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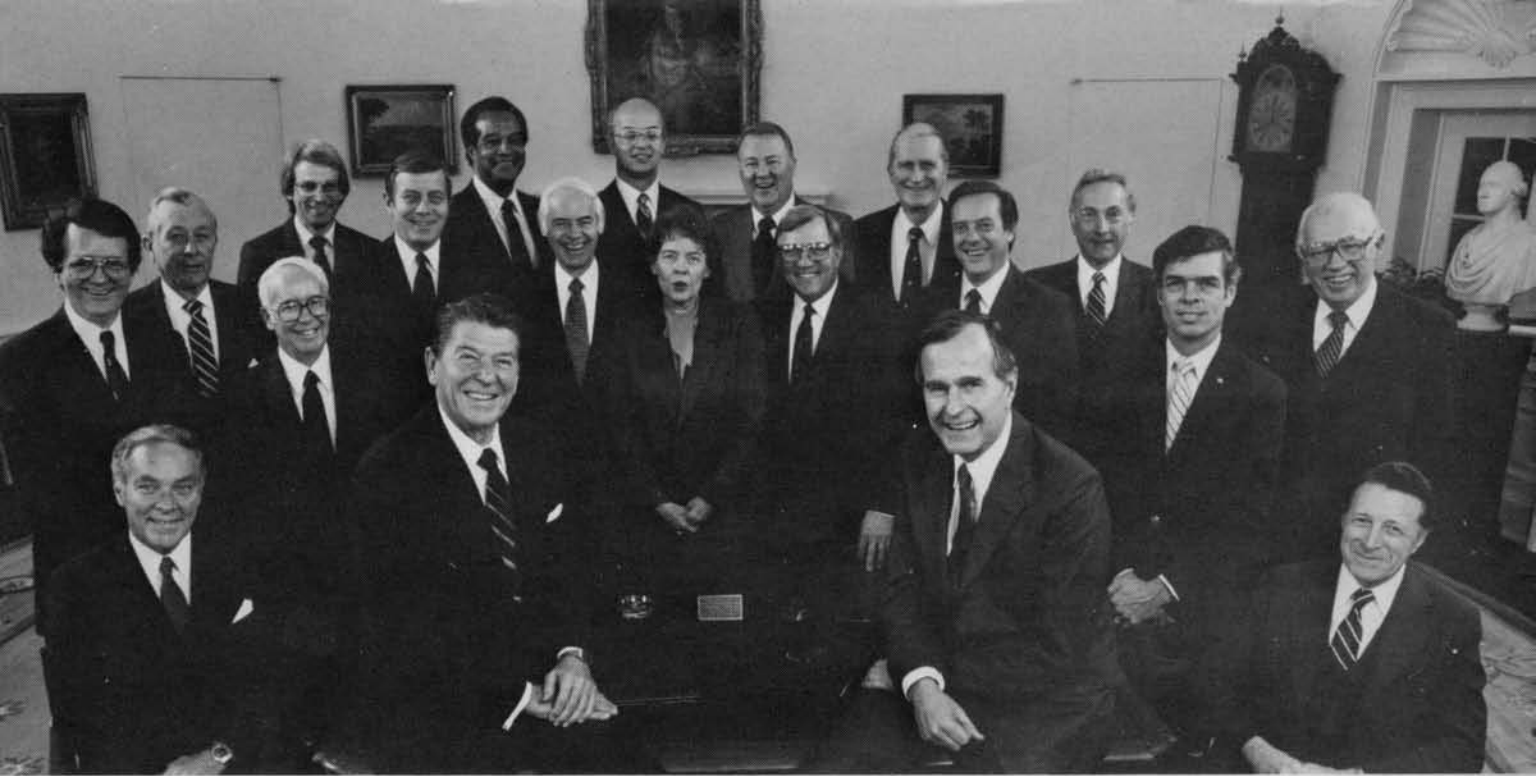
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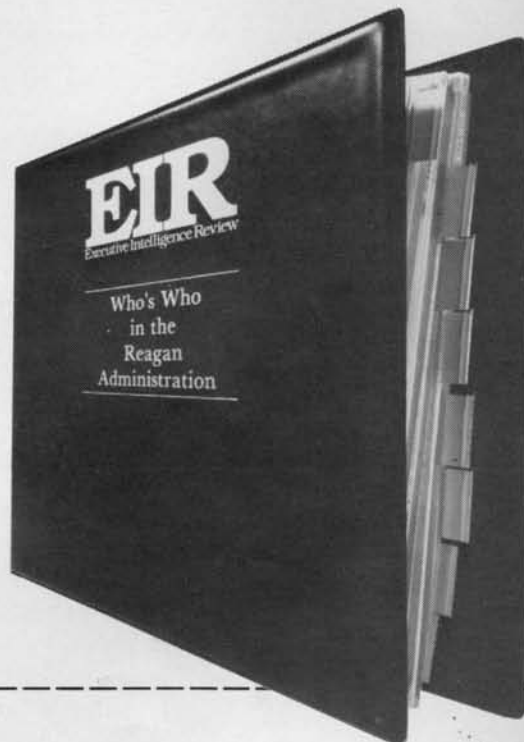
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EIR

From the Editor

As the crisis in U.S. military preparedness and the growing danger of thermonuclear confrontation between the superpowers has come to the forefront among policy-making circles internationally over the past week, the Polish crisis, brewing for nearly a year now, demands growing attention.

Our Special Report this week is an extraordinary treatment of the Polish crisis by *EIR* founder Lyndon LaRouche entitled "A New Polish National Manifesto: Can Poland Yet Be Saved?"

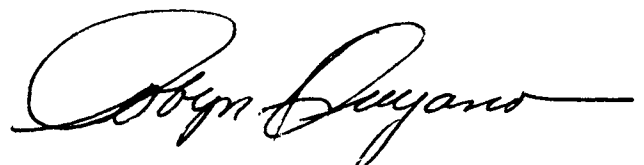
In this extensive report LaRouche goes to the roots of the destabilization of Poland coordinated by the "Russian Studies Division" of the Tavistock Institute. The document not only details the operations against the Polish nation including Soviet KGB collaboration with the Tavistock manipulators of the Polish population, but presents the economic and ideological weaknesses that have made that nation prey to obliteration. The final section of the document presents a way out of the present disaster—an educational and economic perspective for the building of a sovereign republic.

Our International lead takes up the theme of NATO's military preparedness and the devastating impact that skyrocketing interest rates and industrial stagnation have had on the military capabilities of our European allies.

I would also like to point out a special feature on the Mexican economy by Economics Editor David Goldman, who was on tour with me in Mexico last week. The article is the first in a series on the Mexican economic and political situation based on the meetings and conferences we held there.

We also had a chance to examine first hand the political earthquake caused by the fall of Pemex director Jorge Díaz Serrano.

A special consulting report detailing our full analysis of the change in Pemex, the events that led up to it, and the effects it will have on oil policy and the presidential succession is already available from our director of Special Services, Peter Ennis.



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The BIS performs a sudden about-face

by David Goldman

Last week the Bank for International Settlements (BIS), the semiprivate Basel-based "central bank for central banks," issued an uncharacteristically frank and honest assessment of the state of world monetary affairs. The report threw out of court the Federal Reserve's supposed efforts at improved monetary management, and called instead for a "high degree of international cooperation" to act as "the most effective bulwark against a repetition of the kind of events witnessed in the 1930s, which ultimately resulted in a disintegration of the world economy."

A day after the report's release, the general secretary of the Organization for Economic Cooperation and Development, Dutchman Emil van Lennep, warned of a "danger of a world recession" caused by "too-stringent U.S. interest rates." The French, West German, and even the British finance minister lambasted the consequences of the reckless American interest-rate policy.

Only a week earlier, at the International Monetary Conference of the American Bankers Association in Lausanne, the world's most prestigious central bankers united around Federal Reserve Chairman Paul Volcker's banner, and Swiss National Bank President Fritz Leutwiler went as far as to threaten the United States with a run against the dollar should the executive branch take action to hobble the "independent" U.S. central bank chief.

What happened?

Contrary to the impressions they prefer to cast, cen-

tral bankers are less oblivious to developments in the field of world strategy than most of their counterparts in other senior governmental posts. Days before the BIS convened its annual meeting in Basel, the editor of Italy's daily *La Stampa*, Arrigo Levi, surfaced the considerations that hung over the central bankers' deliberations. In a multilanguage supplement distributed through four European newspapers, Levi warned of a growing tendency toward strategic confrontation with the Soviets and concluded that the West must conduct an about-face in its economic policy, with the objective of sustaining rates of capital formation sufficient to support a major defense buildup.

'A military dwarf'

Coming from Levi, a leading Atlanticist and Trilateral Commission member, this argument represents a formal recognition of the accuracy of the West German government's often-stated warning to the United States: the United States cannot simultaneously improve its strategic posture and pursue a monetary policy with the consequences noted by Bank for International Settlements Chairman Jelle Zijlstra and OECD Secretary-General van Lennep. This was the substance of German Chancellor Helmut Schmidt's representations to President Reagan last month, and the continuous theme of West German private commentary on the Federal Reserve's monetary policy. As a leading Hamburg banker put the matter to *EIR*, "Volcker will turn the United

States into a military dwarf.”

Even at the Bank for International Settlements, the sanctum sanctorum of the old European financial oligarchy, founded at the ancient headquarters of Genoa's Cassa di San Giorgio in the 1920s, this issue has become the underlying subject of debate. Of course, the BIS formulation of the problem is ambiguous.

In its recommendations, the BIS comes out on the side of the Brandt Commission, the international body that argues for a radical scaling-down of technology and growth targets worldwide, and a global financial reorganization in favor of “soft” technologies. In the present monetary circumstances, the report states:

[I]t would be singularly difficult for the oil consuming countries to adjust their productive base to the dramatic rise in the price of oil. Fundamental adjustment to the repeated oil shocks is inconceivable without an increase in investment; the substitution of new sources of energy for oil and energy-saving both require heavy capital investment. In virtually all the industrialized countries, however, corporate profitability is now much lower than before the first oil shock. Under these already difficult conditions, excessive real interest rates would place intolerable pressure on investment potential. It is for this reason that it is urgently necessary to alter the current policy mix by reducing public sector borrowing requirements.

In this sense, the BIS report's language tends to support the explicit advice of former Defense Secretary James Schlesinger (to *Newsweek* June 8) and *Foreign Affairs* editor James Chace that the United States should not even attempt to expand its defense budget, because the resulting pressure on the budget deficit would create financial chaos. This argument originated in Britain, where Defense Secretary John Nott announced massive cuts in British defense spending last month.

In fact, precisely because 40 percent of all U.S. industrial investment is now channeled toward energy production (of the most expensive varieties) and so-called energy saving, the United States is in no position to produce the volume of goods the Defense Department, under the proposed Weinberger budget, wants to procure.

As a matter of arithmetic, reduction of any of the industrial nations' public-sector borrowing requirements assumes no major effort for rearmament, let alone for the associated high-energy physics research that is a precondition for a competent response to Soviet arms efforts. The Volcker interest-rate policy has already thrown the OECD nations as a whole into the worst deficit position of the past 30 years on account of government expenditures, due to the combined effect of

rising debt service on public loans, and the secondary effects of higher social security and unemployment payments resulting from higher unemployment rates.

As Jim Wright, the House of Representatives majority leader, forced Treasury Secretary Donald Regan to admit in a candid moment two weeks ago, the present interest-rate policy will cost the U.S. Treasury \$50 billion in fiscal year 1982, starting Sept. 30. The potential disaster for federal finances contained in the Volcker policy is incompatible with the proposed \$165 billion defense budget. As Morgan Guaranty Trust pointed out in its May 1981 *Survey*, the assumption built into the \$165 billion number offered by the Defense Department is that the inflation rate for defense goods 1982-1984 will be only 6 percent; for every additional 1 percent, the DOD will pay an additional \$9 billion. Should the inflation rate for defense goods be 12 percent, the Federal deficit would grow by \$54 billion. Combine the effects of the interest policy and cost overruns, and the budget deficit would easily exceed \$150 billion, double the previous record deficit.

Two conclusions can be drawn from this. One, argued by former Secretary Schlesinger, a product of the RAND Corporation School of cost-benefit analysis, is that more defense spending would yield only the same systems at a higher price. As noted, this is strongly felt by *Foreign Affairs* editor James Chace and his staff at the New York Council on Foreign Relations.

Morgan's economists, however, drew a different conclusion. The author of last month's study, economist James Fralick, says that European criticisms “have a valid point; you could accomplish a lot on capital formation by lowering interest rates.” But in the present monetary environment, Fralick is pessimistic about the Pentagon's ability to meet its procurement requirements.

Strategy overtakes monetary debate

Leaving aside the financial problem, and turning to the physical capabilities of the U.S. economy, this publication has attempted to demonstrate that the United States could not conduct even the “in-width” (rather than in-depth) military buildup Secretary Weinberger proposes without a generalized improvement in industrial productivity. Our computer econometric study (*EIR*, March 31, 1981) showed that even under the most optimistic assumptions concerning availability of capital for military-related investment and availability of skilled labor and engineering personnel, the present military budget would produce a small initial surge in defense output followed by a rapid decline in availability of defense goods. As Arrigo Levi and others argue, the chaotic results of the Volcker policy rule out such optimistic assumptions.

Where America's allies in NATO are concerned, the

problem was put in these words by French Finance Minister Jacques Delor at the OECD meeting in Paris: "How can the United States expect its allies to provide the level of security cooperation it wants [i.e., a real rise in annual defense spending of at least 3 percent] if it is promoting economic conditions which make such cooperation impossible?"

What is new is not that the disastrous strategic consequences of the Volcker policy have been brought forward; the West Germans have argued this for months. The news is that the monetary debate is now subordinated to the strategic debate. At bottom, as the *London Times* reported June 16, Defense Minister John Nott is not going to defend his brutal defense cuts (including the phase-out of the Royal Marines) on budgetary grounds; his program, the *Times* noted, is based on the advice of old-line Russia experts who argue that internal dissensions in the Soviet Union rule out this power as a strategic threat to NATO for the next ten years! Apparently on the advice of National Security Council official Richard Pipes, President Reagan dropped passing remarks to the same effect at his June 16 press conference. Secretary Haig has been saying more or less the same thing as his British counterpart.

This line of argument drew an outraged, and frightened, response from *New York Times* columnist James Reston June 17: "It is one thing for aging journalists [referring to *Le Monde* columnist Raymond Aron] and former secretaries of state [referring to Henry Kissinger] to prophesy the decline of the Soviet Empire, and quite another thing for American Presidents and presiding secretaries of state to provoke the Russians by predicting their inevitable collapse."

Summit outlook

The debate on strategic policy has split the ranks of the Fed's supporters in the American East Coast establishment, and among Atlanticists in Western Europe. It is no coincidence that the BIS report, and the round of assaults on the Fed from previously sympathetic finance ministers at the OECD meeting, followed by one week the wintry response given to the disarmament negotiators of the Palme Commission in Moscow. At least at the more informed levels of the debate, the coincidence between Secretary Haig's largesse in the fields of arms shipments to the Chinese and Pakistanis, and the exacerbation of economic conditions in the West, is a principal subject of concern.

It is too early to identify the marginal drop in dollar interest rates with this concern. With U.S. housing starts down by 14 percent in May to 1.15 million units per year, barely above the March 1980 trough, and other indications pointing to an absolute decline in the volume of industrial production during June, it is not

surprising that some short-term rates (although not the critical federal funds rate) are off a bit. Apparently the issue is still far from resolved in Washington.

But what is clear is that the end-of-July economic summit meeting in Ottawa will have no choice but to take on the issue of monetary policy, contrary to the expectations of the U.S. staffers now preparing the summit (see interview below). Strategic developments have overtaken the slick social engineers who viewed the monetary policy as a transition to a form of postindustrial society, and there seems no way to prevent the monetary-strategic issue from forcing itself into the supreme forum of Western leaders in Ottawa.

EIR's Stanley Ezrol interviewed Robert Hormats, assistant secretary of state for economic and business affairs, on June 10. Excerpts follow:

EIR: You have been called "Mr. Summit." What are your responsibilities with regard to the Ottawa summit?

Hormats: Basically, what I have done in a number of summits is participated in the so-called Sherpa team, which prepares the President and the issues for the summit. There are two parallel elements. One is the interagency process. I'm chairman of the interagency group which is preparing for the summit, composed of Treasury, NSC, Commerce, STR [Special Trade Representative's office], Department of Energy. And what we've been doing is preparing the issues papers. In parallel with that is the international process where the seven summit countries, plus a representative from the European Community [EC], meet to prepare the issues. And ultimately the two processes converge.

We have had three preparatory meetings for the summit—one in Ottawa, one in Paris, and the last one in Vancouver. At the same time there have been a number of peripheral meetings on specific issues. On energy, a meeting of what's known as the level-monitoring group. There has been a group chaired by Murray Weidenbaum which has been preparing the issues for the macroeconomic side, and so on. . . .

Now the broad areas that are likely to be discussed are, first, national economies . . . rates of inflation, rates of growth, interest rates inevitably will be discussed. The second set falls in the realm of East-West economic relations. There, I suspect, what it will be is not an attempt to reach specific agreement, but more an attempt to have leaders explain how they see East-West economic relations—how they relate to their other economic needs. Third, energy will be discussed. In particular, there's a very strong view that because we have a soft energy market we shouldn't be complacent. North-South economic issues, as you know, is one thing that Trudeau has focused a lot of attention on, and that will doubtless be discussed. And then trade will be the last item on the

agenda. . . .

You will have at least four new leaders at the table. You have Reagan, Mitterrand, Suzuki, and Thorne, the head of the EC Commission—and maybe an Italian—I don't know what's going on there. And I think there'll be a lot of interest in getting their views on these issues—where they're coming from. I think there was a feeling on the part of some of the people at the last summit that it was getting too detailed, too specific, too operational. I think they wanted to be a little loftier.

EIR: Do you expect any specific policies, agreements, resolutions?

Hormats: To be very honest, it's too early to tell. You really only get a sense of whether or not there's going to be agreement on anything at the last Sherpa meeting, and we still have one more to go. My general sense is there probably will not be agreement on a lot of specific issues. I think it'll be a little bit more of an exchange of perceptions, an exchange of approaches, rather than trying to work out specific policy issues.

Probably, if it's to be done, what the summit will do is encourage institutions such as the OECD, or the IEA, or the GATT, or the World Bank to do these things, but not really engage themselves. . . .

EIR: Let me ask you about one specific issue I know our readers are concerned about, the interest-rate question.

Hormats: I think that the basic point here is that the surest way to get interest rates down is to lower the rate of inflation. Interest rates really are the result of people's expectations as to what the future rate of inflation is going to be. And to the extent inflation comes down, interest rates will come down.

The second point is that it would not make much sense for the federal government—for the Fed—to create a lot more money in order to lower interest rates because the market is now sophisticated enough to realize that, while you might be, in the short term, lowering interest rates because you've created more money, in the long run that will simply be increasing inflationary expectations. And the net impact will be an increase in interest rates rather than a decline in interest rates. . . .

So that on both points it seems to me that the Europeans really cannot reasonably expect us to lower our interest rates artificially. And I'll tell you quite frankly, I really think that the Europeans understand this point. . . .

EIR: There has been some criticism of the administration for placing an emphasis on East-West as opposed to North-South issues.

Hormats: I think the administration clearly has taken a hard look at North-South relations. And in fact we have an interagency group going on right now which is doing

that. The President feels very strongly that the private sector can play a more active role in our overall North-South relations. Some programs, as in the Caribbean, are already under way to do that. . . . I think both the President and Secretary Haig are interested in placing greater emphasis on bilateral aid, but have made a very strong point of doing so in an evolutionary way and not in a way which undermines the multilateral development banks. . . . Certainly the administration plans to place a lot of emphasis on North-South issues. I might also add that the President's going to the Cancún [North-South] summit in Mexico will really be a very unique opportunity to exchange views with developing country leaders.

I would maintain that we've done quite well in keeping our markets open to most developing country products. I think that the developing countries would be in a stronger position if, as they developed, they were willing to open their markets to a greater degree. . . . The developing countries, if they want investment, need to have a very fertile investment climate, and we, for our part, should try to give companies which are interested in investment, information on opportunities in developing countries—which developing countries have which types of policies, and that sort of thing. . . .

EIR: Peter McPherson, the AID administrator, has said that we should encourage underdeveloped nations to let market forces operate, instead of maintaining food subsidies, energy subsidies, and so on.

Hormats: In the food area you see the need most acutely, because many developing countries, by holding down the price of food, don't give an incentive price to the farmer, and as a result the farmers produce considerably less. . . . So that's one area where the desirability of market forces is, I think, quite evident. . . . It's a little more difficult to put your finger on it in energy, but there are a number of developing countries which, in effect through price controls, subsidize the users of oil, and that adds to the higher oil import bills.

EIR: There's a broad feeling that either food prices are subsidized or people will starve.

Hormats: I think what you need to do in a lot of these areas is to provide a substantial amount of assistance to help them produce food. That is, I think, very critical. It seems to me it's compelling from a moral point of view and from the developmental point of view. There are also instances where we should be providing food aid to countries where starvation is threatened. There's no doubt about that. . . . In general you want farmers to get incentive prices, but you do need, from time to time, to provide some aid to help them produce, because even if they're getting a market price it doesn't do them very much good if they don't have the tools to produce, or the seeds, or the knowledge.

A new gold exchange standard or a British-style remonetization?

by Kathy Burdman

President Reagan, who ran for office against the supranational Trilateral Commission in a bid to make America great again, recently appointed a presidential commission to study the possibility of returning the U.S. dollar to a gold standard. The President, according to Washington sources, looks forward to addressing the gold question as soon as Congress has settled on its tax and budget legislation.

The economic storms of the decade since Nixon shattered the gold standard make the gold commission's duties urgent. What is less clear to many partisans of a new gold standard is the *kind* of standard required.

President Reagan requires a standard that would restore the American System of rapid new investment in industrial growth—in which gold was the basis for the issuance of *new, long-term credits* permitting such investment, and fostering the development of new markets through industrially geared credits abroad.

This kind of gold standard was outlined in a statement this month by *EIR* founder Lyndon H. LaRouche, Jr. (*EIR*, June 23), that called for the monetization of U.S. gold reserves “at approximately \$500 an ounce or at current bullion market value, whichever is higher.” He emphatically stated that a remonetization will only awaken the U.S. economy if it is coupled with “volumes of noninflationary, low-interest credit . . . by issuance of U.S. gold reserve-backed notes,” so that gold is used to underwrite a mobilization for industrial growth.

LaRouche termed this the only “patriotic” action available to the President in the current financial chaos. Leading members of the new presidential gold commission, many of whom have long histories of collaboration with foreign banking circles at the expense of U.S. interests, have no such gold standard in mind.

Led by Lewis Lehrman, a longtime associate of the semisecret Swiss-based Bank for International Settlements, key members of the commission intend to manipulate the President into supporting a gold standard imposed upon the U.S. by the BIS central banks, with a deliberate *credit contraction* of a sort that would exceed the Federal Reserve's current butchery of the White House's economic objectives and productive economy.

The new presidential gold commission seems stacked with individuals dedicated to the sort of “great deflation” associated with the March 1980 gold plan of Lewis Lehrman. Lehrman, the former Rite-Aid drug-store chain chief, now heads his private New York-based Lehrman Institute and acts as a policy controller of supply-side point-man Jack Kemp and Office of Management and Budget Director David Stockman, who last fall pushed Lehrman as a candidate for treasury secretary. In his 1980 proposal, Lehrman calls for a sharp cut in the nation's credit supply, followed by a removal of the dollar as the world's principal reserve currency and a “pure” gold standard.

Established by legislation last fall sponsored by Sen. Jesse Helms (R-N.C.) and Rep. Stephen Neal (D-N.C.), the new commission reportedly includes:

Treasury Secretary Donald Regan, chairman; **Anna Schwartz**, the new commission's executive director, ghost author of Milton Friedman's fraudulent *Monetary History of the United States*, and a Princeton University economist; **Lewis Lehrman**; **Council of Economic Advisers chairman Murray Weidenbaum**, and **CEA member Bruce Niskanen**; **three members of the Federal Reserve Board of Governors**, as yet unnamed. Two of them will probably be Chairman Volcker and rabid monetarist Henry Wallich. Volcker, following his role in the destruction of the gold standard, wrote a little-known 1972 U.S. Treasury paper advocating a new gold based deflation, often cited by Lehrman's group. Other members: former Senate Banking Committee chairman **William Proxmire** (D-Wisc.), and former House Banking Committee chairman **Henry Reuss** (D-Wisc.), who were among Paul Volcker's closest allies from the time he convinced Nixon's cabinet to smash the gold standard in 1971, may well push the Lehrman plan; **Representatives Ron Paul** (R-Tex.) and **Roger Jepsen** (R-Iowa), both highly susceptible to supply-side manipulations in the past; **House Banking Committee members Chris Dodd** (D-Conn.) and **Chalmers Wiley** (R-Ohio), whose disposition is unclear; **Rep. Stephen Neal**; **Sen. Harrison Schmitt** (R-N.M.), who tends to favor high-technology growth but whose banking aide leans toward

the Lehrman approach; and **Leo Costamano**, a California auto dealer and member of the Reagan kitchen cabinet.

A Specie Resumption Act of 1982

If Mr. Lehrman has his way, when the President's gold commission issues its report in mid-October, it will call for something very like the Specie Resumption Act of 1876, which placed the United States on the British-dominated *gold reserve standard*. This triggered a multi-million-dollar outflow of capital and led to the panic and depression of 1879. This gold standard, which ruled the world from the 17th century until the sterling collapse of 1914, was noted for its deflationary simplicity. It simply held the creation of new credit fixed to the linear and quite slow pace at which physical gold was removed from the mines of the British colonial empire.

This gold reserve standard, so called because gold is the only reserve asset permitted, is a sort of "automatic-pilot" monetarism, which wrests control over national economic and monetary policy from the deliberative powers of elected governments, and fixes the rate of credit creation far below that necessary to produce substantive capital investment in new technologies.

Britain, and its Venetian bankers, invented this monetary "discipline" to hold the colonial world, the United States, and the European continent in a state of backwardness so far as possible. Meanwhile, the British and Venetians, who controlled the gold supply, controlled the world's credit and terms of trade.

This system is utterly at odds with the American gold exchange standard, which prevailed from 1920 to Aug. 15, 1971. Under this kind of standard, the dollar (and, in the Gaullist version, other currencies) serve as supplemental reserves. As long as the leading nations conduct healthy, high-technology trade among themselves and launch industrial exports to the Third World, the OECD countries' current accounts will be in balance or surplus. There will be no need to bring national gold reserves into play to cover deficits. Credit for export and investment can be created without limit, as long as the credit is productively directed. *The gold base must serve not as a restriction on economic development*, but as a safety net against a change in investment policy. Only if—as during the Vietnam years of Johnson and Nixon—nations veer from the development path, will the gold "trigger" force the incompetence of their policy to the fore.

The BIS and Mr. Lehrman

Lewis Lehrman has a plan for the United States which, like the LaRouche proposal, is a credit policy and only secondarily a gold policy. In its specifics, Lehrman's plan is quite the opposite of LaRouche's. He proposes to turn control over U.S. credit to the shadowy gentlemen of the Basel-based Bank for International

Settlements, who today control the gold reserves of Europe, and would run any modern gold reserve standard.

Mr. Lehrman is an associate of the BIS-controlled Siena Group, which has planned such a BIS-based gold system for years, and which designed the current supply-side program of the Reagan administration to fail, deliberately paving the way for the sort of monetary panic in which the President would be forced to turn to the waiting Lehrman gold plan.

Ten years ago, the Siena Group was created by the 500-year-old Monte dei Paschi Bank in Siena, Italy, the living symbol of the continuing power of the ancient Venetian-Genoese financial oligarchy.

Their aim, and that of the BIS, Siena chief Robert Mundell told a meeting of the Securities Group in New York last March, is to remove the dollar as the world monetary base and force the U.S. under the gold reserve "discipline" of the BIS and the central banks. "The fault doesn't lie with the standard," Mundell said. "It lies with the operators and interruptors of the standard," that is, the sovereign governments. Mundell, of course, is also the father of "supply-side economics."

Mr. Lehrman, on behalf of the Siena Group, wrote the plan which they now hope to introduce as U.S. law. Entitled "Monetary Policy, the Federal Reserve System, and Gold," it was published by Morgan, Stanley investment bank in March 1980. The Federal Reserve, Lehrman advises, must halt all credit creation and return to a British-style "bank rate" of the 19th century. "Fed open market operations must cease," he writes, cutting creation of credit through that venue to the markets altogether, and be replaced by a "remobilized or positive discount rate," in which the central bank provides credit to the economy only through the discount window, but at punitive rates. "This would of course mean massive bankruptcies and a huge crash of the economy," Lehrman Institute fellow Benjamin Rowland of Salomon Brothers told *EIR* recently. "It would be very politically unpopular for Reagan."

With this Lehrman proposes a gold reserve in which "the dollar must be defined by law as equal to a weight unit of a real commodity such as gold," such that "no bank, not even the central bank, could expand credit beyond the demand for it in the market." He calls for the U.S. to "convoke an international monetary conference with the goal of establishing a true gold standard, one which would *rule out the special privilege of official reserve currencies* and thus remedy the most profound defeat of the Bretton Woods exchange-rate regime," under which sovereign governments had some control over their national banking systems.

The extent to which the central banks of the BIS, who control the gold reserves, would then control national governments is clear.

The fifth column hit Social Security

by Leif Johnson

The Reagan administration's Feb. 18 economic program contained two major policy commitments: to military defense and Social Security benefits. Why has the President made a politically and economically disastrous decision to cut Social Security? The evidence attests that a fifth column within the administration, coordinated by the Mont Pelerin Society and the Hoover Institution for War and Peace Studies—otherwise described as the “libertarian” right wing of the social democrats—manipulated the White House into that move.

The Mont Pelerin plan is to scrap the core of the Feb. 18 statement: “The President’s program stresses two overriding priorities: sufficient budget resources must be provided to rebuild the nation’s defense capacities; the Social Safety Net of income-security measures erected in the 1930s to protect the elderly (including cost-of-living protection for the elderly), unemployed, and poor, as well as veterans, must be maintained.”

On May 12, Secretary of Health and Human Services Richard Schweiker proposed a series of draconian Social Security cuts whose purpose had nothing to do with the fund’s financial solvency, present or future. Maneuvering the President into breaking his commitment to one of his largest and most important constituencies would set a precedent. The military commitment would be the next Mont Pelerin target.

The President began the Social Security war on the winning side. He was the only candidate pledged to maintain Social Security. In the February report to the nation on economic policy, this commitment was not only reaffirmed but the report implied that declining inflation and renewed economic growth would keep Social Security intact through 1986, the last year of the projections.

As of that date, the Mont Pelerin group had won no firm concessions from the administration, although the major Social Security proposals for the Reagan transition team reportedly favored a phase-out of Social Security. Authorship of those proposals is claimed by Rita Ricardo Campbell of the Hoover Institution, wife of Hoover chief Glenn Campbell, a Canadian citizen who formerly headed the American branch of the Mont Pelerin Society. Mrs. Campbell, a direct descendant of Parson Malthus’s mentor David Ricardo, succeeded in placing

her Hoover protégé Martin Anderson as Reagan’s chief domestic policy adviser.

The first Mont Pelerin attack came on another flank. In early April the trustees of the Social Security Trust Fund made their annual report. By assuming the Paul Volcker-Mont. Pelerin inflation to be permanent, they projected the horrifying conclusion that for a worker entering the work force in 1980 and retiring by 2025, the average yearly retirement benefit would be over \$12,000. They also declared that the fund would be bankrupt by November 1982, a fallacious prediction that brought Stockman to the rooftops (see *EIR*, June 23).

In mid-April, Secretary Schweiker, the cabinet official responsible for the fund, put together a task force consisting of Stockman, Treasury Secretary Regan, Martin Anderson, Council of Economic Advisers chief Murray Weidenbaum, and officials from the Labor Department and Social Security Administration. Regan and Weidenbaum resigned when the President flatly refused to accept the Carter administration/Rita Ricardo Campbell proposal to increase the retirement-benefit age to 68 from the present 65. That left the task force in the hands of Anderson, Stockman, and Schweiker.

Although this group had reached a “consensus” by May 1, they did not present their proposals until May 11, one day before Schweiker was to propose the cuts to Congress and the nation. Anderson, Stockman, and Schweiker argued to the President that he had to make a bid to cut Social Security at that very moment, having just won congressional approval for the first set of budget cuts developed by Stockman. The task force managed to keep the President’s top political advisers, Edwin Meese and James A. Baker III, unaware of their plans until the day before the Schweiker announcement.

Reagan had been ambushed.

Rep. J. J. Pickle (notorious for his witch-hunts against the Teamsters union), threatened to move with the proposals if the President didn’t. Reagan’s desire to maintain the momentum of his political initiatives made Pickle’s blackmail all the more effective.

Led by the *Wall Street Journal*, the *New York Times*, the *Washington Post* and the *Baltimore Sun*, the nation’s press bombarded the administration with the news that “the financial community” believed that the President would create massive budget deficits if he did not find more budget cuts *immediately*. Treasury borrowing to finance those deficits would in turn generate hyperinflationary pressure and wreck the economic recovery, the capstone of the administration’s mandate.

The threat worked, at least in the short run. Now, the Stockman/Mont Pelerin group are preparing the cry that military expenditures required for the most technologically advanced national defense will blow out the economy, and the already inadequate Reagan military budget must be slashed.

Trade war threats to muddy summit

A revival of Connally-style tantrums against Europe bursts out before the Ottawa meeting.

In a series of meetings held in Europe over the past month, U.S. negotiators have issued a series of abrasive threats against European governments and most especially against France, warning that the United States will "retaliate" unless Europe alters its long-standing policy of subsidizing interest rates on export credits.

The threats, which if ever activated would mark the onset of trade war between the U.S. and its allies, come from Deputy Treasury Secretary Tim McNamar, U.S. Special Trade Representative William Brock, and Undersecretary of State Meyer Rashish.

The abrasiveness has little to do with legitimate disagreements about trade, although such disagreements exist. A clique of U.S. officials is bent on reactivating the kind of "shoot from the hip" diplomacy toward Europe that made Secretary of the Treasury John Connally infamous in the first Nixon administration, in order to disrupt the chances for a successful outcome to the Ottawa summit meeting of heads of state scheduled for this summer.

Specifically, the trade subsidies issue has been blown up by this clique as an area of dispute to thwart German and Japanese efforts to make world interest rates the pressing item on the Ottawa agenda.

The "trade retaliation" clique was activated last month by a pri-

vate business-labor lobbying group headed by Citibank and by Corning Glass chairman Amory Houghton, Jr. Houghton, a quiet but quintessential representative of what President Reagan criticized last month as the "Eastern Establishment," is cochairman of a lobbying group called LICIT—the Labor-Industry Coalition for International Trade.

On May 8, right before Ambassador Brock left for the first of a series of talks in Europe, LICIT sent Brock a toughly worded legal brief. It stated that unless Brock succeeded in getting satisfactory progress on convincing Europe to raise interest rates on export credits, LICIT would launch a lawsuit to force invocation of the 1974 Trade Act. This would oblige the Reagan administration to then study whether European trade subsidization was "injuring" U.S. export competitiveness, and if injury were determined, to take "retaliatory" measures.

Brock has been wavering over supporting Reagan's efforts to improve U.S. diplomacy, which had degenerated into temperamental theatrics during the Carter years. By the conclusion of his European tour, Brock was mouthing LICIT's trade-war threats.

On June 15, Brock told reporters in Brussels that the U.S. administration considered the problem posed by European export credit subsidies "a very serious issue." When asked by reporters whether

this meant the United States would "retaliate" against Europe if "there is no apparent progress," Brock answered, "this cannot be excluded."

Brock's decision to raise the prospect of retaliation was strongly encouraged by McNamar. On June 15, the Treasury official delivered a venomous speech in Cannes, France against Europe, entirely out of proportion with the outstanding issues of trade. McNamar, who is on the record as an opponent of industrial country exports of industrial capital goods, particularly to the Third World, stated, "We will obviously feel less inclined to be free-trade purists with those who in fact are not opening their markets to our goods and services. We are pragmatists and judge a nation by its actions and practices, not its palaver."

Then on June 16, Meyer Rashish—a Henry Kissinger appointee held over from the Carter administration—launched a tirade against European demands for the United States to lower interest rates in a speech in Paris before government officials.

Privately, Brock's office admits that the real disputes in U.S.-European trade are "standard" and nothing to make hay about. Europe is worried about U.S. dumping of low-priced petrochemicals and fibers, while European producers have been unloading cheap steel on the U.S. market.

Asked what all the fireworks were about, Brock's office replied, "Fuzziness is useful" in international negotiations.

A trade-war scare has been tossed into the hopper to burden President Reagan on the eve of what otherwise could become a fruitful summit.

IBFs are coming!

Free banking zones, a long step for deregulation, threaten the future of the savings and loans.

Federal Reserve Chairman Paul Volcker this week turned over the U.S. banking system to the supranational control of the foreign bankers of the Eurodollar market. Volcker and the Fed Board of Governors voted unanimously June 9 to allow the establishment of international banking facilities (IBFs) in major U.S. cities. These "free banking zones" would allow hot money of the offshore Eurodollar market to be deposited in banks across the United States, playing havoc with money markets, and sending inflation through the roof.

The move was hailed by the major New York commercial banks, who first proposed IBFs, as "an extremely important development on the path of deregulation," Richard Aspenwall, vice-president of Chase Manhattan, told the press.

The Volcker Fed claims that IBFs, supposedly restricted to financing of foreign transactions, will have no impact on the domestic thrift industry, now undergoing a major financial crisis just as IBFs come on line. I don't buy that.

The IBFs were first proposed to the Fed by the New York Clearing House Association, the front group of the top 12 New York banks led by Citibank and Chase, in a June 1978 memorandum. Volcker forced through the plan after three years of opposition from regional banks. As of Dec. 3, commercial majors may set up IBFs with these features:

- No reserve requirements.

While U.S. banks must now set aside reserve funds against loan defaults for normal banking safety, IBFs will need none. Any large bankruptcy in the international markets could threaten U.S. banks.

- No federal, state, or city taxes in New York and elsewhere.
- Little or no federal deposit insurance.
- No interest-rate ceilings.

On one level, what is openly afoot is "bringing the Eurodollar market back home," as a Chase spokesman put it, which means that the billions in illegal drug, mafia, and other lawless money now flooding the \$1.2 trillion gross Euromarket will soon flow into major U.S. cities.

Part of the *raison d'être* of the offshore Euromarkets in the first place was that much of the money is *illegal*. As *EIR* has documented in a series of banking reports (*EIR*, Oct. 21, 1980 and *EIR*, Dec. 16, 1980), the lack of regulations on the Euromarket means money can be laundered freely.

Without reserve requirements, the offshore banks can create unlimited credit against their \$200 billion in net deposits. In return for depositing \$100 million in Citibank Ltd., London, for example, an Iranian heroin shipper would get a legitimate loan of \$300 million to buy Florida condominiums.

Bringing these operations to the United States would dramatically encourage not only the drug trade

but inflationary activities generally. As it is now, Citibank Ltd. must launder the purchase of U.S. real estate through an offshore shell holding company to avoid U.S. taxes and investigation. But more ominously, the Eurodollar flow works both ways.

On Oct. 1 the New York banks' CHIPS computer will go onto simultaneous hourly electronic funds transfer (EFT), linking them with the offshore market on a two-hour basis. Big banks in Chicago, Boston, and California are wiring into CHIPS.

Since interest rates will soon be higher in these unregulated EFT networks due to IBFs' lack of reserves, local S&Ls and small commercial banks will soon begin using the subterfuges of the Fortune 500 corporations and begin booking their surplus funds, disguised as "foreign transactions," into IBFs in their region. Such a "foreign booking subterfuge," while nominally illegal, is quite simple and, frankly, expected by Fed officials.

Meanwhile, the Fed and Treasury Secretary Donald Regan are still pushing their plan to have commercial banks take over S&Ls in the red. This will mean increasing hookups of S&Ls into CHIPS and other commercial-bank EFT systems, I believe, and is meant to wire the deposits of local citizens directly into the Eurodollar whirlpool.

Suppose that under these circumstances Brazil or Zaire defaults on the offshore markets. With every small bank in the nation hooked into the defaulting bank through EFT, Citibank's problems become everyone's problems. Either Congress would have to bail out Citibank, creating hyperinflation, or let Americans take it on the chin.

World Trade

by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
\$71 mn.	U.S.A. from Japan	Nippon Electric has sold Burroughs 8-year rights to use Japanese optical scanner technology. This will allow Burroughs to meet postal service specifications for its automatic mail sorter contract. Terms are 6% royalties, plus purchase of key high-technology parts from Nippon Electric.	Partners hoping to get more of \$500 mn. USPS spending on automation.
\$150 mn.	U.S.A. from South Korea	Bechtel has given Daewoo a contract for an \$84 mn. part of the 2 mn. bpd desalination plant Bechtel has designed for Prudhoe Bay, Alaska, oil fields.	Daewoo providing labor, supervision, and materials.
\$4-\$7 mn.	U.S.A. from South Korea	Sun Eel Shipping Co. is building a coal export facility in Anchorage to handle up to 2 mn. tpy in coal from Usibelli mine to Korea Electric and Sang Yong cement.	Usibelli is doubling production to meet export demand.
	Norway from Italy/U.S.A.	Norway has committed itself to \$5.2 bn. more North Sea oil and gas investments. Italian Snamprogetti, an ENI subsidiary, will control planning of 843 km. underwater pipeline system to carry out 13 bn. cu. meters gas per year. American N. W. Kellogg planning onshore gas terminals. Sea platform design and all construction contracts up for bidding.	Norway's Statoil will sell its 60% share to Ruhrgas.
	Peru and others from U.S.S.R./Brazil	Soviets have subcontracted Brazil's Norberto Odebrecht for engineering on a small hydroelectric project Soviets are building in Peru. Many more such triangular projects in which Soviets will supply equipment and Brazilian private companies the construction are expected.	Odebrecht doing most Brazilian nuclear plant construction.
\$26 mn.	Vietnam from Belgium	Belgian companies have sold Vietnam locomotives and other railroad materials.	Financed by state loan and private banks.
\$106 mn.	Libya from West Germany	German subsidiary of Swiss Brown Boverie will build oil-fired electrical generators in Libya.	
	Israel/U.S.A.	Pratt & Whitney beat out GE for engine to be used in approx. 450 Lavie fighters in late 1980s. GE had supplied engines for Kfir jet fighters.	P&W 1120 engine is derived from one used in F-16 jets.
\$14 mn.	Taiwan from U.S.A.	Rockwell and Easton each building plants in Taiwan to produce previously imported parts for the 10,000 heavy-duty trucks per year made by GM/Taiwan govt. joint venture.	Involves rear axles, brake systems, steering mechanisms.
\$54 mn.	East Germany from Japan	C. Itoh and Daikin will deliver plant producing 2 mn. automobile clutches per year, plus production knowhow and training. Barter deal for E. German metal products.	Export-Import Bank supplier credit.
	Venezuela from U.S.A.	C. F. Braun of Alhambra, Calif. will advise Meneven state-owned oil company on modernization of oil refinery and new natural gas extraction plant.	Contractor bidding for projects next year.
\$250 mn.	U.K. from U.S.A.	Pacific Express airlines has contracted to buy 6 British Aerospace 146 short-range airliners, with option for 8 more. Cost for 14 is \$250 mn.	For use in bargain shuttle flights.
\$145 mn.	U.S.A. from Holland	Fokker sold 4 each of its F 28 planes to Altair of Philadelphia and Empire Airlines of upstate N.Y.	

CFTC investigates cattle case

Futures manipulations appear to have forced a price cap below Corn Belt feeders' breakeven level.

The Commodity Futures Trading Commission (CFTC) is presently investigating the activities of a grouping of 32 large traders suspected of manipulating the Chicago Mercantile Exchange's live-cattle futures market. The traders—officers and principals of interlocked brokerage firms, large commercial feedlots, grain companies and packing houses—were identified in a study conducted by the staff of the House Committee on Small Business under the direction of Neal Smith (D-Iowa). Representative Smith made the findings public in late February.

Smith reported that a scheme to predict live cattle futures price changes with 100 percent accuracy had been discovered, and that the fail-safe scheme was being used by 32 interlocked traders to reap huge profits and squeeze out Corn Belt cattle feeders.

The evidence was presented in detail in a report, prepared for Smith, "On the Systematic Downward Bias in Live Cattle Futures." The study, coordinated by staff economist John Helmuth, shows that the live-cattle futures market "is operating with a consistent, systematic, perfectly predictable downward price bias."

The trading scheme, charted by Helmuth and his staff from January 1978 through October 1980, is straightforward. It is based on pub-

licly available information.

Live cattle futures prices are routinely reported by USDA, and are costs incurred by the more than 68,000 smaller farmer feedlots in the Corn Belt (as opposed to the lower costs incurred by the 422 large feedlots that handle more than half of all fed cattle in the country). When these live-cattle futures prices reach a level that covers Corn Belt cattle feeders' costs, plus an interior Iowa-Southern Minnesota basis adjustment, the price will *drop every time!*

Using this technique over the past three years, a trader could have netted anywhere from \$10,500 to \$4,700,000 virtually risk-free. And that's what these traders did, says Smith.

The CFTC has agreed to look into this prima facie case of manipulation and irregularities.

But the commission so far refuses to address what both Smith and Helmuth believe to be the more fundamental issue raised by the study—whether the live-cattle futures contract is serving a justifiable economic purpose inasmuch as its effect is to give the advantage to the large concentrated feeders over and against the small farmer-feeder.

A series of investigations and studies conducted by Helmuth over the past 18 months has put together the picture of a deliberately skewed market. Unlike the grain or other

futures markets, the live-cattle market is characterized by a volume of short hedging, or selling, four times greater than long hedging. It was also found that, contrary to expectation, most packers did not take long or buyers' positions, but short-hedged along with the grain companies and commercial feedlots.

What happens is that the packers, grain companies and commercial feedlots—who all have lower costs than farmer-feeders, *or can shift them from one level to another*—start selling when the price gets over their costs, at a level that is still below where most Corn Belt feeders could hedge against a loss. When brokers and others jump on the bandwagon the price drop is unstoppable.

The net result is a cap placed on prices below the Corn Belt feeders' breakeven level.

The apparently coordinated activity on the part of the 32 traders in this context, in Smith's view, was just further exacerbating the problem.

In making the study public, Smith stated his hope that exposure of the trading scheme would itself help to render it ineffective. He made a number of recommendations, including enforcement of speculative limits on the Commodity Mercantile Exchange, more effective monitoring of the speculator-hedger distinction, and a call for CFTC action on the matter.

Smith has also reintroduced his bill, H.R. 631, which sharply circumscribes the activity on and off the futures markets of large packers, such as Iowa Beef, found in this and earlier studies to be exerting concentrated market power to the detriment of the livestock industry as a whole.

Mexico's inflation problem

Following a trip to Monterrey and Mexico City, David Goldman assesses the situation and the potential remedies.

The most frustrating thing about Mexico's present 30 percent inflation rate is how easy it would be to reduce it, if the right sort of economic relations prevailed with the United States. That is not to say that inflation—and the enormous interest charges that go with it—have not made financial life a headache for most Mexican businessmen. If the country's economic planners fail to carry out the directive of President José López Portillo—to deal with inflation by enhancing output—there will be trouble not much later than the beginning of 1982.

However, I came away from two weeks of informal meetings with Mexican government and private-sector leaders with a strong sense that the country will find effective means to handle the problem. How smooth the going will be depends largely on how the United States chooses to deal with a monetary policy that has, in the words of the Bank for International Settlements annual report, threatened the world with a crisis resembling that of the 1930s. Mexico is leaning hard against economic distortions that arise from its close economic relationship with the United States. These distortions, not the ambitious and well-funded government development plan, are responsible for the inflation problem.

Of course, Mexican opinion is divided. Many of the private-sector commercial banks, including the largest and oldest, Banamex, argue that the government will have to scale down the growth rate from the present 8 percent per annum to perhaps 6 percent in 1982—although they admit that this implies a sacrifice of national economic interests in order to compensate for distortions imposed from the outside. A foreigner doing business in Mexico is likely to run into this approach.

But it is striking that the same Mexican bankers who take the most pessimistic attitude concerning inflation are also most active in steering foreign investment into Mexico. The June 11 inauguration of the New York-based Mexico Fund, a mutual fund for the Mexican stock market managed by Merrill Lynch, surfaced a pattern of interest that has been quietly at work for some months. The issue is not at all whether Mexico will develop, but according to what model it will develop,

and on whose behalf.

First—contrary to what has unfortunately become conventional wisdom—neither the sharp rise in government expenditures nor increase in monetary aggregates has any direct relationship to inflation. Inflation is mainly the result of the inability of the basic consumer-goods sector to grow fast enough to keep up with the consumption requirements of a rapidly growing economy. This, in turn, is the result of the adverse credit markets environment in the dollar sector of international credit. On the surface, the problem appears to be “demand-pull” inflation. More profoundly, the problem is “interest rate-led inflation.”

What is, at first, strange is that the growth rates in those industries that have provided the bulk of Mexican output during the past 30 years has been markedly slower than the growth rates of the new heavy industries that form the core of the new development program.

Output as a whole has grown by about 8 percent per year during the past three years, while output of non-durable consumer goods has grown by only 5 percent on average. Meanwhile, agricultural output has risen by less than 3 percent a year over the same period. This contrasts with an increment of output during those three years of 47 percent in petroleum, 45 percent in chemicals, and 53 percent in capital goods.

The government-based investment programs are putting wages and salaries into circulation, but the new demand is not matched by a sufficient supply of *basic* consumer goods, i.e., food, clothing, and housing. Unlike most industrial and developing countries, where inflation begins with rising energy prices, Mexico runs into inflation much further down the production cycle, mainly at the finished-goods end. For that matter, Mexican energy prices have reflected the actual cost of production to Pemex rather than rising international market prices, such that energy-price inflation has been only a few percentage points per year.

It is possible, but entirely misleading, to argue that government expenditures for capital investment should be held back to “wait” for the other sectors of the

economy to catch up. The problem in this line of argument is that it is, or should be, substantially easier to raise output in the less capital-intensive sectors of agriculture, food processing, and food distribution. As the Mexican president insists, the appropriate cure for the inflation problem is to raise output here, not to reduce it elsewhere.

The most perspicacious Mexican economists point to two problems that account for lagging output in the basic consumer goods sector, both of which are potentially subject to rapid amelioration. The most pressing one involves the impact of the Federal Reserve's credit policies on the Mexican economy; the second is a management, or political problem, for the Mexican government.

A peculiarity of Mexico's credit system has thrown the private sector of the economy, for the most part, onto the troubled dollar credit markets. Mexico operates a dual credit system. Roughly half the government's expenditures are financed by the central bank, the Bank of Mexico, which either borrows from abroad or creates currency to purchase obligations from the Mexican Treasury. In this respect, the Bank of Mexico ironically functions as the local agent for the country's foreign creditors. It also finances a group of development finance institutions, the most important being Nacional Financiera (Nafinsa), which lends on concessional terms at interest rates lower than 10 percent. Nafinsa and its sister institutions, such as Somex and Banrural, provide less than 20 percent of the credit requirements of the private sector.

The Treasury directly finances petroleum, which has been nationalized since 1938; port construction; steel; and other heavy industries. However, the private banking system—in contrast to most of its counterparts in the advanced sector—has little recourse to central bank funds. The volume of discounts of private-sector paper at the Bank of Mexico is negligible. The private sector's problem at the moment is that it relies, structurally, on private savings, and the real volume of private savings is negative.

During 1978 and 1979, the take-off point for the new development program, the private sector had the resources to make substantial productivity improvements, but failed to do so. Typical is the case of the self-styled "Monterrey Condominium," the northern industrial group that started a century ago with a brewery and now makes everything from consumer durables to steel. The Monterrey families provoked the wrath of several Mexican state governments by declining to invest in new capacity, preferring to buy up additional capacity. According to some estimates it now controls 80 percent of the food-processing capacity in Mexico, following a three-year conglomeration binge.

The investments that should have been made to

upgrade the country's low-productivity food processing and clothing industries, and to streamline the incredibly inefficient food distribution system, were not made. This fact by itself probably accounts for half of the country's 30 percent inflation. Like other private sector powers, the Monterrey group still thinks in terms of the "import substitution" programs of the 1960s. Thirty percent of the tangible goods consumed in Mexico are imported from the United States; too many of these are luxury consumer items. Before oil provided a springboard for heavy-industry development, Mexican industry relied on heavy tariffs on consumer items to compete with U.S. goods at lower productivity levels.

Of course, luxury consumer items make no contribution to the future economic prospects of Mexico; the country is short of basic consumer items, and cannot devote too much of its resources to either producing luxury goods at home, or importing them at high cost from abroad. The "import-substitution" errors of the past 30 years have resulted in a situation where Mexico has one of the lowest ratios of goods to services in Gross National Product of any industrializing nation, and one of the lowest ratios of capital goods to consumer goods as well. How questionable the country's prowess in producing consumer goods was appears in the present shortage of *basic* consumer items. This has profound potential consequences for the development of a generation of workers entering the labor force.

Dollar-denominated credit

Now, of course, the inflation has become a self-aggravating problem. The shortage of basic goods in real terms translates, in financial terms, into a net negative savings position of the banking system. There is simply no peso-denominated credit available. Stated interest rates in Mexico are now 30-odd percent, but the lack of availability of lendable funds has made the actual situation much worse. Compensating balances for Mexican loans run to half to two-thirds of the total loan (compared to about 15 percent in the United States). For small business, the small business federation Canacindra estimates, effective interest rates start at 60 percent and can go above 100 percent.

The majority of all loans to the private sector now provided in Mexico are denominated in dollars. Big commercial banks, like Monterrey's Banco Serfin, syndicate loans in London and distribute the proceeds in smaller packages to their Mexican customers. Small businesses are more likely to go to the Mexico City office of Bank of America or Citibank to obtain dollar loans than to borrow from Mexican banks. This phenomenon is called "dollarization" locally; it corresponds to the "Eurodollarization" experienced in the American banking system. Under these circumstances, appropriate rates of private-sector capital formation are

impossible.

What will happen if this continues? If dollar rates continue to rise, the effects on the dollar-dependent sectors of the Mexican economy would be disastrous, private bank economists believe. Higher U.S. rates would mean a depression in the basic goods sectors, and considerably more inflation. Some of the private sector economists take this for granted. "Mexico has entered an era of permanent inflation," one Monterrey group economist told me. Said a Mexico City banker, "We are already in an inflation situation like that of Brazil, except that no one is talking about it."

I am not so sure the course is fixed in this direction. Clearly, under a worst-case scenario, Mexican inflation could double by the end of 1982. But Mexico has been through tough ones before, and Americans sometimes forget that the strongest impression made on the present generation of Mexican leaders was the 1938 nationalization of the oilfields under President Lázaro Cárdenas.

Prospects and policies

The single most important anti-inflation measure Mexico could take would be to drastically change the composition of the 30 percent of its economy which overlaps with the United States. This is far from impossible, especially after the Phoenix-like rebirth of Mexican-American relations during the recent visit to Washington of the Mexican president, following the enmity of the Carter years. Mexico is now in position to stop worrying about cheap-labor assembly industries based on the American border, and concentrate on selling oil. It needs to import technology and knowhow—including the cattle-raising and dairy technology the United States is supremely equipped to provide—and shut off the inflow of nonessential consumer items.

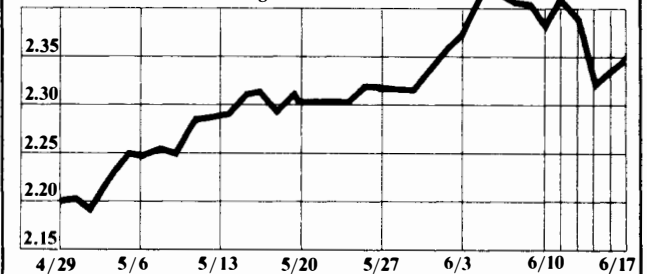
There are some real political problems in the way, e.g. the braking effect on agricultural productivity of the present land-distribution system, and the reported recalcitrance to modernization of the country's dreadful transport system on the part of the railway workers' union, which seems to enjoy the worst reputation of any organized group in Mexico.

But my sense of the people I met is that they will find the means to chop through these problems. They are likely to play financial hardball of a type that will create some upset here, if the United States does not change its monetary policy over the next several months. To be specific, speculators who bet on a big devaluation of the Mexican peso are running the risk of walking away with bandaged fingers. Mexico's credit system has caught a cold from a northern neighbor with influenza. Americans would be right to view this as a short-run problem. In reality, business opportunities for Americans who understand what kind of knowhow Mexico needs are only beginning.

Currency Rates

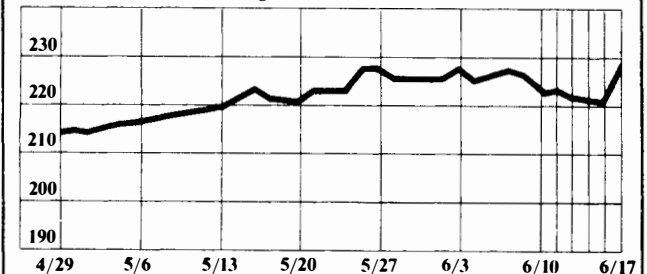
The dollar in deutschemarks

New York late afternoon fixing



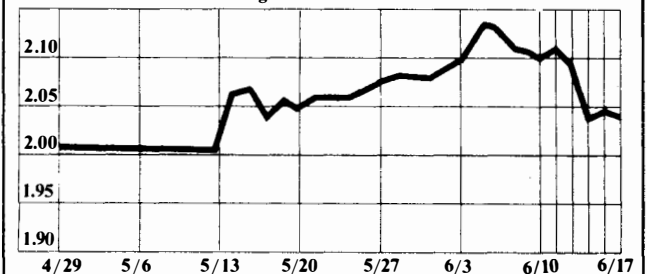
The dollar in yen

New York late afternoon fixing



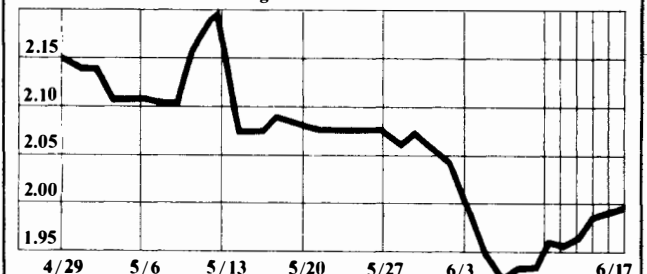
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



Business Briefs

Public Policy

Japanese business wants lower interest rates

Forty chairmen and presidents of Japan's top corporations virtually unanimously told their American counterparts that U.S. interest rates must be lowered. "We explained that U.S. high rates are having a very serious effect on Japan and Western Europe, particularly West Germany," Seike Tozaki, president of the giant C. Itoh Trading Company, told *EIR*.

The Japanese business leaders were in New York June 17-19 for the 18th annual U.S.-Japan Businessmen's Conference.

Tozaki added, "We also don't understand how U.S. corporations can tolerate such high interest rates, and we don't believe that relying exclusively on high interest rates is the effective way to counter U.S. inflation. I think this issue will be hotly discussed in the closed sessions of the conference."

International Credit

Cofinancing gets experimental try

Spokesmen for David Rockefeller's Action Committee for World Development report that they have succeeded in obtaining a "test case" agreement for a mixed export credit to be issued next month by the U.S. Exim Bank and the Agency for International Development (AID) for exports to Egypt.

The ultimate goal is to use such "mixed" financing to dismantle the Eximbank, which has traditionally financed U.S. heavy-equipment exports abroad, including exports to Third World nations, and downgrade it into an arm of U.S. "foreign assistance" programs. The Action Committee cites as its immediate goal the formation of "a constituency behind the Foreign Assistance Act" to promote Brandt Commission goals of top-down control over both public and

private export finance worldwide.

Numerous corporations have been drawn into backing Rockefeller's initiative, partly because the Export-Import Bank is currently in a state of chaos. Former director John Moore, an associate of Boeing (one of the country's largest exporters) has left. A fight is brewing over whether Rockefeller associate William Draper III will be confirmed. In the hiatus, Eximbank has imposed a moratorium on all lending. Export-oriented companies are losing business and growing increasingly desperate.

Data Processing

New report details Third World needs

EIR founder Lyndon H. LaRouche, Jr. has issued a 50-page report titled "Data-Processing Systems for the 'Third World,'" inaugurating the Business Systems Subdivision of Executive Intelligence Review Research, Inc. According to LaRouche, "The United States has the 'hardware' African and other nations require; generally speaking, the problem in the U.S.A. is that suppliers and users have not yet understood how to use this hardware to the right effect." *EIR*'s new business systems subdivision will concentrate on R&D in this specialized field.

LaRouche focuses his report on a critique of data-systems designs now predominant in industrialized nations, because, as he states, "African nations require better data processing than is generally in use in the U.S. today," where the industry has been plagued by an inability to grasp "the elementary fact that data processing provided the mode for a qualitative transformation in the axiomatic basis of business-management methods and procedures." LaRouche worked in the field of systems design during the 1950s.

The same misguided applications would prove disastrous in a Third World country. Reports LaRouche: "The cruel shortage of trained and experienced managers in African nations places a

premium on use of means of data-processing which multiply the effective reach of each of that limited number." Publication of the report has been supervised by *EIR*'s Special Services director, Peter Ennis.

Domestic Credit

OMB, Volcker hold fast to high rates

"Volcker will not budge on European complaints about high interest rates at the Ottawa summit meeting," an investment banker with very close ties to the Office of Management and Budget reported June 18. "I'll tell you what [OMB director] Stockman, Volcker and [Treasury Undersecretary] Sprinkel will advise the President. First, the European complaints are just sour grapes, and we can't be concerned with what the dollar does three to six months from now. Second, as Reagan knows, it takes a while for the Volcker program to work."

As the strongest proof that could induce the President to support Volcker, this source cited the fact that "over the last four weeks interest rates came down when money supply got under control."

However, for the week of June 15-19, the federal funds rate averaged 20 percent; and during the last two days of the week it reached over 22 percent. Banks began raising broker loan rates toward the end of the week as CD and short-term Treasury bills shot up more than 100 basis points on these two days

World Trade

Washington's new pact with Mexico

Mexican President López Portillo and President Reagan signed the two countries' third annual commodity supply agreement during López Portillo's two-day visit to Washington.

The agreement, which Agriculture Department spokesmen describe as basically a continuation of the 1980 and 1981 agreements, calls for Mexico to purchase at least 4.57 million metric tons of U.S. farm products during 1982. It is generally agreed, however, that the trade could go as high as 6 to 8 million tons.

Over the past two years, Mexico has become the U.S.'s third largest agricultural customer. Sales are primarily of corn, sorghum, wheat and oilseeds, although amounts are specified in the agreement for a wide range of commodities. These amounts, according to Secretary Block, will be adjusted in December, when Mexican needs become better known.

Sales will be through "normal commercial channels" at prices "prevailing in the market at the time contracts are negotiated."

The trade agreement also calls for the "fullest mutual effort" to assure delivery of the commodities, with particular attention to rail transport bottlenecks.

A special committee was also set up to deal with U.S.-Mexico trade problems in general. Mexico has wanted broader U.S. markets for some of its products, and has been concerned about levies on some subsidized Mexican exports.

Agriculture

Haig in butter war against U.S. producers

At the request of Secretary of State Alexander Haig, the White House on June 10 rejected USDA recommendation that the U.S. offer its surplus butter on the open market. Haig made his stand on the grounds that the butter might be purchased by the Soviet Union.

In what the press has described as "a preliminary decision" on the matter, President Reagan has backed Haig and directed Agriculture Secretary Block to devise a way of selling the butter so that it doesn't fall into Russian hands. But USDA spokesmen point out that the Soviet Union is the one nation most in

need of butter at present, and there probably won't be a market for the surplus if the Soviets are ruled out.

The buildup of government dairy stocks, including 400 million pounds of butter, under the government dairy price support program prompted a budget-cutting attack on the dairy industry this spring. World market prices are about one-third of U.S. dairy prices.

In defense of the dairy program, producers pointed out that the government had made little or no effort to market its dairy supplies internationally.

Banking

Will the bank board phase out the S&Ls?

The proposal by Federal Home Loan Bank Board Chairman Richard Pratt for diversifying U.S. savings and loans out of the home building industry won't benefit the ailing S&Ls but only harm the construction sector, *EIR* believes.

At a Washington press conference June 11, Pratt announced that within three weeks he will propose legislation providing "broader asset powers" for the S&Ls, which are in the red due to skyrocketing interest rates.

Pratt said that the board, along with other federal regulators, will call for additional authority for S&Ls—which are currently largely restricted to home lending—to move into real-estate acquisition and development, commercial construction loans, industrial loans, and real-estate improvement.

"Also," he said, "it would allow conversions or changes of charters of S&Ls between state and federal institutions, and deal with the interstate/interindustry questions." This is a reference to the proposal by Fed Chairman Paul Volcker that large commercial banks and S&Ls be enabled to purchase ailing S&Ls across state lines. Most S&Ls would not get this sort of business, however, which requires sophisticated financial skills and large amounts of capital. The economy would suffer greatly overall.

Briefly

● **NIGERIA'S** oil production has plummeted to less than half its seasonal high of 2.0 to 2.1 million barrels per day, according to analysts of the major oil companies lifting oil in Nigeria. With production falling below 1 million barrels per day, Nigeria will be soon be forced to cut its ambitious economic development plans. This could provoke political instability in the largest country in Africa, which is the second largest supplier of oil to the United States

● **MARK HATFIELD**, Oregon Republican, stated in the Senate on June 17 that the U.S. should concern itself with feeding Africa and developing the 1 billion people now at the starvation line, rather than arming China, which he called an erratic ally, and arming Zia's Pakistan, which he termed "a brutal and unstable government."

● **A TOP-LEVEL** Pentagon spokesman in an interview last week claimed that if the Japanese do not accept Secretary of State Alexander Haig's military policy and integrate their economy into the procurement plans of NATO, Haig intends to conduct a trade war against Japan and create "many RDFs deployed from secret bases all over the world. That will make them come around."

● **A PEKING** official recently confirmed that foreign firms are now operating wholly owned subsidiaries in the "special economic zones" set up adjacent to Hong Kong where low-skilled labor has been made abundantly available for labor-intensive light industrial projects.

● **MARGARET THATCHER**, addressing the Confederation of British Industry on June 17, reaffirmed her policy: "We spent billions to expand the steel industry," she said. "Now we are spending billions to contract it."

Can Poland yet be saved?

by Lyndon H. LaRouche, Jr.

It is now the greater part of a year since the "Russian Studies Division" of the London Tavistock Institute successfully coordinated the destabilization of Poland. Since that time, Poland's economy has been skidding downslope, accelerating toward an early precipice of monstrous disaster. Not far from each village and town one can imagine oneself to hear clearly the rumble of the armored divisions which could so quickly bring to an end the political existence of the Polish nation.

At night, I can stand in the garden, and look up toward the stars, toward Poland. If I close my eyes, I can see Poland most clearly. Within a short time, Poland might be transformed into something out of a painting by Hieronymus Bosch or Pieter Breughel.

How can the looming catastrophe be averted?

The catastrophe is fostered by the diplomatic and other lies which continue to dominate the Soviet and Western news media. The disaster will not be frightened away by the wild, irrationalist's slogans of the Polish existentialists, it will not cower before the impassioned singing of anthems, nor be awed by ripping open one's shirt to expose Polish courage.

So, for this important moment of writing, I must become a Pole.

Naturally, I am a political figure and patriot of the United States. Yet, despite such dog's-vomit on our flag as the recent Jimmy Carter administration, that nation was created as the instrument of a higher purpose, which I serve more consciously and more directly than all but a few of my fellow-citizens. We few, of various nations, walk in the profession of such as Dante Alighieri and Cardinal Nicholas of Cusa, and of such collaborators of the Marquis de Lafayette as John Quincy Adams. In such matters as the crisis of Poland, we of this profession have special responsibilities.

We of this profession and its global networks, are dedicated to the establishment of sovereign nation-state republics, and to the establishment of a world-order dominated by a community of principle among such sovereign republics. That is our policy toward Poland. It is that policy which requires me to become, for this moment of writing, a Pole, in a moment when



Polish peasants—in the 1980s.

the threat to the very existence of that nation requires this function of me.

Let the following serve as the prologue to a new Polish National Manifesto. Let its immediate purposes include that of touching the consciences of influential circles, both in Moscow and among the so-called Western powers. Let it inspire new hope among the cities, the towns, and the villages of Poland itself.

I. The Ever-Vanishing Polish Nation

Put aside the mere peculiarities of each past and present period of Poland's history. Over the centuries to date, there have been periods when Poland appeared to have become a self-ruling nation. Yet, subsequent events have shown such periods to be so ephemeral as to be virtually an illusion.

Twentieth-century Poland was twice created from the outside. It was created by great powers, and its continued existence was always on the verge of being nullified by the same great powers which brought it into being. So, matters went at Versailles, and once again, during and following great-power relations of the recent world war. Earlier, a short-lived Poland, created as an instrument of policy of Napoleon Bonaparte, was wiped from the map by agreement of London and Metternich at the 1815 Treaty of Vienna.

Over the centuries, the fate of Poland has been arranged according to Poland's status as a northern border-area of Hapsburg politics, and, more recently,

British Eastern-European policy. Over the entire span of the period of Poland's emergence as a potential nation, Hapsburg and British policies affecting those regions of Eastern Europe have been coordinated by the evil families of the Byzantine satrapy of Venice.

In modern times, Polish nationalist movements have been predominantly a failure. Although Polish nationalism has had some important leaders, such as the 18th-century collaborators of Benjamin Franklin and the Marquis de Lafayette, the qualities of such leaders were never successfully imparted in a sustained way to a broader movement among the Polish people generally.

In consequence of this, Polish nationalist upsurges have been *nationalist* only in the negative sense of that term. Insurgent Poles, allying with one foreign force against a present overlord, have become the expendable instruments of policy for those foreign forces whom they embraced as supposed allies. *In this course, Poland's struggles in the name of independence have become struggles to exchange one foreign master for another.*

Those who appeared to have generously given Poland nominal independence in one moment, have later betrayed or directly crushed that independence.

The old Poland of Versailles was so betrayed by the Britain which had authored its existence. At Munich, in 1938, Britain and its French dupe gave not only Czechoslovakia, but also Poland to Adolf Hitler. This was done on the assumption by London that the anglophile Hitler would march only East, and would bleed Germany to death in destroying Russia, after which British, French, and Belgian troops would bring the matter to a

conclusion by occupying the Ruhr district of Germany. So, Britain cynically went through the motions of allying with Poland, and declaring war—without significant military action—when Poland was destroyed. If the course of the last world war went differently, on numerous counts, than the British had intended, the intent was clear and is massively and conclusively documented today.

The present tragedy of Poland is that that long-suffering history is now repeating itself.

The forces engaged in Poland's recent mass political strikes have been so narrowly occupied with their hostility to Soviet hegemony, that they have been self-blinded to the true purposes of many among their supposed "foreign friends." So, an inadequately developed form of Polish nationalism has made Poland once again the imperiled, expendable instrument of policy of foreign powers.



Zbigniew Brzezinski

"Experience and the Future" forces are creations and tools of the "Russian Studies Division" of the London Tavistock Institute (Sussex). These assets of SIS in Poland are coordinated with relics of the *old wartime Polish London government-in-exile*, which was run during that period out of the predecessor-kernel of the London Tavistock Institute, the *Tavistock Clinic of Brigadier Dr. John Rawlings Rees* and *Eric Trist*. Zbigniew Brzezinski has been an asset of this component of British SIS all of his adult life to date.



John Rawlings Rees

The principal foreign control-points for penetration of Poland for this element of the business has been, in order of rank, Venice, Vienna, and Munich.

The Socialist International was a joint-creation of

As if nothing had been learned from the experience of Versailles Poland, the most prominently visible among the supposed "foreign friends" of the mass political strikes has been the British *Secret Intelligence Service (SIS)*. Most emphatically, *Jacek Kuron's KOR* and the

The second among the prominent "foreign friends" of the mass political strikes was *Willy Brandt's Socialist International*. This element was so heavily overlapped with nominally religious operations as to be functionally indistinguishable from them.

The principal foreign

British SIS and Hapsburg-Venice intelligence services, during the 1870s and 1880s of the last century. It is controlled, *as an international organization*—not all aspects of national social-democratic parties, by the same political interests today.

Hapsburg Austria, the Balkans, and the regions of the former Austro-Hungarian empire have been formally under the predominant control of the Byzantine satrapy of Venice since the 13th century—many parts of the regions much earlier. The core of the feudal aristocracy of this region was established chiefly by granting of feudal titles and estates to members of aristocratic families of Byzantium and Italy's "black nobility." For related reasons, not only Yugoslavia, but the Warsaw Pact member-nation of Romania are under virtual Venetian control to the present day. Otherwise, "Venetian" today signifies not only those forces, together with the so-called "Genoese" junior-partner of Venice and its networks of financial power throughout Europe. It means also the Veneto-Tyrol region of Italy, adjoining Switzerland, Austria, and elements in Bavaria.

It is this Venice-centered "black oligarchy" which created Benito Mussolini and the Austrian fascist dictator Dollfuss, as well as Hungary's Horthy regime and the Iron Guard of Romania. For special reasons, elements from this force broke with Adolf Hitler after participating in creating him and his Bavarian party. These are the same forces which destroyed Poland at the 1815 Treaty of Vienna, and which have never abandoned the political objectives which prompted those actions of 1815.

The launching of the mass political strikes had a third, less publicized, but massive and crucial element of support. The British SIS coordination of the strikes was conducted in conscious and close cooperation with *elements behind the Soviet KGB*.

This is a fact emphasized by some leaders of the mass political strike forces themselves. Jacek Kuron's KOR is the exemplary case. Although the KOR was a creation and tool of British SIS, it appeared to enjoy a special relationship with the Interior Ministry of Poland, and with the Soviet KGB. Each time KOR figures were routinely detained by the Interior Ministry, the KOR circulated fresh dossiers against competitors of Stanislaw Kania. For this and correlated reasons, strike-movement leaders were fearful that their movement might be under the manipulative influence of both British and KGB provocateurs.

In Poland, as in certain Middle East nations, including Iran, it is impossible for leading counterintelligence operations to distinguish between British SIS and Soviet KGB shared direction of many curious events and movements.

As leaders of the mass political strike-movement perceived the matter, the forces of their movement, organized chiefly out of the Catholic University in the

A history of 'Experience and the Future'

In the 1976-78 period, after a wave of strikes and protests over food price hikes, Polish leader Edward Gierek entrusted Stefan Olszowski with drafting an outline for economic reform. His conclusions led, even before Gierek fell in summer 1980, to the gradual dismantling of Gierek's industrial investment program, just at the point when Poland's British and American creditors had decided that Poland no longer merited development or balance-of-payments loans on favorable terms.

Today, Olszowski is cast as a "hardliner," a man who would guarantee on Moscow's behalf the integrity of Poland as a socialist entity. But it was from Olszowski's consultations on economic reform, according to sources who know his aides, that there emerged the project known as "Experience and the Future," or by its Polish initials, DiP.

One Western friend of Experience and the Future calls it the most "pivotal" group in Poland "because of its long-range and far-reaching liberal reform strategy, which does not pose itself as a direct threat to the Soviet System."

The first of DiP's studies and surveys on reform, "Report on the State of the Republic and Ways to Improve It," circulated in May 1979, after which DiP was banned from meeting. In 1980, its coordinators conducted a survey of 150 prominent Poles, one-third of them party members, and printed it under the title "How to Get Out of It." This was the manifesto of DiP's British-linked directors.

In addition to calling for changes in the "style of governing the state," DiP attacked "stultifying centralization" and, in the case of economic policy, specified the need for "a shift away from central control of the economy and toward greater autonomy of regional and smaller units" and reorganization to "enhance the role of individual enterprises." This became precisely the agenda followed since the August 1980 mass strike for erasing the vestiges of a capital-formation program of heavy industry in Poland.

DiP bridged the gap between communist party reformers and nonparty British and other foreign intelligence networks in Poland.

Its leading light was Stefan Bratkowski, a sociologist and a party member. Bratkowski became the first party member to thank the small Workers Defense Committee (KOR), a collection of ex-

Trotskyists whose efforts are directed from emigré member Leszek Kolakowski's headquarters at All Souls College in Oxford and funded by foreign sources, including the London Polish government-in-exile channels, for its role in shaping the strikes.

But no Polish sociologist avoids the influence of Jan Szczepanski, who runs the Polish Academy of Sciences social sciences division. Szczepanski worked with DiP. And Szczepanski is a recruit of the Tavistock Institute, the British intelligence center for international operations conducted through the sociology and anthropology professions, and sits on the board of its theoretical journal *Human Relations*.

In his capacity as Polish chairman of the Anglo-Polish Round Table, Szczepanski consults each year with such Britons as Mark Bonham Carter, an advisory board member of the Index on Censorship, a London-based platform for East European dissident writers. The Index is financed by the Arts Council, presided over by, among others, Anthony Quinton, a colleague of KOR's Kolakowski at Oxford.

One of the three Polish members of the Club of Rome, Jan Strzelecki, joined DiP. So did Bogdan Cywinski, who ran the Society for Academic Courses, or underground "flying university," whose curriculum encompassed "Christian existentialism," the logical positivism of Oxford Prof. A. J. Ayer, and the writings of KOR members Kolakowski and Adam Michnik.

One patron of DiP was Mieczyslaw Rakowski, now a deputy prime minister. As a party Central Committee member, Rakowski kept his association with DiP low key, but when he wrote an editorial in his weekly *Polityka* in July 1980, after the first small strikes occurred in Lublin, it was widely recognized as the DiP program coming into the public eye. Rakowski wrote, "Our vital national interest requires . . . a comprehensive program for structural changes involving the guidance and management of the national economy . . . thought-out decentralization. Our society has still not been psychologically conditioned to make sacrifices."

In May 1981, with many of its members in powerful positions, DiP reconstituted itself to issue a warning that if Soviet forces enter Poland, partisan warfare will begin.

former Austro-Hungarian region of Lublin, were Poles, who must generally speaking, live and die in Poland, and share in suffering whatever fate befalls that nation. Consequently, the genuinely Polish elements of the strikes, and their leading Catholic friends abroad, had a different view of the conduct of the strikes than their supposed British, Socialist International, and Venetian "friends."

Both British SIS and the KGB wished to create a situation in Poland to the result that Soviet tanks would recreate something like Hungary 1956 or Prague 1968. For respectively different reasons, SIS and forces behind the KGB wished an escalation of the "Cold War"; despite some important differences in longer-term objectives,



Jean-Baptiste Colbert

SIS and the KGB collaborated to bring that strategic incident into being.

The indigenous forces had, naturally, a different view of the matter. They wished to exploit the situation as much as they dared, short of Soviet tanks; they did not wish to provoke the destruction of Poland.

So, we have a deadly situation consistent with the past tragedies of Poland. How can the familiar outcome of such tragic insurgencies of Polish nationalism be avoided this time?

So far, Poland has sought to borrow tactics from old Byzantium, and has suffered each time such models of maneuver were employed. It is time to adopt Italian methods from the 15th-century Golden Renaissance. Although those methods failed their purpose—so far—in Italy itself, it is those methods which have led to every successful establishment of durable sovereign nation-states since the success of France's Louis XI.

It is time for Polish nationalists to adopt at last the principles of my profession.

Since we are dealing most immediately with Soviet policies and Soviet power, it is the internal dynamic of Moscow which must be understood as key to design of any effective Polish nationalist policy.



Gottfried Leibniz

There are, essentially, two opposing factional currents in Moscow. One of these two is properly described as *Soviet national*

ist, a commitment to agro-industrial technological progress and rapid scientific progress. Although this

faction's policy is consistent with V. I. Lenin's commitment to nationalized property, it tends toward becoming otherwise a Soviet adaptation of the *mercantilist* and *kameralist* principles of France's Jean-Baptiste Colbert and Colbert's great German protégé, Gottfried Wilhelm Leibniz. This faction tends to be concentrated in the state-industry side of the Soviet command. The opposing factional current is identified with the dangerous *M. Suslov* and *Boris Ponomarev*. This latter faction is a continuation of the *Communist International apparatus* of G. Zinoviev, and such one-time protégés of the Venetian intelligence operative Alexander Helphand ("Parvus") as L. Trotsky, N. Bukharin, Karl Radek, G. Ryazanov, and C. Rakovsky. This component of the Soviet command was reactivated formally on the instigation of *Eugene Varga* in 1956, as *IMEMO*. Predominantly, *IMEMO* and the KGB are functionally the same.



Donald Maclean

To understand the Polish situation, it is useful to emphasize that the chief policy adviser to *IMEMO* is former British SIS official *Donald Maclean*, and that Maclean's old collaborator in British SIS, *Harold "Kim" Philby*, is a most powerful KGB general.

To understand how British SIS planted two such "triple agents" in the Soviet intelligence's command, it is important to examine not only the exposed case of a member of the British monarchy's private household, *Anthony Blunt*, but another former member of the same private household of the monarchy, the late *Herbert Waddams*. Waddams, the controller of the foreign-intelligence operations run under the auspices of the Church of England, coordinated British deep-intelligence operations inside the Soviet Union through both the *hierarchy of the Russian Orthodox Church*, and the *KGB's foreign-intelligence training-center in Greece*, operated under the cover of an Eastern Orthodox seminary!



Kim Philby

Philby and Maclean's fathers were prominent in the Eastern Mediterranean side of SIS operations (SIS's Arab Bureau), where Philby and his father ran operations jointly with the networks coordinated by Waddams and with elements of the Soviet KGB. Philby was laundered into

high rank in the KGB with aid of a typically British sideshow run out of the old Venetian colony of Albania.

With the first of the two factions, *the Soviet nationalist forces*, it is feasible to negotiate a strengthening of Poland's sovereignty. With the second of the two factions, only chaos and worse is possible for Poland.



H. St.-John Philby

Consequently, it is fundamental that Poland's nationalists must understand the Soviet factional issues profoundly, and must understand in particular the curious collaboration among IMEMO and British and Venice-directed intelligence organizations.

Therefore, we must focus upon matters of Soviet foreign policy, upon the decisive differences in foreign-policy outlooks between the two principal Soviet factions.



Anthony Blunt

The persisting tendency of Soviet nationalist forces' foreign policy is modeled upon *the Lenin-Chicherin Rapallo policy*. Like the Czarist ally of France's Gabriel Hanotaux, Minister Sergei Count Witte, the Leninist current of Soviet nationalist policy bases the foreign policy of the Soviet state on the perceived and actual fact that it is in the mutual interest of Russia and the Western industrialized nations to cooperate in massive agro-industrial development of Russia.

For this reason, the May 1978 summit meeting between Leonid Brezhnev and Germany's Chancellor



Mikhail Suslov

Helmut Schmidt is a model of reference for the basis on which peaceful cooperation between East and West can be developed. For related reasons, the Soviet nationalist currents have supported the *European Monetary System* authored by Chancellor Schmidt in July 1978,

and tend toward accepting as agenda-items proposals to link East-West and North-South economic and *political-stability* cooperation.

The "Cominternist" forces, associated with Suslov, Ponomarev, IMEMO, and Philby's KGB, have attempted to pull the Soviet state into the International

Monetary Fund and alliance with the financial center of the City of London *against the EMS*. Where Brezhnev viewed Giscard and Schmidt as rational discussion-partners, IMEMO and Ponomarev have allied with the British SIS and the Socialist International in the effort to destroy Giscard and Schmidt. Similarly, IMEMO is allied with the Socialist International and SIS in efforts to bring down the governments of India's Indira Gandhi and Mexico's President José López Portillo.



Boris Ponomarev

These issues between the two Soviet factions were the principal reason the KGB cooperated with London and Vienna to launch the destabilization of Giscard's and Schmidt's closest discussion-partner in the Comecon, the government of Poland's Edward Gierek.

The British, Venice, and the KGB assumed that the administration of President Jimmy Carter would be re-elected in the November 1980 general elections in the U.S.A. Suslov, Ponomarev, et al. based everything on that assumption. The destabilization of Poland was to (1) create the conditions for bringing down Giscard and Schmidt, (2) trigger a new "Cold War" between East and West, and (3) set into motion the mechanisms of a general economic depression. From the vantage-point of Suslov, Ponomarev, et al., this would lead to the defeat of the Soviet nationalist forces. From the standpoint of IMEMO's SIS and Venetian allies, this would begin the desired process of general, step-by-step destabilization of the Warsaw Pact, leading toward massive eruptions inside the Soviet Union itself.

So, the two forces, those led by SIS-Venetians and those associated with IMEMO, joined to effect common short-term objectives despite significant disagreements concerning long-term objectives.

M. Suslov's fascist friends

The forces associated with Suslov and Ponomarev are, as of this moment of writing, in continuing and conscious political alliance with forces which are professedly fascist (or, even worse), and which Suslov et al. know and have known to be fascist or worse.

How many know the name of *Dzhermen Gvishiani*? He is the son-in-law of the late *A. Kosygin*, head of the *Vienna-based International Institute for Applied Systems Analysis*, and is classified by Western counterintelligence services as a high-ranking official of the KGB. For more than a decade, Gvishiani has been in close collaboration with high-ranking political circles of NATO intelligence, and with the world's most notorious advocate of genocide, *Aurelio Peccei of the Club of*

Rome. Recently, after years of open collaboration with Peccei, *Gvishiani has openly praised the genocidal policies of the Club of Rome.*

Peccei has recently come into new dimensions of public prominence. Shortly after the attempted assassination of Pope John Paul II, courageous groups of officials allied to the Vatican forced public exposure of a fascist Scottish-Rite Freemasonic Lodge in Italy, the so-called P-2 Lodge. This Lodge was constructed as a conspiracy by a group of former military and intelligence officers of the Mussolini regime, including the Nazi-occupation asset of Mussolini's secret police, OVRA, *Licio Gelli*. This Lodge—together with other Venice-allied forces within Italy's Scottish-Rite Freemasons—controls both the nominal neo-fascist party of Italy, the *MSI*, and the *Socialist Party of Italy*. These same forces were plotting to bring Socialist Party leader *Bettino Craxi* to power in Italy immediately after the election of Socialist Party candidate François Mitterrand in France; Bettino Craxi was to become the "new Mussolini," like the former Socialist Party leader, Mussolini, before him. The massive exposures involving Gelli, the P-2 Lodge and the allied *Banco Ambrosiano of Milan*, have led to the doorsteps of U.S. Secretary of State *Alexander Haig*, former U.S. Secretary of State *Henry A. Kissinger*, and have directly exposed new dimensions of Aurelio Peccei's fascist-linked activities.

Who is Peccei? He was formerly president of the Argentine division of *Fiat*—a firm now jointly owned today by the old fascist Italian family of *Agnelli* and a principal founder of the Socialist International, *Libya's Colonel Qaddafi*. Peccei moved on to become an executive of the *Olivetti* firm, an office-equipment firm which functions as a business-type covert-intelligence front for some of the wealthiest and most politically powerful old oligarchical families of Venice. According to NATO-OECD official sources, Peccei was picked up for sponsorship by the Rockefeller-backed organization called *Adela*, from which Peccei was moved, through United Nations laundering, to collaborate with NATO political-intelligence in establishing the genocidal organization, the Club of Rome. Fiat, Olivetti, and one famous, Germany-based multinational firm, are the Club of Rome's principal industrial backers, in addition to a nest of financial institutions, including insurance companies.

Peccei is also directly linked to the international cartel behind the Banco Ambrosiano of Milan, a cartel named the *Inter-Alpha* group, which includes the home bank of the Scottish-Rite Freemasons, the *Royal Bank of Scotland*, through the banking firm of Williams and Glys. The P-2 Lodge itself is merely the most-exposed element of the fascist nest uncovered so far.

Why should such forces be suspected in connection with the attempted assassination of Pope John Paul II? The Club of Rome is the key to the motive causing the

suspicion. Certain U.S.A. and other Jesuits have published statements calling for a *great schism in the Roman Catholic confession*, in order to eliminate the power of the Papacy to oppose effectively the genocidal proposals submitted by agencies including the *Club of Rome*, the *Willy Brandt-led North-South Commission*, and President Carter's *Global 2000*. The *Archbishop of Canterbury*, *Robert Runcie* is collaborating directly with such schismatic Jesuits in support of the Club of Rome, Brandt Commission, and *Global 2000*, and in deploying Anglican forces and complicit protestants, in the effort to bring the schism into effect. Peccei and his types are among the public links between the sacerdotal and laic forces committed to this policy.

What these forces seek to effect, most fundamentally, is to reverse the establishment of technologically progressive forms of sovereign nation-states, and to transform the world into a "world-federalist" form of what they sometimes term a "postindustrial society." In short, they are best termed *neofeudalists*.

Their included problem is the fact that without maintaining high levels of technology the present levels of the world's population can not be maintained. Therefore, to bring their neofeudalist utopia of world-federalist postindustrial society into being, these evil scoundrels have adopted a policy of creating famine, epidemic, and regional wars as instruments of policy for halving the world's population over the course of the coming two decades. The year 2000 A.D. is the date of reference these neofeudalist genocidalists have adopted as the date by which such genocide is to be more or less completed.

Although these forces intend to reduce significantly the populations of the presently industrialized nations—the plan to reduce the U.S. population to about 70 million, and the Mexico population to between 20 and 30 million—they follow in the footsteps of Cecil Rhodes and Adolf Hitler in projecting a virtual elimination of nonwhite and other populations in favor of future world-rule by the Anglo-Saxon race.

This is the genocidal policy supported by the leadership of the Socialist International. This is the policy of the forces rallied around "environmentalism" and Aurelio Peccei. This is the policy supported by Soviet official Dzhermen Gvishiani, and otherwise *openly advocated by leading officials of Soviet IMEMO*. This is the policy of "self-sufficiency" of starving nations which the scoundrel Boris Ponomarev set forth as international policy at the 1980 East Berlin conference of representatives of Communist parties.

This is also the policy of the London Tavistock Institute, of the OECD officialdom, and naturally, of the networks of Venetian intelligence and their branches in such places as Vienna and Munich. It is with such "foreign friends" and secret (KGB) sponsors that the force of the mass political strikes in Poland have found

themselves in bed, so to speak. Is it conceivable that forces dedicated to reducing conclusively the population of Poland, and to eliminating all sovereign nation-states might be *sincerely allies of the cause of Polish nationalism?*

Once again, Poles have been following so narrowly, so blindly their impulses to attack a perceived overlord of the moment, that they place themselves at the mercy of new, more hideous masters of tomorrow. So, the age-old Polish Problem has re-enacted itself once again.



II. Poland: The 'Sancho Panza' of Europe

We are concerned to save Poland from disaster. Therefore, let us not distract ourselves unnecessarily with reflections on such subjects as the lunatic Baltic nobility, from which Sweden's Olof Palme claims descent. Let us not distract ourselves with comparisons to the so-called Ukrainian problem, nor the cases of Romania, Hungary, Bulgaria. and Yugoslavia. It is more than enough that we can not avoid comparative reference to Russia.

What is the inside of the "Polish problem"? We have looked at the outside. What is at fault inside the Poles that they invite new overlords to replace present overlords? What deep, inner sense of inadequacy causes this recurring, childlike appeal to the "adult" nations of the world?

In the classical Russian literature, we learn of the

Sancho Panza abdicates his governorship: by Gustav Doré.

"Oblomov" within each chauvinistic, Russian peasant's soul. It is on the basis of psychological profiling of the Oblomov within today's Soviet leaders that British SIS successfully (often) manipulates Soviet policy-making. What is the corresponding vulnerability within the Pole?

The foundation for a true, new Polish national movement would be efficiently established by a broad and intensive study of Miguel Cervantes' great prose dialogue, *Don Quixote*. The tragic history of Poland to date is the history of the "Sancho Panza" of Europe.

To speak Russian for a moment, let us examine the *materialistic* side of this problem, and then advance to the higher and deeper features of the problem.

The persisting internal crisis of Poland is the backwardness of Poland's agriculture. This is the explosive economic problem of Poland at this instant; it is also the equally deadly moral of Poland's political life.

It is a corollary to this fact: *the lack of an adequately developed perspective for the transformation of Polish agriculture, out of the backwardness embedded in ideology of traditionalist practice, has been the chief obstacle to development of a viable, broad-based Polish nationalist force.*

Looking at this in Russian (materialistic) terms of reference first, we have the following principal observations to consider.

At the time of the first, 1790, census of the United States, approximately 90 percent of that nation's population was engaged in rural occupations. Today, an abundance of food and fiber for both national consumption and export can be provided by less than 4 percent of the labor-force.



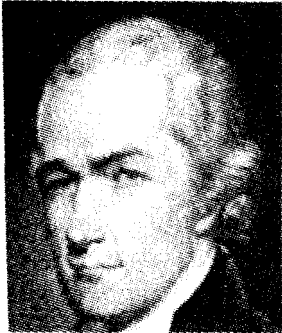
John Milton

The U.S. farmers of 1790 were by no means oppressed peasants. The "Jacksonian" myth repeated by the lying Turner at the beginning of this century, that early Americans were "rough frontiersmen," is just that, a myth directly contrary to reality. At the time of the American

Revolution, Americans enjoyed a literacy rate in excess of 90 percent, more than twice the 40 percent literacy rate then existing in Britain. The real incomes and productivities of the Americans were twice those of the British, chiefly because of the superior level of development of the intelligence of the literate Americans. The U.S. farmer of that period was often described internationally, with admiration, as the "Latin farmer," because of the significant number of those farmers familiar with classic languages such as Latin and Greek, and familiar with corresponding sources.

This was not an accidental advantage of the young

United States. During the 17th century, the republican faction in England, John Milton's Commonwealth party, had recruited the best parishes of England and other nations to settle on the North American continent. This was done not to flee religious persecution, but rather to establish on American shores a new republic, which would develop to tilt the balance against the feudalist forces corrupting old Europe. The great republican classicist John Milton, and his conceptions, were the central images around which a superior people was developed in America.



Alexander Hamilton

The shaping of the American economy was accomplished by turning to the English Commonwealth party's traditional allies on the continent of Europe, the French *mercantilists* and the allied *kameralist* networks spread throughout so much of Europe under the leadership of the

great Leibniz. From, chiefly, French and German mercantilists and kameralists the conspiratorial circles of Benjamin Franklin gained for the United States the technology and economic science needed to secure the development of the new constitutional republic.

The concentrated expression of this economic science is summarized in the policies of the first President of the United States, George Washington. The policy papers on credit, banking and manufactures issued as reports to the U.S. Congress by Washington's Treasury Secretary Alexander Hamilton are the foundation of what became known worldwide as the American System. It was the American System, spread to Germany and Japan—and to Poland and Russia—under the names of Hamilton, Carey and Friedrich List, during the 19th century, which prompted every successful industrial revolution of that century.



Friedrich List

The central feature of the American System is outlined, as a summary of Leibnizian kameralism, in the 1791 report to the U.S. Congress by Hamilton, *On the Subject of Manufactures*. In this Hamilton outlines the principles for a successful transformation of agriculture through pro-

motion of transportation and manufactures. Hamilton restates Leibniz's principle, that the only source of the wealth of nations is the promotion of technology and

education to advance the productive powers of labor.

(Anyone who informs us that Karl Marx discovered the principle of "labor-power" is clearly an illiterate, who does not know that this was discovered in a far more advanced form than Marx ever understood it, by Leibniz in the 1670s writings on *Society*.)

It was the combination of Hamilton's policies—the American System of kameralism—with the *superior level of popular education of the American population*, which made the transformation of U.S. agriculture possible.

True, the American System was not always followed as policy of the United States. Jefferson and Madison nearly wrecked the United States by replacing Hamilton's policies with the dogmas of the British East India Company's Adam Smith. Monroe and John Quincy Adams rescued the United States from the disasters which Jefferson and Madison had caused, and gave the United States a great decade of new growth under revived Hamiltonian policies. Jackson, Van Buren, Polk, Pierce, and Buchanan were national catastrophes, principally for the same reason that Jefferson and Madison had been. President Abraham Lincoln revived Hamilton's American System in the most energetic

Poland's economy: the agriculture trap

The mainstay of Polish agriculture is the small peasant plot, worked by an old man and his horse.

Three-fourths of the land under cultivation is in private hands. Of these 3 million and some farms, 30 percent are smaller than 2 hectares (1 hectare equals 2.471 acres); 60 percent are smaller than 5 hectares; 85 percent are smaller than 10 hectares. The peasant plot may be 10 meters wide and a kilometer long, in the worst cases of strips of land marked out more than a hundred years ago under the repartitional tenure system that gave each son in each peasant family his parcel of land.

Although Poland in the 1970s became the 10th greatest industrial power in the world, 40 percent of the working population lives on farms. Nearly a million farmers are past retirement age and still working.

In 1979, Poland, 19th country in the world in human population, stood 8th in total number of horses, according to United Nations statistics. It had 16.6 horses per square mile, the highest equine density in the world and almost twice the density of horses in

form, accomplishing an industrial revolution which could not be undone until the subversion of the past 15 years.



Abraham Lincoln

After Lincoln, the British enemies of the United States did succeed in progressively undermining the nation. The treasonous elements, centered in the Manhattan financial community, subverted the United States on behalf of Britain by taking over the credit and banking system, and using this invasion to attack and subvert the agricultural and industrial institutions of the national economy, and to seize control, through financial corruption, of leading sections of the national political parties. The 1876-1879 Specie Resumption Act was the most important of those treasonous actions on British behalf.

Despite such British-directed subversion, the eco-

nomical and related institutions embedded in the life of the United States through Hamiltonian policies continued to resist British corruption of credit and banking powers into the middle of the 1960s. It was those institutionalized influences which produced the results establishing the United States as the "cynosure" of admiring eyes from around the world into the immediate postwar period. The miracle of American agriculture is a leading symptom of that process.

There is no Comecon nation's government which has not studied the achievements of U.S. agriculture, and similar accomplishments in German agriculture under the influence of the allies of Friedrich List. We know of important accomplishments in the German Democratic Republic and Czechoslovakia on the basis of development, for example, and know that such methods could readily succeed where properly applied in Poland.

There are two reasons for the general backwardness of Comecon nations' agriculture. One is economic: a shortage of the capital improvements needed to implement agricultural development at adequate rates. The other cause of perpetuated backwardness of Comecon

Mexico, the next country on that list.

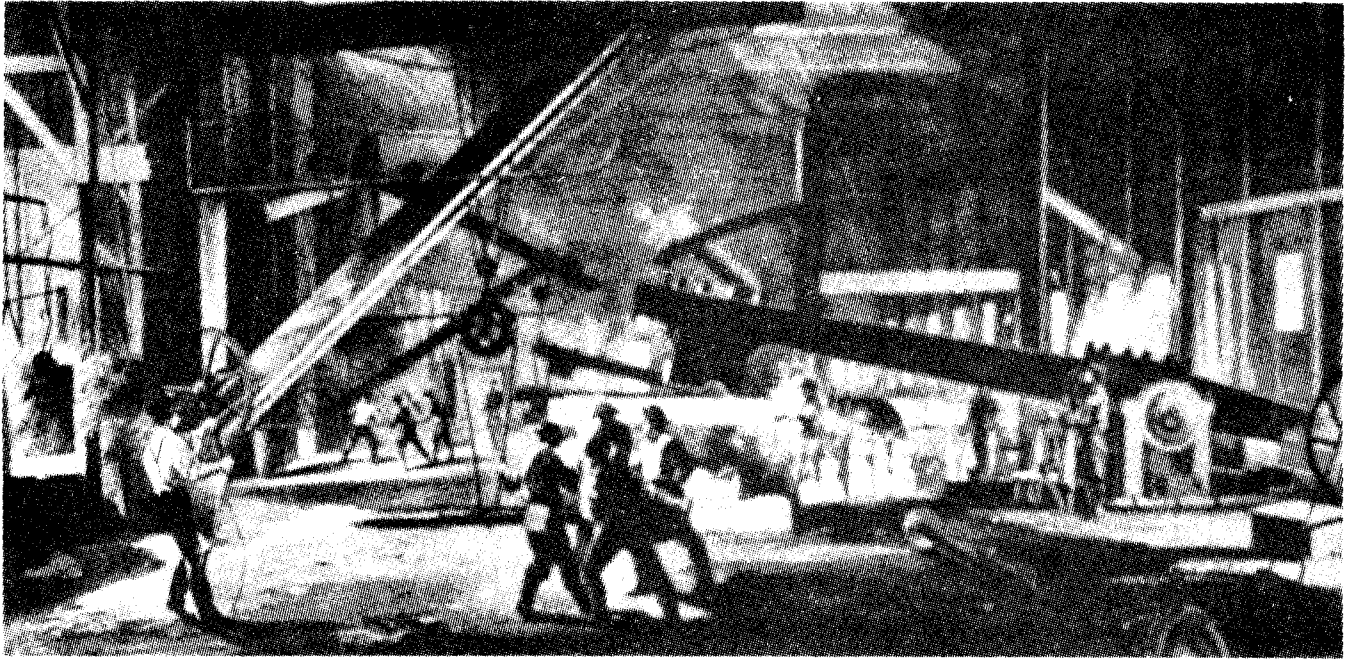
These horses pull the plows and haul the crops and eat a good deal of what is grown on Polish farms. But, as former American Ambassador to Poland R. T. Davies relates in a recent article, the Polish peasants resist mechanization, which is difficult to accomplish efficiently given the way that Poland's land is organized. U.S. companies anxious to export farm machinery to Poland, even small implements designed for gardening, hit a brick wall, Davies reports; Polish officials explained that the farmers only had confidence in their horses, being suspicious that ownership of machines would lead to dependence on central depots for service and parts.

The history of Polish agriculture since World War II is the history of a long contest between the central regime and the peasants, in which the authorities sought to coax the farm sector into higher efficiencies without creating rural turmoil. Collectivization of agriculture never occurred. Especially under the Wladyslaw Gomulka regime of 1956-1970, attempts to consolidate at least some aspects of farm activity such as machinery distribution into larger units than the single farm (farmers' "circles," for example) shifted into a pattern of flinging incentives at the peasants with only spotty results. In 1977, farmers were offered immediate pensions in exchange for turning over their land to state farms.

The Polish peasants have tremendous clout; they either feed or do not feed the cities, and are liable to act by a notion of their own, not the national interest. Last fall, when strikes cut into coal production and domestic coal deliveries shrank alongside exports, rumors swept the countryside that farmers were underplanting the 1981 crop in retaliation for their not receiving anticipated amounts of fuel.

When food supply is such a volatile factor, countless factory directors and other officials take out "insurance policies" against its disruption. An industrial plant with its own kitchen garden and barnyard of hogs will not have a crisis in its cafeteria, no matter what the peasants do. (Ambassador Davies reports such an arrangement, described by its organizers as "socialist self-help.") But it will certainly contribute to economic chaos, as each small unit looks out for itself.

Lech Walesa, the electrician who leads the Solidarity trade unions, revealed in a recent interview how quickly many Poles think of the farm, the tiny, horse-powered farm, when they look for sources of national strength. It would be a good idea, he suggested, for industrial workers—perhaps men laid off from the many factories closing down in "nonpriority" sectors of the Polish economy—to go out into the countryside and work on the land, as a way to help bring Poland out of its crisis.



The Nashua, New Hampshire Iron Co. forged iron for machine shops, ships, and railroads in the Hamiltonian tradition, before the Civil War.

economies is social, the "peasant problem." Poland is the most serious case among Comecon nations on this latter account.

In general, modern agriculture requires individual farms of hundreds of hectares, using not only modern mechanization, but scientific agronomical management of irrigation, fertilization, and soil-treatment programs, as well as focus upon seed-stocks and so forth. Without changes in the organization of land-utilization, such technological improvements can not be implemented economically. In such a case, the nation as a whole remains economically backward, chiefly because of the direct and indirect effects of the low level of productivity of agriculture.

It is at this point that the economic and political issues of national development intersect. We continue, first, with a review of the economic implications.

It is lunacy to believe that the consumption of the Polish population could be increased significantly above present levels without first overcoming the root of Poland's backwardness: the large percentile of the national labor-force occupied in producing the food and fiber required. By activating simultaneously the demands for material improvements in conditions of work of urban populations and also of rural populations, the recent direction of the mass political strike has projected the Polish population onto *a course leading toward a brutal collision of the respective demands of urban and rural segments of the population.*

The national pot of Poland is empty. How then shall

both the urban and rural portions of the population increase the contents of their private pots except by stealing from one another's private pots?

How could the contents of the national pot be increased? By increasing productivity. By capital-intensive investment in improvement of agriculture and industry. This requires an emphasis on heavy industry: capital-goods producing industry. Yet, the mass political strike movement has demanded precisely the opposite priorities. In fact, the shift in priorities, away from capital goods production, will have the inevitable effect of reducing the total amount in the national pot per person.

This was already clear enough before the mass political strikes. The government acted to prevent inflation of prices of goods, while offering the population concessions in the form of an increased number of zlotys in the pay-envelopes of households. The total amount of zlotys exceeded the total supply of purchasable goods.

Why did this problem develop? It developed because the productivity of Poland's population was advancing more slowly than the demand for improvements in pay and leisure. Demagogues, who are always able to speak more rapidly and loudly because their tongues are unhindered by a censorious brain, proposed that this problem of shortages and excessive working-requirements on labor could be solved. Solved how? By reducing capital-goods production! By searching in the nooks and crannies of the state bureaucracy for odd bits of

conspicuous privilege which, presumably, could be shared out to fatten the population a bit.

The root of the problem was not an excess of capital-goods production, but an insufficiency of such production. The reason for the insufficiency was the difficulty of maintaining both consumer-goods and capital-goods production at required levels when so large a portion of the national labor-force was required for low-productivity rural occupations.

In brief, in these facts we have conclusive proof that the mass political strike's movement was profoundly incompetent to govern Poland. The more successfully that movement imposes such demands upon the nation's affairs, the worse must become the very conditions of need upon which the movement premises its demands. *It is a movement which seeks to govern a nation, but which lacks the capacity to govern itself.*

It is not the foreigners who will destroy Poland. It is the present policies of the mass political strike movement which will bring Poland into a state of internal chaos without any assistance from foreign intervention.

This defines precisely the problem of "Sancho Panza." Cervantes chose the Spanish name for "belly" to describe a gluttonous, superstitious, irresponsible peasant. *Don Quixote* as a whole provides us the unfolding of a platonic dialogue centered around a decadent knight, a relic of the feudalistic Spanish Reconquista, and this gluttonous peasant, Sancho Panza. The question was how shall Spain govern itself, given the decadence of the old ruling strata, and the stupidity, gluttony and irresponsibility of the alternative strata, typified by the Spanish peasant?

Although the root of the psychological and economic problem is the heritage of feudalistic agriculture, it has been 35 years since the end of the last war. This is a span of almost two generations, which is to say *two generations of public education*. The *objective* problem of Poland may indeed be, to use Russian terminology, the heritage of rural life. However, two generations of education ought to have neutralized that problem to a large degree.

Indeed, the fact that so many Poles could storm about, proposing to extract a larger benefit from an empty pot, says something very specific about the quality of education in the public schools.

It is to be granted that public education in the schools of the United States has been increasingly corrupted over the course of the present century, and especially since the introduction of the "new math" approximately 20 years ago. I could report cases of widespread stupidity on elementary economic matters, even among elected officials and business leaders, which are scandalous enough.

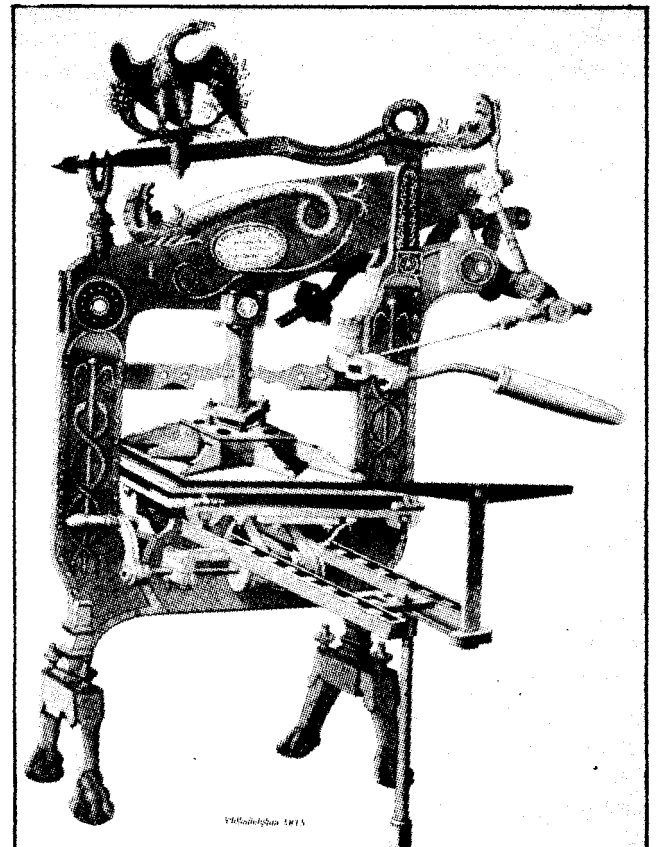
The point is, this problem of the peasantry was known decades ago. Education ought to have been

directed to freeing the minds of children of farming families from the heritage of feudalistic traditions, from the lunacy of *traditionalism*. It ought to have been clear from the start—and even long before the events of the last world war—that the proper foundation for a Polish national movement was a program akin to the one launched in 15th-century Italy, an educational and cultural movement to free Poles from vestiges of a feudalistic rural past, and to establish a new Polish national culture based on included conceptions of scientific, technological progress in urban and rural life.

Instead, there have been such monstrosities as Jacek Kuron's KOR and the existentialism of Adam Schaff. Unless we can free Poland of susceptibility to such national suicidal impulses as the toleration of those cited mental disorders exhibits, a true Polish national movement must remain out of reach—and perhaps Poland is doomed to suffer yet again the lack of the leadership needed to a condition of true sovereignty.

The development of the individual

There are those who argue that moral issues have nothing to do with scientific progress as such. Such persons clearly know nothing important of human



An 18th-century American printing press.

history, and, for that reason, are incapable of leading those who follow them to anything but fresh disasters.

The root of morality, as I have developed this point in other published locations, is the individual's proper perception of the fact that his life is mortal, that it has a beginning and an end. If, therefore, that individual shapes his or her conduct according to sensuous or related forms of hedonistic "inner psychological needs," that individual degrades himself or herself morally to the condition of a lower beast, and all of the monetary gratification of his or her psychological desires will go into the grave with the person's corpse, a person to be interred as having been of no more moral use to humanity than mere cattle.

Such moral degenerates are usually called anarchists or existentialists. They are described in the "Inferno" canticle of Dante Alighieri's *Commedia*.

The moral person adduces from the fact of mortality the need to direct his or her life to some higher purpose, a purpose whose results are more durable than so ephemeral a moment of local history as his or her mere mortal existence. At the very least, a moral person is one who acts according to a perception of the consequences of his or her life for children and grandchildren.

That thought properly guides one to the fact that one's actions on the universe have consequences according to the lawful composition of the universe. Therefore, the mere intent to cause a "good thing" for one's children or grandchildren has no merit unless the intention is governed by knowledge of the lawful composition of the universe.

No action on behalf of children and grandchildren has real significance unless future generations exist. Thus, the first question confronting morality is the question of what principles properly governing action today provide for the *existence* of future generations?

We measure the power of society to exist in only one way. No other way is possible. We measure the potential number of persons who can sustain their own existence through production on an average square mile of habitable land. This we measure as *potential relative population-density*. Unless our actions on nature today *improve nature* to the effect of providing our children and grandchildren with the basis for a potential relative population-density consistent with that population, those actions are not moral, but are correspondingly meaningless.

It happens that the conditions of man-altered nature on which we act are always relatively finite in respect of the technologies presently in use. Consequently, only advances in technologies can maintain even a constant potential relative population-density. *If we do not advance in technology, we are murdering our descendants.* The person who opposes and fails to assimilate technological progress is an immoral person, a *murderously*

immoral person.

We advance technology by bringing our practice into greater conformity with the principles which lawfully order the composition of that continuing creation which is our universe. We gain this increase of power by submitting our wills more perfectly to that which we discover to be the lawful ordering of creation. *It is that increase of power, in that way, which is the development of the individual.*

The increase of man's power of technology is indispensable to the existence of future individuals. However, it is not the material improvements so effected which are the true purposes of that advancement of technology. The advancement of technology is an indispensable means to the perfection of the individual.

The proper function of general education is to develop that viewpoint in the individual. The proper function of education is not to provide individuals with education in specific skills. The function of education is to develop a moral intellect, which through achieving such power, can readily assimilate a range of specialized skills once that moral foundation has been established.

It is the immorality of practice of the demands of the mass political strike movement in Poland which is therefore the proper principal point of our concern. How is it that the education in Poland has been so wretched in moral content that this foolishness could be supported so passionately by so many?

The Poles are not being destroyed by the Russians. They are being destroyed by themselves, by the immorality of passions which focus only on the individual, little, irrational prejudices and desires of each, rather than on the policies and related means by which a sovereign modern republic might be developed. In effect, *the Poles are being destroyed by those who have been educating their children over the course of the most-recent 35 years.*

The Soviet armored divisions might sit outside Poland's borders and merely watch, while the present course of the mass political strike movement destroys Poland from within, merely with the encouragement of those outsiders who promote such lunatic, contradictory policies.

There is only one course of action available to us. We who share such a concern must launch a new Polish national movement, such that its very existence, however small at the beginning, provides a spark of hope to an imperiled nation, a hope that all the present nonsense is to be put to one side by a new, better effort in the making.

Meanwhile, let Poland study and master not only Cervantes' *Don Quixote*, but also the great *Commedia* of Dante Alighieri. Let us begin, even so late as this, to free Poland from its condition as the "Sancho Panza" of Europe.

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Robyn Quijano
Editor

Haig pulls 'China Card' policy coup . . . for now

by Richard Katz

With the announcement that the United States will end prohibitions on the sale of offensive arms to China, Alexander Haig has succeeded in making it official U.S. policy to escalate tensions with the Soviet Union. Outside of giving a U.S. government grant to Lech Walesa, no U.S. act is more calculated to provoke the U.S.S.R. than providing arms to what Moscow regards as "those madmen in Peking." TASS predictably denounced "a new dangerous phenomenon, the partnership of imperialism and hegemonism, the military-political cooperation of China with the West, [which] is shaping world politics. This course constitutes a threat to countries that are China's neighbors."

Haig's geopolitical strategy is to polarize the world along East-West lines, and to force all questions—from North-South economics, to energy, to Arab-Israeli tension, to nuclear nonproliferation (or, in the case of Pakistan, proliferation) to be viewed by every participant through the prism of U.S.-Soviet confrontation.

Moreover, Haig has made it official U.S. policy to support China's ambitions to be "the superpower in Asia" and America's chief ally there, disregarding the interests of Japan and continuing obligations to the Republic of China on Taiwan. American arms to China are less likely to be used against the U.S.S.R. than against China's southern neighbors.

Under the guise of stopping what Haig labeled "Soviet proxies," Haig is backing Chinese military pressure not only against Vietnam but against India, which China invaded in 1962. U.S. backing of China also means that

Southeast Asian nations, particularly those with large ethnic Chinese populations, will feel China's intimidating methods.

No debate

Even high-level State Department sources acknowledged that Haig did not bother with a full-scale debate before the President prior to the arms sales announcement. Arms sales were *not* agreed to at the June 5 meeting of the National Security Council (which included senior officials from State, Pentagon, CIA, etc.) before the President. At that meeting there was no open debate of Haig's fundamental policy of making China our chief ally in Asia, but only on the narrow question of arms sales. "I don't think Jim Lilley [an opponent of the China Card serving as NSC political director] got to present his full views to Reagan," said a Washington source. "Instead, Reagan got a single set of options papers reflecting a supposed compromise, 'dual-use' technology but no arms."

Regarding actual offensive arms, a State Department official said, "Reagan has been so preoccupied with his domestic economic program that he literally has not found the time to hear the different points argued before him." Instead, only 10 hours before he got on the plane, Haig strongarmed the President into making a snap decision. Haig said his trip would worsen, not improve U.S.-China ties unless he could fulfill Carter's promises of weapons sales.

Behind Haig's ploy was a classic "hard-to-get"

campaign by China. The official *People's Daily* "threatened" that China would not take U.S. arms if Taiwan got them. The Pro-China Card *New York Times* and *Washington Post* ran lengthy pieces "explaining" that pro-U.S. strongman Deng Xiaoping was under pressure by anti-U.S. factions, and that therefore Washington had to make more concessions to shore up Deng.

Timely leaks appeared in the German press on a fight in the Chinese Politburo on whether to continue the alliance with America, or move to an equidistant position between the United States and the Soviet Union. The *Post* printed excerpts from a *People's Daily* article attacking 19th-century "pro-Western bureaucrats who procured arms from the West."

These fights in China are real. However, instead of taking the factional split as evidence of China's unreliability as an ally, Assistant Secretary of State John Holdridge, a former Kissinger aide, reportedly argued that the United States had to make concessions, particularly on the arms issue, to shore up Deng.

China was due to begin a long-stalled party congress days after Haig's departure. Deng is under severe political attack, and needs to consolidate his leadership at the congress. Haig argued that Deng needed to present the arms-sales gift, just as the U.S. recognized China during the December 1978 Central Committee plenum, in which Deng purged more leftist opponents.

Reagan acquiesced to Haig's demand. However, at the June 16 press conference, Reagan referred only to defensive weapons and compared the new decision with the arms sales to many other countries. Clearly, Haig did not brief the President on the strategic shift in U.S. policy. Reagan was not the only one deceived. Senator John Glenn of Ohio told the *Baltimore Sun* that Holdridge, before leaving, had denied his request for a briefing, saying there was no "final decision" on arms sales, and Haig's trip was only "exploratory."

A China-centered Asia policy

Beginning with Kissinger and continuing with Brzezinski and Haig, U.S. policy in Asia has revolved around China, including support for China's power ambitions in the region. U.S. conventional weapons to Peking are not likely to be used against Moscow, though Moscow indeed worries that U.S. computers and electronics will aid the "Peking madmen's" nuclear missile delivery system.

Conventional arms, however, *are* to be used for incursions, or threats against China's southern neighbors, or both. Haig stated in his press conference that "Naturally, much of our discussion focused on the challenges posed by the Soviet Union and its proxies in Afghanistan and Indochina." A Washington source added, "Haig is telling Peking that the U.S. and China should supply the anti-Vietnam forces in Kampuchea,

including Pol Pot, in coordination with China's own military incursions against Vietnam's northern provinces." Indeed, Holdridge said in Peking that the United States and China "will seek to find ways to increase the political, economic, and, yes, military pressures on Vietnam, working with others."

The "others" is a reference to joint U.S.-China pressure on the members of the Association of South-east Asian Nations (ASEAN) to support the so-called united front of Pol Pot and the tiny forces of Prince Sihanouk and Son Sann against Vietnam. At a recent foreign ministers meeting of ASEAN, the final communiqué refused to endorse the "united front," saying it was up to the Kampuchean people. ASEAN's big meeting June 18-22 has invited Haig and other foreign ministers as guests. Haig indicated at his press conference he will pressure ASEAN to join the U.S.-China position on both Afghanistan and Kampuchea. The Haig-Holdridge team views the Kampuchea issue as useful in suppressing anti-China sentiment among ASEAN nations, particularly Indonesia and Malaysia.

Haig was equally supportive of China's military pressure on India. Using the Soviet invasion of Afghanistan as justification, Haig's assistant James Buckley arranged just before Haig's China trip a \$3 billion arms package to Pakistan's unstable, but China-linked, military regime. In fact, since the invasion of Afghanistan, not a single Pakistani soldier has moved from the Indian border where 80 percent of them are concentrated.

A particularly ominous part of the package is the inclusion of F-16s, previously restricted to NATO and Israel, which can carry nuclear weapons. India issued a statement saying they accept Pakistan's need for "self-defense," but that this package is "qualitatively different" and "could undermine the serious effort under way to strengthen normalization of relations between India and Pakistan." Asked about this, a State Department official declared that "the recent Soviet arms deal with India may be equally construed along with Afghanistan as among the Soviet pressures on Pakistan. To enable the Pakistani people to withstand Soviet pressures is in our national interest."

Are U.S.-armed Chinese pressures on India now to be considered part of the defense of Pakistan's security? It seems so. Former Carter era NSC staffer Roger Sullivan commented, "India is nobody's proxy. Unlike Vietnam, they do not take orders from Moscow." He added, "However, Moscow knows that by giving India arms, the Indians—for their own reasons—will do what the Russians want. They will put pressure on Pakistan because India wants hegemony in South Asia. So there is a coinciding of interest. It is in U.S. interest to help Pakistan maintain its independence against both Indian pressure and the Soviet threat."

If it is true that India seeks hegemony in South Asia and China seeks it in all of Asia, why, since the advent of Henry Kissinger, has the U.S. backed China? China's anti-Sovietism is only part of the story.

Since the time of Robert McNamara's presidency at the World Bank and Kissinger's rise in the Nixon era, U.S. security policy has been run under the bizarre theory that the industrialization of developing countries, particularly more independent-minded ones like India, threatened U.S. political power. Previously, many policy makers recognized that economic development was a source of internal and international stability, and served U.S. interests. Indeed, the foundation of U.S. Asia policy was an industrially powerful Japan.

In 1971 Kissinger switched the United States to a China-centered policy in Asia and support of anti-industrial Third World regimes more generally. Brzezinski continued this with covert support for Khomeini and undermining the Park Chung Hee regime in Korea. Haig's backing of Deng and Pol Pot continues the trend. Characterized by former U.S. ambassador Marshall Greene's comment that "over-rapid industrialization produces instability, as in Korea," this is a policy modeled on classic British colonial strategy.

Chinese pressure on India is thus seen as hindering its industrialization and political power. One former official commented, "You've got to remember the U.S.-China relationship started in 1971 with India signing the treaty with the Russians, and then attacking and dismembering Pakistan. Kissinger's memoirs say that if the Chinese decided to help Pakistan and the Russians pressured China, we promised to help China." Other sources noted that Kissinger's 1971 promise was necessary to prove his "reliability" to Peking.

The former official noted that had Prime Minister Indira Gandhi's opponents (who rejected her industrialization program) remained in power, the U.S. and China would have been more friendly to India.

Backing the Deng faction

The anti-industrialization strategy is also at the heart of the Kissinger-Haig-Brzezinski consistent preference for the Deng faction in China. Deng cut China's military budget 35 percent this year. His anti-heavy industry orientation, including a 45 percent cutback in capital investment in 1981 precludes the industrial base needed for a strong conventional army. Deng's policy makes ludicrous the idea of China being useful militarily against the U.S.S.R., except for tactical nuclear warfare.

Yet, the Haig-Holdridge team and the rest of the China Card faction openly prefer Deng to the military and heavy industry groups, partly because they do not want China to become a powerful industrial nation, and also because it makes the Chinese "soul brothers" in stopping the industrialization of China's neighbors.

However, the very thing which makes Deng attractive to the China Card faction undermines his permanence. His economic policies are causing very serious economic turmoil and workers' strikes, for which he is under serious factional attack because of the political consequences of a weak economy. In that circumstance, strong pressures can be exerted to move China to a more equidistant position between the superpowers. This instability and factionalization will continue—hardly the hallmark of a reliable ally.

One final note: as Haig departed, the deputy foreign minister appeared at the airport to protest Reagan's favorable comments on Taiwan.

Noted Asia expert University of California Prof. Chalmers Johnson advised Reagan on Asia policy during the campaign. Below are excerpts from Johnson's interview with EIR's Richard Katz.

I think the arms sales are wrong. The right thing is to encourage economic relations with the Chinese, particularly opening our markets to their manufactures. That's hard, I understand, but that's the only way to put pressure on the regime to change in the way we want them to.

We must keep the military relations at arm's length for some very obvious reasons. Not just the Soviets. Virtually every noncommunist nation in East Asia, including our allies the Japanese, disagrees with us on including China in security relations.

In fact, under the surface of the whole defense issue and political turmoil in Japan is the fact that, while many in the [ruling] Liberal-Democratic Party want to change the policy toward upgrading Japanese military contributions, they do not agree with the U.S. on a three-way affair. They don't want an American-Chinese-Japanese security relationship.

This is also true in virtually all Southeast Asian nations. Even the Thais are irritated at their dependence on China.

Haig's decision is a wrong move that could have very serious consequences. . . .

We have characters today who talk about manipulating the Chinese, just as they did in the 1940s. In reality, just as Chiang Kai-shek threatened to make a separate peace with Japan, the Chinese today use the threat of a modus vivendi with Moscow if we are not more forthcoming. The Kissinger-Carter hangers-on in turn threaten that the whole U.S.-China tie will unravel unless we keep Carter's promise to sell arms. . . .

I don't know [if Washington thinks that Chinese military pressure on India helps the U.S.]. But, unquestionably we are sending signals that vastly overstate how far we are prepared to go. Or, if in fact we are prepared to go that far, then we'll end up with only one ally in East Asia, i.e. China. The rest will go neutralist.

Will Menachem Begin's 'big lies' about Iraq backfire against him?

by Nancy Coker

Israeli Prime Minister Menachem Begin's game may soon be up. One by one, Begin's statements justifying Israel's June 7 bombing of Iraq's nuclear reactor are being exposed inside and outside Israel as outright lies.

The accumulating public evidence that Begin lied could also give the Reagan administration an added margin of maneuvering room for reining in the mad Begin and tilting the electoral chances toward the more moderate Peres. Siding with Begin are Secretary of State Alexander Haig and National Security Adviser Richard Allen. In contrast, President Reagan is said to be personally outraged over Israel's action, as is the inner circle of his White House staff, including Presidential Counselor Edwin Meese, White House Chief of Staff James Baker III, and political advisers Michael Deaver and Lyn Nofziger. Vice-President Bush, Secretary of Defense Caspar Weinberger, and the Central Intelligence Agency are all reportedly prepared, for somewhat different reasons, to support Reagan in a tough response against Israel.

Last week, an official State Department spokesman declared that Begin had probably lied in claiming that Iraq was building an atomic bomb. It is "not the consensus of the American intelligence community" that Iraq was preparing to build an atomic bomb, stated State Department spokesman David Passage.

Both the Central Intelligence Agency and the Defense Intelligence Agency are reported to be conducting an official review of the matter to determine whether or not Iraq had any capability to make a bomb. So far, the verdict is negative.

A string of lies

In justifying the attack on Iraq, Begin lied at least five times.

Lie No. 1: At a party at the British embassy a few days after the raid, Begin told reporters that a secret installation for bomb-making 130 feet underground was destroyed by Israeli planes. Later, Begin "corrected" himself, saying that the secret chamber was only 13 feet below the ground. Now, it appears that there was no secret chamber at all! The French foreign ministry has called Begin's claim a "fantasy accusation." "The only

installation at which this fantasy accusation could be aimed is the building destined for scientific experiments concerning solid-state physics. This equipment cannot in any way be used for military ends."

U.S. officials have also refuted Begin's "secret chamber" story. Even the commander of the Israeli Air Force, Lt. Gen. David Ivri, admitted that he had never heard of such a chamber until Begin suddenly mentioned it several days after the raid.

Lie No. 2: Begin attributed a quotation to Iraqi President Saddam Hussein that allegedly admitted that Iraq's nuclear reactor was intended to produce nuclear weapons for use against Israel. On June 9, Begin distributed copies of Hussein's "quote" at a press conference. The quote, said Begin, had appeared in the Oct. 4, 1980, issue of the official Iraqi government daily *Al-Thawra*. One week later, both Begin's office and the foreign ministry admitted that there had been a "mistake": the quote never existed, either in that issue of *Al-Thawra* or in any other.

Lie No. 3: Another of Begin's lies was that Iraq had refused to allow the International Atomic Energy Agency (IAEA) to inspect the reactor. In point of fact, the IAEA had conducted an inspection of the reactor in January 1981. Another inspection was slated for this month.

Meanwhile, the director of the IAEA, Dr. Sigvare Eklund, has stated that Iraq's reactor was incapable of making nuclear weapons. Meeting at a closed session in Vienna, the IAEA board of governors condemned Israel for its raid on Iraq. It recommended that Israel be denied technical assistance for its nuclear program and be considered for suspension from the agency. The Israeli raid showed "clear disregard for the agency's safeguards regimen and the nonproliferation treaty and could do great harm to the development of nuclear energy for peaceful purposes," the IAEA board resolution read.

Lie No. 4: Begin asserted that "U.S. intelligence officials" had passed on information to Israel that Iraq was preparing to build a nuclear bomb. On June 15, the chief of Israel's military intelligence stated that no such information was conveyed by the United States to

Israel. In contrast, the *Daily Telegraph* of London reported last week that Iran had secretly given to Israel a series of aerial photographs of Iraq's reactor.

Lie No. 5: Begin lied that the Iraqi reactor would be activated some time between early July and early September, after which time Israel would not be able to carry out a hit for fear of the radioactivity that would result. According to French nuclear specialists, the Iraqi reactor was not scheduled to go "hot" until the end of 1981.

Why Iraq was not building a bomb

by Dr. John Schoonover

The Osirak reactor that was recently attacked and destroyed by the Israeli Air Force is a very unlikely candidate for a bomb-producing facility. While Iraq seems determined to enter the atomic age, in order to do so, it is essential to train the technicians to carry out the industrial and research functions associated with nuclear and radioactive materials. But Osirak's destruction appears to be primarily motivated by the long-standing Israeli policy of keeping the Arab countries in a state of technological backwardness.

Could Iraq produce a bomb?

Atomic bombs are constructed from either the fissile isotopes of uranium (U-233 and U-235) or the plutonium isotope Pu-239. In the case of U-235, the material must be extracted from natural uranium, of which it comprises only about 0.7 percent, while U-238 makes up nearly all the remainder. The extraction process, called enrichment or isotope separation, is an expensive, large-scale industrial process. At this time, it can be said categorically that Iraq does not have the plant to carry out isotopic enrichment on the required scale.

Plutonium, on the other hand, does not occur at all in nature, and must be created in a fission nuclear reactor, a continual process in conventional electricity-generating reactors.

Plutonium can be separated from spent nuclear fuel rods by a purely chemical process, which, despite the need for special handling equipment to deal with the high-level radioactivity, is much more feasible than isotope separation.

The Osirak reactor is a 70 megawatt swimming pool-type reactor, a standard design that uses ordinary water as a coolant, moderator, and biological shield. Its fuel consists of 93 percent pure U-235, in an amount

sufficient to make a small atomic bomb. However, it could not be diverted for this purpose because of the safeguards that have been instituted.

The fuel for the reactor, as well as the reactor itself, is supplied by France. Before the fuel is to leave France it is heavily irradiated, making it literally too hot to handle without the special equipment known as a hot cell, a radioactively shielded room in which materials can be manipulated by remote control equipment. Iraq has ordered three hot cells from Italy to be installed at the Osirak research station, but as far as is currently known, none of them have arrived on the site.

France also keeps tight control over the fuel after delivery. When the fuel has been consumed in the reactor, the spent rods are to be returned to France for reprocessing, and new rods supplied. *At no time is there any storage of spent fuel rods in Iraq.* The only fuel on hand is that which is installed in the reactor. If any of the fuel were diverted to construct bombs, the loss would be immediately noticed, since the reactor would be inoperable.

Technically, the Osirak research reactor could be used to produce plutonium. The fact that the reactor has a high yield of neutrons and uses a fuel composed of highly enriched uranium means that it can be used to irradiate materials placed in it. However, unless low enrichment or natural uranium is put into the reactor core, in addition to the fuel assembly uranium, the reactor would be a poor plutonium breeder, because the high enrichment of the fuel means that the fertile material, U-238, that could produce Pu-239 has been largely removed from the fuel.

Further, the material will be contaminated with Pu-240 if the fertile U-238 is left in the reactor for more than a few weeks at a time. Pu-240 is undesirable in an atomic bomb because its spontaneous emission of neutrons would cause the bomb to go off fractions of a second too early.

Safeguards

In addition to these technical difficulties, the reactor is under supervision by the French government, and by the United Nations' International Atomic Energy Agency. Logs must be kept by the users to show what the reactor has been used for, how long it has been operated, what materials have been irradiated, and for what purpose. Stated usage of the reactor must tally with the measurable degree to which the fuel has been consumed. IAEA inspectors have free access to all the records and all the facilities. It is possible to imagine a scenario in which a series of imaginary experiments is concocted to account for the amount of use that the reactor is getting, but at some point such a complex scheme would be bound to break down.

The IAEA monitoring system also includes a num-

ber of technical surveillance techniques to guard against diversion of materials into weapons production, including chemical analysis, seals, cameras, and gamma-ray detection methods.

If Iraq were really interested in producing bomb-grade fissile material, they would be better advised to follow the example of India. The Canadian-designed heavy water Candu reactor, is better suited for the production of high-grade plutonium than swimming pool-type reactors like Osirak. The Candu reactor is not only used by India, but also by the United States to supply plutonium for its nuclear arsenal.

Behind Israel's bomb: Dr. Yuval Neeman

by Mark Burdman

There is not a competent intelligence professional anywhere in the world who believes for a moment that Israel's unbalanced Prime Minister Menachem Begin "decided" to launch the June 7 Israeli Air Force attack on Iraq's Osirak reactor. While the prime minister may reap immediate emotional and political benefits from the attack, Mr. Begin lacks both the baseline competence and relevant international connections to have ensured the operation's success. Stated simply, the bathetic Mr. Begin was put up to launching the attack. This was instigated by a small circle of leading Israeli/Zionist elites who have both the international clout and the sense of how to manipulate Mr. Begin's well-known pathologies to launch the operation and guarantee its fulfillment.

It is *EIR's* estimation that the brains behind the raid into Iraq was Dr. Yuval Neeman, the "evil genius" architect of Israel's nuclear bomb capabilities and offshoot computerized intelligence systems who is also the founder of the Zionist Teyiha (Renaissance) fringe political party and, in the words of the *Jerusalem Post*, "A cool and calculating believer in the importance of mysticism for revolutionary movements like Zionism."

Neeman's initiating role in the June 7 affair may not be surprising to the millions of Americans who have seen him on television since June 7 gloating about the success of the raid. But what the selective American media have not revealed is that Dr. Neeman is himself only a point man for vastly more powerful forces. These are the highest circles of the British-Canadian scientific apparatus behind the secretive "Nuclear Club of Wall Street," interfaced with the Venetian-centered aristocratic families who control the Malthusian Club of Rome International. For these circles, the Israeli raid into Iraq had two

interconnected purposes: to enforce the denial of nuclear energy for peaceful purposes to the countries below the Tropic of Cancer, while ushering in an era of limited nuclear warfare in these same regions. Both goals converge on one higher aim: the depopulation of the areas of the developing world.

Neeman's role in the affair is clear, aside from his frequent pronouncements in the American media since then. Only days before the raid was carried out, the Lazard Frères-owned *Washington Post* reported that Neeman would probably be brought into the government as a coalition member should Begin be re-elected. This clearly implied that an important geopolitical deal had been struck within Israel.

Then, virtually on the eve of the raid, the *Jerusalem Post* ran a feature on Neeman, portraying him as the man determined to bring about a resurgence of "Zionist mysticism" in Israel while at the same time being the main contact with the faction in the Reagan administration firmly committed to the destabilization of the oil-producing Gulf countries. The *Post* quoted Neeman: "There are . . . powerful factors in the Reagan administration . . . who are already thinking in terms beyond the fall of the House of Saud. They are mostly concentrated in the defense and industrial establishments, and are thinking of America's real interests in the Middle East in the not-too-distant future when Saudi Arabia topples. Once that happens, Israel will again loom large as the only reliable support for the U.S. in the region. Secretary of State Haig, for example, is certainly to be counted among those holding such a view; and so should National Security Adviser Richard Allen."

Given what has happened since these words were spoken, it is clear that a deal has been struck to usher in a new regime of chaos and destabilization in the Middle East. This would be fully consistent with Neeman's oft-stated position that Israel must be built up into a supersophisticated "military fortress" whose existence would depend on and be nurtured by the enforced backwardness of the neighboring Arab states. In this view, Israel would be denied the role of sovereign nation-state desired by most of its citizens; it would instead fulfill the role originally designed for Zionism by the fundamentalist cultists among leading Venetian and Scottish-British aristocratic families: to be the "high technology-equipped" outpost overseeing the financial and strategic interests of the aristocracies of Europe committed to the perpetuation of feudalism in the region.

Neeman, Dr. Abdus Salam, and the bomb

Neeman was groomed for his point-man role early in his career. After training at the French Fourth Republic-run Chief of Staff Training School in Paris in the late 1940s, he developed a reputation as a superprecocious military systems expert. In the mid-1950s, he

was chosen by British intelligence protégé General Moshe Dayan to become Israel's military attaché in London. Simultaneously, using to advantage his earlier training in French military circles, Neeman developed solid scientific and intelligence ties to the group in France associated with late-1950s French atomic energy minister Jacques Soustelle, the extremist who connived countless times to have Charles de Gaulle assassinated. Neeman's ties into the Soustelle grouping gave Israel access to the French nuclear technology that has since enabled Israel to produce an estimated 20 atomic bombs.

During the early 1960s, Neeman was officially incorporated into the inner elites of the British "Aldermaston" scientific-defense establishment that had been created by former Special Operations Executive head Sir William Stephenson during World War II. He received his doctorate in physics at the elitist Royal College of Physics under the tutelage of the Pakistani scientist Dr. Abdus Salam.

Salam, himself trained at elite British universities, is presently a member of the Club of Rome International. He is also a director of the Trieste-based International Center of Applied Physics, a training and recruitment ground for scientists involved both in the "Islamic bomb" project and in spreading British-authored cult misrepresentations of "science" throughout the Third World. The Trieste center is funded by the same prominent aristocratic families in Italy who are behind the Club of Rome project, and in turn is closely related to the leading controlling institutions of the extremist Muslim Brotherhood, most importantly the London-based Islamic Council of Europe and the Islamic Institute of Defense Technology. To complete the relevant point, Salam is himself very close to the leading forces in Libya and Pakistan who are mutually involved in the manufacture of an "Islamic bomb."

Given that Dr. Neeman himself is an associate of this Trieste center, it is, to say the least, specious on his part to claim outrage over Iraq's efforts to develop nuclear energy for peaceful purposes!

Candu and the Nuclear Club of Wall Street

Following his training at the Royal College, Neeman began to collect a vast array of international scientific contacts, including establishing teaching positions at such institutions as Massachusetts Institute of Technology and California Institute of Technology (Cal Tech). At Cal Tech, he reportedly made contact with several of the architects of the nuclear bomb capacity of Communist China. During the late 1960s, he co-developed with physicist Murray Gellman the "quark" theory of elementary particularity in the physical universe, which has been utilized by the British to try to undermine groundbreaking work in the fields of plasma

physics and other frontier areas of science.

During the 1970s Neeman became a top protégé of what is generically known as the "Nuclear Club of Wall Street," a grouping of financial houses and intelligence agents established to exercise insider control over the flow and development of nuclear technologies, and to divert flows of nuclear technology to extremist states like Libya, Pakistan, and Begin-run Israel. It was undoubtedly with this grouping in mind that the French magazine *Vendredi-Samedi-Dimanche* reported last year that it was "not by accident" that Neeman was in the United States when Israel received a U.S. shipment of carriers capable of carrying a nuclear engine. These nuclear carrying devices, the magazine stated, were nearly deployed in the 1973 Yom Kippur war.

Recent *EIR* investigations into this secretive Wall Street grouping have produced preliminary confirmation that in fact the whole New York establishment is controlled out of Canada, through the institutions linked to the manufacture and distribution of the Candu Canadian government reactor.

Two recent, well-publicized scandals have identified the interface between Candu and the corrupt side of Zionist-Israeli Mossad intelligence operations. In one case, the Israeli multimillionaire Shaul Eisenberg whose vast empire is used for laundering crime-connected dirty money, was involved in brokering Candu deals with South Korea, explicitly in order to undercut the involvement of the American Westinghouse Corporation in the Korean market. In a second case, the Argentine Jewish financier David Gravier, a known funder of the Monteneros terrorist group, was involved in bribing Argentine officials to purchase the Candu facilities. Gravier received funds for his illicit ventures from the Trade Development Bank in Argentina, which was laundering Eisenberg dirty-money funds for the purpose. The Trade Development Bank is run by the Lebanese Safra family, a family involved in notorious dirty-money laundering operations and associated with the directorship of the Rockefeller-connected Republic National Bank. Other funds for Gravier were coming from Swiss-Italian banking interests linked to Lehman Brothers Kuhn Loeb Trilateralist George Ball.

The Zionist-Candu interface is in turn a subordinated part of a direct P-2 Freemason Lodge operation. P-2 Lodge godfather Licio Gelli himself was involved in officially brokering Candu exports to the Mediterranean region, as was P-2 member Vittorio Emmanuel di Savoia, the Savoy claimant to the throne in Italy. The broker in the Mediterranean region itself for distributing Candu reactors was Lucien Secouri of the Italimpianti firm of Italy. Secouri is heavily implicated in dirty-money operations and illicit gun-running activities to the militias of the Lebanese Falange Party, allegedly in collaboration with elements of the Israeli Mossad.

Iran's new configuration

The mullahs' factional victory over Bani-Sadr has been promoted by British and Soviet intelligence, reports Thierry LeMarc.

Abolhassan Bani-Sadr has now ended his political career as president of the Iranian Islamic Republic; the party of the mullahs, as led by the president of the Supreme Court Ayatollah Beheshti and the president of the Parliament Hashemi Rafsanjani, has succeeded after months of intrigues and political warfare in entirely seizing the state apparatus. Beheshti, a clever manipulator, is supported by former U.S. ambassador William Sullivan and his superior, George Ball.

Far from being merely a new step in the power struggle between two men, the events of the past two months are heralding a new era in Iran and in the region. Such a development, according to *Die Zeit's* editor-in-chief, Theo Sommer, could directly lead to the involvement of the two superpowers, hence provoking a world crisis of incalculable proportions—a crisis deepened by the fact that ongoing events in Iran are only too complementary to the madness now ruling Israel. True, Iran has been in a process of civil war for the past two years, ever since the “Islamic Republic” was proclaimed; but what was a “limited” and only looming civil war will now explode all over the country.

The explanation for the present crisis lies in two possible strategies for Iran, two potential roles. In the first, Iran becomes a military cornerstone of the kind of axis now being developed by Haig's State Department with Pakistan, China, and Israel—the Islamic Republic as a “Western bastion.” The other option is an Iran whose internal destabilization could be used to destabilize the entire region through hordes of “Islamic fundamentalist” commandos. Finally, both options are not totally contradictory, but are presently based on differences between persons and on the fact that Iran seems to have been chosen as the battlefield for the war that the superpowers cannot immediately wage in the context of the Arab-Israeli conflict.

The ousting of Bani-Sadr

Over the recent period, Bani-Sadr had chosen his camp. This was expressed a few weeks ago in a small

declaration in which he expressed his support for the upcoming Pakistani-American negotiations and the expected American military package to be delivered to Pakistan as part of the policy of so-called containment against the Soviet Union in the region. In so doing, Bani-Sadr was signaling his readiness to deliver Iran to the Washington-Islamabad-Peking military axis.

This posture by Bani-Sadr was not the result of a changing mood of the man who, in May 1979, had promised to turn Iran into a new “Pol Pot's Cambodia,” but is coherent with his behavior during the hostage crisis, and is primarily based on an ongoing series of negotiations between Bani-Sadr and various Iranian exile groups in Europe that are particularly known for their pro-British tendencies.

Such deals included the possibility for these groups to return to Iran and rule with Khomeini and Bani-Sadr, but without Beheshti's mullahs. Such concern was, for example, expressed recently by the newly created mysterious “National Iranian Army” in a release published by the Paris-based *Iran Jehan (Iran and the World)*, a magazine known to be close to former Prime Minister Ali Amini, a former protégé of the Kennedy clan. The NIA called on all Iranians to rebel against the mullahs, appealing to Bani-Sadr to join their fight. Unmistakably, the appeals voiced no criticism of the mad Khomeini. Immediately, observers noticed the similarity between NIA's call and the recent letters by the former governor of Khuzestan province, Admiral Madani, addressed to Khomeini.

Madani, an unfortunate rival of Bani-Sadr in the presidential campaign, had left Iran before being convicted of “association with the CIA” by the Islamic Republican Party (IRP). From Europe, he sent repeated letters to Khomeini advising Khomeini to appoint him as the prime minister. He similarly ganged up with the so-called National Reconciliation Council of Ali Amini and of Gen. Feredoun Djam with the aim of establishing an “Iranian Islamic Popular Republic,” with a strong Iranian army, and the country as a “Western

bastion" against the Soviet Union.

Not so surprisingly, a key force backing both the exiles and Bani-Sadr was nothing less than the extreme leftist Mujaheddin-e-Khalq. Massoud Rajavi, its leader, recently toured Europe to meet with Madani and his colleague. Supposedly an "Islamic Marxist" group, the Mujaheddin are in fact under the ideological influence of the same forces that created Bani-Sadr and his "Pol Pot" model, as mediated by Kassem Rajavi, the brother of Massoud. Massoud Rajavi was recalled from his post as Iranian ambassador to Pakistan a few weeks ago, provoking an outcry from the president's office and from the Mujaheddin's leadership.

A former Iranian ambassador to Geneva under the Shah, Kassem Rajavi was primarily a luminary at the Geneva-based "Graduate Institute for International Studies" of International Institute for Strategic Studies member Jacques Fréymond. The former institute is otherwise known for its association with the kooks of the Club of Rome and its sponsorship of the "Islam and the West" association, a cultural body which mixes the Club of Rome crowd and the leaders of the infamous Muslim Brotherhood, such as Maarouf Dawalibi from the World Muslim Congress. The association's program is precisely defined as a war against the "tyranny of the nation-state" in favor of a Pol Pot economic model. Thus, from all evidence, Massoud and Kassem Rajavi's alliances with the Madani and Bani-Sadr group was not so startling, but rather represented a logical progression mediated by their common friends in London and Geneva.

Civil war for Iran

Not so much for differences in their policies, but for the fact that it otherwise meant their exclusion from power, did the IRP have no choice but to strike rapidly. This was made feasible by the decision of Khomeini to allow the IRP to strip Bani-Sadr of his only position of importance: commander-in-chief of the army. After much lobbying, the IRP had succeeded in convincing Khomeini to turn his back on the man he often referred to as his own son.

In this, the main ally of the IRP has been the communist party of Iran, the Tudeh party, led by "Ayatollah" Kianouri. For precisely the reasons outlined above as being Bani-Sadr's policy, the Tudeh, whose apparatus is closest to the British-connected KGB confrontationist faction in the Soviet intelligence community, has always played the card of the IRP, not only to prevent an American-Iranian reconciliation, but also in the expectation that an IRP takeover would lead to a deep political crisis which could allow the Tudeh to seize a significant and concrete margin of power—if not all of it.

For these reasons, the Tudeh, over the past weeks,

gave ample proof of its "well-meaning" intentions to the IRP, going so far as to obtain Soviet and East German help for the establishing of a joint training camp close to the Caspian Sea, where IRP members and communists alike are being trained for commando operations—which would be the "vanguard" of Islam in spreading around destabilizations.

While the defeat of Bani-Sadr could be considered a blow to the United States, the victory of Beheshti's IRP is in fact a victory for both British and Soviet intelligence who are acting from similar scripts: the infamous "Bernard Lewis plan" for the Middle East that foresees the dissipation of the region into numerous autonomous tribes. Bani-Sadr himself was obviously never an American agent but a British asset, in the contingency that the British should decide to move jointly with the Americans in the region to "stabilize" Iran. Supported earlier by the British, as stated a few weeks ago in a laudatory editorial in the London *Times*, Bani-Sadr is now dead for them. This was expressed in another "obituary" published in *The Times* on June 16, in which Bani-Sadr is referred to in the past tense, with the added characterization that he is nothing but a "Groucho Marx"!

So far the new strongman is Beheshti, the man who led the alliance of his party with the KGB-controlled Tudeh, while retaining for himself extensive connections with British intelligence through his membership in the Beirut-based Freemasonic Grand Lodge of the Orient, which is controlled by the oligarchical Lebanese Sursok family—the same family that systematically sold Palestinian lands to the early Zionists.

But for how long?

The left wing of the IRP—led by former presidential candidate Jaladdine Farsi, who, backed up by Habibollah Peyman, the former leader of the terrorists who seized the U.S. embassy, recently made a well-publicized trip to Moscow with Kianouri—is already contesting the power of the cynical ayatollah. That will be the next phase of the power struggle in Teheran, while the rest of the country collapses through economic chaos and war with Iraq.

There are already reports on the spread of cholera in the capital of Teheran and in the refugee camps in the Khuzestan region. Tribal fighting has again begun to spread. As the IRP will soon recognize, to seize Teheran does not imply control of Iran. It is a Pyrrhic victory which might indeed engulf the entire region. While nothing can be expected from the numerous Iranian exile leaders who, over the past two years, have been unable to define a programmatic alternative to Islamic rule, responsibility lies on the shoulders of the Reagan administration to avoid falling into the temptation of allowing a new split in the country which would provoke a new world crisis.

Haig, Kissinger named in Italian coup conspiracy

by Christopher White,
Contributing Editor

Henry Kissinger and Alexander Haig were charged June 15 with launching a project to bring about a coup d'état in Italy during 1969. The charges were leveled by a leading Roman daily, *Paese Sera*, which documented that the project had not only continued to the present day, but had, in fact, been revived with Alexander Haig's return to high office in the United States.

Haig and Kissinger, it is reported, collaborated with a group of Italian business leaders and military figures to accomplish their objectives. The Italian plotters are those named by the collapsed Forlani government as members of the fascist P-2 Freemasonic lodge of Licio Gelli, the ex-head of Mussolini's dreaded secret police, the OVRA.

The naming of Kissinger and Haig in this connection further corroborates the report of Roger Leray, grand master of the Grand Orient Lodge of French Freemasons, who told the European press last week, "Propaganda Two is a tool of the Trilateral Commission." Henry Kissinger is a long-time associate of the Rockefeller family that nominally heads up the Trilateral Commission, and has most recently served as its executive director.

At the end of May, the Forlani government of Italy fell as a direct result of the fascist lodge scandal. Two Socialist ministers in that government, Foschi and Manca, were revealed to be members of the secret lodge at that time. The names of Foschi and Manca were among 900 released, including otherwise top leadership figures from the ranks of the Italian military, financial organizations, and the bureaucracy.

The lodge, made up of a combination of Fascists and representatives of Bettino Craxi's Socialist Party of Italy, was accused of preparing coups d'état, controlling flows of dirty money between, among other places, Libya and Italy, and organizing terrorism in Italy.

It is generally established in Europe that the connections between and among the criminals of the fascist P-2 lodge and the Rockefeller Trilateral Commission are extensive and far-reaching. For example, Trilateral member from Italy Carlo Bonomi has already found his way into jail as a result of the scandal.

The naming of Haig and Kissinger will also help to straighten out the political factional warfare now going

on within the United States whose outcome will determine whether the nation, and thus the world, are to be headed into the kind of disasters consequent on Haig's and Kissinger's continued management of foreign policy. For, on the higher level, the controllers of the fascist lodge within Italy are those same forces represented by the Rockefeller financial interests and their international allies, who have insisted to date that the Reagan administration follow the disastrous monetary and credit policies of Trilateral Commission-connected Paul Adolph Volcker, presently the chairman of the Federal Reserve.

Volcker's credit and interest-rate policies, in fostering depression-caused disintegration of the institutional arrangements under which entire nations attempt to conduct and maintain daily life, have done most to create the international conditions in which Kissinger and Haig can attempt to pull off the dirty operations for which they are now indicted by the PCI-linked *Paese Sera*.

The leads now opening from the Italian investigation must be pursued ruthlessly by the properly empowered U.S. agencies. This would make it possible to bring to account within Italy "the men above suspicion," those who, like Kissinger, Haig, and their Trilateral associates such as former Carter Ambassador to Italy Richard Gardner, control the fates of entire nations by deploying terrorist operations.

Decade of terror

In identifying the year 1969 as the starting point for the Kissinger-Haig operations in Italy, *Paese Sera* has opened the conduct of an entire decade of U.S. foreign policy for judicial review. For 1969 is the beginning of what is known in Italy and Europe as "the strategy of tension" in which terrorism of "left" and "right" is deployed to soften up political and other institutions for the "drastic turn" Kissinger and Haig are accused of projecting. 1969 marks the beginning of the terrorism for which Italy has become notorious, with the Piazza Fontana bombing in Milan by Libyan-funded fascists Freda and Ventura. That bombing set off the chain reaction that led to the subsequent Borghese and Rosa dei Venti coup plots of the early 1970s attempted by P-2 associates of Kissinger and Haig. Where Italian politicians began to fight the premise of this bloody game, as did Aldo Moro, they too were killed.

It was also in 1969 that the terrorist Colonel Qaddafi took power through a coup d'état in Libya, helped by those same Italian circles such as the former intelligence chief DeMichelis, now identified as collaborators of Haig and Kissinger in the P-2 plot. And Richard Gardner, whose role while ambassador in committing the U.S.A. to support of the primarily Socialist forces responsible for the death of Aldo Moro has been made public in Italy's press, is also one of the key protectors of Libya's Colonel Qaddafi internationally.

Monetarist policies are undercutting the strength of Europe's NATO partners

by Michael Liebig

The following is an abridged transcript of the presentation by Michael Liebig at EIR's May 10 conference in Washington, D.C. on "Taxes, Credit, and the Future of the U.S. Economy." Mr. Liebig, an executive director of EIR, is based in Wiesbaden, West Germany.

I am going to discuss briefly today the interconnection between the domestic and external security situation in NATO—specifically the European part of NATO—on the one side, and the high interest-rate policy on the other.

It should be clear that military-strategic potential, war-fighting potential, and at the same time war-avoidance potential of any nation has to be based on the idea of *logistics*. In the history of military strategy this has been understood, from Machiavelli to Carnot or Scharnhorst, or here in the United States in the 20th century by General MacArthur, or in Europe by General de Gaulle. You cannot separate the logistical base from military capability of a state. I think it is somewhat remarkable that President Reagan in his recent West Point address pointed to this.

In the debate during the last months in Europe, this issue has played a major role. Chancellor Schmidt some time ago said that from his experience with military matters in general and from his political experience he had come to the conclusion that the notion of military strategy, as exemplified by Mr. Buchan, founder of the London International Institute for Strategic Studies, [IISS], was inappropriate because it excludes the financial and economic foundations of military and strategic matters.

Federal Reserve Chairman Paul Volcker got into office under the Carter administration—and I think that this is a fact which is very closely watched in Europe. The question is whether the kind of policy that was pursued under Carter will simply continue under the Reagan administration, which started from different premises.

Now the Volcker policy is nearly identical to the policy initiated in early 1979 by the Thatcher government in Great Britain. I think that everybody in the United States who is concerned with the effect of financial policy and especially high interest-rate policy on security—do-

mestic and external—can draw very definite conclusions from what has been going on in Great Britain over the two years since Thatcher took power.

The high interest-rate policy in the United States and Great Britain has been forced during the last years upon the rest of the NATO countries, and that represents a dangerous threat to the internal and external security of the NATO countries individually and to NATO as a whole.

Lothar Ruehl, the West German deputy government spokesman, pointed to this at a meeting of the Wehrkunde group in Munich late in February. Mr. Ruehl used to be for years military correspondent at NATO headquarters in Brussels, and the conference included top-level people concerned with military affairs in NATO. He said:

Ever-growing speculative amounts of capital are moving from Europe into the American dollar because of the high interest rates in the U.S. . . . Should this discrepancy continue, or even expand, the Americans should be aware that this will lead to at least a partial collapse of the deutschemark and possibly the Swiss franc. . . . Then we will have a situation in which money movements out of Europe will turn into actual capital flight. Under these conditions the West European economies will lack precisely those resources that are the precondition for an expansion of our defense efforts.

This was said in February, and whoever has watched the financial and economic situation in the NATO countries since then knows that this is what has happened.

We can outline seven principal effects of this policy. First, economic instability in France contributed decisively to the defeat May 10 of French President Valéry Giscard d'Estaing, thereby weakening Schmidt in Germany. Second, the European Monetary System was derailed as a result of Giscard's ouster, and financial analysts are predicting that François Mitterrand will soon pull the franc out of the EMS. Third, the crucial high-technology capabilities of small and medium-sized firms are being wiped out. The tax base which such firms represent, as well as the depressed housing, auto, and

other industrial sectors, are being eroded, increasing the budget deficits of governments. High interest rates reduce state refinancing capacity.

Fourth, Europe's export potential is being undermined—and the West German economy in particular cannot survive without exports, the key to its economic and political stability. Fifth is a significant reduction in employment thereby created which produces an increased potential for social political instability. Sixth, exports to the developing sector nations can no longer be financed. This has forced a deterioration among so-called LDCs from a desperate situation to something like a hopeless situation. This cannot be seen purely in economic and financial terms, since it results in political destabilization, civil wars, and regional conflicts, with very immediate implications for the global situation.

The seventh point, which is in a way the most important, is that all of this high interest-rate policy allegedly was designed to fight inflation. Yet the result of two years of high interest rates in Europe is that inflation is worse than ever. Many of those people, like Volcker himself, who are pushing for high interest rates actually say more or less publicly that it is not intended so much simply to fight inflation, but that high interest rates are effectively being used for so-called structural readjustments of the world economy as well as the national economy toward a "postindustrial" orientation.

The United States could rely in NATO—up to the 10th of May—upon the Franco-German alliance as the pillar of stability for global security and in respect to the Warsaw Pact. This no longer exists. Giscard is out and the military cooperation, in the context of NATO, between France and West Germany is pretty much out the window too. Under Giscard and Schmidt a "division of labor" developed between France and West Germany, in which France concentrated on building up its nuclear deterrent capability while West Germany concentrated more on the conventional side.

One has to be aware, whenever there are complaints about arms spending in Western Europe, that during the fiscal year 1980-81 the increase of the French defense budget was 18 percent, something I can assure you will change under the government of François Mitterrand. France had a major nuclear deterrent buildup: six nuclear missile-launching submarines, the development of the neutron bomb, the development of the mobile counter SS-20, which could be a crucial factor in the European nuclear balance, and the development of other tactical nuclear weapons systems. All these are now in question.

From the West German side, there has been a rather ambitious conventional arms buildup, including the Leopard II tanks, a rather sophisticated anti-aircraft missile system, a buildup in naval strength, the "Tor-

Chancellor Schmidt: 'economics is the key'

West Germany's Chancellor Helmut Schmidt in 1977 leveled a criticism against the failure of Western—notably British—defense analysts to take into account the close relationship between military security and economic development. The following is taken from his Oct. 28, 1977 address to the London International Institute for Strategic Studies (IISS), in honor of the Institute's founder Alastair Buchan.

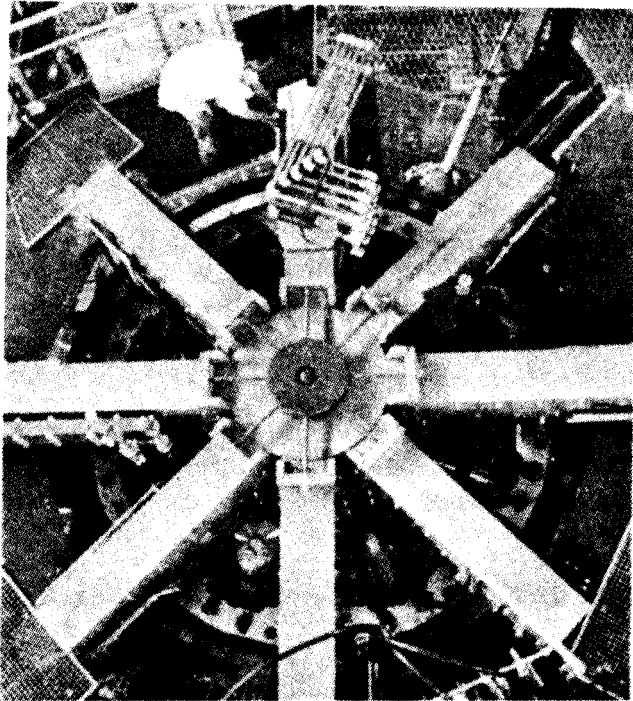
In preparing for this lecture I picked up again Alastair Buchan's book *Power and Equilibrium in the 1970s*. It is an important and a very thoughtful book in which Alastair analyzed the structure of world politics only five years ago. He concerned himself mainly with the power equilibrium among the United States of America, Western Europe, Japan, the Soviet Union, and China. Brilliant thinker that he was, he did not at that time devote much attention to the

economic, the social, and the domestic aspects of Western security, which I will list today as a new dimension. . . .

What exactly are these new dimensions? First, economic development. By this I mean the necessity to safeguard the basis of our prosperity, to safeguard free-trade access to energy and to raw materials, also a monetary system which assists us in reaching those targets. There was a feeling not too long ago that we had only a few problems in this field. But the oil crisis, the phasing out of the Bretton Woods agreement, worldwide inflation, unemployment, and too little economic growth have changed the picture and given rise to widespread insecurity.

Second, social security. By this I mean the necessity to achieve and maintain social peace at home, making the goods and the jobs available for our people and at the same time bluntly telling them that there are limits to what the state can do for them. . . .

Third, domestic security. By this I mean the necessity to strengthen and defend our society against terrorists whose sole aim is to destroy the fabric of that society through acts of brutal killing and kidnapping.



French plasma physics research.

nado” and “Alphajet” programs. Now, as an immediate result of the monetarist high interest-rate policy, these programs are in danger.

In France, the interest rate has doubled over the last three months or so from around 12 percent to 22 percent. There are 1.7 million unemployed and an inflation rate of about 14 percent. The French franc went down in an even shorter period from about 5 to the dollar to 5.75 right now.

Italy has a prime rate of around 23 percent. Medium-sized industries, which are important economically as well as politically, can only get credit at between 25 and 30 percent; consumer credit in both France and Italy runs above 30 percent. In an area like the Mezzogiorno [in southern Italy] you have a potential for social unrest which may lead to quite a few surprises this summer. The lira went down during the past half-year or so from about 750 lira to the dollar to 1,150 now, and inflation is at 20 percent.

In West Germany the interest rate doubled from around 5 percent six or seven months ago to 12 percent today. But again, you cannot take these figures in strict economic terms. In West Germany there is a special situation, because you have to consider also East Germany, which has no unemployment to speak of. It is simply not possible politically for West Germany to increase its unemployment to 2 to 2.5 million—we simply cannot cut the social expenditures and unemployment benefits. There are very real political factors which have to be taken into account.

Let me review it from another side. Suppose you

have a West German depression—and right now things are heading in that direction. That is the best way to destabilize the southern flank of NATO in a matter of weeks or months. We have around 2 million Turkish guest workers and their families in West Germany. And in a depression those Turkish guest workers are going to be the first to be fired. Just think about the Turkish situation and its importance to the NATO southern flank—and this is bad enough—and add to this hundreds of thousands of Turkish guest workers migrating back to Turkey. Then you get a very interesting idea of what the situation on the southern flank of NATO is going to look like.

Now let me proceed to another European country, which is Great Britain, since I think we can learn most from the situation there. Thatcher started with the monetarist high interest-rate policy even before Volcker.

There has now been a two-year time period in which to test the alleged effectiveness of the monetarist policy. The result is that the economy is worse than ever before and that British defense capability is significantly reduced. What the British government is advocating openly now is dumping the procurement of military equipment of an advanced technological level in favor of “clever designs” to substitute for high technology.

Anybody who thinks that with an overall decaying and shrinking industrial base you can insulate certain relevant military areas is wrong—it simply does not work. State-of-the-art weapons systems—which the other side is moving toward—can only be produced with an expanding overall industrial infrastructure.

The second conclusion to be drawn is that the basis for having state-of-the-art military equipment is in-depth industrial regeneration and in-depth economic growth. Any notion of “sunset” and “sunrise” industries that defines the very hard-core skeleton of the economy as something obsolete is incompetent.

The third conclusion I would draw is that only on the basis of such a healthy and growing economy can advanced scientific research, R&D and advanced technologies necessary for national defense be achieved. Only on the basis of a healthy, growing economy—and a crucial feature of this is, for example, a civilian nuclear program—are research and development efforts in the area of plasma physics economically feasible.

When I spoke not too long ago with a prominent strategic thinker in Britain, he somewhat fatalistically declared that he expects in the course of the 1980s that the general tendency will be toward war, maybe general war. What he said was quite to the point. If the threat that a monetarist high interest-rate policy represents is not done away with, then this kind of monetarist economic and financial policy will not only endanger external and internal security, but may actually get us into war.

Thatcher dismantles U.K.'s capabilities

by Susan Welsh

Toward the end of June, the government of British Prime Minister Margaret Thatcher is scheduled to announce cuts in defense programs amounting to some £6 billion (\$12 billion) over the next 10 years. The Royal Navy will be hit the hardest by about three-fourths of the total cuts, and will lose about 20 surface warships. The navy currently has 157 operational ships, mainly in the eastern Atlantic, North Sea, and the English Channel. About 70 percent of the NATO vessels patrolling these areas today are British; there are no ships available elsewhere in the Atlantic Alliance to replace the mothballed British ships.

The British Army of the Rhine (BAOR), which is responsible for defending a 40-mile stretch of the border between East and West Germany, will have several thousand troops retired from its present force of 53,000, of whom 4-5,000 are permanently in Northern Ireland. BAOR strength will definitely sink significantly below 50,000—even if Thatcher overrules those advisers who say it should be scrapped altogether.

These cuts are the direct and inevitable result of the “monetarist experiment” launched when Thatcher came to power in the spring of 1979. Faced with an economy already suffering from declining industrial investment and productivity, Thatcher’s monetarist witch-doctors proposed to “cure inflation” by further destroying the industrial base and throwing those workers who still had productive jobs onto the dole.

As a result, Britain’s economic infrastructure can no longer maintain a robust and technologically up-to-date armed forces.

- Since Thatcher took office **industrial production has fallen 19 percent**, a collapse deeper than that of the 1929-32 depression.

- **Unemployment has almost doubled** to an officially recognized level of 2.6 million—higher than the level of the Great Depression. Unemployment is expected to reach 3 million by year’s end—nearly 15 percent of the population. Two-thirds of the unemployed are under 35 years of age, and 50 percent of youth are unemployed.

- **Inflation**, which stood around 7 percent when Thatcher took office, soared to a 22 percent high and then gradually dropped to its current 10 to 11 percent annual rate. But certain delayed price increases by cor-

porations will have to be made, and the fall of the pound sterling over the past several months is making imports more expensive.

- **The budget deficit** for fiscal year 1980-81 rose to £14 billion (\$28 billion). Thatcher abandoned scheduled income tax reductions and raised other taxes to try to reduce the deficit to £10.5 billion.

- **The pound sterling**, which was priced at around \$1.99 when Thatcher took over, was “strengthened” to a high of \$2.45 in 1980—but then began to fall to its current level of \$1.99, exactly where Thatcher started.

‘Biting the bullet’

Most British defense analysts have concluded that this economic decline is inevitable, and therefore the only question is how best to control the disintegration process. Thus *The Economist* editorialized Nov. 22, 1980:

Britain is rapidly approaching another milestone on its long retreat from the front ranks of the world powers. The last such way-marker was the defence review of 1974-75, which wiped out the remaining fragments of Britain’s global military system and established that henceforth its armed forces would be committed to the defence of Europe and nothing else. . . .

Sooner or later, unless Britain’s economy does a miraculous upswing, the government will have to bite the bullet.

A month after that editorial appeared, a fight broke out between the Treasury and the Defense Ministry over proposed new defense budget cuts. Defense Secretary Francis Pym was ousted in January, making way for ultramonetarist John Nott, who is presiding over the current round of defense budget slashing. Opposition to Nott’s policies from the defense department led to the firing of Navy Secretary Keith Speed at the end of May and the top-down reorganization of the defense bureaucracy. Thatcher eliminated the individual “special interest” service posts for the army, navy, and air force, replacing them with a minister of state for the armed forces (overall) and a minister of state for defense procurement.

British analysts insist that the changes in Great Britain are only the beginning, and furthermore must be introduced throughout the NATO alliance. Thus David Watt, director of the prestigious Royal Institute of International Affairs (RIIA), wrote in *The Times* of London May 29:

The economic dilemmas of defence policy are pressing increasingly upon Germany and France and will before long press no less heavily on the United States.

The conclusion is that there is no time to be

lost in starting a major re-examination by all the NATO countries, but particularly by the most powerful, of the functions of the alliance, and how they can best be carried out. . . .

In the British case, Mr. Nott will no doubt cobble together a compromise for the moment. The Rhine army will survive with a few minor adjustments; the RAF [Royal Air Force] will get its Tornados; the Navy will be allowed to keep some of its through-deck cruisers but be forced to give up others. The "savings" of £6,000 million thus achieved will permit the Trident nuclear programme to go forward. But savings of this kind over a decade or more are not going to solve the fundamental problem for us or for anyone else. If we are to combine economic and military stability in Europe in the late 1980s and early 1990s something more radical, and on a NATO-wide basis, must be devised.

The "radical" solution proposed by the Royal Institute and John Nott is to revert to *less expensive and less advanced technologies*. Nott's April 1981 Defense White Paper insists that "we have too full an equipment programme for the financial resources available for defense. . . . The demands of meeting an ever-increasing threat will pull toward solutions which are sophisticated and therefore expensive. On the other hand, the limitations of money must pull toward simpler and cheaper solutions if the necessary range of equipments is still to be provided."

A defense analyst cited by the *Sunday Times* May 24 called for building cheaper tanks for the Rhine Army. "That is one area where we really can learn from the Soviets. They want a lot of them so they build them cheap; it is a classic example of their substituting clever design for high technology."

Lawrence Freedman, top defense analyst for the Royal Institute, added: "Our trouble is that we have tended to go for quality all the way through. Obviously we need some high-quality equipment, but I'm coming round to the view that quantity rather than quality must now be re-stressed."

Warsaw Pact tanks now deployed in Central Europe alone outnumber NATO tanks nearly 3 to 1. Moreover the commonplace of Soviet "quantity, not quality" is fast becoming a relic of the past, as Soviet military technology is now recognized to be equal or superior to that in the West in many areas. The Soviet Union places a particular emphasis on the most-advanced technologies and basic physics research which will lead to the weapons of the 21st century—laser and particle-beam weapons. Once breakthroughs in these technologies are achieved, what good will Britain's cheap tanks be—even if there are a few more of them?

FRANCE

Will Mitterrand keep the force de frappe?

Despite assurances to the Reagan administration by the visiting French Foreign Minister Claude Cheysson that "continuity" will prevail in French policy, and soothing words to State Department and other channels that French-U.S. relations could well improve under Giscard's successor, the actual picture is very different.

"There will be no Franco-German axis" under the new regime of Socialist President François Mitterrand, Cheysson told *Le Monde* in a May 28 interview. With these words the Mitterrand government put an end to the alliance that kept the world at peace during four years of Jimmy Carter's presidency, and, it was hoped, would do so during Alexander Haig's tenure at the State Department.

A general review of France's military role is now under way: from the continued development of the *force de frappe*, France's independent nuclear capability, to arms exports and internal military reforms. This must be seen in the context of a foreign policy which gives Latin American guerrilla supporter Régis Debray official foreign policy advisory status; a shift in Middle East policy toward close ties with Iran, Libya and Israel; and a shift in Africa policy which will mean support for Libya-backed liberationist movements.

The policies of previous Gaullist or Gaullist-inspired governments have made France the third most powerful military force in the Atlantic Alliance. Combined with the U.S. strategic strike force, the conventional military forces of West Germany, and some aspects of the British military, the French *force de frappe* is a crucial component of Atlantic Alliance capabilities.

Out of the Franco-German alliance arose a division of labor in which the Federal Republic of Germany built up its conventional armed forces, while France concentrated on its strategic and tactical nuclear forces. The outcome, for France, was a strategic force of five missile-launching nuclear submarines, with a sixth under construction; a force of approximately 50 Mirage VIs equipped with H-bombs and 18 ground-to-ground missiles buried in the southwestern Albion plateau, and a tactical nuclear force comprising five regiments of Pluton missiles and a tactical air force of three squadrons of Jaguars and two squadrons of Mirage IIIs equipped with the AN-52 nuclear weapons.

While there has been much talk about other countries in the alliance being incapable of meeting the 3 percent target for military spending in relation to GNP, under the Giscard government that reached 3.85 percent this year with nearly an 18 percent increase in defense spending over the 1980 figure.

Hyperinflationary threat

Mitterrand and his defense minister, Charles Hernu, have promised to keep up the French defense effort, and even have some people believing that they will increase it. Leaving aside for a moment the question of whether this is actually the government's intention, other decisions already taken by the Socialist government make a stepped-up defense effort impossible. Within a few months we will start to see the toll that a near doubling of French interest rates, currently hovering just above the U.S. prime rate at 22 percent, will take on small and medium-sized firms—the indispensable fabric for any military program. At the same time, a massive program of social spending has been started, without a corresponding program to increase overall production of national wealth, which will rule out any possibility of keeping up the French military effort without resorting to the printing presses.

These are some of the economic factors that must be taken into account when the Mitterrand government pledges, as it did last week, to build an additional two nuclear submarines as part of the strategic *force de frappe*. As that decision was announced, there was a decision to end the previous government's plan to develop a longer-range Hades tactical missile to replace the Pluton, whose range is only 75 kilometers.

The same government maintains a careful ambiguity as to its intentions with respect to the neutron bomb. The Giscard government had developed a capability to produce and deploy a French neutron bomb, although it suspended any final decision. Defense Minister Charles Hernu had halted all nuclear testing on the Pacific island of Mururoa, but after a quick review, ordered testing to resume. However brief, the suspension has given rise to fears in French military ranks that the neutron bomb will never be developed.

A further indication of major changes taking place behind the veil of "continuity" is a purge of over 300 officers and civilians working in military functions relating to sensitive intelligence and scientific evaluations work.

'Morality in exports'

Foreign Minister Cheysson reacted to the Israeli bombing of the French-built Osirak nuclear research reactor in Iraq with the statement that the French government will use this event as the opportunity for a full review of French nuclear exports, throwing into

jeopardy nuclear cooperation agreements with such nations as South Korea, Brazil and Egypt.

At the same time, the Mitterrand government has announced its intention to "put morality into arms exports," a policy graphically illustrated at the international air show at Le Bourget last week, where Mitterrand put in an appearance. Prior to his arrival, the French president ordered that all "offensive" French aircraft be removed from display and that aircraft equipped with weapons be disarmed. An executive from the Northrop Corporation was overheard remarking to his dumbfounded French colleague: "You wanted your Jimmy Carter. Well, now you've got him."

Any significant cut in French arms exports would have dramatic consequences for the economy of the world's third largest exporter in that field, and would increase the real cost burden on the economy for the R&D on new weapons systems for French use. Annual arms exports now amount to 30 billion francs, a full 5 percent of the country's total exports. The receipts from those sales are the principal prop for French military industry, ensure France's independence in terms of its own military equipment, and provide employment for 900,000 industrial workers.

The most serious blow to the military has been the government's cancellation of the expansion of the military camp and maneuvers area in Larzac, an extension which the French military has been fighting for for over a decade. In 1970, Defense Minister Michel Debré authorized the ground army to acquire 13,500 hectares near its already existing camp at Larzac. Reversing that decision had become a cause célèbre of the environmentalist and disarmament movements, who have organized countless civil disobedience protests over the years to stop the project.

Like all so-called symbolic acts, the government's decision indicates a fundamental policy commitment, one further illustrated by Charles Hernu's long-standing proposals for "democratization" of the army, described in his 1975 book *Soldier-Citizen*. Hernu, a close political associate of Mitterrand for 20 years, calls for greater "rights and liberties" for those doing their military service, broader grounds for conscientious objector status, the creation of an ombudsman to give expression to grievances from the ranks, and the elimination of military courts. Hernu has also authorized the distribution in the barracks of the extreme left daily *Libération*, barred by previous governments. All this points to the development in France of a Dutch-style long-haired, pot-smoking army.

Further purges of the military will hardly be necessary, since, as one general put it, "If the soldiers' committees reappear in the army, there will be many of us who will resign, without making much noise, but without any illusions either."

Will Israel choose a fascist?

Begin is using Nazi tactics and gangsterism to secure his re-election as prime minister—or worse.

A national leader with a cult following who cites a messianic vision to justify attack on his neighbors. Uneducated rabble in the streets physically attacking his opponents. Use of the big lie technique to justify his actions.

This is not only a description of Khomeini's Iran, or perhaps Adolf Hitler's Germany. It is a description of Israel under the regime of clinically insane Menachem Begin. And the people making the comparisons are not Arabs or writing in *Pravda*. Rather, these are statements made by Shimon Peres and the opposition Labour Party, finally making a last-ditch effort to defeat Begin in Israel's June 30 national election.

In a sharp departure from his previous low-key approach, in the wake of the Israeli raid on Iraq's nuclear facilities June 7, Shimon Peres this week blasted the Likud bloc of Begin for its "quasi-fascist tactics." After a series of Likud-led hooligan attacks on Labour Party offices and rallies—in one day speeches by Peres and Abba Eban were disrupted by gangs of knife-wielding thugs and a Labour office in Tel Aviv was burned—an angry Peres asked his supporters: "Do you want this Khomeinism to take over Israel with idol worship?"

Peres blamed Begin directly. "I can say with certainty that these disruptions by the Likud are organized. People are bused in, they are paid, and yesterday one of them

even brandished a knife," he charged. Shlomo Hillel, a former interior minister, backed Peres. "There is an atmosphere of social incitement and nationalist incitement. Experience teaches us that when these two elements are combined it always leads to fascism."

According to one observer of Israeli affairs, "What is at stake in the Israeli election is the very morality of the nation. No nation can survive with its integrity unscarred if it tolerates a leader like Begin."

Manipulating the cheapest and meanest section of the population of Israel, including the uneducated and impoverished Oriental Jews, Begin has built himself up into a cult figure. He is frequently followed by chanting crowds of worshippers who shout, "Begin, Begin King of Israel!" At virtually every appearance, he evokes the images and memory of the holocaust of the Hitler era to win sympathy.

And he has not shied from implying that Peres, because of his stated opposition to the outrageous attack on Iraq's reactor, is committing treason. An official Israeli cabinet communiqué June 15 accused Peres of "something of sabotage," and Begin aides told the press that the prime minister had considered charging Peres with being a traitor. Peres is now faced with the formidable task of trying to mobilize undecided voters against the Nazism of the Begin machine in the remaining days of the campaign.

From indications close to the Labour leadership, Peres is aware of the urgency of the situation. "Our backs are to the wall," said a Peres adviser. "We've got to go back to the basic instinct for telling the truth about the missiles and the reactor, even if we go down in flames for it."

Peres is aware, sources also report, that unless he takes on directly the issue of Begin's crimes, he has no chance to rally voters to his side. And, if he does lose the election, at least Peres and Labour will be able to tell the Israeli population that the "rebuilding" process preparatory to toppling Begin must begin on a sound, moral basis.

King Hussein of Jordan—who is known to favor Peres's election—told an NBC interviewer last week that Begin was "imitating Hitler," and that if the Israeli people vote for Begin on June 30 it will mean that, simply, "they do not want peace."

A prominent Israeli newspaper columnist, Uri Benziman of *Ha-aretz*, laid out the real issue for opponents of Begin: "Is it really possible to prevent the Arab states from entering the atomic age? Wouldn't it be better to strive for political accords with them, considering the technological advancements awaiting them?"

Such a policy—almost a vision of real peace for most Israelis—might, in fact, under the right circumstances, become the basis of Shimon Peres's government, if Begin is defeated.

But Begin, buoyed by the polls in recent days, is riding high. The most eloquent statement of his views: "Thank God, U.S. Jews are behind us."

But are they?

Confrontation with the multis

The dust has far from settled around the recent dramatic and surprising shakeup at Pemex.

Most of Mexico and the entire international energy community were on the edge of their seats early last week when Mexico's industry minister, José Andrés De Oteyza, appeared before Congress to explain the reasons for the surprise ouster of Pemex Director Jorge Díaz Serrano last week.

De Oteyza did not disappoint those who were hoping for high political drama.

The powerful secretary lambasted Díaz Serrano in everything but name, characterizing the former Pemex chief's decision to lower Mexican oil prices as "precipitous" and "of extreme gravity."

He warned that Mexico would re-evaluate its pricing policy on July 1, and suggested that Mexico might well "purge" its client list of those unwilling to pay Mexico's asking price. De Oteyza threatened: "Buyers will have to contemplate the possibility that a barrel of oil lost today may be a barrel of oil lost forever."

Perhaps the most significant part of De Oteyza's speech was his rejection of the idea that "market forces" willy-nilly define oil price levels—the argument commonly used to explain the recent drop of world oil prices. "Mexico will defend the thesis of planning rather than improvisation, of economic cooperation rather than trade speculation, of guaranteed supplies rather than commercial bargain sales."

Press columnist Pérez Stuart, one of Mexico's leading advocates of Friedmanite economics, expressed outrage at this De Oteyza insolence: "Mexico is disobeying the law of supply and demand," Pérez Stuart shrieked, "which is as irrational as maintaining the current parity of the peso."

The "law of supply and demand" that the noted columnist is referring to is actually better defined as the massive political and economic pressure brought to bear on Mexico over the past months by the oil multis who threatened to suspend purchases if Mexico didn't cut prices. In fact, it was reputedly this pressure to which Díaz Serrano succumbed in his decision to lower prices, a decision which in turn led to his ouster.

The *Wall Street Journal* June 18 reported that Mexico's new hard line on prices will be matched—and then some—by the oil multis. "A confrontation is shaping up," the *Journal* augurs hopefully, since "the companies are in a tough mood that hasn't been seen in many years."

But spot checks conducted by *EIR*'s New York office failed to confirm the *Journal*'s analysis. For example, a high official at Shell Oil—one of Mexico's important clients—told *EIR* frankly: "We hope Mexico will reconsider its decision [to raise prices], given the world market situation. However, if they do raise the price, we will

continue to buy their oil." An Ashland Oil executive echoed the same sentiments.

There is, however, a faction within the energy community that is definitely itching for a showdown with Mexico. A leader of this group is Qaddafi-linked Armand Hammer and his infamous Occidental Petroleum Company. Although not themselves purchasers of Mexican crude, Occidental has joint ventures in Mexico and has been playing an influential role in shaping policy toward Mexico.

Hammer's particular obsession is to force Mexico to abandon its industrial development projects, and to change its nationalist foreign-investment laws—which require majority Mexican ownership in any foreign investment in the country, and prohibits it entirely in the area of primary petrochemicals.

Hammer believes that forced reductions in Mexico's oil income is a good way to achieve this.

An Occidental executive, who asked *EIR* not to identify him by name, argued that De Oteyza's announcement was "ill-advised, because nobody will be interested in buying oil at higher prices."

The source elaborated on his company's scenario: "A drop in oil sales will kill Mexico. Look at their balance of payments, at their trade balance, at their foreign debt. . . . But if Mexico gets more foreign investment, they could compensate for what they are losing because of the oil price drop. . . . Mexico really should open up more to multinational ventures."

And then as an afterthought the Occidental executive added: "But please don't quote me by name. You would greatly harm me individually, and the company."

International Intelligence

Schmidt reiterates interest-rate urgency

"One of the most important issues at Ottawa will be the question of whether the Americans are ready to change their interest-rate policy," West German Chancellor Helmut Schmidt stated in an interview published in the June 11 issue of the Hamburg-based weekly *Die Zeit*. "I have explained to the Americans very carefully that their economic policy, especially their monetary policy . . . will have severe consequences for France, Italy, and Germany if it is continued for a few more months. . . ."

"Such high interest rates lead us to a situation in which less credit is available for investment. As a result jobs are not created and modernization of production is not undertaken. . . ."

Schmidt added, "I have never preached that inflation should be fought by high interest rates. We never did that in Germany. Here we fought inflation more successfully than any other country in the world—except Switzerland—and we never had interest rates as high as they are now throughout the world. . . ."

ASEAN rejects Haig's arms policy

Indonesian Foreign Minister Mochtar has criticized the U.S. Secretary of State for Haig's approval of arms to China without consulting the nations of Southeast Asia, according to the BBC. He said the decision is causing "some concern" among the members of the Association of Southeast Asian Nations (ASEAN) gathered for a foreign ministers' summit June 19-22 at which Haig was a guest.

One unidentified foreign minister told the *Washington Post* that he feared Washington is prepared to let China play a bigger role in the region, leading to Chinese dominance.

"Although ASEAN nations now see Vietnam as the main threat in the region, in the longer term China could be the

main threat," said another ASEAN diplomat.

Philippines Foreign Minister Carlos Romulo, acting as the spokesman for ASEAN, refrained from accepting Haig's proposal of support for a Kampuchean united front dominated by the genocidal Khmer Rouge. Haig has proposed U.S. and Chinese military support for this "united front."

Instead, Romulo said, the ASEAN proposal was introduction of U.N. peacekeeping forces, withdrawal of Vietnamese troops, and the disarming of the warring Kampuchean factions following a Vietnamese withdrawal.

P-2 networks uncovered in West Germany

An *EIR* investigation has begun to reveal what the entire West German press is covering up: key sections of the same German industrial circles that promote Global 2000 population reduction are part of the P-2 Lodge network.

A key figure in this network is the recently deceased August von Fink, identified as the richest individual in the Federal Republic. Head of the Munich-based investment bank Merck and Fink, he was also on the board of Assicurazioni Generali of Venice-Trieste, Europe's largest insurance company, and was linked to the P-2 leaders Licio Gelli and Roberto Calvi. Fink founded Allianz Versicherung, the West German insurance company that recently bought 28 percent of Britain's Eagle Star Insurance.

On the Allianz advisory board is Peter von Siemens, family heir to the giant corporation, who is a prominent environmentalist supporter, although Kraftwerke Union, the only producer of nuclear plants in West Germany, is a 50 percent owned Siemens subsidiary.

Fink was at the center of the emerging scandal around Orbital Transport and Rockets Share Company (ORTRAG), whose head, Lutz T. Kaiser, is presently building \$1.5 billion worth of long- and medium-range missiles for

Libya. Kaiser's bank, which backed the Libya connection, is Merck and Fink.

With his wartime collaborator Hjalmar Schacht, Fink was tried at Nuremberg but acquitted, and later developed close ties to the Rothschild family. Schacht himself was a member of a Scottish Rite Freemasonic lodge in Berlin and Otto Skorzeny's father-in-law.

Arabs call for nuclear expansion

The Organization for Arab Petroleum Exporting Countries (OAPEC) released a study on June 17 calling for the Arab world to construct a string of twenty 1,000-megawatt nuclear plants from Morocco to Iraq. The study, released at a Damascus conference on nuclear energy, was prepared before Israel attacked Iraq's nuclear installation.

OAPEC called for the construction of nuclear plants in Morocco, Tunisia, Iraq, Saudi Arabia, and a reprocessing facility in Algeria. It also recommended the establishment of an Arab uranium exploration company, joint electrical grids, and other energy projects.

Each facility would be 1,000 megawatts, the OAPEC study said. Construction would be solicited from France, Japan, Canada, and West Germany.

A double-edged deployment in Africa

The African wing of the pro-zero-growth Socialist International is being deployed into a right-wing anti-Soviet posture, lining up with U.S. Secretary of State Alexander Haig, as opposed to the Willy Brandt-led left wing of the Socialist International (SI).

The African SI, founded by a group of 15 African countries last winter by Presidents Senghor of Senegal and Bourguiba of Tunisia, held a meeting of its six-member general council in late May.

The council (representing Gambia, Djibouti, Morocco, Senegal, Sudan, and Tunisia) called for a resumption of the dialogue with South Africa in order to confront "the greatest danger now facing the continent, Soviet penetration," according to the Middle East business magazine *8 Days*. The magazine added that this "points to a loose coordination with Washington's African strategy." The result could be a superpower square-off in southern Africa on a scale much larger than that taking place in El Salvador.

The African SI is close to the Italian Socialist leader Bettino Craxi, one of the sponsors of the African SI, and a man some consider a "new Mussolini."

Sonoda challenges Haig and Pentagon

Sunao Sonoda, Japan's Foreign Minister, said he would ask whether the U.S. wants Japan to be an obedient, faithful partner or a partner worthy of trust and consultations when he meets with Alexander Haig in Manila at the June 19-22 ASEAN foreign ministers conference.

Sonoda told a press conference his tart remarks were prompted by U.S. demands for a drastic Japanese military buildup. The demand was delivered at a recent "working level" meeting in Hawaii in which Pentagon officials told Japan to revise its current five-year defense plan. According to Kyodo news service, U.S. officials also shocked Japanese representatives by saying Japan should be prepared to resist an invader for a "prolonged time" without U.S. help.

Japanese Defense Agency chief Joji Omura, in rejecting the demands, commented in Tokyo that it is not clear if the Pentagon demands represent the view of the U.S. government as a whole.

Asked to comment on U.S. arms sales to China, Sonoda said he would ask Haig to explain U.S. "actual intentions" when they meet.

Regarding the recent meetings Sonoda and Prime Minister Zenko Suzuki

held in Europe, the foreign minister said that he was impressed with the European argument that arms talks were a means, and détente the goal.

'Nuclear development a sovereign right'

Iraqi Foreign Minister Saadoun Hammadi called upon the council to reaffirm the right of all nations to develop nuclear energy in a speech on June 12 before an emergency session of the United Nations Security Council convened to deal with Israel's bombing of Iraq's nuclear facility.

"It can no longer be denied that it is the sovereign right of every country to seek the knowledge and pursue the application of science and technology, including nuclear technology for peaceful purposes, in the interest of economic and social development," Hammadi stated. "We firmly believe that the widening gap between developed and developing countries cannot be narrowed without the full utilization of science and technology, including the peaceful application of nuclear energy."

Hammadi pointed out that the Israeli raid had caused many civilian casualties. He then outlined the history of Israel's secret nuclear weapons program over the past 30 years, frequently citing CIA sources as documentation. Unlike Israel, Hammadi said, Iraq has cooperated fully with the relevant international agencies in the interest of developing a nuclear capability for peaceful purposes.

Iraq, he said, has embarked upon a vast and ambitious program of development. In so doing, the Iraqi government recognized at an early stage the importance of science and technology, including the peaceful applications of nuclear energy.

In destroying Iraq's reactor, asserted Hammadi, Israel demonstrated its "determination not to allow the Arab nation to acquire scientific or technical knowledge necessary for their development and progress."

Briefly

● **THE PALME** Commission met in Moscow the weekend of June 13 and issued a resolution condemning the resumption of ABM systems development. This is the area of directed beam weaponry that takes scientific research to the frontiers of physics. Former Swedish Prime Minister Olof Palme, a Social Democrat, told a Moscow press conference that ABM R&D would be "costly and destabilizing." Also present were commissioners David Owen, Egon Bahr, Georgii Arbatov, Gen. Mikhail Milshtein, and Cyrus Vance. The group was not well received by the Brezhnev government, however, all reports indicate.

● **THE P-2 LODGE** mounted a direct campaign last year on behalf of Italian Socialist Bettino Craxi's rise to power, according to the Italian journal *Panorama*. P-2 chief Licio Gelli chose Craxi as his preferred candidate in September 1980, according to the report.

● **GUYANA** declared a state of emergency June 11 and mobilized its troops for a possible war with neighboring Venezuela, which claims two-thirds of Guyanese territory now that an official agreement between the two has expired. If war should erupt, Brazil is expected to defend Guyana.

● **JAMAICA** is being used as a transshipment point for smuggling heroin and cocaine into the U.S., as well as marijuana, Jamaican Police Commissioner Wilbert Bowes acknowledged late last month.

● **MENACHEM BEGIN** is ruining Israel's intelligence capabilities, charged the chief of Mossad, Israel's intelligence service, in an interview with the daily *Haaretz*. The Mossad chief, whose identity is a secret, zeroed in on Begin's wild public statements in the wake of the bombing raid on Iraq's nuclear reactor.

The Trilateral package for the White House

by Richard Cohen

Close observers of the White House now believe that between the Lausanne meeting of the International Monetary Conference two weeks ago and the conclusion of the Bank for International Settlements (BIS) meeting in Switzerland early this week, President Ronald Reagan was pressured to plunge ahead with a Trilateral-sponsored strategic package which, if continued, could destroy his presidency within a year.

Reagan, at a nationally televised press conference, promoted the Volcker sponsored policy of a summer of monetary restraint and budget cuts. The president followed his opening remarks, aimed at pressuring Congress to move rapidly with him down the austerity road by lending astonishing credence to Israeli Prime Minister Menachem Begin's "election gimmick" bombing of Baghdad, and proclaiming that the current instability in Poland represents a "crack" which will lead to the "beginning of the end" of world communism.

With the Soviets "tied down," the President has been sold on the dangerous argument that the already mushrooming budget cuts plus continued high interest rates can be tolerated over the course of this year and, in the case of budget cuts, over the next three years, and that while these "economic necessities" severely retard and delay the rebuilding of U.S. strategic and conventional military force, they are necessary "to turn the corner on inflation." To ensure that Soviet troubles are "felt," Haig got Reagan to agree to sell "lethal" weapons to Peking and simultaneously seal a \$3 billion arms deal with the faltering Zia ul-Haq regime in Pakistan. The

President bought it as the nearest available substitute for sustained U.S. military weakness.

Many think that if Reagan continues to pursue his Trilateral package through the Ottawa summit, rebuffing the positive alternative proposals of German Chancellor Schmidt and Japanese Prime Minister Suzuki, he will not only plummet politically in the United States, but will also set the country on course toward Hoover-style economic calamity. There are signs that a majority of congressmen are now unprepared to march with him on his austerity package. Similarly, realist elements within the European oligarchy have already stated publicly for the first time that the U.S. high interest-rate policy is bankrupt and unacceptable—as the conclusion of the BIS meeting showed.

White House watchers are convinced that this Trilateral strategic package was accepted by the President only after those same "Wall Street" forces who in concert with Federal Reserve Board Chairman Paul A. Volcker greeted Reagan's overwhelming victory on the House budget resolution with "unexpected" increases in interest rates and made it privately clear to the White House that a direct confrontation with the Fed chairman at this time would shatter the financial markets. The President, who had responded to the Volcker-Greenspan doublecross with a severe verbal attack on Wall Street, quickly hushed up on the subject two weeks later. The combination of private intimidation and Volcker's quick support for the reduced tax-cut plan marked the beginning of a shaky truce between the White House and the Volcker-Wall

Street combination. The truce was consolidated at the Lausanne International Monetary Conference, where Volcker "defended" Reagan's tax, budget, and monetary policies before Western central bankers. The central bankers wound up the Lausanne parley with a strong verbal endorsement of U.S. economic strategy—especially Volcker's high interest-rate policy and Reagan's budgetary policy.

However, between the end of the Lausanne meeting and the recently concluded BIS meeting—during which the President began to retail aspects of the Trilateral package—Western central bankers reversed themselves, sharply attacking the Reagan program at the BIS meeting. Again, the President was hung out to dry by the bankers he thought he had a deal with. At the BIS meeting, the bankers warned that the policy of tight money they had endorsed in Lausanne would lead to dangerous political consequences in Western Europe and the U.S. and simultaneously weaken the Western alliance by promoting currency and trade war. The BIS report went so far as to draw the parallel to the early 1930s.

Washington sources report that the bankers' sudden turnaround was the result of an unmistakable signal sent to the West by the Soviet leadership. The Soviet Politburo, through Georgii Arbatov, told Olof Palme and the Palme Commission that further discussion on disarmament proposals are now fruitless, whence BIS bankers' shift into the anti-high interest-rate orbit of Schmidt and Suzuki. Aside from forces tied to Palme's "peace movement" and the Socialist International who would clearly support the BIS recommendation for wage and price controls as the alternative, the broader and more general fear which spread through the European oligarchy following Arbatov's rebuff to Palme focused on the West's inability to rebuild its security capabilities while maintaining high interest rates.

Meantime, Capitol Hill sources report that support for the President's economic package is cracking. They say that Tip O'Neill's statement on June 18 that the House budget resolution that passed a month ago might well fail if voted on today, is close to the truth. These sources stressed that the growing Hill resistance to Reagan's budget and tax policies and Volcker's interest-rate policies are not restricted to the O'Neill Democrats.

Last week, scores of moderate House Democrats and long-term committee chairmen temporarily combined with O'Neill's forces to undermine White House attempts to permanently reduce congressional authority over budgetary decisions.

The White House will probably be forced to back off and not propose a substitute budget resolution over and above the heads of the House committee chairmen. On June 18 it was revealed that the Democratic combination had succeeded in splitting the Conservative Forum of House Democrats who voted en masse with the President

on the original House budget resolution. The shattering of Reagan's conservative Democratic bloc coincided with fresh signs that a significant number of House Republicans would also not support a substitute budget resolution. Hill observers say that if the President backs off on June 19, House authority on budget and tax policy will reassert itself.

Importantly, last week a powerful and expanding group of moderate Senate Democrats centered around David Boren of Oklahoma revealed that they will be going on a full-scale propaganda mobilization during the budget debate to attack the Fed's interest rate policy. This week, sources close to the House leadership reported a similar group there, headed by Bill Alexander (D-Ark.). These sources predicted that a parallel propaganda attack on the Fed and its policies would be launched during the House budget debate. These public attacks on the Trilateral economic package do not reveal the depth of private concern on Capitol Hill. One high-ranking Republican senator said that at meetings at the White House between David Stockman, Treasury Secretary Donald Regan, along with senate committee chairmen Dole, Hatfield, Garn, and Domenici, the Volcker interest rates has been a topic of Hill warnings for the past month.

The sudden galvanizing of House Democratic resistance to administration budget maneuvers can be attributed to the recent savaging of the already passed 1981 budget conducted by Stockman, according to one Democratic House committee chairman. Stockman, he says, has terrified congressional leaders by seeking serious rescissions in the 1981 budget outlays for "bare bones" projects—basic infrastructure. What congressmen are beginning to see in administration budget activity is a "blank check" for continuous rescissions that will ultimately involve the 1982 budget at the end of this year. As stated by administration officials one month ago, while the OMB was proclaiming the need for an additional \$5 billion in cuts in the '81 budget, unexpected high interest rates had ballooned the projected deficit—requiring further cuts. Sources close to the White House report that if interest rates remain high, the next area of the budget that will begin to be trimmed is defense.

Reports from the Pentagon now indicate that projected outlays for the soon-to-be announced U.S. strategic modernization program—sure to include the MX missile, Stealth, and possibly a new manned bomber—will not include what most defense experts confide is essential—the beginning of a new ABM system—and all of this without even considering the possible need for even further cuts.

The touch of Stockman's blade within what most committee chairmen already consider a starvation budget is now beginning to sow the seeds of political disaster on Capitol Hill.

'Only the Reagan administration can stop World War III'

by Lyndon H. LaRouche, Jr.

Following are excerpts from the address by Lyndon H. LaRouche, Jr. before more than 120 U.S. businessmen, government officials and 20 embassies at a June 10 Washington seminar sponsored by EIR.

It is the increasing perception of forces on both sides of the East-West divide that Mitterrand's election in France has set into motion forces which might lead to World War III sometime in the course of the 1980s.

I will emphasize that while there are specific features of the Mitterrand victory which do in fact threaten to destabilize the world's affairs to the point that an otherwise unthinkable thermonuclear war might occur, the reason this is possible is the fact that the measures of Mr. Paul Volcker at the Federal Reserve, and his accomplices at that generous institution in Switzerland called the Bank for International Settlements, are so destabilizing the political as well as the economic structure of nations that the world has entered an area of potentially incalculable instability.

We face a potential world depression far worse than that which beset us in the 1930s—that beset us between the two preceding world wars of this century.

For example, in the United States we have about \$3.5 trillion invested in real estate. This is to be compared with approximately \$700 billion invested in goods-producing capacities.

The effects of the Volcker measures since October 1979 have been to slash the goods-producing sector's utilization of capacities by about 20 percent in 1980. At the current rate, assuming no crisis-point of inflection, the goods-producing capacities of the United States are scheduled for a further 25 percent collapse during the course of 1981—a process which began to take off at the onset of the second quarter. . . .

This situation in the United States—with diminishing goods-producing capacities and over \$1 trillion in speculative real estate values in New York City alone—is only an extreme case of the problem which pervades economies throughout most of the world, especially the OECD countries. Except for Japan, all of the OECD countries are in states of monetary disaster, such that if the United States were to collapse in October or Decem-

ber of this year—it's quite possible unless the Volcker measures are reversed—it would trigger a chain-reaction which the other OECD nations could not resist.

When you look at the situation in developing nations, even those that are relatively strong, it is clear that they too could not withstand a chain-reaction of that type. . . .

This intersection of factors—the potential explosion of the U.S. economy, the potential explosion of the monetary structure of the Third World—means a general monetary collapse which could lead to conditions which are unprecedented in European history since the middle of the 14th century. It would represent a general collapse not only of the monetary economy, but a collapse of the output ratios of the world's population so far below the required level of production that would maintain the existing population, that a chain-reaction of genocide would erupt and spread even into the industrialized nations—as a result of the collapse of goods-production, food and other goods, below the level required even to maintain existing population.

We are on the verge of the worst holocaust in modern European history, something far worse than we have seen in this century to date.

But for precisely that reason, many people just don't believe it. They cannot take it seriously, because it is unprecedented. Ah, but sometimes the unprecedented does become reality.

How could this depression become reality? Inside the industrialized economies, we have two categories of payments. One category is the circulation of money through the production and circulation of newly produced goods, and the payment for administration and services adjunct to that production and circulation of produced goods. We have a second category of payments which may or may not be related in some sense; these are payments which have to be met out of the proceeds of goods production: fixed obligations of debt-service and rent.

Consider this in light of what I said at the outset. If the magnitude of debt-equity and debt-income obligations is what it is, and if the ground-rent capitalization in the U.S. economy alone—\$1 trillion in New York City—is what it is, if you contract the goods-production capacity of the United States by 20 percent in 1980, and you

are on the road to contracting it by 25 percent more in 1981, then who is going to pay the rent? Who is going to pay the debt-service?

Are we producing the wealth in terms of present denomination of values of goods that will permit these obligations to be paid without forcing people into genocide? No, it can't be done!

At the present rate, it would be reasonable to say, not that the depression will break out worldwide in August or September of this year, but that we are totally fools unless we take measures to prevent that *now*. We must have those measures in place before August and September, or we may find ourselves in an irreversible situation.

It is that problem—and the instability of institutions under these conditions—which is leading us toward World War III.

The role of institutions

It is a delusion to imagine that general thermonuclear war could not happen—"because people are too rational, and at the last minute they'd stop it." I'm sorry. That's bunk. That is not the way history works.

The human race does not behave rationally. Rationality affects the way the human race behaves, but it has not to date behaved rationally. Governments have not behaved rationally in the history of humanity to date, even though rationality has affected them. Governments behave on the basis of the impetus built into existing institutions. When those institutions are impelled to act on the basis of narrow institutional interests, they carry people along with them.

For example, the Reagan administration knows that Paul Volcker has to go. Why does not President Reagan call up the relevant people in the Congress and dump Mr. Volcker immediately? Ah . . . there are institutional implications! There are problems within the Republican Party as well as the Democratic Party, people who oppose dumping Volcker. The President cannot be sure that were he to make that decision, even the majority of his own party would support him. And the President is assured that perhaps a majority of the Democrats led by Tip O'Neill would oppose him.

That's how it happens. Institutions find themselves caught up in a step-by-step process. "We'll just make this concession. We have to be practical. We have to go along with this," etc.

Let me give another example. The truth is known about who's running that little destabilization in Central America, which I hope that López Portillo and President Reagan will help to clean up. That bloodbath in Central America is being run by the Socialist International. Now if you don't like it, and think the destabilization of Central America is a strategic threat to the United States, and you think that Castro's involvement in it is a strategic threat to the United States, then

remember who brought Castro into Central America! It was Willy Brandt! Who funded the operation into which Castro was brought? Two billion deutschemarks paid for by the German churches, together with the Socialist International, the Friedrich Ebert Stiftung which is all over Latin America.

The United States government knows that. Giscard's government knew that and told us about it. I am sure that Helmut Schmidt knows it. But Schmidt has a problem. Half the nuts who are behind this thing are members of his own party, like Willy Brandt. . . .

Therefore, in real politics, even though we start from reason in making policies, and we have determined objectively what we have to do, before we start to do it we have to look at institutions. . . .

Institutions are important, but they do not determine the course of history. What determines the course of history is the thing that moves institutions or determines the conditions under which they respond. You might say that these forces are the "transfinite." And just to the extent that a policy—for example the policy outlined by the New York Council on Foreign Relations a few years ago, "controlled disintegration of the world economy"—promotes chaos, then to that extent, it does not work the way those who promulgated these policies intended. If you change institutions then you change the geometry for institutional behavior. You find you've done something and you've gotten by with it, you made the decisions, and then turn around and find out that you are now on an unstoppable course toward something that you would never willingly have happen, but you can't stop it, because you can't stop the institutions involved.

We have to take the shaping of the situation facing the world's institutions out of the hands of the people who are now directing this policy, out of the hands of the people who are behind the statements of Fritz Leutwiler and the Swiss Central Bank, out of the hands of the people who are running Paul Volcker.

There is only one institution in the U.S., and in the world, that can save civilization from world war right now: the Reagan administration. Nothing but the Reagan administration can stop World War III! If you destabilize the Reagan administration, you remove the last possible option to preventing World War III. . . .

Credit, banking, and taxation

What we have to do in the United States and in other countries is to institute a fundamental change in credit, banking, and taxation policies.

We have to make investment in high-technology agriculture, high-technology industrial investments, manufacturing, construction, so forth, the most profitable after-tax investments, not only from the standpoint of the individual farmer and firm, but from the stand-

point of the saver who buys equities or whose savings become loans. We have to increase the tax-rate, in terms of eliminating tax exemptions, on things which aren't productive. Very simple thing to do. I can think of no policy that would bring greater support from the greatest number of constituencies in the United States than to say that the only tax reduction we're going to make, except for direct jobs-producing productive investment, is an increase in the per capita household income tax exemption. And it also happens to be very sound economics.

Banking? We've too much credit extended for non-productive things. We have to reverse that, and ensure that when we increase credit, that we do not increase the circulation of credit outside of the production and circulation of newly produced wealth. The banking system has been dirigist in favor of moving away from industrial society. We're going to reverse this.

We have to regulate the banking system, which means we have to regulate Paul Volcker out of a job.

Congress can reaffirm that the President has the power to replace any member of the Federal Reserve who was appointed by a President of the United States, the same as any other government appointee.

How are we going to create credit? At present, we are importing funny money. We have granted to private offshore foreign banks a power to print dollar credit which we do not allow to our own banking system or our own government. Therefore, the Federal Reserve System and the United States government must enforce the principle of regulation of banking. We must demand transparency of any bank that wants to do business in the United States. And we have to go back to the gold reserve system—\$500 per ounce or higher.

That simple action would permit us to wipe out immediately the main cause of international inflation. Except on a gold reserve basis, none of that funny money would be recognized.

How do we create credit? We issue gold reserve-backed U.S. currency notes, not for circulation, but to be issued as participation credits for production-related loans in agriculture and industry. Essentially, what this means is that the Federal Reserve is turned into a national banking institution.

This is what we did essentially in the Reconstruction Finance Corporation operation of the last war. It works. The United States can issue credit at 2-4 percent on the basis of currency notes which are fully secured by the value of the assets against which they are loaned to the private bankers. On this basis, we could crank into the U.S. economy as much credit as we need on a selective noninflationary basis. We could probably increase the output of the real goods-producing economy by 20-25 percent within a year. Every dollar that went into circulation by that method would be gold-secured dol-

lars—and we have the gold to do it—for purchase of capital equipment, purchase of construction, purchase of improvements in agriculture, and purchase of goods for productively employed people. Thus, we increase production and employment. Don't worry about stopping inflation. This would stop it cold.

Apart from our domestic crisis, there is the Third World debt problem. The Third World cannot pay its debt. The banker says, I have this debt, this country over here owes it to me. He can't pay, so I'm going to refinance it. But—that debtor is unable to pay! That debtor is bankrupt!

What do you do about this worthless paper? Forget it! If nations agree, we can issue certificates, gold denominated, from banking institutions in those countries, which don't come due for a long time.

Now David Rockefeller can get lendable funds for Chase Manhattan on the basis of the discount of these certificates. The only catch is that they would have to be loans related somehow to the improvement of the real, hard-commodity side of the economies to which the loans are made.

If we do this, we have created the greatest opportunity for economic expansion the world has ever known. We could probably expand world trade between \$200-\$300 billion per year. Why? Because the developing countries become a good investment. As a whole they are a 15-25 year investment; in others, it will have to be a 50-year investment. What makes them good investments? They have people! People can be educated. An educated person who has the technology can produce a great amount of wealth! Provided we limit our lending to those purposes that increase the productive power and output of these developing nations, we have created the greatest investment boom in history.

The United States government under President Reagan is the only possible instrument in sight which can save the world from disaster. We have to get rid of the nonsense that is coming out of the *Washington Post* and the *Wall Street Journal* and produce a community of agreement on what works in shaping government policies to replace the so-called authorities that are actually incompetent in existing institutions.

That is the thing I intend to do. Produce new thinking institutions. And I hope that some of you will join me in that. We must do some of the same things that the friends of Leibniz and others did. I have tried to contribute to that with the work on the LaRouche-Riemann model, and in other ways. To build a new school of management and government policy preferably here in Washington, in which not only U.S. nationals but people of other nations can participate in. A new think tank to replace the Brookings Institution, in which we can formulate and disseminate the ideas that can shape the policies we need.

A summer offensive against Paul Volcker

by Anita Gallagher

The most intense activity to date is emerging in Congress to bring down the interest rates that Paul Volcker's Federal Reserve has deliberately driven to 20 percent levels. This was indicated by Sen. David Boren (D-Okla.), who rose on the Senate floor June 16 to denounce the effect of the Volcker measures on savings and loan institutions, on farmers, and on small businesses—concluding: "I would also serve notice that until the administration acts and until the Congress acts, I intend to come to the floor each day that we are meeting to call the attention of the members of this body to the dire threat posed to our economy by the short-term high interest rates and our inaction in doing anything to meet this crisis."

At the same time, Sen. John Melcher (D-Mont.) has organized a series of public policy forums to be chaired by himself, Senator Boren, Sen. David Pryor (D-Ark.), Sen. Edward Zorinsky (D-Nev.), and Sen. James Sasser (D-Tenn.), who last month introduced a resolution to bring down interest rates. The Melcher hearings are intended to provide evidence in support of future anti-Volcker actions by legislators. A June 25 hearing to examine the affects of the Volcker measures on the farm sector will hear testimony from the Farm Bureau, the National Farm Organization, the National Farmers Union, the American Agriculture Movement, the Milk Producers Association, and others.

"We think the hearings are big news," a spokesman for Senator Melcher said June 16. "The Senator is determined that the interest-rate situation is not going to continue without a great deal of attention from his office."

Meanwhile, on June 22, the National Coalition to Reduce Interest Rates, headed by Stan Hoynitski, the leader of the Pennsylvania auto-dealers association, will hold a press conference in support of such action, with leaders of farm organizations, trade unions, businessmen and others. The executive board of the United Steel workers of America will be represented. At a demonstra-

tion and lobbying drive on Washington in March, the coalition brought over 1,000 people to demand Volcker's ouster from office.

The spokesman for Melcher's office was asked if he thought Republicans might join Senate Democrats on the issue. "There is a great potential for a lot of defections from the Republican side," he reported. The interest-rate resolution introduced by Senator Sasser in May was defeated by a vote almost strictly along party lines—most Republicans who opposed interest rates were at the time afraid that a vote for the resolution would be interpreted as an attack on President Reagan. Senator Melcher's intention now "is to form an Interest Rate Caucus in the Senate and extend it into the House," according to the spokesman. He and Senators Boren, Bentsen (D-Tex.), and Jackson (D-Wash.) met on this subject June 16. "It will be a group that will meet regularly and go after high interest rates."

It is expected that Senator Boren will ask for approximately four hours of time on the Senate floor, perhaps on June 23, to discuss the interest-rate question. On the same day, Boren will submit a resolution to the Democratic Caucus because "some immediate action needs to be taken on interest rates."

'Emergency cure'

In his speech to the Senate June 16, Senator Boren declared: "I am talking about the danger facing the thrift institutions in this country caused by the short-term increase in interest rates—high interest rates which have brought homebuilding and other key segments of our economy to a screeching halt; high interest rates that threaten the basic health of the agricultural community in this country, causing many small farmers and particularly younger farmers, to be faced with a situation that is desperate indeed, some of them facing bankruptcy, some of them facing an inability to make payments on land that they are trying to purchase.

"I think we would have to be blind not to see the potential danger to the entire economy were we to have massive bankruptcies in agriculture and the forced sale of large amounts of land which are held as assets by many financial institutions across the country. . . .

"I have no doubt that the long-range cure being proposed by the administration may be basically sound . . . but what are we going to do with the patient in the short run? We might have the right answer to a long-range cure but the patient may die in the emergency room in the meantime if we do not do something. . . .

"If we allow massive unemployment and a total shut-down of the homebuilding industry and related industries in this country, we could so shake the confidence of our people in the ability to restore health to our total economy that we could not recover in the long run from the short-range disaster."

Senate committee restores some DEA funding

The full Senate will concur with the Senate Judiciary Committee's request to restore some funding to the beleaguered Drug Enforcement Administration, according to sources. In a June 15 floor statement discussing the 1982 Department of Justice authorization, Judiciary Committee Chairman Strom Thurmond (R-S.C.) reported "the [Judiciary] Committee agreed to most of the administration's DEA budget cuts with one exception—the reductions to the state and local task-force program." Defending the state and local task forces (50 percent of which would have been shut down) as "essential" and noting that the cuts are "inappropriate at this time," Thurmond stated that "the committee had included authorization for \$14,779,000 and 200 positions to be specifically used for the state and local task-force program. This represents an increase of \$5.9 million from the administration's request."

The House Judiciary Committee has passed an identical amendment and no opposition is expected on the floor of either the House or the Senate. However, funding for critical areas such as the Southwest Asian heroin task force and augmentation of intelligence functions at DEA are not expected to be restored.

Also on the drug enforcement front, Rep. Charles Bennett (D-Fla.) announced on June 11 that he and Sen. Lawton Chiles (D-Fla.) had introduced legislation to reform the federal bail laws by "authorizing judges to deny bond under certain circumstances to

those implicated in smuggling operations." Those circumstances include: having been previously convicted of a narcotics felony; being on parole or probation for a felonious narcotics offense; being an illegal alien; or being a fugitive from justice.

Emergency Preparedness cover for oil boondoggle

Bill Bradley, the Democratic senator from (Standard of) New Jersey introduced the "Emergency Preparedness Act of 1981," (S. 1354) on June 11, citing it as a necessary preparation for "the disruptions in our oil supply that are virtually inevitable over the next decade." While Bradley makes much of the fact that "relatively small disruptions . . . have had terrible consequences for our standard of living and for economic growth," his legislation, cosponsored by Sen. Charles Percy, the Republican from (Standard of) Illinois, would probably have an even greater consequence. Using the excuse of an oil crisis, the Bradley bill would cause a major redistribution of income in the United States—out of the productive sector and ultimately into the pockets of the multinationals who would rig a crisis in the first place.

In his floor statement, Senator Bradley warned that price controls in an emergency would be ineffective and called for "relying on market forces to distribute scarce supplies and determine prices."

Under the legislation, the government would then use the proceeds from an augmented windfall profits tax, increased transfer payments to low-income individuals,

and reduced income and payroll taxes to recycle money back to the population to pay for massively increased energy prices.

Bradley bluntly stated, "Adoption of this plan would send a clear and true signal to the nation, that signal being: prepare for rising prices during an oil-supply disruption. If Americans get that message, they will have real incentives to make arrangements that are best suited for their individual needs."

Inertial confinement fusion increases pass House

The House of Representatives passed the Department of Energy's national security program authorization (H.R. 3413) on June 11, including a 50 percent increase in funding for inertial confinement fusion energy programs.

In doing so, the House concurred with the conclusion of the House Armed Services Committee and its R&D subcommittee that the administration's proposed cuts in the inertial confinement budget would damage long-range U.S. national security interests.

Under the knife of postindustrial society advocate and OMB director David Stockman, the administration had proposed a fiscal 1982 funding level of \$106 million—\$34 million below the fiscal 1981 level and, according to R&D subcommittee chairman Sam Stratton (D-N.Y.), \$51 million below the level needed just to maintain the current level of effort in fiscal 1982.

In a floor statement during discussion of the authorization on June 11, Stratton said, "The sum of \$106 million would almost ap-

pear to be a guarantee of failure of a program that has a really remarkable prospect for the future, so the committee has recommended that \$50.6 million be added to the request to permit an orderly continuation of the research and development programs on glass and gas lasers, and also particle-beam fusion systems."

The Soviet Union has devoted substantial resources to the development of a particle-beam antiballistics missile capability which could significantly alter the strategic balance.

Congress raises questions on Israeli raid

Both Democrats and Republicans have begun to ask serious questions about Israel's raid on an Iraqi nuclear facility June 7. House Republican leader Robert Michel (Ill.), in what his staff characterized as "one of the most carefully worded statements he has ever made," stated on the floor of the House June 16, "I also believe it is in our interest to see to it that nuclear weapons do not proliferate in the Mideast—which, of course, brings up the question of exactly how many nuclear weapons Israel itself has and how it went about building them."

Otherwise, Michel's statement was characterized by a concern about the spread of nuclear weapons generally, and took a hard line both against the Iraqi nuclear facility and against Israel's "preemptive" methods. Michel added that "we, [the U.S.] cannot simply go along when Israel—or any ally—acts in such a way that our own long-range geopolitical goals

might be harmed. And one of our long-range goals is friendship with moderate Arab nations as well as with Israel."

In a related development, Mississippi Democrat and House Foreign Affairs Committee member David Bowen announced the release of a Congressional Research Service finding on aspects of the Israeli raid. Bowen, who had expressed deep concern about the raid the day after it occurred, and others had requested that CRS examine the validity of Prime Minister Begin's claim that Iraq was on the verge of producing nuclear weapons, and further that the Iraqi reactor had to be destroyed before it went "hot," or risk irradiating the population of Baghdad by destroying the reactor after it went operational.

At hearings convened to hear from the administration concerning the raid on June 17, Bowen announced that CRS had generally concluded that it would take Iraq 5 to 15 years to produce a plutonium-based weapon, assuming that all International Atomic Energy Agency safeguards were ignored. CRS also reported that, in the most extreme circumstances, the bombing of a "hot" reactor could release radiation at levels which might prove lethal to a Baghdad resident if such a resident was exposed for 62 million hours. The report concludes that, unless the Iraqi nuclear reactor were hit with a *nuclear weapon itself*, danger to the residents of Baghdad was "most unlikely."

Bowen asked a State Department witness if Prime Minister Begin's claim to be protecting the residents of Baghdad from irradiation could be added to the list of

other Begin-acknowledged "erroneous" statements. The State Department official declined to respond.

GOP senators out to cut FEC

A move is afoot in the Senate to authorize funds for only a 6-month period for the rogue Federal Election Commission, instead of the normal year-long authorization. An amendment to that effect is being sponsored by Senators William Armstrong (R-Colo.) and Roger Jepsen (R-Iowa), who see it as a first step toward abolishing the agency. The proposal, scheduled to come to the floor of the Senate possibly during the week of June 15, is opposed by Senate minority Leader Robert Byrd (D-W. Va.).

Majority Leader Howard Baker (R-Tenn.) is reportedly proposing a compromise which would include holding hearings in late July on the FEC as a springboard to legislation which would end the FEC's enforcement and investigative powers.

A minor furor was caused in Washington recently after the distribution of a leaflet by the Defense Committee for Machita and Mowgli LaRouche. The leaflet featured pictures of Irish setter Mowgli and gray cat Machita, who are the subjects of an FEC investigation concerning property damages they caused during the New Hampshire primary presidential campaign of their owner, Lyndon H. LaRouche. Budget-conscious Republicans apparently think federal tax dollars can be spent in more critical areas.

National News

Haig designate visits Colombia and Venezuela

Thomas Enders, Alexander Haig's as yet unconfirmed Assistant Secretary of State for Inter-American Affairs, has recently traveled to Colombia and Venezuela, reportedly to "get to know" senior members of both governments and "orient himself" on the problems of the region.

There are signs, however, that Enders' trip may be aimed at cementing a U.S. alliance with Venezuela—a policy backed by Haig—and pressuring Colombia to join in the Secretary of State's military plans for bolstering "regional security."

Although President Reagan has indicated that he wants to work closely with Mexico to resolve problems in the Caribbean/Central American region, Haig is publicly organizing for a closer relationship with Venezuela's Social Christian government. Two weeks ago he met at length with Venezuelan Interior Minister Montes de Oca in Washington, and he reportedly stressed Venezuela's role in guaranteeing regional security against "Cuban subversion." The sale of F-16 jets to Venezuela—now under consideration by the Reagan administration—is also thought to be strongly backed by Haig.

Court backs Justice's RICO interpretation

The United States Supreme Court on June 15 endorsed the Justice Department's interpretation of the Racketeering and Corrupt Organizations (RICO) statutes. The Court decided by a margin of 8 to 1 to overturn the standards previously set for RICO by the U.S. Court of Appeals for the First Circuit and upheld the DOJ's wider-ranging interpretation.

The First Circuit had ruled that the target of RICO as discussed and voted by Congress was the "investment" of

criminal revenues in legitimate business, e.g. the laundering of narcotics monies. The Justice Department argued that RICO be applied not only to legitimate business affected by criminal organizations, but to those organizations themselves, giving the Court the impression that RICO would be used to bust up the drug-smuggling business itself.

The Supreme Court has apparently learned nothing from the Abscam cases. Under the First Circuit's rule, RICO is quite sufficient to nab the drug trade's money laundering capacity, which the DOJ has studiously avoided. The First Circuit rule was, however, insufficient for purposes of proceeding from frame-up convictions of labor leaders to prosecution of their entire unions, pension funds, and allies in business and politics. The Supreme Court has now pushed the door wider for just such operations.

Transit collapse triggers huge fare hikes

New Yorkers will be slapped with a 75 cent subway fare July 3, a 25 percent hike from the present 60 cents, and the fare may hit \$1.00 in October. Boston's fare may rise to 75 cents this summer, while in Philadelphia, a boost to 70-75 cents could include termination of the half-price student fare. Cleveland wants to hike its fare to \$1 by next year. Chicago, with an 80 cent fare, may beat that timetable.

The increases are the result of skyrocketing budget deficits in urban mass transportation systems throughout the nation. Years of economic decline have prevented expansion and modernization of transit systems; routine maintenance has been cut so severely that operating costs are veering out of control.

High interest rates have driven operating costs and debt-service charges far beyond stagnant fare-box revenue, while budget cuts decrease transit subsidies.

In Chicago, a legislative impasse on additional funding mechanisms threatens to shut down the regional transportation system. New York's Governor Hugh Carey has placed New York City's

transit system under the virtual control of an advisory panel comprised of the same people who ran the original Big MAC in the city's 1975 fiscal crisis, including Felix Rohatyn.

California liberal raises rents

Nancy Pelosi, the California Democratic Party chairman and the only woman chair of a major state, grabbed headlines this month following a complaint brought by tenants in an apartment building bought by Pelosi and her husband Paul, the president of Financial Leasing Services. The tenants complained to the San Francisco rent board that the increases of 100-150 percent imposed by the Pelosis are illegal. The standard rent increase in the city is 7 percent a year.

Many of the tenants are senior citizens. They had paid \$200-250 a month before the Pelosis bought the building and are now to pay \$500.

To prevent the story from reaching the press, the Pelosis promised tenants "who can't hack it" \$500 to move. Mr. Pelosi, however, also warned tenants that if a complaint was filed, he would withdraw the offer, according to the *San Francisco Examiner*.

Pelosi is the daughter of former Baltimore Mayor Thomas d'Alesandro, Jr.

Watt sends anti-mining environmentalists packing

Secretary of the Interior James Watt announced last week go-ahead for a long-planned reorganization of the department's Office of Surface Mining (OSM) which will cut back environmentalist pockets in the Denver and Kansas City OSM regional offices and shift personnel to OSM state "oversight" offices in the coal-mining states, despite a last-minute attack on the plan by Denver's Demo-

cratic Representative, Pat Schroeder. Schroeder and House Budget Committee Chairman Sidney Yates had inserted language in the lengthy budget from the Budget Interior Subcommittee prohibiting use of 1982 funds for transfer of the Denver regional office to Albuquerque, New Mexico, and Caspar, Wyoming. At a hearing of the Government Operations Committee in Denver, they claimed that transfer of the office would "cost more than the savings" and cause "punitive hardships" to employees. The Watt plan has been in the works since the 1977 Surface Mining Act provided "state primacy" for enforcement of environmental policies.

The Interior Department said that agreements have already been reached with the key coal mining states of North Dakota, Wyoming, Montana, Colorado, New Mexico, and Utah, and that review of the policy by the National Federation of Federal Employees had already occurred.

Surgeon General nomination stalled

Dr. C. Everett Koop, a world-renowned surgeon with the Philadelphia Childrens Hospital and national prolife spokesman, again had his nomination for Surgeon General placed "in limbo," according to Sen. Orrin Hatch (R-Utah), chairman of a House-Senate Conference Committee, after House conferees defeated a special rule to waive the 64-year-old age limit for the Surgeon General post.

Koop, who is 64 this year, will continue pro tem as assistant secretary of health, where he oversees the Center for Disease Control at Atlanta. Hatch, however, said he expects measures to be introduced to remove the obstacles to Dr. Koop's confirmation. Although liberal media painted the doctor simply as an opponent of nonmedical abortions, he is a sophisticated opponent of neo-Malthusian doctrines of population control such as euthanasia, death-with-dignity for the elderly, gay liberation movements, por-

nographic "sex-education" and other policies he believes are eroding the Hippocratic code of the medical profession and leading America to a policy of "eliminating useless eaters."

Appeal issued for Haig to resign

"A resignation from the cabinet by Secretary of State Alexander M. Haig at this time would go a long way in restoring the seriously endangered stability of the Reagan administration," announced *EIR* founder Lyndon H. LaRouche, Jr., chairman of the Advisory Committee of the National Democratic Policy Committee on June 16, pointing to Haig's "instrumental role in assisting the formation of the criminal association known as the P-2 Lodge since at least 1969, when he was Henry Kissinger's subordinate."

The NDPC statement asserts: "The controlling financial-political entity behind the P-2 Lodge was the Trilateral Commission and the banking syndicate known as the Inter-Alpha Group, which is connected with David Rockefeller's Chase Manhattan Bank. The secretary of state has been associated with the P-2 Lodge continuously from its inception; not only via his ongoing political association with Henry Kissinger, now the executive director of the Trilateral Commission and member of the International Advisory Board of Chase Manhattan; not only by Mr. Haig's own recent membership on the Advisory Board of Chase Manhattan; but also now, during his service as Secretary of State, by means of his ongoing relationship with Undersecretary James Buckley.

"Buckley's presence at the State Department represents the most salient presence of organized crime within the DOS . . . [as] a channel of influence for the notorious East Side Conservative Club of New York, which is connected with P-2 Lodge figures in Italy and also counts among its prominent members organized crime-linked attorney Roy M. Cohn."

Briefly

● **JAMES EDWARDS** surprised attendees at the June 15 Paris meeting of the 21-nation International Energy Agency by opposing the IEA's traditional call for more belt-tightening on energy consumption. The U.S. energy secretary also called on delegates to make a stronger commitment to nuclear power.

● **FRANK HAIG, S.J.**, chairman of the physics department at Baltimore's Loyola College, believes that the "nation-state is obsolete" and should be replaced by a "planetary culture" based on what he calls "international television programming." In an interview forthcoming in *Campaigner* magazine, the secretary of state's brother reveals that he is a member of L-5 and the Planetary Society, groups that promulgate a science-fiction approach to space exploration and seek to make contact with extraterrestrial beings. Alexander Haig recently headed Loyola College's fundraising drive at his brother's request.

● **PRINCE CHARLES**, through the Rank Corporation, an Eagle Star Insurance subsidiary run by the royal family, controls a slice of New York's 42nd Street pornography district. It is not known whether Charles visited this piece of family property during his recent 24-hour stay in the city.

● **GALE VAN HOY**, president of the Houston-Gulf Coast Building Trades, has released a study correlating the hiring policies of non-union contractors with drastic increases in crime in communities where their projects are under way. The 1975-80 study focuses on Brown & Root Company, a sponsor of the right-to-work lobby.

● **ROBERT KENNEDY, JR.**, son of the late senator, told a rally of California environmentalists, "I wish personally I could get the Israeli Air Force to do to the El Diablo nuclear plant what they did to the Iraqi nuclear reactor."

That Alaska gas pipeline

If Reagan approves the Carter administration's plan, he may well find it politically, as well as financially expensive.

President Reagan is being asked by Atlantic Richfield, Exxon, and British Petroleum's Sohio subsidiary for a little assistance. These companies want to help out the embattled Alaska Natural Gas Transmission System (ANGTS), and specifically, Northwest Alaskan Pipeline Co. They want Congress to amend the 1976 Alaska Natural Gas Transportation Act, which forbids gas producers from holding equity in the \$30 billion project.

John G. McMillian, chairman of the Salt Lake City-based Northwest Alaskan Pipeline Co., has just sent Energy Secretary Edwards a lengthy memorandum on how such a change in the law could help finance the costly pipeline.

Alaska has staggering amounts of untouched gas and crude oil reserves. Development and delineation of the remaining unexplored regions is, rightly, a major priority of the Reagan Interior and Energy Departments. A recent U.S. Geological Survey estimate is that Alaska holds between 61 and 164 trillion cubic feet (tcf) of gas in recoverable form. Prudhoe Bay field alone holds some 26 tcf of proved reserves. If the proposed Alaska Highway Pipeline Project is completed, Prudhoe Bay, at a daily flow of 2.4 billion cubic feet per day could supply 5 percent of the U.S. "lower 48" states consumption until at least the year 2000. For Alaska to deliver its vast gas reserves to the rest of the country, an economic

means of bringing it there must be put in place.

Alaskan gas will be a great benefit to the United States, no question about it. But there are some facets of this particular Alaska Highway Pipeline Project that the President and members of Congress ought to know about.

First, this proposal was selected by President Jimmy Carter in September 1977. Mr. Carter, no doubt with the advice of his Rand Energy Secretary James Schlesinger, chose the most complicated and costly option. Was there method to his madness? To evaluate this, it is useful to look at the options Carter had to choose from.

From independent accounts, by far the most feasible and sensible option was that of the El Paso Liquid Natural Gas Co. It would have provided 3.5 bcf per day of North Slope gas, almost 50 percent more than the present proposal. The proposal, the Trans-Alaska Natural Gas Project, would have built an 809-mile parallel pipeline from Prudhoe Bay to Prince William Sound for liquefaction, and have shipped gas to the West Coast of California, where it was to be regasified and piped through an existing pipeline system to the rest of the country. In 1975, cost would have been \$7.9 billion, somewhat less than our present \$30 billion project. It had the further advantage over the Carter choice in that it did not depend on the caprices of

the Canadian government of Pierre Trudeau, with its National Energy Program to retroactively nationalize 25 percent of U.S. oil and gas companies.

Now, one reason the costs have soared for John McMillian's proposal that Canadian officials have added huge environmental costs. Mitchell Sharp, a member of the antidevelopment Trilateral Commission who also heads Canada's Northern Pipeline Agency, is most eager for Reagan to give Arco the green light "and get the project over with very quickly." Is he looking forward to tax revenues from a pipeline that carries U.S. energy to U.S. industry? Or is this a way to knot U.S. energy delivery into another tangle of delay?

The White House should also be very clear about who it is dealing with. Of course, the fact that former Carter campaign head Robert Strauss has been flying across the country with his friend John McMillian to lobby for this Alaska Highway Pipeline Project, is not damning in itself. And the fact that John McMillian was a heavy Carter campaign backer—we all make mistakes.

Robert Strauss is using his influence, according to a very reliable source, to get the Reagan administration to approve the entry of Exxon, Arco and Sohio into the pipeline of Mr. McMillian, and give them preferential treatment. The President could well be playing right into the hands of the wily Mr. Strauss and his friends Tip O'Neill, Ted Kennedy et al. who would love to accuse the President of "giving handouts to the multinational oil companies" while he cuts Social Security. I would watch this one closely, Mr. President.



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