take Komanoff's assertion that construction costs for nuclear are escalating twice as fast as for coal. Commonwealth's Corey found that over the last 15 years,

costs for *both* have tended to increase about 15 percent per year because of inflation, more stringent licensing, and environmental demands. Further, if inflation continues above 10 percent per year, installed costs for coal will rise even more than for nuclear. Construction costs per kilowatt-hour for units to come on line by 1991 will be \$2,458 for nuclear, and \$2,172 for coal.

The difference is made up for by the cheaper uranium fuel, even with waste disposal costs. While coal costs have risen 600 to 700 percent over the last 15 years, nuclear fuel costs have only tripled (despite a 500 percent increase in yellowcake prices), because of the doubled efficiency in new fuel rods. This does not even take into account that over the past year, yellowcake has dropped from \$43 per pound to \$27.

Corey conservatively calculates that the cost advantage of nuclear over coal in the future is 15-20 percent. The real problem, he emphasizes, is not Komanoff's numerical manipulations, but regulatory absurdities. The chances for utilities to order nuclear plants will remain "zero, until we get regulations that will enable a better return on equity investment than the present 11 percent, when money costs at least 18 percent."

Right now, utilities have 10 nuclear units ready for startup. They calculate that delays by the Nuclear Regulatory Commission, including delays in final operating permits, will cost consumers \$15.5 billion in replacement energy costs while the NRC remains deadlocked. Here, then, is a prime target for presidential assistance to help get things moving again.