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Shakeups within the Democratic Party
Principles of statecraft for North-South policy
After Poland's congress: 'wartime' austerity

Ten years since August 15, 1971: from dollar bankruptcy to breakdown

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EIR

From the Editor

The interest-rate question is now at the center of legislative and executive discussion internationally. Front pages around the world carried West German Chancellor Helmut Schmidt's statement that Bonn cannot meet NATO's demands for military spending increases—because of Federal Reserve Chairman Paul Volcker's policies. To date, however, the news media have blacked out the extraordinary near-unanimous vote in the U.S. House of Representatives, and unanimous vote in the U.S. Senate, condemning high interest rates, as well as the binding resolution introduced in both houses thereafter by Sen. John Melcher to require the President to take action to bring rates down.

Our Special Report by Economics Editor David Goldman documents how the Aug. 15, 1971 break with gold opened the way for debt havoc, diversion of productive investment, and monetarist credit policies.

This week's Economics and National intelligence provides the background to this explosion, including *EIR*'s analysis of the resistance to the IMF's fiscal austerity push, and our exclusive interview with National Democratic Policy Committee chairman Warren Hamerman on the interest-rate fight and the counterattack against the Social Democratic infiltrators in his party.

We also present two economic policy documents by *EIR* founder Lyndon H. LaRouche, Jr.: advance publication of the letter of transmittal for the booklet "Principles of Statecraft for Defining a New North-South Policy," which invokes the American colonists' revolt against the British ban on industrial development; and "The Lessons of Nazi Jet Aircraft Development," which describes how Hitler took advantage of the strong residue of German scientific, industrial, and patriotic capabilities—and warns today's neo-Schachtian planners that in the United States they now lack comparable capacities to loot! Accompanying the document are interviews attesting to the levels of strategic self-delusion now reached in Anglo-American circles.

Robyn Quijano

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Special Report

President Nixon in 1972 with current Reagan advisers and officials Caspar Weinberger, George Schultz, Arthur Burns, and Herbert Stein. UPI

International

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U.S. and Germany to buck the IMF?

by David Goldman, Economics Editor

Central bankers and officials of the International Monetary Fund like to explain to national governments that if they accept the bitter medicine offered them, they can expect at least economic stability in return. That is the content of the International Monetary Fund's "World Economic Outlook" paper published in June, and it summarizes the economic arguments underlying the group-therapy sessions for recalcitrant national governments at the Ottawa summit meeting July 19-21.

To an extent that the West German government appears to understand, the IMF document is a witting hoax on part of the Fund's staff, promising to avert a disaster on the international markets if only national governments accept an appropriate degree of misery. The report's argument is both simple-minded and wrong (see Special Report). It says, in essence, that a reduction by half in the deficits of the industrial nations between 1981 and 1982, due to austerity measures, will enable the industrial nations to borrow less, so that the Third World can borrow more. This is silly, as we will show momentarily. At the Group of 30, the consultative group headed by former IMF Managing Director Johannes Witteveen, the report is thought of as a malodorous concession to "political" pressure on the IMF staff.

On this basis, IMF European Director Alan Whittome and his deputy Brian Rose turned up in Bonn in June, and virtually wrote the German council of economics advisers' report to the government, according to IMF officials. "We told the Germans that if they want lower rates," now "higher than at any time since the birth of Jesus," according to Chancellor Schmidt, "then they must cut their budget," an IMF official said. He added, "The reduction in the budget will make the public sector much tougher in negotiations with the unions in 1982. We need a further decline in real wages."

Noting the miserable situation in the German banking sector, where high interest rates have produced staggering losses on the banks' fixed-income bond portfolios, the IMF believes that this "has taught them a lesson. They will have to stop lending to the long-term government bond market, *given the fact that high interest rates will continue*. This can be handled quite nicely, provided the banks contribute to making the point that they will have to be more reluctant to finance the government deficit. They must join the lobby for budget reductions."

However, Chancellor Schmidt need only look across the English Channel, or for that matter across the Atlantic, to see the results of this approach. Britain's regime of interest rate-led austerity has already produced a 50 percent increase in the estimated public sector borrowing requirement for this year, while in the United States, Morgan Guaranty's economists think their present estimate of $68 billion for the fiscal 1982 deficit, although half again as large as the OMB's, is "too conservative." On some key issues, the Schmidt government is resisting, although the final outcome of the budget fight is far from clear. Schmidt has, for example, refused to chop a DM 500 million aid program for the Ruhr steel industry, without which major bankruptcies might pop up by the end of this year.

Contrary to the IMF's intentions, a number of large commercial banks are backing Schmidt's recalcitrance to

Chancellor Helmut Schmidt

adopt the Thatcher budgetary approach. They fear that the worst effects on West Germany will appear through a new dollar crisis (see Foreign Exchange). The Schmidt government is continuing to negotiate with the IMF, but has prepared a comprehensive set of exchange controls, i.e., a reverse declaration of monetary war against the IMF, as a contingency plan.

The second feature of the IMF plan applies to the United States, where the IMF's "surveillance report" of early July anticipated Defense Secretary Weinberger's July 28 pronouncement that the defense budget will have to be cut in terms of real expenditure in order to avoid inflationary overruns that might jeopardize the budget-balancing exercise. The United States will begin "recycling" dollars to the developing sector, the IMF believes, once "International Banking Facilities" (offshore-type banks on U.S. soil) open for business at the end of this year. In other words, they expect that the depression-caused collapse of loan demand in the U.S. will free liquidity for lending abroad to cover a major portion of the Third World's $96 billion debt service bill in 1981.

Opposition to the Fed

Despite the experience of the past six months, the United States may not be as easy a nut to crack as the IMF believes. Last week's Senate and House overwhelming votes against the Fed's high interest-rate program opens up maneuvering room in the American economic situation for the first time in months. As New York Fed officials noted, the next day's vote in the House in favor of the President's tax bill reflected overwhelming sentiment *against* the Federal Reserve's monetary austerity.

The main advantage to the economy in the progress toward passage of the tax bill is *not* what the tax bill will do for the the economy, but what it *might* do for the White House. *EIR* demonstrated in a computer econometric study summarized in this publication June 2 that the Kemp-Roth tax approach "will *not* stimulate economic growth as such, but spur an investment shift from 'sunset' to 'sunrise' economic sectors," with a net resultant decline in the total tangible product of the U.S. economy—*assuming that high interest rates continue.* However, the White House had circled the wagons around itself as long as the success of the tax bill remained in doubt, and the bill's passage will at least permit President Reagan to focus on other topics.

Including Japan, whose Prime Minister Suzuki used the Ottawa summit to try to enlist the West Germans in a mutual-defense agreement for their respective currencies against the IMF perspective, the three largest national sectors in the OECD group are not taking the IMF's medicine quietly. Schmidt and Suzuki, at least, understand that the issue is not to avoid a crisis by adjusting their internal and external payments situation per the demands of the IMF, but to maintain the integrity of the decision-making powers of their governments before a real crisis hits. For its side, the IMF does not care so much to avoid a crisis as to weaken national governments to the point that it can call the shots in the course of an international monetary crisis.

The monetary system does not work by adding up the surplus and deficits on both sides of national balance sheets, as the IMF's accountants present it. The problem is that commercial banks who already have twice their shareholders' capital tied up in bad loans to the Third World are now handling most of the $100 billion financing requirement of the Third World this year (see Special Report). To continue this they want to be guaranteed of liquidity that will remain in their political sphere of influence, because it is taken out of national economic sectors by political means. Regardless of the consequences for national economic sectors, the IMF is committed to grabbing hold of as much liquidity as possible. But it is perfectly aware that Europe's capacity to feed money into the offshore dollar pool is exhausted, and that nothing short of a brutal short-term drop in U.S. economic output will provide sufficient liquidity to keep the game going.

But the congressional votes of last week, as much as the recalcitrance of the West German government, show that the instinct of self-preservation has not abated in the industrial nations to the point that governments will ignore the fine print on the IMF's medicine bottle. The world is just short of a rip-roaring international fight over the interest-rate issue—which would be the best economic news in a year.

'War communism' austerity follows Poland's choice of new leadership

by Rachel Douglas, Soviet Sector Editor

The Ninth Congress of the Polish United Workers Party (PUWP), which met in Warsaw July 14-20, replaced 91 percent of the party's Central Committee and ousted 7 of 11 Politburo members. The nearly 2,000 delegates spent most of their sessions on the politicking that produced these changes, while they scarcely touched on pressing, substantive issues of economic stabilization and relations with the Solidarity trade unions.

Stanislaw Kania, the First Secretary, succeeded in the tricky political maneuver of satisfying both the reform-minded delegates and the Soviets. He won re-election after a vote for the Central Committee eliminated his two chief challengers, Gdansk liberal Tadeusz Fiszbach and Tadeusz Grabski, who had built himself up as Moscow's man for the job.

Whether Poland would survive was a question not answered so clearly.

Within three days after the congress adjourned, the Polish government gave its tentative agreement to a debt-rescheduling package profferred by the Western banks holding Poland's commercial debt. It then shocked the nation with the announcement of food price increases as great as 400 percent, and averaging 110 percent.

One Pole described the austerity measures as "war communism," which in Poland refers to the devastating decade of the 1940s—reconstruction after World War II.

The economy is not producing enough to keep itself going. Even this year's good crop will be diminished because peasants lack spare parts for machinery. The work force is not far behind its machines on the way to collapse; a Solidarity spokesman told the Paris daily *France Soir,* "Men in the factories no longer have the strength to work."

Poland's economic disintegration, ironically, should disabuse believers in at least one kooky geopolitical prognosis, namely that the Polish experiment in political liberalization will pluck a thread to unravel the Warsaw Pact as Eastern European nations, one after another, emulate the Poles. This is one version of the "crumbling empire" hypothesis, on the basis of which leading British think tanks and London's Foreign Minister Lord Carrington calculate their chances of striking new geopolitical deals with Moscow.

On the eve of the party congress, *Christian Science Monitor* columnist Joseph Harsch interpreted the military implications of the Soviets' losing Poland in this way—a removal of the Russian defense perimeter 500 miles eastward and the neutralization of every Warsaw Pact member except Bulgaria—as highly desirable for NATO.

Now, the problem with such hopes of a splintering the Soviet bloc is not only the danger of getting NATO into a strategic war with the U.S.S.R. Now, the project can hardly succeed: "The sine qua non for impact on other East European countries is solving the economic crisis," said one close observer of Polish politics, otherwise any other country will say, "look what a mess this kind of demand lands you in."

Polish model—for the West?

Coincident with Poland's announcement of austerity and acquiescence to the Western banks' terms for rescheduling the debt, there were calls for Poland to join the International Monetary Fund. Poland, evidently, is to be a model if not for the rest of Eastern Europe, then for returning *all* of Europe and other nations to postwar levels of misery.

Already, the Western bankers' agreement to reschedule the \$2.37 billion commercial debt payments falling due this year mandates IMF-style conditionalities. A quarrel between American and European parties to the debt negotiations was settled under the provision that Europe's preferred long-term deferral of the payments—over seven years—would be adopted, if the American conditions were also met: Warsaw must provide detailed economic information and guarantee it has a workable economic reform. The *New York Times* reported "speculation that Poland may apply to become the 41st member of the IMF" and the *Journal of Commerce* editorialized that this would be a "happier" solution.

Without waiting for the IMF to make its formal appearance, the Polish government followed its July 23 food price hike proposal July 26 with an array of drastic austerity measures. The emergency plan, billed as step one of economic reform calls for voluntary overtime at crucial factories; price increases on energy, household appliances, fuel and alcohol; reduction of housing construction and investment; shutdown of inefficient factories; reduction of energy and raw materials consumption. In the state stores, meat will cost nearly three times as much as before, bread triple, milk more than quadruple, and sugar quadruple. The average monthly food cost, said Price Commission chief Krasinski, would rise from $18.18 to $66.66 for the smallest spenders and from $45.45 to $121.21 for the top end of the scale. In addition, the monthly per capita meat ration will be reduced from 3.5 kilograms to 3 kilograms for at least two months.

Poland is in such narrow straits that the Commodities Credit Corporation line left over from 1980, released by the Reagan administration for use by the Poles to purchase 400,000 tons of chicken feed, will not effect a fundamental improvement. A new credit of DM 1 billion, contemplated by the West German Reconstruction Loan Corporation, will also be used for emergency purposes.

Prime Minister Wojciech Jaruzelski, in a speech at the end of the congress, heralded the price rises with the explanation that the government had somehow to close the gap created by a 23 percent increase in wages against a 15 percent decline in production, and even deeper fall in some critical sectors such as coal.

Whether Poland would survive was a question. But the party delegates barely touched on issues of economic stabilization. The work force is not far behind its machines on the way to collapse.

Solidarity, formed through strikes that followed a much more modest price increase announced in July 1980, is caught between renegotiating previously won concessions and striking once more with the result that its members will face even worse shortages, higher prices and shutdown of their places of work. Lech Walesa, the union leader, said July 23 that he hoped Solidarity would not just have "an influence on making lines longer . . . on there being less food." But Walesa then took to his bed, suffering from exhaustion, and others in the union are threatening to strike over meat shortages.

The Policymakers

Politburo lineup emerges in Warsaw

The method of voting used by the congress delegates, in the first secret-ballot elections ever held by a ruling communist party at a full congress, contributed to the clean sweep by newcomers. It also discouraged delegates from making their votes into positive endorsement of one policy or another; instead of voting *for* candidates on the basis of merit and platform, the delegates were invited to cross off 79 out of a list of 279 candidates for membership on the Central Committee. There were well-organized lobbies to defeat factional leaders and representatives of powerful regional party constituencies, so that most of the prominent figures from all factions lost. The party leaders of four key regional organizations, Warsaw, Gdansk, Katowice and Krakow (two liberals and two political conservatives), whom Kania had hoped to install on the new Politburo, all failed to make it onto even the Central Committee.

Only four members of the pre-congress Politburo survive on the new one. They are Kania, General Jaruzelski (who is also defense minister), Kania's ally Kazimierz Barcikowski, and Stefan Olszowski, the politically conservative economic reformer who has close links to East Germany and the U.S.S.R.

Two associates of Olszowski, with him the kernel of a group whose attempt to replace Kania was backed by the Soviet Union in June of this year, lost their Politburo and Central Committee seats. These were Tadeusz Grabski and Andrzej Zabinski. Henryk Jablonski, president of the Polish People's Republic for many years, relinquished his Politburo post, as did Mieczyslaw Jagielski, the deputy prime minister who handled the negotiations in which Solidarity was formed, and Gen. Mieczyslaw Moczar, the former security chief who was attempting to return to his 1960s status as a party power broker. Two workers put on the Politburo last spring were kicked off it, as were two regional officials, economic reform specialists, who had been deputy members. Deputy Politburo member Tadeusz Fiszbach, first secretary of the Gdansk party organization before, during, and since the great strikes centered in Gdansk, lost not only his Central Committee post, but also the chance to bid for Kania's job on behalf of the extreme reformist, anglophile wing of the party.

Into their shoes steps a group of people described by one expert as "unknown and unpredictable." Of the newcomers on the Politburo, only Foreign Minister Jozef Czyrek and former Interior Minister Miroslaw Milewski, criticized by Solidarity for his handling of the investigation of beatings of union members in Bydgoszcz, have national leadership experience. The others are four workers, three regional party officials, and two professors. One of the workers is a woman member of Solidarity, Zofia Grzyb; another, A. Siwak, is a Warsaw construction foreman who told the congress he knew of workers hounded to death by Solidarity—a speech much applauded by the Soviet media.

Three of the new Politburo's members have party jobs requiring their presence in a city other than Warsaw, and five others—the workers and one of the professors—have already said that they will keep their old jobs and give the Politburo just half their time.

Lack of leadership

A diluted Politburo was the natural result of this congress, which was dedicated more to finding fault with past leadership than with determining of how to lead Poland. The major business of the first two days of the congress was discussion of a report, drafted under Grabski's direction, on the misdeeds of former First Secretary Edward Gierek and seven of his colleagues—all of them out of office for 10 months. The debate dragged on until one frustrated delegate cried, "I cannot . . . endorse the fascination with the issue of the past. . . . There are forces . . . who would like to reduce the history of the party to an endless sequence of errors and distortions and who dream about a party constantly giving accounts of its real and imaginary faults, a party on its knees."

Establishing the principle of political culpability for policies that fail and instituting a statute that limits the holding of top party offices to two terms (10 years), the congress made leadership a dirty word. Kania himself said, "I have stated that I do not wish to be a leader, not only due to my parameters, but also due to the fact that then [in September 1980, when he was installed] and today, I am not sure that our party needs something called leader."

A congress workshop on the party's "ideological unity," one of 16 so-called problem teams where issues were discussed but no decisions taken, proved that the prevalence of Kania's middle road between "dogmatists" and "revisionists" may not be enough to keep the party glued together. The debate there was heated, reported the official news agency, over the historical role of the Polish Socialist Party, which merged with the communists to form the PUWP after World War II; that signals that the bid to turn the PUWP into a social-democratic party, and even the reconstitution of the Socialist Party as an independent entity, are still alive.

Addressing this problem team, Kania's associate on the Politburo, Barcikowski, recommended that the party improve its attitude toward the social sciences, whose work "we should all learn how to utilize." In Poland, that means to turn to a school of social science run by Prof. Jan Szczepanski, trainee of the Tavistock Clinic in Britain, birthplace of the most vicious techniques of psychological manipulation of labor and political leaders and populations. Szczepanski's professionals' ability to better predict the Polish crisis, which now seems to impress Barcikowski and Kania, must have been due in no small part to their intimate connection with the diverse intelligence operatives who ran the destabilization.

The general and the Soviets

With the weakening of the Politburo, Prime Minister Jaruzelski emerged during the congress as a pivotal leader for the party and the country in the immediate future. General Jaruzelski collected the highest number of votes in the tally for Central Committee, and it was he who broke the news of impending austerity to the congress. As a professional soldier and a member of the top Polish leadership since 1968, Jaruzelski also provides assurance to Moscow that Poland will be loyal to the Warsaw Pact.

Although the Soviet media withheld any enthusiastic endorsement of the congress, its secret-ballot elections, or its new statutes, having Jaruzelski and Kania in charge of stabilizing Poland suits Moscow better than a takeover of the party by its anglophile wing would have. By June 21, when the Soviet Politburo sent a telegram on Poland's national holiday, it was "Dear Comrades" again, instead of the cool "Esteemed Comrade Kania" with which Leonid Brezhnev offered congratulations and the icy "S. Kania"—no title—of the June 5 Russian letter written in anticipation of Kania's ouster.

Viktor Grishin, the Soviet Politburo member who represented Moscow at the Polish congress, expressed confidence in Warsaw's loyalty to the alliance and the party's "ability to restore the party's prestige in society." But in a speech at a Warsaw factory, Grishin expatiated on the Soviet Union's own gigantic burden of investments in Siberian development and the military. He managed to suggest that the U.S.S.R. would not rush to rescue Poland from biting austerity, as long as social calm and Warsaw Pact allegiance survived.

Interview

Commerce Undersecretary Olmer on trade and foreign investment

Lionel Olmer, undersecretary of commerce for international trade, gave the following interview July 20 to EIR*'s Stanley Ezrol. Mr. Olmer endorses the European Community's steel rationalization program, discusses restrictions on East-West trade, and outlines the Reagan administration's approach to trade with, and investment in, the Caribbean basin nations.*

EIR: The OECD nations are beginning their Ottawa summit today in conditions that many people describe as economic crisis conditions. I want to ask you specifically what the American response is to this.

Olmer: I would have to say, first off, that I don't see a crisis . . . but I do believe in a number of different areas that have been marked by sharp disagreement and have been marked by an intractable nature, we see hopeful signs. Energy consumption is being reduced. We think that inflation is ameliorating. We think that unemployment is ameliorating. We think our steel industry has used the protection afforded by the trigger-price system in a way I think many people believe would not occur, and they are turning things around. We see the beginnings of success flowing from the conclusion of the Multilateral Trade Negotiation Codes. (We have, as you know in Commerce, a major responsibility for the operation and implementation of those codes.) I mean by that government procurement in Japan, which I view as the single most important bilateral relationship the United States has. . . .

Some things that I think are improving in my area are U.S. dependencies on high-technology industries with respect to Japan. The two-way relationship with the Japanese is very important.

EIR: A recent OECD study projected unemployment rates as high as 24 to 26 percent throughout the OECD by 1982.

Olmer: I don't believe it. I just don't accept it. And I would even point to the success even in a preliminary way of Viscount Davignon, who has gotten verbal commitment on the part of some European steel community members to eliminate subsidies over a five-year period. That is because they recognize that subsidies do not improve the competitiveness of the steel industry in Europe; that, on the contrary, they continue to spoon-feed them in a way which pushes the problem off till tomorrow. That's on the one side, and on the other, that subsidies get them in trouble with respect to their needs for access to the U.S. market.

EIR: The Davignon Plan which you support has been called a rationalization plan which will shut down much of the European steel industry.

Olmer: Yes, that's what it is exactly. They're beginning to realize the free lunch has to stop. Why employ 500,000 people in an industry that can't support them?

EIR: A number of administration officials have said that they expect slow or flat economic growth for the United States through the end of the year, and the first quarter or beyond next year. This projection, coupled with support for policies like the Davignon Plan seems inconsistent with your optimism on unemployment levels.

Olmer: I agree with that projection. And I agree that more nations will be competing, in relative terms, for a decreasing export pie, and that means that we, in this country, have to get more competitive if we're going to maintain, or improve our market share. Now, is that inconsistent with what I just said earlier? I suppose that's possible, but it's not inconsistent with saying that that doesn't represent crisis . . . Japan is not going to have 24 percent unemployment in a number of years.

EIR: The OECD proposals involve looking for mechanisms to manage labor relations and control wage increase, for example, worker participation.

Olmer: I get mixed reviews on the experience so far in terms of worker participation. Some people who I view as really conservative by U.S. convention have nonetheless said, "You know, in Germany it seems to have worked fine."... Doug Fraser is on the Chrysler board of directors and I've talked with him and the people at Chrysler about it, and it ain't all bad . . . it may work.

EIR: A number of people inside and outside the administration have said that the United States and other Western "free-market economies" should use various aspects of economic activity to at least ensure that we don't help salvage the East bloc from collapse, and perhaps to help push them over the brink. How do you see that in terms of your role at the International Trade Bureau?

Olmer: I think that's absolutely right. I believe we accord more power and authority to the Soviet Union than it deserves. . . .

My own feelings about East-West trade are quite mixed. One can make the case that anything one sells to the Soviet Union makes it easier for the Russians to support a strengthened military regime, which is in logical terms grounds for embargoing all trade and by extension, as we go into secondary and tertiary effects, for boycotting anybody who has anything to do with the Soviets. Well, we don't do that; we can't do that.

Policy decisions have been made and built up over a period of time which suggest that while you may not influence Soviet behavior by being nice, the way that Japan has been, you don't intentionally alienate them from the trading community—partly because you do not have the leverage that perhaps at one time we did. We have neither technological uniqueness, nor do we have the only source of grain or other raw materials, and there are some things that we do need which we require from the Soviet Union in terms of strategic materials.

EIR: Do you expect that we'll get them?

Olmer: We have been. I learned, for example, that we import asbestos, long fiber asbestos, because—believe it or not—the Canadians upped their prices. Some of that asbestos is used as insulating materials in Navy nuclear plants for Polaris/Poseidon submarines. So [chuckle], you know. . . .

The United States must take the leadership role in convincing the European allies of what we think is in their own self-interest and to have them come to the realization themselves without being so instructed that it is their self-interest we're talking about. . . . We want to provide the business community in the United States with clarity, predictability, and certainty, three conditions that have not prevailed in terms of East-West trade relations for the last several years in our country, with the result that certain American business interests have gotten schizophrenic. One month it's okay, the next month it's not. An exercise was undertaken in 1976 [the Bucy Commission of the Defense Department, headed by Texas Instruments President J. Fred Bucy] to identify what critical technology means. Two years was spent and this marvelous example of cooperation between the private sector and government concluded it's more important to control process rather than product. Don't transfer the means of production, but be less concerned about hardware itself. So, after God knows how long this went on, critical areas of technology were identified, products were aligned with those critical technologies, and someone went through the list and said, "God, we'd better classify the list." So, the private sector is left to its own devices to try to determine what it is the government might say they're authorized to sell. And technology is advancing at such an incredible rate, it's so dynamic, it's very difficult to sit here in a bureaucratic position and say, "You shouldn't be able to sell that computer system because it's a computer system, when you can go to Radio Shack and buy a home computer system which is probably as sophisticated as most things were up until four or five years ago.

EIR: What will happen if U.S. interest rates remain high?

Olmer: I don't know how long the American public is going to be able to tolerate 19, 20 percent interest rates, with the impact that has on housing starts, on people with fixed incomes; I do feel, however, it's not acceptable, it has to come down. . . . But it is not yet harmful to U.S. exports.

EIR: Let me ask you about another situation which creates potential instability for international trade. This is the question of Third World debt. Lord Lever published a series of op-eds in the London *Times* in which he proposed that the OECD nations begin coordinating the activities of their central banks to be able to deal with potential crises in world financial situations.

Olmer: I'm absolutely against it. The Third World is in terrible shape, and I see the situation getting worse, not getting better, more importantly because of high energy costs than because of any other circumstances. But I don't think the United States would accede to OECD which has traditionally been not an action-oriented but study-oriented organization, authoritative powers in the disbursement of funds. I just don't see it.

EIR: A number of administration spokesmen have said that they are interested in North-South relations and are anxious to improve economic conditions in the Third World. The discussion of a Caribbean basin development plan is probably the leading initiative in this regard. Now, the primary component of these intitiatives, as I understand them, is to encourage trade and private investment in the underdeveloped world. This seems unlikely in the sort of situation projected by the IMF.

Olmer: I think they're unduly pessimistic. I do think there are a lot of opportunities for the United States to promote, stimulate development and trade in the Caribbean basin area. One of the things that we haven't looked at and we need to, apart from providing for a tariff-free zone—the vast majority of goods coming in from the area are already duty free, somewhere around 80 percent. We need to find ways of stimulating U.S. investment in the area. One possible way would be tax legislation to make it more attractive for U.S. business to develop production facilities, to additionally mix credits as an incentive for investment, to encourage assembly operations in high-technology firms in the United States which had been going to Southeast Asia, a lot of things like that. . . .

EIR: Without any substantial increases in aid?
Olmer: Without substantial increases in aid. I wouldn't want to say "any," because I think there are going to be some situations where it will be required to prime their pump. . . .

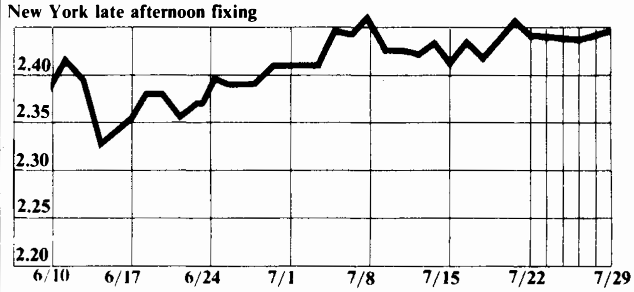
EIR: Doesn't the current interest-rate regime make this sort of investment in the Caribbean or elsewhere in the underdeveloped world unlikely, to say the least?
Olmer: Well, the offsetting factor is that labor rates are so inexpensive and for the labor-intensive part of production operations and for the use of 806-807 [tax only on that part of the product to which value has been added]. There are some innovative possibilities.

EIR: It would seem that what that would indicate for the underdeveloped world is nothing that's highly capital-intensive.
Olmer: Not like a steel mill, certainly, but maybe a semiconductor assembly plant.

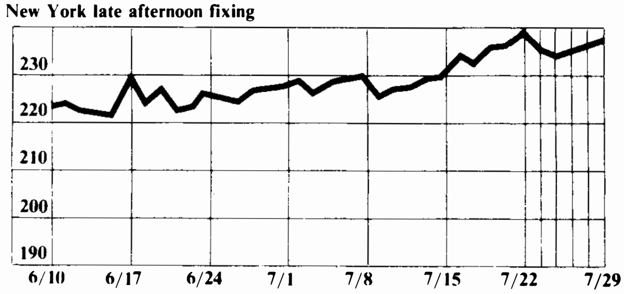
EIR: How does this square with the administration view that its policy of development will help increase the immunity of the underdeveloped world to communist and guerrilla incursions. Isn't there some danger that if we see low-wage, labor-intensive employment as the sort of development that we will assist in the underdeveloped world, that they'll see the policy as little better than colonialism?
Olmer: I visited a number of these assembly operations in Asia, and I think that they represent so far from the model you suggest as to really be night and day. Many of these labor-intensive assembly operations require, nonetheless, a degree of dexterity and skill which gives workers a sense of pride and identification with the product. The fact is that wages are low, but by our standards, not necessarily by the indigenous standards. It has worked and it is working in Singapore, Korea, and Malaysia, Taiwan, Hong Kong, the Philippines.

Currency Rates

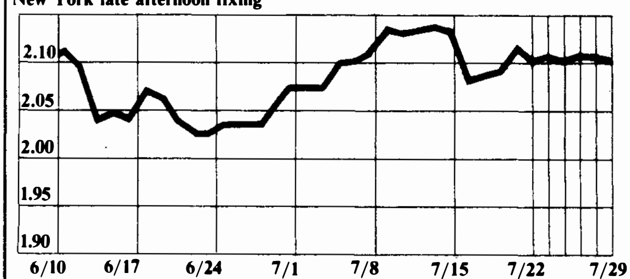
The dollar in deutschemarks
New York late afternoon fixing



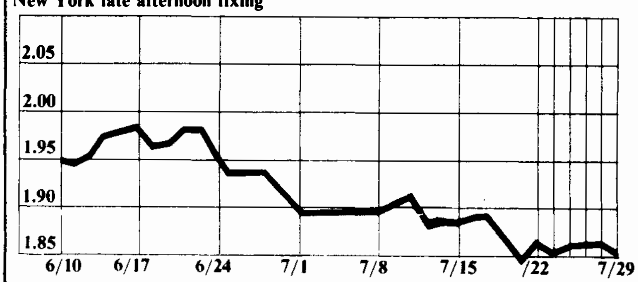
The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



Pull down the U.S. to build up London

A third-quarter collapse will shut down domestic loan demand so that funds can shift to London.

Wall Street banks in cooperation with Federal Reserve Board Chairman Paul Volcker plan to use a recession in the third quarter to collapse loan demand in the United States, in order to siphon off the money to branches in London where it will be used to roll over Third World debt.

"This seems to me a very good possibility," stated James O'Leary, chief economist of U.S. Trust. "This would provide the New York banks with the wherewithal to cover Third World debt obligations."

"Absolutely, that seems to me exactly what might happen," said Richard Kjeldsen, chief international economist for Security Pacific National Bank of California. "In the third quarter, the domestic side of lending will be off. The needs of international lending will be there. Some people have tried to suggest that the U.S. would pull back from its commitments to the Third World, but the loans by banks like Citibank to Brazil are substantial. The banks will use the slack in third-quarter domestic loans to send the money to the Eurodollar market to fund Third World debt."

This option would be a repeat of what was done after the March 1980 imposition of credit controls by Fed Chairman Volcker. While U.S. loan demand plummeted, $15 billion was transferred from principally New York banks to their London branches within a three-month span during the summer.

Thus far, both International Monetary Fund Managing Director Jacques de Larosière and Federal Reserve Board member Henry Wallich have estimated the current account deficit of the Third World non-oil-producing nations for 1981 to be between $95 and $100 billion, the largest deficit since 1974. At most, $25 billion of this can be financed by the Third World drawing down reserves or getting loans from multinational agencies like the IMF.

The pace of short-term U.S. corporate borrowing has been frenetic. Despite a slacking off during the past two weeks, commercial bank commerce and industry loans grew by over $10 billion since April 1. Commercial paper—short-term corporate IOUs of usually 90 to 270 days maturity—has grown by almost $12 billion, including nearly $4 billion in the latest two reporting weeks.

As we showed in previous columns, the money flowed into four principal areas: mergers and acquisitions; financing involuntary inventory buildup; paying off interest on previously contracted debt; and investment in U.S. energy and mining sectors.

Now the plan is to pull the plug on those loan areas, except, perhaps, for the merger and acquisition movement. Edward Yardeni, chief economist of E. F. Hutton & Co. investment bank, stated that "the policies from Washington will show a bottom line of pain" for the economy, according to the July 27 New York *Daily News*. Yardeni reports that this will entail only a 3 to 4 percentage point drop in the prime rate during the third quarter. As a result he predicts that:

- Unemployment will increase by 1 million people by October.
- Bankruptcies, which are occurring at a rate of 313 per week for the first half of this year versus 220 for the comparable period last year, will go up by 10 percent.
- The housing market will experience acute illiquidity.

The problems of the housing sector could be the trigger for an outright economic collapse in the third quarter. The auto and housing sectors of the economy are already deep into recession. Housing starts at 1.032 million units in June are down 38 percent from January's levels. With the average mortgage rate for new homes at a range of 14.5 to 16 percent nationwide, the housing market is past the straining point.

The danger sign is that permits authorizing new housing, which had averaged 1.2 million for most of the year since January, plunged to 976,000 in June. When permits fall, housing starts usually follow. And if housing collapses further, the beleaguered thrift industry—which suffered $5.6 billion in withdrawals in June—will follow suit.

As Fed Chairman Volcker steers this course haphazardly in tandem with the New York banks, loan demand in the United States will dry up, just as it did in the second quarter of last year. And that will open up the door for Wall Street to shift funds to London to step up rollovers of Third World debt.

Foreign Exchange by David Goldman

Bundesbank fears a dollar collapse

International market strains may boomerang against the dollar: preparations are ready.

With the West German mark still close to a two-year low against the U.S. dollar, about DM 2.44 on July 29, it is out of the ordinary that the West German central bank is quietly making contingency plans against a dollar collapse.

Nonetheless, according to West German banking sources, the Bundesbank computer now has a detailed series of exchange regulations against capital inflows ready to go on the telex to commercial banks at a moment's notice. The same banking sources no longer fear further weakening of the German mark as much as they do an uncontrollable dollar fall.

Since U.S. interest rates do not appear ready to fall, most foreign-exchange market operators are still convinced of dollar strength for the immediate period ahead. Scenarios developed at Bankers Trust in New York, National Westminster Bank in London, and other institutions have predicted a dollar slide toward the end of 1981, on the assumption that interest rates will fall.

But, interest rates are not the only determinant of a currency's foreign performance. The muddiness of available data on the Eurocurrency market's composition by national currency has disguised an obvious supply-and-demand feature of currency shifts.

In the past six months, German commercial banks have "internationalized" the West German mark through a significant volume of short-term lending to cover the imbalances of Germany's trading partners, while the Bundesbank has internationalized the mark through intervention operations on behalf of currencies linked to the mark through the fixed-rate European Monetary System.

Although precise data are not yet available, it appears that the volume of expansion of the deutschemark section of the Eurocurrency market was several times in excess of Germany's DM 14.1 billion current-account deficit during the first six months of 1981.

On the public side of the ledger, the German Bundesbank had to create additional deutschemark-denominated liquidity in the first six months of 1981 via currency-support operations in the EMS. Its lending to the European Fund for Monetary Cooperation rose by DM 14 billion, as the Bundesbank helped other EMS members support their currencies. The quirk of the EMS is that it enables the Bundesbank to count liquidity creation in its own currency as a reserve increase. Reserves apart from this fell by DM 7 billion, i.e., the Bundesbank financed half its 1981 first-half deficit out of reserves.

In the context of last October's IMF annual meeting in Washington, Bundesbank President Karl-Otto Poehl agreed formally to the incorporation of the mark into a scheme involving "multicurrency reserves," for the first time—although the tendency has been in the works for several years.

The result has been that the West German current account deficit has covered a substantial portion of the deficits both of members of the European Monetary System, e.g. Italy and France, as well as of the developing sector.

Dresdner Bank chief economist Kurt Richebächer warned in a commentary that his country would have to abandon the policy of running a current account deficit to support its trading partners as a disquised form of inflation.

That is true: the creation of deutschemarks has not gone into expansion of the domestic money supply, but into the deposit base of the Eurodollar market. Germany's ability to continue this sort of operation is exhausted.

Depression economic conditions, and possibly also budgetary austerity from the federal government, are already reducing the current account deficit. The weight of capital export is now shifting onto the United States.

As IMF officials put it, the United States will turn into the big "recycling center" for international money destined for deficit financing on behalf of the Third World, as of the third quarter of this year.

In other words, the U.S. banking system will dump significant amounts of its lendable resources into the Eurodollar market, in order to cover over the $100 billion deficit of the developing sector.

The tables will be turned, in the West German evaluation. The same "oversupply" of currency will hit the dollar instead of the mark.

The more unsettled the deficit financing, the worse for the U.S. currency.

Banking by Kathy Burdman

A proliferation of hundred-dollar bills

The favored denomination for illegal money launderers: large sums of the bills are held abroad.

Treasury officials here have found a promising line of investigation for tracking the pathways of illegal money laundering in the U.S. banking system. The funds they are monitoring include revenues from illegal narcotics sales, currently estimated at a minimum of $150 billion annually in the United States.

After law enforcement officials succeeded in entrapping several drug money operatives attempting to smuggle cash abroad, it became clear to the enforcement agencies that hundred-dollar bills were the favored denomination for moving cash earned from narcotics sales. Treasury then observed that the rate of growth of printing and circulation of bills with a $100 face value is growing faster proportionately than other denomination.

During 1980, the Federal Reserve found $4 billion in stockpiles of hundred-dollar bills held abroad in offshore banks or by foreign individuals.

At least one of the routes which cash held by major drug pushers takes within the U.S. banking system is the route which begins in Florida, the major entry point for Latin American cocaine and marijuana into the U.S. retail market.

Much of the cash earned from Florida state retail sales of drugs is deposited in Florida banks—at least $4 billion, which is the registered cash surplus in the Florida banking system.

These deposits are frequently held in ten- and twenty-dollar denominations, the peculiar, documented form of the Florida cash surplus. Treasury reports, in addition, that the New York correspondent banks of the Florida banks have for some time been sending hundred-dollar bills down to Florida to their correspondent clients, indicating the New York banks have been helping the Florida retail drug market put its cash into a more easily laundered form. These hundred-dollar bills are the best form for the second phase of retail drug money laundering: namely, race-track betting, purchase of high-priced consumer goods, and storage in private vaults.

As a major entry point for drugs, however, Florida also has a substantial wholesale market for transport to other parts of the country. As a recent arrest in Florida of a Colombian travel agent documented, a significant portion of this cash is smuggled abroad by couriers, partly to Latin American foreign-exchange dealers who are running a vast "parallel" market in currencies throughout the continent.

As a wholesale market, the denominations of bills used in these transactions can be pre-arranged as part of the wholesale contract. These wholesale funds don't have to go through the Florida banking system.

Treasury estimates of the size of the Florida drug market—$8 to $10 billion annually—reflect the state's own, as well as contiguous states', retail markets. The value of drugs passing through Florida, as shown by the size of the Latin American market in marijuana and cocaine, is from $40 to $70 billion.

In this more extensive, multibillion wholesale market, bills starting with a $100 face value, going up are also favored. East Coast retail stores, including the biggest and best-known names in the department-store circuit, perform an important function for drug wholesalers who need to package their cash payments to their suppliers in denominations that are agreed upon in delivery contracts.

The margin of this wholesale cash smuggled abroad is much larger than the $4 billion identified by the Federal Reserve. Treasury has found that large, undetermined sums of dollar cash are circulating particularly in Argentina and Brazil, where businessmen buy everything from houses to cars to land in dollar cash.

Wire transfers to the Cayman Islands, the Caribbean, and Bermuda, remain an important conduit for money laundering. But last year's tightening of the rules in the 1970 "Bank Secrecy Act," requiring banks to report $10,000-and-up deposits to Treasury, have forced the drug launderers to rely on growing margins of cash transactions.

Throughout the Caribbean, offshore banks have been moving to expand their island "branch networks" to facilitate offshore depositing of these growing margins of smuggled cash.

World Trade by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
$2.6 bn.	Brazil from Japan	Japanese govt. decision to provide added $350 mn. financing for Albras aluminum complex means that construction will begin in October. Albras will produce 160,000 tpy aluminum by 1986, all for export to Japan. Production will reach 320,000 tpy in 1990s. Smelter uses abundant bauxite and cheap hydroelectricity of Amazon, which costs ⅕ of Japanese energy cost.	Brazilian Mines and Energy Min. Cals is happy that distress of advanced countries brings transfer of energy-intensive modern industry to Brazil.
$300 mn.	U.S.A. from Japan	Kawasaki Heavy Industries and Nissho-Iwai trading company were low bidders for 225 New York City subway cars worth $200 mn. plus an optional 100 more. Budd Co. of Michigan bid 5% higher.	Contract, not yet awarded, will be political issue, since all vehicles ordered by Mayor Koch have grown cracks in undercarriages.
$80 mn.	France from U.S.A.	Diamond Shamrock Corp. will export more than 2.5 mn. tons steam coal to French govt. by end of 1985. Coal will come from Kentucky.	Contracts signed.
$160 mn.	U.S.S.R. from Japan	Komatsu has not only received a Soviet order for mammoth pipe-layers, but has already begun shipments, *Japan Economic Journal* reports. Deal for these pipe-layers was originally signed with Caterpillar of U.S.A., but ripped up by Afghan boycott.	Komatsu also may get similar $40 mn. order held by Caterpillar.
$62 mn.	U.S.S.R. from West Germany /Holland	Salzgitter and Hoesch won contract for 100,000 tons high-pressure spirally welded pipes. Though the pipes will be used in expanding gas lines, like other recent big Soviet orders, it is claimed they will not be for Western Siberian pipeline.	
UPDATE			
$6.1 bn.	U.S.S.R from West Germany	West German banks have reached a new agreement on financing German share of Western Siberia gas pipeline, which will bring 40 bn. cubic meters of natural gas per year to Western Europe. The first arrangement broke down last year when Volcker policies forced jump in German interest rates. Now, interest on DM 4 billion being financed by private banks through German govt. Facility B, will be "effectively 8%," according to *Handelsblatt*. This loan will go for pumping stations. Mannesmann will take care of separate deals to finance at comparative rates DM 11 bn. steel pipes from German producers. Mannesmann will double recent years' pipe shipments to Soviets to 1 mn. tpy, which will keep it and other German steel companies in business.	Carter and Reagan opposition has lost U.S. company sales. Despite heavy Haig pressure, European govts. are expected to approve the project once European consumers negotiate gas price and delivery terms.
$500 mn.	U.S.S.R. from Japan	Soviets have yielded to Japanese terms on order of 750,000 tons large-diameter steel pipe, reported *EIR*, June 2.	7.75% for 5 yrs.
	Japan from Europe	Prime Minister Suzuki ordered rapid increases in manufactured-goods imports from Europe. MITI head R. Tanaka told cabinet, "There is urgency to expand manufactured-goods imports, not only for skirting greater criticism of Japan, but for preventing protectionism from rearing its head."	Japan had $4.7 bn. trade surplus with EC in first semester. Lots of industrial joint ventures forming in Japan and Europe to grab markets.

Business Briefs

Gold

Asian money to move into gold?

After substantial dishoarding in the course of 1980, large amounts of Asian gold purchases are expected once the gold price breaks below the $400 barrier, Hong Kong gold trading sources report. "A lot of Asian money, mainly Chinese, is on the sidelines waiting for the right price," a well-informed Hong Kong-based investment banker says.

Bankers have noted a striking change in investment patterns among overseas Chinese businessmen in Asia during the past two months. Chinese interests had previously concentrated on strengthening their hold on the regional economy, including some spectacular tender fights with older, established British companies.

Now Chinese interests, whose capital outside of the center, Hong Kong, is estimated at about $50 billion, are converting holdings into cash and moving money out of Malaysia and other Asian "boom" areas, perhaps anticipating severe payments problems in late 1981 or 1982.

Banking

Problems slow bank reorganization plan

Financial problems at Citibank, Chase Manhattan, and other big commercial banks have thrown a monkey wrench into plans to reorganize the U.S. banking system along Canadian lines, investment bankers say. Citibank has reported a 40 percent profit reduction for the second quarter of 1981 due to losses associated with continued high interest rates and an immense foul-up in its electronic banking operations. John Reed, the bank's electronics whiz kid, may soon leave.

At this point, the big commercial banks are not in financial shape to absorb loss-making regional commercial and savings banks on a large scale, it appears. Citibank's big problems arose from its headlong dive into the consumer market, including mailing unsolicited credit cards to individuals who later defaulted. The bank has more than $100 million in bad consumer loans to write off from last year, and this year will be even worse. In addition, its computer services and electronic banking operations have produced only operating losses, despite costly capital investments.

If high interest rates continue, investment bankers add, the 363 savings and loan associations now on the Federal Home Loan Bank Board's danger list will require some form of federal bailout. Even if Congress were to lift restrictions on interstate and interindustry takeovers, they say, the commercial banks could not conduct the mass buyout operation they were bragging about only a few months ago.

International Credit

IMF wants to muscle Poles into membership

Pressure is mounting on Poland to join the International Monetary Fund (IMF), following conclusion last week of a seven-year rescheduling of Poland's 1981 debt payments. It is not known whether the Soviet Union has in any way softened its opposition to Poland's joining the Fund.

The debt rescheduling reached in the last week of July was between Poland and its commercial bank creditors. U.S. banks had firmly opposed a seven-year term of repayment, until the Polish government announced its new economic program package.

The loan package is based on an immediate reduction of living standards so severe that Polish circles have compared it to "war communism," the rationing imposed in the East Bloc after World War II.

Food prices, across the board, have been hiked as much as 400 percent. Personal fuel consumption and housing construction will be sharply decreased. Factories operating in deficit are now scheduled to be closed. The program resembles IMF austerity recommendations so closely that Western financial journals have interpreted it as a softening by East Bloc officials on the demand that Poland join the IMF.

On July 27 the IMF, for the first time, released a detailed analysis of the Polish economy.

The next day, New York's *Journal of Commerce* urged that Washington use its current offer of a $400 million credit line tied to U.S. wheat exports to Poland to increase pressure for Polish membership in the IMF.

Underground Economy

Large drug-money haul in California

California state internal revenue service and customs officials announced this week they had succeeded in cracking a drug ring worth more than $100 million a year. Nathan Markowitz, a Los Angeles lawyer with offices all over the United States, had funneled 29 unreported money laundering transfers through Garfield Bank in Montebello, with the complicity of bank officials.

Garfield Bank's president John Gabriel is a large contributor to Gov. Jerry Brown and Brown's allies.

One of the more interesting recipients of campaign contributions from John Gabriel has been former California Lt. Gov. Mirv Dymally. A Caribbean by birth, Dymally negotiated on behalf of the People's Temple of "Reverend" Jim Jones with the government of Guyana for admission of the Jones cult into Guyanese territory. All reports on Dymally's role in the Jonestown negotiations indicate that he was fully informed on the Peoples' Temple's intention to use Guyana as a base for narcotics, guns and smuggled diamonds shipment into the U.S. and Latin America. In 1979, the Jones cult engaged in a mass suicide of 900 individuals.

Officials broke the case earlier this year by nabbing Markowitz, who turned state's witness and provided law enforcement officers detailed information on his dealings with Gabriel. In April, Markowitz was murdered.

Markowitz had bank accounts and trust funds in offshore centers in Bermuda and the British Virgin Islands. A close associate of his opened a trust with Barclay's Bank International in the British Virgin Islands, according to the indictment papers. Markowitz had a substantial shareholding in a Virgin Islands company called the Merchants and Mariners Bank.

Garfield would receive cash from Markowitz's agents, deliberately fail to file Treasury deposit forms, and then either ship the cash offshore or wire it out of the U.S. The funds would then be reinvested in the U.S., with Markowitz's team working up phony papers to make the investments look legitimate. The Markowitz ring also had business dealings in Liberia, where Mirv Dymally is also known to have been active for many years.

Agriculture

Terrorists hit medfly program

One of the helicopters used in the medfly eradication program in California was hit with gunfire this week and several others shot at, authorities reported. The helicopters are used in applying the Malathion bait over large areas in an effort to wipe out the pest which is threatening California's $4 billion annual fruit and vegetable income.

Mexico has already quarantined California produce, and several U.S. states are threatening to do likewise. The Mexican agriculture ministry is also stepping up its program of sterile fruit fly release along U.S.-Mexican border towns.

Environmentalists led by California Gov. Jerry Brown had refused to allow the proper chemical control program, based on aerial spraying to be implemented.

Even before Governor Brown was forced to give the go-ahead to the spraying program, threats had been issued. On July 3 the *San Francisco Chronicle* reported that individuals claiming to be Vietnam veterans and others had sent letters to Arnold Morrison, coordinator for the medfly eradication effort, threatening to bomb helicopters being prepared for use.

California is the locus of an anti-pesticide movement that has turned to violent action in the recent period.

Many believe the opposition to farm chemicals to be inspired by groups and individuals involved in the extensive marijuana cultivation in northern California.

Trade

Soviet grain talks begin this month

Agriculture Secretary John Block announced on July 24 that, pending final confirmation by the Soviet Union, U.S. and Soviet representatives would meet in Vienna in early August to discuss a new bilateral grain agreement.

The U.S. delegation will be headed by U.S. Trade Representative William Brock and Boris Gordeev, Soviet Deputy Minister for Foreign Trade, will lead the Soviet delegation, said the Agriculture Secretary. Other members of the U.S. delegation will include Seeley Lodwick, undersecretary of agriculture for international affairs and commodity programs; Donald Nelson, assistant trade representative for agricultural affairs, and officials from the USDA's Foreign Agriculture Service.

Significantly, the official release on the talks, issued by the U.S. trade representative's office, did not mention any role for the State Department.

According to Brock, the Vienna talks may lead to a five-year agreement replacing the one that expires in September, or a simple one-year extension of the existing pact, or an entirely new arrangement.

At the same time the Soviets have begun to buy American grain. A very serious drought has destroyed some important Soviet growing areas.

Briefly

- **THE NEW YORK FED** will call for defense budget cuts in an article to appear Aug. 12 in its quarterly review.

- **HENRY WALLICH,** a governor of the Fed, and former IMF Managing Director Johannes Witteveen, have circulated "absolutely irreconciliable proposals quoting the same data" to the Group of 30, an advisory body to the IMF that Witteveen heads.

- **FEDERAL RESERVE** officials are furious over a provision in the Senate resolution passed July 28 calling for "productive uses" of credit. "That's credit allocation!" an official fumed.

- **BANK OF JAPAN** support for the yen to the extent of $1.5 billion, combined with $500 million of Bundesbank support for the yen in the week of July 28, renewed guesses that the two banks have a currently operative mutual-support pact.

- **TUCKER ANTHONY** gold analyst August Arace is warning against purchases of South African gold shares, citing expected further drops in the bullion price and higher mine operating costs in the next six months.

- **GEORGE BALL,** the Trilateral Commission liaison with Italy's Propaganda-2 operatives, pronounced in a *Washington Post* op-ed July 30 that "so long as the world economy consists of a congeries of economies defined by national boundaries and directed toward individual national objectives, we shall continue to trip over our own feet."

- **THE GUARDIAN** of London recommends "an absolute monarchy, or at least one with the hiring-and-firing powers of an early George III," (known as the "Fat Guelph" to American revolutionaries) as the answer to what it calls the "failure of monetarism" in Great Britain.

From dollar bankruptcy to breakdown

by David Goldman, Economics Editor

If the Republican party enjoyed powers of memory of the type associated with its popular symbol, the White House would view the dicennial anniversary of Aug. 15, 1971 with brooding horror. As it is, Mr. Reagan has already been measured for Mr. Nixon's monetary casket. A new international economic crisis is immediately in view, and if every detail does not match the events of ten years ago, the situation as a whole forces up an overwhelming image of déjà vu.

Paul Volcker, the undersecretary of Treasury who ran administration monetary policy while "Big Jawn" Connâlly blustered, is now at the Federal Reserve; Milton Friedman, the ex officio White House economic adviser who lobbied for the end to fixed-exchange rates, is back at the President's ear through the President's Economics Advisory Board, along with former Chairman of the Council of Economic Advisers Paul McCracken; on the same panel is George Shultz, the "assistant President" and budget chief who moved into the Treasury slot in the aftermath of August 15; his deputy Caspar Weinberger is now at defense; then-Federal Reserve Chairman Arthur F. Burns has the crucial ambassadorship to West Germany; and Rep. Henry Reuss, the veteran of the postwar German occupation and Marshall Plan who scourged Nixon's men into the decisions of August 1971, is more a power in the House of Representatives than he was then.

Excepting Reuss, the same men gathered at Camp David during the second week of August 10 years ago to advise President Nixon that he had no options except to remove the dollar's link to gold, and unfix the parity relationship between the dollar and other leading currencies, in combination with a protectionist import surcharge and income-suppressing wage and price controls. No American President was to regain control of the monetary process during the ensuing decade.

Ten years of economic downslide cannot be blamed on a single day's blunders, but the date of the dollar's inconvertibility marked a turning point. In 1971 the offshore, uncontrolled Eurodollar market was a negligible $50 billion. It has since grown to $1.5 trillion, equalling the total size of the

Left to right: Budget Director Weinberger, Treasury Secretary Shultz, President Nixon, Fed Chairman Burns, and CEA Chairman Stein in October 1972. Not shown: Treasury Undersecretary Volcker.

American commercial and savings banks' combined deposits, and dominating all features of the credit system. Against the major world currencies, the dollar stood at more than half again its present value. Nominally, the Dow Jones index of industrial equities stood at about its present level, but inflation has eroded the real value to some 30 percent that of 10 years ago. Capital investment in 1971 was, just barely, meeting the deterioration and obsolescence costs of American industry. Now the economy is underspending more than $50 billion per year relative to the capital outlays required merely to keep the economy's nose pointed up. Gold and oil both sold for about one-tenth of their present market price.

True, a few administration officials are cultivating Treasury Secretary John Connally's swagger, informing the world that the U.S. dollar has returned to first place among the world's currencies, and the U.S. has returned to a position of resolve, ready to employ trade, monetary, and regulatory muscle to reassert America's economic primacy. While the dollar gained about 22 percent in the first half of this year against the European currency group, Undersecretary of Treasury Beryl Sprinkel, the man in Paul Volcker's old job, announced that the United States had shifted intervention policy to permit the dollar to rise freely. Europe interpreted this as currency warfare.

Deputy Secretary of Treasury Timothy McNamar warned European nations in June that the United States would declare an "export-credit war" if its trading partners did not forbear from subsidizing export credits at lower-than-market interest rates. The U.S. side at the July 20-21 senior officials' jamboree in Ottawa, mislabeled the "economic summit," demanded that Europe and Japan submit exports of technology to the Soviet Union to review by an international body.

Gold break: unnecessary

Notwithstanding this performance, the dollar is in danger of an anniversary collapse of potentially far greater magnitude than 1971's. The great irony of this predicament is that the severing of the link to gold was far from necessary 10 years ago, as we will show below. A devaluation of the dollar against gold, urged by the late Jacques Rueff in France and by this publication's founding editor Lyndon H. LaRouche, Jr. in the United States, would have eliminated the short-term crisis of gold withdrawals from the Treasury's stockpiles, and bought time for an economic recovery package to put the economic fundamentals in order. Now the dollar is showing the same sort of tubercular blush that made the British pound seem attractive through most of 1979 and 1980, before its 25 percent drop this year against the dollar. The crisis, most financial press commentators delude themselves, has its seat in Europe rather than the United States.

Real-world standards of any standard accounting approach, however, put the dollar in a different light. Since 1971 the size of the Eurodollar market, whose one real-economic activity is the financing of world trade, has grown *seven times faster* than world trade. Counted as liabilities of the United States, the $1.2 trillion dollar component of the Eurocurrency market, plus the $150 billion in official liabilities of the United States, in the form of Treasury obligations held by foreigners, run to a figure almost eight times the annual export volume of the United States. By another measure, the external liabilities of the United States are roughly half of gross national product. This stacks up unfavorably with comparable measures for the supposed worst trouble spot in the world economy, the non-oil-producing Less Developed Countries (LDCs).

Why has the dollar remained so strong? The debt of every participant in world trade is counted in dollars, and rising debt services forces demand for dollars. Between 1978 and the end of 1981, the debt service of the non-oil-producing developing countries will rise from $44 billion to $100 billion per year, a jump of about 250 percent, according to the International Monetary Fund. The debt service of the U.S. Treasury will rise by a similar amount, along with the debt service of the American private sector. In an American economy where half of the trillion dollars of public debt is short term, every 1 percent rise in interest charges costs the government $5 billion—and Treasury bill rates are up 7 percent on the year. In the Eurodollar market where about two-fifths of the debt of the non-oil LDCs is "interest sensitive," every on percent rise in the London Interbank Offered Rate on short-term funds costs the world's worst-off borrowers $2 billion a year.

Floating exchange rate gamble

Nothing helped push the United States to this edge more than the 1971 bungle. Junking the dollar standard put the London and, later, Caribbean and Hong Kong-based offshore market on the map. The single biggest user of credit in the world is not the U.S. mortgage market, or the U.S. Treasury, or even developing countries, who will have to borrow $100 billion in 1981 merely to service their existing debts. Foreign-exchange hedging consumes about $200 billion in short-term credit at any given moment. Without a reliable standard for international transactions, every market participant whose income depends on currency conversion must hedge against possible currency fluctuations, while speculators hedge against the hedges.

"Floating exchange rates" made the Eurodollar market—a source of extremely short-term credit available without the inconvenience of reserve requirements—an apparent necessity of doing international business. Even before the 1973 oil crisis, the explosion of Eurocurrency credit, whose volume tripled in the two years following August 1971, pushed the world economy in the direction later confirmed by the oil crisis. Fed by the Eurodollar market deposit base, commodity prices rose by 53 percent in 1973—before the big rise in oil prices. A few journals, e.g., the London *Banker,* warned in the summer of 1973, before the storm clouds appeared over the Middle East, that the commodity-price spiral, fed by and feeding Eurodollar market growth and Third World indebtedness, had already created the conditions for chain-reaction defaults. The next eight years merely allowed the international dollar credit system more rope.

History is rarely so precise, but it is not an overstatement to cite this 10th anniversary of Nixon's folly as the end of an era—the change from *de facto* to *de jure* bankruptcy of the American dollar. What different paths lead out of this conjuncture are discussed later in this Special Report. It is less important to speculate on the available scenarios, than to face the cumulative effect of 10 years' economic mismanagement. Ultimate control of our national affairs depends, as Alexander Hamilton told this country's second Congress in 1793, on the defense of the public credit. By pushing the public credit into the mouths of the offshore market's scavenger-dogs—when the remedy of gold revaluation would have stemmed the crisis—the Nixon administration set up a chain-reaction to which every succeeding Treasury secretary and Federal Reserve chairman contributed.

Same choices

Apart from chaos, the options are now not much different than they were when Jacques Rueff, six years before the storm broke in 1971, urged the United States to devalue the dollar against gold, in order to gain time to expand its vast industrial power in the interest of a powerful export surplus. If the dollar's value cannot be sustained by forcing the world to scramble to pay more debt service in dollars, the residual capacity of the United States to bring its industrial base to bear on the capital-intensive development needs of the southern hemisphere constitutes a potential real grounding for the dollar's value.

In 1971, a devaluation of the dollar against gold to perhaps $50 per ounce, instead of $42, might have been sufficient to buy the time we needed. Now the minimum price of gold that will make this country's foreign liabilities manageable, assuming the best graces of our creditors, is $500 per ounce, or about 10 times as much. The $500 per ounce target reflects both the marginal cost of bringing new capital-intensive gold mines into production in most of the world plus a small seignorage, and the minimum gold price required to put America's international reserves into the status required to stabilize the value of foreign liabilities.

America's cash, except for the inactive gold reserve, went 10 years ago, and the circulability of our unsecured IOUs will go before the end of the year. Finding the path out will not be easy in any event. But it will not be possible without retracing our steps to the point we took the wrong track.

A shortcut to international monetary catastrophe

When the silver price collapse in March 1980 nearly brought down the Hunt interests, the chairman of the executive committee of Citibank, America's largest, told friends, "There are so many things in the woodwork that no one can say which is going to pop out." The point was well taken and applied with a vengeance a year later. A monetary system in the penultimate stage of bankruptcy loots Peter to service Paul's deficit accounts. Whether Peter or Paul defaults first is not predictable, unless all political conditions are known in advance. Monetary crises are more likely to inspire a political free-for-all.

With this limitation in mind, analysis of the forthcoming monetary crisis is a relatively simple matter. In first approximation, it is a demonstration that the monetary system is *in deficit to itself*. In financial terms this means, simply, that the international and national accounts of the public and private sectors are so awry that no sources of income are available to cover the system's aggregate deficits, except through the sort of money-printing that quickly discredits all financial instruments. In a closer approximation, it is a political examination of the responses of policy-makers to problems that cannot possibly be solved within their narrow belief-structure. The course of the crisis does not follow the contours of the accounting problem per se, but the strange convolutions of thinking at institutions like the International Monetary Fund, the Bank for International Settlements (the "central bank for central banks,") and the Organization for Economic Cooperation and Development.

It is possible to predict with some accuracy the precise way in which a crisis will evolve, as Lyndon H. LaRouche, Jr., the founding editor of this publication, did during the years and months prior to Aug. 15, 1971. Such forensic skills depend on the analyst's ability to determine how the belief-structures of policy-makers will ultimately conjoin with the hostile reality around them. On this basis Mr. LaRouche informed *EIR*'s June 10 seminar in Washington, D.C., before an audience including 60 administration economists, that the most likely date for the outbreak of full-scale monetary crisis was October of this year.

In Federal Reserve Board Chairman Paul Volcker's belief-structure, interest rates in the 20 percent-plus range are *not* a means of reducing inflation, but an instrument of *income redistribution*. The Fed's interest-rate policy strengthens *creditor organizations* against *national governments*, diverting income flows toward the refinancing of debt service that otherwise would be unmanageable. Here, in the data made available by the International Monetary Fund, is what the global flow of funds looks like. Start with the most pressing deficit of all, that of the countries least able to manage a deficit, the non-oil-producing developing countries:

Current account payments deficit of non-oil LDCs

1972	\$− 9.9 billion
1977	−31.3 billion
1980	−77.9 billion
1981 (p)	−93.0 billion

This corresponds roughly to the volume of debt service of the same group of countries:

1972	\$14.0 billion
1977	30.3 billion
1980	75.2 billion
1981 (p)	96.4 billion

This close correspondence means that these countries are importing virtually nothing above their level of exports—that there is zero development effort going into their economies—and that the entire deficit on their payments accounts is due to their debt-service bill. The current account deficit is what must be financed through new capital, i.e., the amount that the commercial banks or others must lend so that their debtors can service their outstanding debt.

Although in certain ways the United States, as noted in an earlier section of this report, is worse off than the non-oil LDCs as a group, this lacuna in the world's balance sheet is cited more frequently than any other as a potential cause for a "doomsday scenario" on the financial markets. Under the headline "A New Financial Crunch," the *Far Eastern Economic Review* warned in a survey March 20 of this year, "Ayatollah Ruhollah Khomeini and Paul Volcker may make an unlikely pair. But from the developing world's point of view, the fiery

Islamic revolutionary and the rather dour chairman of the United States Federal Reserve Board have conspired, albeit unwittingly, to produce another Third World balance-of-payments crisis every bit as threatening as that brought on by OPEC seven years ago. . . . The Volcker shock of 1979 has had as great an impact on Third World payments as the OPEC crisis of 1973-1974." Morgan Guaranty Trust estimates that if the short-term Eurodollar rate averages 20 percent this year, interest payments will hit $38 billion this year. The IMF staff estimate for 1981, in any event, is $33.6 billion of interest payments alone.

Whether or not the Third World debt bubble is more vulnerable than the California real-estate market or the Italian stock exchange is not so much the point. It is an excellent place to start, working outward to other potential problems.

The next question is, who will foot the $100 billion bill of preventing the entire pack of non-oil LDCs from defaulting this year? Unfortunately for the commercial banks, they have no choice but to pick up the tab. As West Germany's Commerzbank complained in an analysis released July 24, the proportion of private debt (as opposed to loans from governments or the World Bank and International Monetary Fund) in the LDCs' total indebtedness has risen from 50 percent in 1973 to 60 percent in 1981, looking only at long-term debt. If short-term debt is factored in, which it ought to be, the proportion of private debt rises to 70 percent.

In incremental terms, the picture looks even worse. In 1980 the international organizations and governments together carried less than 20 percent of the LDCs' deficit, and will not do better this year. For all intents and purposes, the problem is dripping into the laps of the commercial banks. This circumstance has produced some unusual shrieks and howls from the financial press. Last March, the London *Economist*, in a rhetorical flourish at the end of a long demand for more official financing for the LDCs, intoned, "In the longer term bankers must ask themselves if they are fit to carry on their recycling role. They have pushed billions of dollars into Poland on the scantiest statistical information. . . . They have proved as bad at reading the political tea-leaves as at avoiding being manipulated by politically sophisticated borrowers skilled at playing highly competitive banks of different nationality off against each other." The piece bore the headline, "Banks Discredited by Their Failure to Foresee That Some Countries Cannot Pay Their Debts on Time."

By June, when the Bank for International Settlements' annual report warned that the commercial banks could not keep on lending at the present rate, *The Economist*—who can serve as well as any as fall-guy for the inanities of the international financial press—had changed its mind. When the Bank for International Settlements pointed out that the banks lent 59 percent more to developing countries during the first five months of 1981 than during the same period of 1980, *The Economist* accused the "central bank for central banks" of being "overly cautious."

The banks are stuck with the problem, and, all of a sudden, none of the usual pundits wants to complain about banks' "overexposure," just when the exposure has gotten positively indecent. Next question: where does the money come from? Last year, after the big 1979 oil price rise, most of it came from OPEC deposits into the Eurodollar market, i.e. from a tax on oil consumption worldwide, transformed into a great fund for debt-service refinancing. The OPEC cash surplus provided $154 billion in Eurodollar market deposits during 1974-1980, of which $42 billion were placed last year. Apart from this, the International Monetary Fund failed to trace some $65 billion of the $109 billion in OPEC surplus cash racked up in 1980; some of this seems to have fed indirectly into the Eurodollar market.

But this year, because of stable or weaker oil prices, OPEC's quota of lendable cash has fallen off sharply to a little more than half of last year's levels. "By the end of the year [1980]," commented Chase Manhattan's *International Finance* newsletter, "[OPEC revenues] were a negligible source of new funds. This occurred for two reasons: the OPEC members appeared to be favoring longer-term nonbank investments [rather than dump all their money into the recycling mill—D.G.]; and they were forced to increase their borrowings late in the year as their oil revenue growth came under increasing pressure."

Without the OPEC cow to milk, the Eurodollar banks and the international financial institutions, the subject of an unusual encomium from the heads of government who signed the Ottawa communiqué, needed another source of funds. At this point Fed Chairman Paul Volcker became an important player in the world financial game. Volcker's credit controls of March 1980 shut down lending in the United States, and permitted U.S. banks to shift $15 billion to their foreign branches during the third quarter of 1980. Chase commented in its July 20 newsletter, "The imposition of credit controls in the United States in the spring of 1980 caused 'tight' monetary conditions in the classic sense, as some market participants . . . were denied sources of credit even though they could and would have paid a higher price. But such tightness failed to carry over into the Euromarkets because such rationing of credit requires regulations that cannot be imposed on the Euromarkets."

Except to state that Euromarket conditions were easy while domestic U.S. conditions were tight, the statement is disingenuous. It leaves out the crucial fact that the Federal Reserve and the banks designed an outflow to the Eurodollar markets at the expense of the

U.S. economy.

But by the first half of 1981, it was Europe's turn in the barrel. The Federal Reserve's monetary policy kept interest rates at the 20 percent level, provoking huge declines in the value of European currencies, and the following capital outflows from European treasuries (shown from the IMF data in annualized rates):

Current payments balance including official transfers for 1981

France	$− 7.4 billion
Germany	−12.5 billion
Italy	− 8.0 billion
Total	−27.9 billion

Not quite $30 billion this year, mostly during the first half, funnel into the deposit base of the Eurodollar market. This occurs through foreign exchange market intervention on the part of central banks. When the value of European currencies fell, because short-term money moved into dollars in pursuit of Chairman Volcker's record-breaking interest rates, the central banks attempted to slow the decline of their currencies by purchasing these currencies on the open market. Most of these purchases were made with dollars drawn from the foreign-exchange reserves of the central banks. The dollars sold in return for the European national currencies become part of the Eurodollar pool. The expanded Eurodollar pool is then capable of additional lending to the otherwise-bankrupt developing countries.

With this in mind, Chase Manhattan projections continued steady growth of the Eurodollar market as follows:

Size of Euromarket

	Gross size	Net size
1979	$1,110.7 billion	$665 billion
1980	1,323.1 billion	810 billion
1981 (p)	1,550.0 billion	950 billion

The difference between gross and net size is found by deducting deposits banks make with each other from the total deposits in the market, the remainder being banks' lending to nonbanks. The projected $140 billion growth in the net size of the market will consist mainly of new loans to those borrowers who are least likely to pay anything back. Note that the proportion of net to gross size of the market has not change substantially. This is important. Technically, the Eurodollar banks can "create money," i.e. lend the same deposits back and forth to create "new deposits," without limit. In other words, the potential Eurodollar multiplier is infinite, because no reserve requirements apply. However, the Eurodollar banks are not stupid, and will not maintain a necessary rate of lending without the continuous availability of new money from outside the market. The actual Eurodollar multiplier (the relationship between what the Fed calls monetary base and total deposits) is about 5, against less than 3 in the American banking system. Despite the large multiplier, movement of funds into the market is still a requirement for expansion.

Contrary to the halcyon portrait Chase offers of Eurodollar market growth in 1981, it is occurring at the expense of chaos in Western Europe even greater than the disruption of the American economy in the second and third quarters of 1980. West German Chancellor Helmut Schmidt's warning before the Ottawa summit that the world faced a danger of 1931-type protectionism referred to the *exchange controls* that nations adopted after the 1931 collapse of sterling and the collapse of the German banking system. That exchange controls are contemplated even in West Germany, the paragon of *Freimarktwirtschaft*, is not surprising in context. The following table prepared by the IMF shows the growth of the major European nations' budget deficits internally:

Central government deficit as percent of GNP

	West Germany	Italy	France
1979	−1.9%	−10.8%	−1.1%
1980	−1.8	−10.7	−1.3
1981	−2.2	−11.0	−1.8

Translated into American terms, a federal budget deficit equal to 2.2 percent of GNP would be $66 billion, or double what the Office of Management and Budget says is tolerable for the next fiscal year—although the actual U.S. deficit for FY 1982 will more likely be around $100 billion. Under normal circumstances Europe could finance deficits of the above magnitude, if it were not bleeding through the current account of its foreign balance of payments at the same time. Virtually all spare cash available to these countries' banking systems is parked in the Eurodollar market earning 18 percent interest, and perhaps expecting currency appreciation, because the Fed has forced Europeans to speculate against their own currencies. The domestic bond markets, i.e. the vehicle for financing the enlarged government deficits, are in shambles in all three of the major European countries.

Meanwhile, the change in the value of their currencies left Europe with the worst of all possible worlds. Even though oil prices remained stable during 1981, West Germany's oil bill has risen 30 percent, because the German mark has fallen by that amount against the dollar in which oil is priced. During 1980, the sharp rise in oil prices threw the European current accounts into deficit, but OPEC funds were freely available for at least France and Germany, which together received about $15 billion in petrodollars. Now that the Volcker "currency shock" has hit the Europeans worse than the 1979 "oil shock," the petrodollars are not available—unless a crash of the dollar persuades the Arabs to "diversify" their holdings further into the French and West German banking systems.

Italy has already undergone a brutal shakeout of the internal markets, starting with the July crash of the Milan stock market. For the first time since 1917 the government—in consultation with the International Monetary Fund—shut down the stock market for several days. It appears that the large commercial banks themselves began the crash, in order to clear ground for even more shocking measures by the central bank and government. At the end of July, while the heads of state met at Ottawa, the Bank of Italy stopped rediscounting Treasury bills, i.e. put an absolute stop to internal credit expansion. Since inflation in Italy is at 21 percent, this translates into a 21 percent cutback in credit in real terms. Meanwhile the new Spadolini government declared a reduction in its budget outlays from the 50 trillion lira ($42.5 billion) per year annual rate then prevailing, to 37 trillion lira—a 25 percent cutback across-the-board, something OMB honcho David Stockman would never have dreamed of. Such a measure was, in any event, implied by the earlier action of the Bank of Italy. It means the virtual end of health and sanitation services in most Italian municipalities.

Even West Germany will not be much better off if the present environment persists. Its whole credit system is based on long-term, fixed-interest securities, whose marketability collapses if interest rates rise. Both the big commercial banks, and the *Landesbanken*, the regional central banks for savings institutions who do commercial banking business, are crippled by the paper devaluation of their bond holdings. The Bundesbank's Volckerish monetary stance has virtually shut down commercial lending, with the result that the rate of bankruptcy has doubled from 1980 to 1981. On another anniversary, the July 10 semi-centenary of the collapse of the Danat Bank in 1931, the German financial press asked in all seriousness whether the German banking system would not repeat the debacle that brought in, first, Hjalmar Schacht as the enforcer for the Bank for International Settlements and, two years later, Adolf Hitler. Since the *Landesbanken* as a whole have been operating at a loss during 1981, and the third largest commercial bank, Commerzbank, reduced its dividend this year for the first time in decades, this speculation is not unmotivated.

British disease

All Europe is staring at its near-term future across the English Channel, where Prime Minister Margaret Thatcher's government has doubled unemployment to 11.8 percent of the workforce, or 3 million individuals, while proposing to reduce unemployment pay to $71 per week from $100 per week for a worker with a family. The 20 percent peak-to-trough production drop in Great Britain since Thatcher took office in April 1979 is half again as bad as the worst of the 1930s. The riots in British cities this year so far, involving mainly Asian and Caribbean immigrants, are perhaps only the beginning; under 1930s conditions not so gruesome as what archmonetarist Thatcher has prepared, British workers rioted 50 years ago. Only this time there is no Royal Navy to fall victim to a sailors' strike.

Monetarism in Europe, the inverse side of the "efficiency and ease" of Euromarket conditions in Chase Manhattan's description, means the spread of Britain's economic, social, and political chaos to the Continent. Just at the point of breakdown for several of Europe's economic sectors, however, their ability to provide a continuing flow of funds into the Euromarket has virtually ended. They are sucked dry.

Banking sources close to Fed Chairman Volcker explain that this does not represent a real problem; it is merely necessary that the United States take its turn in the barrel again. After the second and third quarter 1980 shambles, when industrial production in the United States dropped by 8 percent, and $15 billion flowed off to the Eurodollar market, the outflow stopped. In fact, the United States was the beneficiary of a substantial net inflow during the first quarter of 1981, when Eurodollars entering the American banking system accounted for most of the 12 percent per annum rate of expansion of money supply in that quarter. That is, since the Federal Reserve restricted banks' capacity to lend at home, American corporations borrowed abroad and brought the proceeds of the loans home, expanding money supply. During the second quarter the Federal Reserve accommodated a 32 percent annual rate of expansion of domestic credit, and the inflow stopped. It is important to note that the first-quarter inflow was not a drain on the monetary base of the Eurodollar market, but rather importation of loans spun off the monetary base. Had the actual base of the Eurodollar market decamped, the banks could not have financed the developing-sector deficit on the markets, and sanitation crews would still be scraping off the sidewalks around Wall Street.

Now, apparently, the Federal Reserve, not satisfied with the gradual but ominous decline of U.S. economic activity, has determined to give the United States a short sharp shock. In this case, the enforced collapse (perhaps through lending controls of the type Volcker used in the second and third quarters of 1980) of internal lending activity will free additional funds to feed the ravenous Eurodollar pool, and the global deficits will presumably be financed.

Not only the murderous interest-rate regime, but the capital movements of the first half of 1981, have already had a disastrous impact on the American economy. When European central banks sell their dollars to buy their own currencies off the floor of the foreign-exchange market, they convert their reserve holdings of U.S. government securities into ready cash. This involves presenting the securities to the Federal Reserve for sale on the U.S. market. For the American credit markets, the effect is the same as if the federal government spent more, and had to raise additional funds on the market. Someone must buy the securities. In practice, savings that would otherwise go into the savings banks and similar institutions, i.e. into the domestic housing market, buy up the additional bonds. What occurs is a net transfer of American savings from the mortgage and other long-term credit markets at home, to the monetary base of the Eurodollar market, through the liquidation of foreign holdings of U.S. government debt.

Another turn in the barrel for the United States economy will only buy time, in the view of the crisis managers. If the deficits of the Third World cannot be made up through the funds available through the international institutions, and the commercial banks must end their drunken-sailor lending pattern sometime, what must give is the internal economies of the Third World.

"Such countries," the IMF commented in its June 1981 *World Economic Outlook*, "will incur substantial increases in their debt service ratios even if they are successful, as assumed here, in implementing comprehensive programs of adjustment." Comprehensive programs of adjustment mean, in IMF euphemistic language, doubling or trebling of food prices through the elimination of internal subsidies, reductions in energy and capital goods imports, the abandonment of large capital-intensive development projects, cuts in government spending, and other measures that push developing economies under the threshold of survival. Under a 1979-1980 "adjustment program," Jamaica suffered a 20 percent drop in real wages, a staggering blow for a nation most of whose population lives at the margin of existence, and took to producing marijuana as a primary cash crop. What the IMF is saying here is that even such programs will *not* contain the explosion of their deficits. "A major cause is the persistence of interest rates at levels much higher than during the 1970s, tending to increase the outflow of investment income from countries with large external debt and, therefore, to limit the improvement in their current account deficits stemming from the adoption of adjustment programs. . . . It is difficult to see how these developing countries could sustain their debt burden without further reducing their growth rates."

Since the firm's accountant has been at work selling off the firm's assets to stay current with the creditors, it is time to look into the shop and see what is left. It was one thing to juggle the world's accounts during 1979, when world trade grew in real terms by 6½ percent, and quite another in 1980, when world trade grew by only 1½ percent. As a result of the Federal Reserve's juggling in collaboration with the International Monetary Fund and Bank for International Settlements, world trade volume is falling this year in absolute terms, for the first time since 1975. Every national sector of economic importance is either going through significant short-term reductions in output, as in the United States, or remaining stagnant after a major drop in output, e.g West Germany, or stagnating, as in Japan.


Chairman Paul Volcker

Cracked façade

Here is the point at which the seemingly cool half-smile of the central banker is recognizable as the expression of a paranoid axe-murderer. To manage deficits of crisis proportions during the past two years, the Bank for International Settlements has put every national economic sector among the OECD group into recession and the grave immediate danger of general collapse, and pushed large sections of the developing sector population to the edge of extinction. Extinction is, in fact, the next step. The U.S. State Department reckons the signal accomplishment of the Ottawa summit July 21 to have been the inclusion in the heads of governments' final communiqué of a Paragraph 12 devoted to population control. It means, as the State Department wants to tell next October's North-South meeting in Mexico, the introduction of population control programs as a condition for further credits. Since, according to the IMF, the developing sector cannot afford to sustain large sections of its population, it must eliminate part of them.

Having successfully "managed" the critical deficits by reducing the world's real output and trade, the BIS and IMF propose to repeat what has evidently been such a successful procedure. This is the policy commitment evident after President Reagan was sufficiently duped as to deny the Europeans their plea for monetary sanity at the Ottawa summit.

Once real output drops off at the rate the crisis managers have ordained, the deficits of nations and private firms that earlier seemed to grow dangerously but containably will explode out of control.

For the United States, it means a gap in the balance sheets of the savings and loan industry between $45 and $75 billion, according to different official estimates; auto industry profits changing from a negligible positive figure in the second quarter, made possible by creative accounting, into massive third- and fourth-quarter losses; regional commercial bank insolvencies; and a federal government budget deficit rising over $100 billion, due to higher interest costs, higher unemployment benefits, and lower revenues.

At this point, Citibank officer Edward Palmer's judgment is accurate. One at a time, the bankruptcy of firms and even nations can be "managed," as we have seen during the past year and a half. But it doesn't work that way. Financial institutions react to the prospect of insolvency after the fashion of the individual sucker who can't meet his mortgage payments, and blows his last $500 at the roulette table in a desperate splurge to come up with the cash. The gigantic shifts in currency values, securities prices, and other basic parameters of financial life have left the crushingly indebted private sector also exposed to the neck in the speculative markets.

The first sign of real trouble is less likely to be the final bankruptcy of a Chrysler or Pan Am, but the discovery that the Bahamas manager of a Midwest bank is short of $5 billion of cocoa—at which point every player in the game considers cashing in his chips and hiding under the bed. But this is not the most dangerous feature of the situation. Volcker and his associates have created economic circumstances that no national government and no population can live with.

Should Chancellor Schmidt, for example, tire of playing Atlas to the world market, and impose defensive exchange controls—which the German central bank is now considering—the entire weight of the crisis would be thrown back onto its managers. Should Mexican President José López Portillo carry through on his threat to "fight like a dog to defend the peso," under speculative attack now, and adopt similar defense controls, what will Brazil do, or other nations in the same spot? Such events would transform what is now a de facto military occupation of the world economy by the supranational institutions into open, and uncontrolled, warfare.

Even if Schmidt, López Portillo, and other world leaders ultimately follow orders on the example of Spadolini and Mitterrand, the world is likely to take a course different from the one expected by the International Monetary Fund, i.e. the supranational institutions and their tributary commercial banks squatting like vultures over the carcasses of national economies. The tenuous nature of their position is evident in the last weeks' negotiations over the Polish debt. With $5.3 billion to pay this year, and $23 billion in external debt, Poland is the worst potential crisis-trigger in the system at the moment. The American commercial banks have, incredibly enough, decided to play chicken with the harried Polish political leadership. Since the West German banks are the most vulnerable to Polish insolvency, the U.S. banks have delayed rescheduling the debt, as the Germans want, in order to press an additional condition on the negotiations: that Poland join the International Monetary Fund.

This action gives the Soviet leadership a direct stake in undermining the *economic* crisis-management efforts of the Western leadership, even if it were disposed to play games with strategic crisis management. Every national sector the International Monetary Fund has touched has, in direct consequence, tumbled into domestic political chaos. Argentina or Zaire may have no one to mourn the convulsions of their internal political structure. But they are not dependencies of the Soviet Union.

Where the fantasies of the crisis managers will crash into bedrock reality is impossible to say. The most immediately submerged rocks are:

1) a collapse in U.S. real-estate values, associated with major commercial bank losses; combined with

2) panic withdrawal of large deposits from savings and loans after one or two big failures; both above associated with

3) a sudden turnaround of foreign-investor interest in the dollar, and a flight of capital into gold and safer currencies; combined with

4) exchange controls imposed by European governments who would have little other choice; and

5) pullout of dollar deposits by OPEC countries seeking refuge in safer assets; leading to

6) a breakdown of debt recycling on the Eurodollar market.

Of course, any number of other possibilities are evident, and the above hypothetical sequence could occur with the same events in different *apparent* order of causality. What is of overriding importance is that the short-term success of comprehensive crisis management has left every vertex of the financial system vulnerable to crisis.

Two tracks in postwar policy

What follows are excerpts on post-World War II economic history and the circumstances of the Aug. 15, 1971 decision, taken from The Ugly Truth About Milton Friedman *by Lyndon H. LaRouche, Jr. and David P. Goldman (New Benjamin Franklin House, 1980).*

The Marshall Plan, as Secretary of State George Marshall first envisioned it, was to carry out Roosevelt's threat to dismantle the British Empire and replace it with a regime of American-sponsored world development. It became the 180-degree reverse in implementation. The State Department Policy Planning Staff turned effective control of the plan over to Britain, and diverted the largest single share of Marshall Plan aid, $3.4 billion of the $14 billion total, to London. Instead of piercing the boil that the pound sterling left on the international monetary scene after the war, the Marshall Plan, as well as the International Monetary Fund, bailed out the sterling monetary area, building into the monetary system a detonator for the exchange crises that exploded in the late 1960s.

The Marshall Plan undermined the dollar's long-run stability by intentionally *restricting* American exports to war-stricken Europe. Europe was compelled to rebuild, in some cases literally, out of its own rubble. The Marshall Plan's official target was to reduce European imports from the United States to $2.7 billion for 1952-1953, against $3 billion in 1938—at the trough of the Depression—and $6.7 billion in 1947. Under the direction of British treasury official Sir Eric Roll, Harlan Cleveland (now chairman of the Aspen Institute), and George Kennan's State Department planners, the Marshall Plan succeeded in reducing America's exports to trifling levels compared to those of other industrial countries. Britain offered America the status not of a world industrial power but of a rentier. . . .

Simultaneously, the International Monetary Fund, the central monetary institution formed at Bretton Woods, imposed a "fiscal austerity" regimen on developing nations, preventing them from absorbing large-scale American industrial exports, which would have implied trade deficits forbidden under the IMF's Rules of Agreement.

America became a continental, not a world, industrial power, hemmed in by the postwar monetary blueprint authored by John Maynard Keynes, Britain's negotiator at Bretton Woods. From a position of unchallenged strength at the war's end, the American dollar became a deficit currency by 1958 and a bankrupt currency in 1971. The era of dollar weakness began as soon as Europe, by virtue of enormous and prolonged sacrifice, recovered from the war, despite the flawed Marshall Plan.

The dollar's obituary was already the subject of memoranda among Marshall Plan economists in 1950, when Robert Triffin, the bright young man of the "Austrian School" of von Hayek and von Mises, became Special Adviser on Policy, Trade and Finance to the Economic Cooperation Administration, the government agency that administered the Marshall Plan. Under him worked Milton Friedman, newly notorious for his extreme monetarist views. Triffin, a Jesuit-trained Belgian, came to the U.S. government via Harvard University. He became the leading postwar proponent of Keynes's original scheme to eliminate the dollar as an international currency altogether, in favor of a "one-world" currency like the present Special Drawing Right controlled by the International Monetary Fund. Friedman, his consultant, took the apparently opposite, but actually compatible position that chaos should be allowed to take its course.

Under what were considered normal conditions until 1971, central banks maintained the respective prices of their currencies against each other and against an international standard, gold. World trade necessitates such stability. If the values of currencies shifted continuously, exporters, importers, and international investors would have no way of knowing what the future price of the currencies they are to be paid in would be, except through enormously expensive hedging operations. But Friedman insisted that chaos should be the acceptable norm of economic affairs, and nations should accept that notion by abandoning fixed rates. . .

Friedman cannot be accused of lack of foresight here. America formally agreed to end the world role of the dollar in 1965, after Treasury Secretary Henry Fowler told Lyndon Johnson that if he wanted to finance the Vietnam War, he would have to junk the dollar for the IMF's Special Drawing Rights, historian William Wiseley reported. Wiseley noted maliciously that Britain's Field Marshal Lord Carver persuaded the United States to get into Vietnam in the first place. Vietnam did not create the 1960s dollar crisis any more than the Algerian conflict created the French franc crisis of 1958, but it did provide the final blow.

Friedman added to this prescription in late 1968—when he began to advise Richard Nixon, the President-elect—that the United States should eliminate gold from the monetary system, and "set the dollar free by stopping pegging the dollar." He told an American Economics

Association conference gleefully, "Each of these steps is within the unilateral control of the U.S. No other country can by its action prevent us from taking them." The most Europe could do in response to shotgun monetary diplomacy, Friedman suggested, was "to try to set up a kind of gold bloc whose currencies would be linked at fixed rates to one another but fluctuate as a group vis-à-vis the dollar." In August 1971, to the disbelieving outrage of the Europeans, Nixon took Friedman's advice, at the urging of then Undersecretary of the Treasury Volcker.

[Gaullist economist] Jacques Rueff was determined that this would not happen.

Instead of abusing the dollar's international acceptability as a reserve currency by running continuous payments deficits, he argued in a June 1961 essay in the Paris daily *Le Monde* that the United States should pay its foreign obligations in gold. Rueff did not suggest that the United States should give up its gold stocks (as it did, in fact, give up half of them before 1971). He instead proposed an increase in the gold price relative to all currencies, which would enable America to meet its foreign obligations in gold. The contents of the *Le Monde* article, which Rueff had earlier sent to President de Gaulle in memorandum form, set off an international controversy that lasted throughout the 1960s. Until LaRouche's 1974 "Golden Snake" proposal, which projected what later became Phase One of the European Monetary System, Rueff was the authoritative spokesman for the politics of the Grand Design in the monetary sphere. Relative to LaRouche's more comprehensive formulation of the required new international monetary system, Rueff's plan was simple, but no less effective. The United States was an underexporting nation, Rueff wrote, and required a discipline by which to correct the tendency toward rentier status of the postwar period. . . .

The collapse of the French franc in September 1968 undermined de Gaulle's ability to guide international monetary affairs, and it was the unpleasant job of a new finance minister, Valéry Giscard d'Estaing, to go to the IMF and make a temporary peace with the British. De Gaulle's ouster and the accession of Willy Brandt's Social Democrats to power in West Germany put the world on direct course toward the August 1971 debacle. . . .

How much the United States lost when its great wartime ally and postwar friend Charles de Gaulle departed office is not understood by most Americans. President Nixon is one of the few who had an inkling; he saw the postwar political leadership of the West "in the shadows of those two giants, Eisenhower and de Gaulle." Despite Nixon's great personal regard for de Gaulle, his comprehension of what the French president and his adviser Rueff represented was subminimal.

How little Nixon understood is evident in his decision to make Milton Friedman the guiding economic policy voice of the first two years of his administration, until Friedman's money program had put the United States into deep recession by 1970. But Nixon carried out the full Friedman program on August 15, 1971, with the addition of the wage-price controls demanded by "populist monetarist" Henry Reuss. . . .

Nixon, in any event, had learned his economics at the White House at Arthur Burns's knee. Burns now moved back to the White House from Columbia as counselor to the President. The next year, Burns replaced the aging William McChesney Martin as chairman of the Federal Reserve's Board of Governors.

During the first half of 1969, the Federal Reserve held the rate of money supply growth to 4.4 percent per year, right in the middle of Friedman's recommended range of 3 to 5 percent. Prices rose by an annual rate of 5.8 percent, faster than they had during what Nixon considered a period of monetary laxity under Lyndon Johnson, when they had risen by 4.6 percent per year.

The record on economic crisis predictions

Arthur Burns, 1969: "We have made considerable progress toward full employment and economic stability in our generation, and we have accomplished this while preserving the essentials of political and economic freedom. Financial crises, which frequently disrupted economic life in earlier times, no longer exacerbate our troubles"

George Shultz, director of the Office of Management and Budget, May 10, 1971: "When [Nixon] came into office. . .others said the inflationary thrust could never be contained without a virtual takeover of economic activity or a major depression. It was—and without either."

Paul Samuelson, 1970 Nobel Prize winner in economics; from the seventh edition of his textbook *Economics:* "The modern fiscal system has great inherent automatic stabilizing properties. All through the day and night, whether or not the Prsident is to be found in the White House, the fiscal system is helping to keep our economy stable. If a recession should get under way while Congress was out of session, powerful automatic forces would go instantly into action to

This did not upset Friedman, who believed that monetary policy operated with a six-month lag. He wrote, however, in August 1969, "If the rate of price rise has not begun to abate by the fourth quarter of this year, it will be time to ask us for an explanation."

But the rate of price inflation did not abate. It continued at 5.8 percent per year through the second half of 1969, and showed no signs of improvement.

Friedman prescribed more of the same medicine, and the Federal Reserve, under Nixon's imprimatur, obeyed. Monetary growth stopped dead in the half-year from June 1969 to December 1969, and the economy collapsed. Starting in the summer, industrial production fell, and unemployment rose from 3.5 percent in 1969 to 5 percent in May 1970. Despite the deterioration of economic conditions, inflation did not fall. During the first half of 1970, inflation was *higher* than it had been the previous year. As Leonard Silk summed it up:

"The economy was slipping into recession, with no tangible evidence that inflation was abating. Interest rates had climbed to levels not seen in a hundred years, with devastating effects on housing. The federal budget was dropping into deficit, aggravating pressures on money markets. The stock market went into the worst decline it had experienced since the Great Depression."

Friedman nearly brought the American economy through a repetition of the 1929 crash, by identical methods. In May the Penn Central Railroad went bankrupt, leaving hundreds of millions of dollars in short-term commercial paper outstanding. The entire structure of American short-term credit, which depended on tens of billions of dollars in short-term promissory notes secured only by the faith of the borrower, was in danger. Bankers sat in their offices deciding whether or not to panic, and Arthur Burns made a series of frantic phone calls to New York and Chicago promising that the Fed would provide as much money as needed as soon as they needed it. From dead zero, the rate of money supply growth jumped to 13 percent.

Penn Central did not lead to a general panic in the American credit markets. However, the sudden lurch from monetary strangulaion to a postwar extreme in monetary laxity sent the American dollar skidding down toward the great debacle of August 1971. The first big dollar crisis of the Nixon administration broke out almost as soon as Burns opened the floodgates in May 1970.

Richard Nixon was stupid, but not that stupid. On the next moonless night he buried Milton Friedman's reputation in the White House back lawn. Immediately after followed Nixon's great recantation, "We are all Keynesians now," meaning, "We are no longer Friedmanites"!

That didn't get either the White House or the United States out of the hole that a year of Friedman's medicine had put it in. By August 15, 1971, Nixon caved in to the demands of Rep. Henry Reuss and Treasury Undersecretary Paul Volcker, de-linked the dollar from gold, and placed wage-price controls on the American economy that would, within two years, lead to double-digit inflation.

Friedman's mugging-mate, William F. Buckley, Jr., had what turned out to be the most appropriate comment on Milton Friedman as oracle to the White House. In an August 16, 1971 editorial in *National Review* entitled "Goodbye Milton Friedman," Buckley wrote:

"Mr. Friedman can absolutely be counted upon to say that his theories were not given an adequate exercise. There is no doubting that he is correct. *But it is possible that his theories suffer from the overriding disqualification that they simply cannot get a sufficient exercise in democratic situations*—because it takes longer for them to produce results than the public is prepared to wait. . . ."

counteract it without the need for any committee meetings or for exercise of any human intelligence."

***EIR* founder Lyndon H. LaRouche, Jr.,** following the Aug. 15, 1971 devaluation of the dollar, wrote an article titled "Why It Happened Now," in which he explained the method by which he was able to foresee the 1971 events a decade earlier: "The developments leading up to President Nixon's actions of August 15 have more or less totally discredited every well-known living economist but this writer. . . .

"During the period, 1958-59 . . . LaRouche developed and presented the following ideas: 1) That the 1957-58 recession represented a turning point in postwar capitalist development, a point of exhaustion of 'endogenous' U.S. potential for further expansion of the domestic *productive* labor force. On this basis he predicted a period of minority and youth ferment, without immediate new radicalization among trade unionists. 2) That no *immediate* depression was then in sight, since continued growth of the U.S. economic satrapies in Western Europe and Japan provided a prop to the U.S. dollar on a world scale. 3) That the basis for continued healthy capitalist expansion in Western Europe would begin to be exhausted about the middle of the 1960s, after which the international monetary system must begin to unravel. . . . Since that time, the theses have gone the rounds . . . and have been denounced by nearly every leading figure in sight. It was charged that LaRouche overlooked the 'built-in stabilizers,' or the 'new reality' of 'neocapitalism' and the 'postindustrial society.' "

Principles of statecraft for a new 'North-South' policy

by Lyndon H. LaRouche, Jr.

EIR *founder Lyndon H. LaRouche, Jr. has written a booklet, titled* Principles of Statecraft for Defining a New "North-South" Policy, *which will appear soon. We provide here advance publication of the Letter of Transmittal for that booklet.*

This report has been prepared chiefly to provide needed background knowledge for members and advisers of governments participating in the scheduled October 1981 "North-South" conference in Cancún, Mexico.

The problems which demand such a report are chiefly these.

The effort to establish efficient policies for economic development of nations with a high ratio of rural population has been in progress since the deliberations leading directly to the adoption of the UNO's First Development Decade resolution, back during the 1950s. Unfortunately, from that time to the present, the use of the word "development" in such contexts of diplomatic effort has continued to mean chiefly a shifting aggregation of aspirations without an accompanying, coherent and generally accepted theory of what development is, or by what well-defined courses of action it might be achieved.

The principal cause for this lack of generally accepted development theory, and the chief cause for capitulation by developing nations on vital issues of negotiations, has been the fact that the external indebtedness and sources of new credit of most governments and states has been institutions allied with the Bank for International Settlements, International Monetary Fund, and World Bank. Since no general development of the southern tier of nations is possible without either replacement or radical reform of those powerful monetary and financial institutions, the fear of these institutions has transformed the discussion of development into forms resembling debates over the best forms of self-government among the prisoners of a Nazi concentration camp.

All things being equal, one might assume that present and future "North-South summits" would be nothing more than one more graveyard of memory for frustrated hopes. All things are not equal. The Ottawa summit conference of leading nations, reviewing monetary policy, was much worse than a total failure. The last chance for most among developing nations is now the negotiations leading into the October conference in Cancún, Mexico. Either developing nations muster the courage to accomplish what they have never attempted since the Colombo, Sri Lanka conference of August 1976, or the sovereignties and much of the population of entire regions of the developing sector will begin to vanish rapidly in the developments soon to follow.

The possibility that some section of the developing nations might, at last, attack the key issue of development policy has not arisen because matters have become better, but because well-informed nations know that their very nations may soon cease to exist unless courage is now found to attack issues which they have not dared to attack openly before this time.

The writer of this report became a somewhat significant, if peripheral factor in the effort to establish a new world economic order during the period of 1974-76, the period leading into the August 1976 Colombo conference. In the massive, coordinated operations against himself during autumn 1975, the writer experienced first-hand the nature and scale of pressures mobilized against any government or political figure which challenges the neocolonialist policies of the IMF, World Bank, and Bank for International Settlements. The major personal, coordinated roles of Henry A. Kissinger and Gamani Correa of Unctad in that 1975 operation exemplify the coordinated functions of influential traitors within the "Third World Camp" in setting up governments and personalities who displease the masters of Kissinger.

In desperate haste to divide and conquer forces seeking monetary reforms during the pre-Colombo period, Kissinger and the U.S. Brookings Institution concocted a swindle then termed "the International Resources Bank" proposal, which was introduced to hoodwink a majority of the Group of 77 through the Switzerland offices of Unctad, and Gamani Correa. The "International Resources Bank" swindle was followed by a similar hoax, from the same Kissinger-linked sources, called the "Common Fund."

Governments which sponsored serious development proposals, such as the Colombo resolution of August 1976, were either simply overthrown, and in some cases targeted for assassination, chiefly on the basis of orders of coups and assassinations mediated through Kissinger. Mrs. Bandaranaike's government was ousted in Sri Lanka, a coup d'état was organized against Mrs. Gandhi's government, with aid of leading figures of the Socialist International, and funds conduited, according to Indian sources, through the Siemens-ITT conduits. On Kissinger's orders, the Bhutto government of Pakistan was overthrown, Kissinger personally informing Prime Minister Bhutto that Kissinger and his friends were "going to make a horrible example of you." It is little wonder that the Socialist International and its close associates are so bitterly hated among all informed leading patriotic circles of developing nations.

The presently projected October conference is scheduled for a nation, Mexico, which is targeted for early "Iran treatment" by the Trilateral Commission and forces allied to the leadership of the Socialist International. George Ball, a leading figure of the Trilateral Commission linked financially to the fascist Propaganda Two Freemasonic lodge of Licio Gelli, continues his commitment to murder at least half of the population of Mexico, the commitment to which he and the Trilateral Carter administration have been committed since no later than 1976. This Hitlerite scheme of William Paddock's and Ball's this writer exposed in a half-hour nationwide U.S. television broadcast on Nov. 1, 1976. The destabilization of Central America, mediated through left-Jesuit Liberation Theologists, elements of the leadership of the Socialist International, and coordinated by elements associated with the Kissinger-Carter State Department and National Security Council,[1] is already being extended into escalated form in Guatemala, with the Guatemala destabilization intended to lead to a foreign military occupation of Chiapas state in Mexico.

The general proposal for elimination of 2 billion or more of the developing sector's population by approximately the year 2000 was initiated by Aurelio Peccei's Club of Rome, a proposal brought into the open during 1972-1973 with aid of a fraudulent report prepared by a pair of evil professors at the Massachusetts Institute of Technology, Dennis Meadows and Jay Forrester: the *Limits to Growth*. This policy of genocide is aided by a complex of international "environmentalist" movements set into motion in coordinated fashion during the closing months of 1969. These include the World Wildlife Fund, the Aspen Institute, and the U.S. Sierra Club, among numerous others, down to the level of the ragtag of "radical antitechnology" groups developed as subversive forces in various developing as well as industrialized nations.

This genocide was openly proposed to become the policy of the United States through a *Global 2000 Report* prepared under the term of Secretary of State Cyrus Vance and released to the public with the enthusiastic endorsement of Vice-President Edmund Muskie. The report is enthusiastically supported by the pro-genocidalist Archbishop of Canterbury, Robert Runcie, who insists, together with others, that the Willy Brandt North-South Commission report includes proposed policies by which such genocide could be successfully fostered. Although the Brandt Commission report does not represent itself as supporting genocide, the measures included in the proposals would have exactly such consequences.

The monstrous fact of the matter is this. Here we are faced with an overt, repeatedly avowed intent to perpetrate genocide on a scale a hundredfold larger than that accomplished by the Nazi regime, and yet, with the memory of the Nuremberg Trials and Nuremberg Code still fresh on the books of international law, the leading figures associated with the Club of Rome are not only not brought before international or other tribunals as the letter of the law demands be done, but such monstrously degraded persons are received by governments and other prominent institutions around the world as if *such genocidalists a hundred times worse than Hitler's criminality are to be regarded as "respectable public figures"!* At the very least, the patriots of every developing nation should demand that personalities associated with pro-genocidal and allied "environmentalist" proposals be treated as "personae non gratae" throughout the developing nations.

That exemplifies the kinds of facts characterizing this writer's direct knowledge of preceding development negotiations. The danger to developing nations' existence, and the existence of large portions of their populations is very immediate. To fail to confront the issues of the neocolonialist monetary order now, and directly, would be a virtual act of suicide by the governments of most nations of the developing sector.

The key to the immediate danger is twofold. Primarily, the continuation of the usurious monetarist measures of U.S. Federal Reserve Chairman Paul A. Volcker since October 1979 has brought the world to the verge of a chain-reaction of monetary collapses, analogous broadly to the 1929-1931 period. The United States has responded to its government's failure and unwillingness to reverse the Volcker policies by adapting its national social and strategic-military policy to the circumstances defined by Volcker's imitation of Nazi Finance Minister Hjalmar Schacht. Military policy has been reshaped on the basis of the stripping away of industrially based in-depth strategic capabilities of the Atlantic Alliance, by a would-be offsetting emphasis on "forward defense," "first-strike" nuclear postures against the Soviet Union's heartland. This has brought us to the verge of Soviet preemptive countermeasures, approximating, in reverse, the 1962 Cuba Missile Crisis. These two combined and interdependent problems have created a more menacing danger to the human species as a whole than existed in fact on the verge of either of the two previous world wars of this century.

The proper way to evaluate these dangers leads one to examine the awareness and associated intent among the Trilateral Commission and its international allies.

On June 14, 1981 the Bank for International Settlements reported that the continuation of the Volcker measures in the United States was leading the world to the verge of a new world depression, possibly worse than that of the 1930s. That BIS report was correct on both of those cited accounts—although not in respect to its proposed actions.

On the second count, if we compare 1929-1931 with the present period, we note that the ratio of fixed financial charges to value of total goods-production is an order of magnitude larger today than was the case in 1929. Since current and future payments of the fixed charges of ground-rent and debt-service must be derived from the gross profits of goods-production as a whole, the combination of a monetary inflation in fixed financial charges with a contraction of goods-production levels transforms the combined absolute and relative monetary inflation of capitalized ground-rent and debt-service values into a classical financial "bubble," like the John Law "Mississippi" bubble and the British "South Sea Island" bubble of the 18th century. The degree of stress between those aspects of financial holdings and the shrinking gross profits of goods-producing sectors is an approximate measure of the depths of the depression which will occur when the bubble is burst.

On the first count, the kind of bubble-spiral we have described summarily enters the imminent-collapse phase of such a spiral when interest charges to goods-producing sectors exceed the ratio of marginal return on investment in circulating capital of goods production. That is, there is no possible equilibrium-value of restabilization within the monetary cycle so defined. In this phase, the economy proceeds to the point at which a chain-reaction of bankruptcies, and closings to avoid bankruptcy, strikes both goods-producing entities of the economy and increasing numbers of banks and other financial institutions. That latter condition of maturity was reached in the United States internal economy at the beginning of the second quarter of 1981.

The chain-reaction effects of the Volcker policy were mediated into the Federal Republic of Germany through the complicity of the independent Bundesbank, acting in concert with the private central bank for independent central banks, the Bank for International Settlements. That nation, in consequence, has been sent into a spiral of contraction, which will become a depression as soon as the contraction of the nation's balance of trade and payments combined bring the whole economy below breakeven levels.

The agreements reached in the July Ottawa conference have removed all remaining actual and potential obstacles to the triggering of a financial collapse during the months immediately ahead.

This knowledge is commanded by not only the Bank for International Settlements, but also by an associated interlocking complex of Venice-centered family funds, the complex which instructs Mr. Volcker on which occasions the Federal Reserve chairman is permitted to cough, breathe, or blink an eye. The implied conclusion, therefore, is that these forces, or at least a prevailing majority among them, desire a new depression.

This is, in fact, the correct evaluation. *The chaos and crisis such a collapse will precipitate is the desired opportunity among a prevailing majority of such family funds. It is their present intent to establish an "emergency decree" government in the United States, and "authoritarian" regimes in every nation of Western Europe.*

A fascist coup is now tentatively scheduled to occur in Italy during September 1981. As in other Western European nations, the new fascist state order is to be modeled politically on the 1920s Mussolini fascist regime, while the monetary-economic features of the state are to be modeled on the Nazi austerity of Hjalmar

Schacht and Albert Speer. In general, these fascist regimes are intended to be given the cover of fascist presidents or prime ministers of Socialist International parties, such as Bettino Craxi in Italy. The coup in Italy is being organized with the support of U.S. Secretary of State Alexander Haig and coordinated, on the ground by forces associated with Agnelli, Fanfani, Olivetti, the Assicurazioni Generali di Venezia e Trieste, and the mother-lodge for the fascist Propaganda Two lodge, Grand Orient of Rome. These are the Italian, Venice-coordinated forces which control Aurelio Peccei of the Club of Rome.

For clarity, it is useful to add that former Carter Ambassador to Rome, Richard Gardner, was not only a founder of the Trilateral Commission, but was at the time of that founding a paid intelligence officer for the fascist Propaganda Two lodge in Italy. The paid connection of Gardner to the Propaganda Two lodge, prior to his being appointed Carter's ambassador to Rome, was as agent for the Rockefeller-interfaced Inter-Alpha Group, an interlocking international financial cartel, controlling the funds of the Socialist Party of Italy, directly linked to the international drug-financier interests and financial depositories of the Scottish Rite Freemasons in Scotland. While ambassador to Rome, Gardner performed not only a key role in the "Billygate affair," as an accomplice, but intervened in political defense of interests later indicted by Italian courts as terrorists. *As the Italian courts have shown, all terrorism and related undertakings in Italy since the beginning of the "Strategy of Tension" in 1969 have been coordinated through the Propaganda Two lodge,* to which Gardner is connected by marriage as well as in other forms. Colonel Qaddafi of Libya was a creation of these same circles. Qaddafi has been a correspondent of the fascist international since no later than 1959, and was put into power in Libya in 1969 in coordination with the "Strategy of Tension" operation by combined Venetian and British Petroleum interests. Qaddafi is a partner of Agnelli and of Venetian-controlled Italian Mafia circles coordinating terrorist, drug-running and weapons-smuggling traffic into Europe through which Billy Carter's connections into Libya were arranged.

The projected policy for an "emergency government" of the United States is to enter this state of affairs by successive degrees, using a combination of monetary-economic and strategic crises as the pretexts for these successive steps. The general policy for such steps is to model the United States directly on the Nazi regime of the 1930s, combining the union-busting and austerity of Nazi Finance Minister Hjalmar Schacht, under the Brüning and Hitler regimes, with Hermann Göring's "guns instead of butter" military policy. This includes the projected elimination of President Ronald Reagan, and the control of Reagan's policies and perceptions in the meantime by a combination of intimidation by the Trilaterals and Menachem Begin with Reagan's known susceptibility to "consensus"-determined policy-making and his anti-Soviet profile.

Although the White House is morally abhorrent of the genocidal policies of *Global 2000,* and committed to the principle of sovereignty of nation-states, the forces determined to manipulate and eliminate Reagan are typified by the Draper Fund, for which Gen. Maxwell Taylor is presently a rabidly racist-genocidalist spokesman. James Buckley at the State Department is the executive responsible for the principal genocidalist section of that institution, and the administration is crawling with the influence of the Fabian Society-controlled Heritage Foundation and the Fabian-fascist Prof. Milton Friedman, both of which influences are rabidly committed to policies ensuring genocide throughout much of the developing sector.

If the depression occurs, and facilitates political shifts in the government of the United States and Western Europe, the increasingly fascist character of fascist governments led by Socialist executives or influenced by the Fabian-Socialists of the Heritage Foundation in the United States (e.g., David Stockman), must be taken into account to assess the forces through which massive genocide against the developing sector will be mediated.

Thus, it would be moral insanity and intellectual imbecility among developing nations' governments not to view the negotiations leading into the October conference as quite possibly the last and only remaining opportunity to force the world to move out of the fascist-genocidalist geometry intrinsic to the present composition and policies of the IMF, World Bank and Bank for International Settlements. If some among the industrialized nations can be shocked into creating increases in levels of world trade in high-technology capital goods, by promoting North-South technology transfer, that shifting of key such nations away from the brink of world depression will strengthen democratic forms of republican government against the imminent fascist threat. Only in that way could the risks of nuclear war and almost certain genocide be combatted at this late stage of developments.

Like many committed to fostering technology transfer to developing nations over years, this writer has become so accustomed to the atrocities perpetrated by Kissinger et al. that he, like many similarly advantaged to know the inside of such matters, has lost the capacity to weep, or to be shocked by any new manifestation of Kissinger-like bestiality or the cowardice and narrow-minded cupidity among many of Kissinger's victims. From such experience, this writer's thoughts drift, through reconstructed memory, to Dante Alighieri in Italy at the beginning of the 14th century. Then, the biological and political ancestors of today's Venice-centered interlocking combination of rentier-financier family funds, imposed upon Europe a genocidal blend of usury and austerity which resulted in a halving of the population of Europe over the period from 1268 A.D. into the third quarter of the 14th century. Indeed, it is that same Venice-centered "black nobility," together with coopted family-fund partners in many parts of the world, which created Mussolini and Hitler, and which is behind Volckerism, Friedmanism, Club of Rome genocide, and new fascist schemes of today.

Yet, then, out of the genocidal abyss into which the powerful, Aristotelian financier interests of Venice and Genoa then plunged Europe, Dante's efforts, continued through Petrarch and others, established the great watershed of all subsequent modern civilization, the 15th century's Golden Renaissance. It was the development of science, of printing, the transformation of brutish local dialects into literate modern languages, and the creation of the institutions of the modern sovereign nation-state republic then, which lifted Europe from the genocide and rubble created by Aristotelianism of Genoa and Venice, to develop Europe as the center of the world's production of wealth and culture during later centuries.

Although the power created by the Golden Renaissance was too often appropriated by resurgent Aristotelian forces centered on Venice's family funds, the potential for great good was nonetheless established—on condition that we crush the evil forces centered historically and financially on Venice's family funds.

That record implies that if one could look rightly at the developments traced from the influence of the work of Dante into the 15th century and beyond, that view of history must provide us lessons which are perhaps not obtainable in such degree of applicability to today in any other way. If we can look rightly at the past seven centuries of European history, sorting the good from the evil, the excellent from the merely mediocre and tragically foolish, there must lie within that matter durable lessons of statecraft urgently wanted today.

As to the immediate future of humanity, it would be foolish to be blindly optimistic. Perhaps, unless this report can help to awaken and encourage some among the participating governments, the October meeting will be as fruitless as the recent Ottawa conference. The only immediate source of hope for mankind as a whole is that the highly improbable might occur in the course of preparations for that meeting. The only remaining source of hope is the highly improbable prospect, that some statesman might at last break the mold of traditional diplomacy, and recapture some of that higher morality and true genius exemplified by Dante Alighieri, France's Louis XI, and Benjamin Franklin's brilliant organization of the defeat of Britain.

The chief source of corruption of statesmen, apart from the reaction-formation to fear of Kissinger's masters, is the influence of the putative professional economists. Although some among those brutally miseducated economists are intelligent persons still capable morally and intellectually of re-education in economic science, the varieties of political-economic method and doctrines they represent presently are each and all worse than incompetent. The developing nations, in particular, have been saturated with the dogmas purveyed by Cambridge University's King's College and the London School of Economics. The very system of national-income accounting used by every government of the developing nations is intrinsically incompetent for related reasons. A developing nation statesman who desires his nation to survive must begin by rejecting the influences of each and every one of the certified economists presently predominating in those nations. Until they have been reeducated, they must be viewed as the (perhaps unwitting) bearers of the same moral syphilis more overtly carried by Henry Kissinger and Prof. Milton Friedman. It is the continued influence of these economists which compels us to regard the continued existence of many developing nations, and of large portions of their populations, as an improbable outcome of the October conference.

To accomplish the improbable survival of nations and populations, requires a knowledge of certain principles of statecraft generally lost to knowledge of statesmen and political parties since the close of the 18th century and beginning of the 19th. These are principles known to St. Augustine and to Dante Alighieri after him, principles elaborated richly by the greatest thinkers and statesmen of the 15th through early 19th centuries.

Learn and apply quickly those principles of statecraft, or else a statesman is left with no important action to take but to kiss the members of his family (and perhaps his mistress) goodbye, and then, as a final act, to give a parting kiss to whatever portion of his anatomy he holds most dear. There is then nothing remaining to do but to pray.

The function of this report is to outline in summary, and as rigorously as summary permits, those essential concepts of statecraft, without which civilization belongs to its revival in some distant generation, a generation which survives the present risk of a thermonuclear war which would eliminate within two years of its occurrence all higher forms of life on this planet.

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[1] The Ad Hoc Population Group of the National Security Council, the Office of Population Affairs and the Oceans and Technology sections of the State Department. These entities were constituted in pilot-project form under President L. B. Johnson's administration, and developed into permanent functions through Kissinger's sponsorship during his two terms as virtually acting President of the United States. The genocidal activities of these subagencies were accelerated under National Security Adviser Zbigniew Brzezinski, under whose administration the destabilization of Central America was cranked up in preparation for the recent bloodshed.

Middle East on fire once more

Judith Wyer reports on the maneuvers by Begin and Haig that are handing the Arab world over to the Soviet Union.

The ceasefire in Lebanon imposed on Israel by the United States July 24 began crumbling within hours. According to Washington sources, two things are clear: *first,* that the ceasefire was imposed on the Israelis only after enormous pressure compelled Ronald Reagan to send a blistering telegram to Menachem Begin; and *second,* that Reagan and Secretary of State Haig have since given Israel renewed leeway to start the process of undermining the entire package.

British Foreign Secretary Lord Carrington, who visited Washington just before the Ottawa summit, is reported to be particularly concerned that Reagan's toleration of Begin's activities is leading to an inordinate expansion of Soviet influence in the Arab world.

According to a former State Department official, Begin "cannot tolerate" the ceasefire. The source revealed privileged information that "in the next two weeks there is going to be a Palestinian terrorist atrocity against Israel, and that atrocity is going to be a covert operation controlled by Mossad [Israeli intelligence]—since many of the extremist Palestinian groups are, in fact, controlled by Mossad."

The prime minister's widely condemned disregard for international law, is sustained by the Reagan administration's ambivalence toward Begin. Despite the embargo of ten F-16 fighter jets slated for delivery to Israel, insiders report that Begin knows he will get his jets and that Reagan's fundamental commitment to Israel has not changed.

The Ottawa angle

The Reagan White House's sudden move to impose a ceasefire in Lebanon was prompted by the Ottawa summit, where Reagan came under intense pressure, particularly from the European participants, to "rein in Begin." Reagan's strategic policy of "international consensus" against the Soviet Union, which makes Israel the strongest U.S. ally in the Mideast, also drew fire at the summit.

But despite the reported "brutal discussion" at Ottawa, Reagan's Middle East stance appears fundamentally unchanged. This is most clearly evinced by the surprise dismissal of U.S. Ambassador to Saudi Arabia Robert Neumann, known to be one of the strongest advocates within the foreign service of restraining the Begin regime and adopting a Middle East policy which took into account the Palestinian problem.

According to a colleague of Neumann, he was "concocting his own foreign policy" aimed at a more evenhanded attitude toward Israel and the Arabs. It is reported that Neumann was working closely with Philip Habib, Reagan's special envoy to Lebanon, and that they had opened up certain channels with the Palestinians. Secretary of State Alexander Haig, sponsor of the strategic consensus policy, fired Neumann on the spot. Rumor has it in Washington that Habib, who returned from the Middle East last month, may also be dismissed under the thin cover of resignation for health reasons.

Which way for Sadat?

Should Haig's policy prevail, it brings into question the status of the Camp David treaty between Egypt and Israel, which calls for the establishment of Palestinian automomy leading to self-rule.

Egyptian President Anwar Sadat arrives in Washington Aug. 4 for talks with the administration. The Palestinian issue is expected to be a central negotiating topic. Sadat is known to have become enraged at Begin's aggression against the Arabs. A July 27 statement harshly condemning Begin by Sudanese President Ghafar Numeiry, a close ally of Sadat, was an expression of Sadat's own sentiments. Numeiry became the first Arab head of state to visit Egypt since the Camp David treaty was signed.

Sadat has begun to mend fences with the Arab world, which publicly opposed Camp David. This is one reason Sadat is eager to reopen the Palestinian autonomy talks.

But Begin refuses to engage in any dialogue on the rights of the Palestinians. According to a former Middle East ambassador, if Sadat presses hard in Washington on the autonomy issue and gains concessions from the

President, Begin may "go for broke" in Lebanon and trigger a war with Syria.

The response Sadat is more likely to get is a commitment to "crank up the autonomy talks" in the autumn following Begin's trip to the United States. But many Washington sources agree that the talks will be "purely cosmetic" and will not challenge Begin's intransigence toward the Palestinians. According to Haig's calculations, this will simply buy time until Israel withdraws from the remaining 25 percent of the Sinai in April 1982. After that point, Sadat is expected to rejoin the Arab world, which is increasingly looking for new alliances, notably with the Soviet Union, as the United States maintains its preferential ties with Israel.

How long will Begin remain in power?

by Nancy Coker

Menachem Begin can survive as prime minister of Israel only to the extent that he receives the backing of the Reagan administration. "The only thing that can save Begin is the United States," said one Israeli intelligence source. "If Reagan and Haig support him, he can last. But if not, it is only a matter of time before he falls." It is not certain how much more weight President Reagan will give the Israeli prime minister, whose terror raids on Lebanon have brought the world nearer to catastrophe in recent weeks. But without Reagan's support, Begin is in real trouble.

Begin's problems began shortly after June 30, when Israeli President Yitzhak Havon asked Begin, whose Likud Party won 48 Knesset seats as opposed to the Labour Party's 47, to form a government. Boasting that a government would be formed within days, Begin instead ran into some unexpected difficulties. The trouble emanated from Begin's would-be coalition partners—the National Religious Party, the Agudath Israel, and the Oriental Jewish Tami Party—whose internecine squabbling and numerous demands have up to now blocked Begin from assembling a workable coalition with them. Contrary to press reports, majority elements in all three parties oppose Begin's obsessive quest to annex the West Bank and increase Jewish settlements there.

In an attempt to blackmail these parties into cooperating with him, Begin announced that if he failed to form a government by August 5, when his mandate expires, he would not seek another 21-day extension or new elections. Labour Party leader Shimon Peres, would then have to try to form a government. According to the Israeli press, Peres has reportedly reached some sort of agreement with National Religious Party head Yosef Burg, Begin's interior minister, to cooperate in forming a government—which could undermine Begin.

Should Begin manage to form a coalition, stability will not be its hallmark, according to Israeli sources, who predict that Begin will be toppled in the coming weeks or months, provided that he does not start a war first. New elections will follow most likely before the end of 1981, resulting in a Labour Party victory and possible majority, eliminating the necessity of forming a coalition.

If Begin cannot form a government, the sources add, he would resign as head of the Likud and run as only a minor candidate, perhaps fourth on Likud's list for the Knesset. This would mean the end of Likud, one Israeli insider said, via fragmentation.

This appears to be happening already. According to the Swiss *Neue Zürcher Zeitung*, the liberal faction of Begin's Likud has begun to call for the creation of a grand coalition with the Labour Party, without the participation of the National Religious Party and Agudath Israel. The Labour Party, meanwhile, is on a full mobilization to prepare itself for power. The Labour Party strategy is: 1) party unity, i.e., cessation of internal bickering, such as the in-fighting between Peres and former Prime Minister Yitzhak Rabin, that contributed to Labour's electoral defeat; 2) mobilization of the party machine as if the new election were tomorrow; 3) preparations for a parliamentary "guerrilla war against Begin," by forcing constant government crises and votes of no confidence in Begin; and 4) mobilization of the anti-Begin Peace Now movement and others to pressure Begin and to act as a counterweight to his own popular base, Israel's Oriental Jews.

The Labour Party's tactics, while a step forward, fall far short of the hubristic measures necessary to undo Begin. Labour does not criticize Begin's insane policies, nor does it educate the Israeli electorate as to the tasks and policies that must be pursued to ensure Israel's survival as a viable nation-state.

Some people, however, do recognize the problem. One Labour Party officer attacked the American Jewish community for its "gutless refusal to attack Begin's actions." "American Jews can provide an important flank for what we are trying to accomplish in Israel. Their fear that Israel's enemies will use their attacks on Begin as ammunition for attacks on Israel and the Jews is totally unfounded. They should be more frightened of Begin and what his continued rule means for Israel."

Begin's popularity in Israel, especially since the July 17 bombing raid on Beirut that caused hundreds of civilian casualties, is on the decline. Combined with external pressure, Begins growing unpopularity could do him in. "Begin," commented one Israeli, "is psychologically unprepared to be defeated or even challenged, and he will crumble if he realizes that he is not getting the backing he craves."

Development is now under siege in Nigeria

by Douglas DeGroot, Africa Editor, and Mary Brannan, Wiesbaden Bureau

Africa's most populous state, oil-rich Nigeria, is now faced with a British-authored destabilization that could spell calamity for all black Africa. If the project succeeds, Africa will lose the nation with the singularly greatest economic-development potential on the continent, the nation upon which the future of much of Africa will depend.

"Our nation is on trial," declared President Shagari in a recent speech, after rioting swept the northern city of Kano July 10. Tribal and regional enmity were at fault—but with plenty of outside encouragement. In addition, the National People's Party, which had ruled in coalition with Shagari's National Party, deserted the president July 22, leaving Nigeria with a one-party government. Such developments, says the London *Times*, are "threats to Nigeria's stability" that could lead to total unraveling of the country's governing institutions.

What makes such "internal" difficulties most ominous, however, is the recent sharp drop in Nigeria's oil production and revenues. The key to ruling the country has been President Shagari's formula for distributing oil revenues to numerous provincial and local authorities. Oil exports account for 93 percent of the country's foreign-exchange earnings, and 80 percent of all government revenues. Nigeria's large population—80 to 90 million people—and her oil revenues give the nation an enormous development potential, which the Shagari government has acted upon in the form of a 1981-85 Fourth Five-Year Plan calling for a total investment of 82 billion naira (1 naira = U.S. $1.80). The plan is focused on the construction of much-needed infrastructural, industrial, and agricultural projects. "There is building going on all over the place in Nigeria," reports one recent traveler.

Such revenues and development plans have also been key to the nation's political stability, giving the government a means to avoid explosions of tribalist antipathies that are the principal legacy of the British colonial period.

Projections for the Nigerian budget were based on an anticipated oil-production level of 2.1 million barrels per day. According to official figures, the average oil production for the first quarter of 1981 was 1.9 million barrels per day. By June, it was down to 1.4 million. Some unconfirmed reports say that production is now below 1 million. Such a falloff in oil revenues not only threatens to force dangerous cutbacks in the nation's ambitious development plans, but to thereby aggravate regional and tribal frictions that are the immediate source of political destabilization.

Nigeria, and what now threatens Nigeria, reminds one of the position of Mexico in every crucial respect. In both cases, an oil glut compounded by British-controlled oil multinationals' refusal to purchase oil at contracted prices, amounts to economic warfare against the nation, specifically designed to feed "internal" instabilities. In both cases, what is at stake is an ambitious economic-development plan which the forces behind destabilization wish to sabotage. In both cases, what is at stake is the economic future of an entire continent.

Nigeria is certainly the key to the development of black Africa. It has one-fifth the continent's population, and enough oil to be the second largest supplier to the United States after Saudi Arabia. The successful development of Nigeria would lead the way for the transformation of the smaller black African nations. If that development is sabotaged, by the same token, the chances for the rest of black Africa would be very small indeed. As one diplomat of a neighboring African country put it, "If Nigeria goes down the drain, there is no hope for the rest of us."

It is because the forces behind the Nigerian destabilization are committed to *depopulation* of the entire African continent that they have chosen to destabilize the Shagari government at this time.

The basis for unrest

In a speech to the officers and men of the Nigerian army at July 5 Army Day celebrations, President Shagari sternly warned that if "political trouble-mongers" do not refrain from provocative activity, they must "face the music." Shagari warned of "agents of destabilization," and "elements" who were disrupting the country after failing to win political power.

"I want to assure you," said the president, "that there are adequate constitutional provisions for dealing with those forces which are disturbing the unity, stability, and progress of our country."

Only five days later, well-organized rioting erupted in the city of Kano in the north, targeting all the symbols of "modern" life and government. Under the suspected leadership of families descended from the emirs, the local rulers installed by the British in colonial times, rioters burned to the ground the state assembly, the finance ministry, and several other administrative buildings, destroying financial and land ownership records. The state radio was put out of commission, and the home of the governor and those of his closest associates were also destroyed by fire. Initial estimates put damage at $200 to $300 million.

The unrest might be described as "internal" by British press. Nevertheless, the basis for such unrest was created by the British during colonial times, and the elements involved are best termed "British assets."

During colonial rule, up to the 1960s, the British used a "local-control" form of indirect rule in Nigeria, based on reinforcing the most backward tendencies in the population, and fostering conflict between various tribes and ethnic groups, suppressing any notion of the nation-state or national self-interest among the broader population. Nigeria's north was ruled by the equivalent of Iranian mullahs or the Indian raj, the emirs, whom the British gave the power of capital punishment. The emirs were an excellent instrument for keeping the country backward, as any form of economic progress was viewed by them as a threat to their privileges.

Since independence in 1960, Nigeria's nation-building faction has faced one long struggle with such tribalist leadership and the British legacy of communal strife. That struggle led to the bloody Biafra warfare in the late 1960s, followed by 13 years of military rule. In 1973, tribal and regional enmity was so strong that something as simple as a population census threatened to tear the country apart. Calculations for allocating oil revenues throughout the country were based on population figures. Population increases in some regions were so great, as indicated in the 1973 census, that other regions charged fraud. In the major political crisis that ensued, the military government threw out the new census in an effort to hold the nation together. Calculations for oil revenue allocations today are still made from 1963 projections.

Again last December, the groundwork for communal strife laid by the British was exploited through the agency of Libya's Colonel Qaddafi, who sponsored a revolt of a fanatical fundamentalist Muslim sect that resulted in over 1,000 deaths.

Before the return to civilian rule in October 1979, Nigerian leaders carefully constructed a new constitution and centralized system of presidential government modeled on the United States. At the same time, they began to consider how to develop an American-style education system, and to launch ambitious economic development programs—again seeing American agriculture and industry as a model.

After the 1979 civilian-government elections making Shagari president, he formed a government coalition between his own National Party of Nigeria (NPN) and the Nigerian People's Party (NPP). Like Nigeria's three other parties, both of the coalition parties were based on tribes, subject to petty local squabbling.

The NPP party controlled three state governments outside the northern region in which it is based—a capability demonstrated by no other region-based party, including Shagari's NPN. With its eye on the 1983 elections, the NPP leadership announced July 7 that it would terminate its alliance with Shagari's National Party in six months, seeking sole power for itself.

Shagari responded by demanding the immediate resignation of four NPP ministers, thus precipitating the coalition's breakdown under conditions of threatened new communal strife.

The British press attack

But the biggest trouble-makers respecting Nigeria, predictably, have been the British newspapers and such American press as the *Wall Street Journal.*

Since Shagari's political style has been to keep internal political forces from getting out of control, instead of ostentatiously ruling over them, the London *Times* this month depicted him as incompetent and inactive—an "ineffective politician," said the *Times,* who "has proved indecisive. His government gives the appearance of drifting."

The *Wall Street Journal* subsequently reported an enormous falloff in Nigeria's substantial monetary reserves—the very kind of report the *Journal* has used in an effort to promote capital flight and a currency devaluation *in the case of Mexico.* Also as in the case of Mexico, the *Wall Street Journal* reports on Nigeria have proven to be false.

Other British newspapers have claimed that Nigerian army officers were "outraged" because Shagari did not make some show of military force during a border dispute with Cameroon—a dispute subsequently settled peacefully, with Cameroon apologizing and paying an indemnity. Shagari is actually close to the top leaders of the military, who have given much evidence since the Biafran civil war that they are principally concerned with maintaining Nigeria's integrity as a nation.

On July 16, the London *Financial Times* attacked the government's main weapon against British-inspired tribalisms and regionalisms. Under the title, "Strains Appear in Nigeria's Cumbersome Constitution," the article reported on the July 10 Kano riots, and breakup of Shagari's coalition. These incidents "go right to the heart," says the *Financial Times,* of what it calls "constitutional problems." "After 21 months of civilian rule, the government is struggling to make the complex U.S.-style presidential constitution work. . . . Observers in Lagos [Nigeria's capital] report that the federal government has been unable to control political developments." Such reports are not news, but ominous signals that forces centered in London do not intend to allow the government of Nigeria to "control political developments."

Counterrevolution by September?

by Gretchen Small

The second anniversary of the Sandinista seizure of power in Nicaragua on July 19, 1979 came this year in the midst of growing chaos. Rumors are everywhere of an imminent and "massive" purge of government and Sandinista ranks, while top political leaders—including Sandinistas—have fled the country, reportedly to organize the opposition for a new armed battle for power within the country.

For their part, the Sandinista leadersship used the occasion of the anniversary celebrations to announce economic measures that significantly curtail the government's "mixed economy" strategy, by further nationalizing major firms and moving to expropriate idle landholdings of absentee landlords.

These two developments, combined with the economic pressure being applied from outside by the Haig State Department, will lead in short order to the outbreak of a new round of "Iranization" of the country.

The Sandinista government is now at the point of irrevocable rupture, and counterrevolution is on the agenda.

A September timetable for an outbreak of open hostilities within the country seems likely. But as things stand now, the collapse of the Jesuit-controlled radicals who have turned Nicaragua into a new Iran since 1979 will *not* lead to the establishment of strong national leadership which could begin a process of development in this country, still unrecovered from the devastation of the civil war two years ago. Rather a renewed, prolonged civil war looks increasingly likely, with *both* sides controlled by the same Jesuit and Socialist International apparatus.

Counterrevolution possible

Any civil war in Nicaragua this time around could also lead to international crisis, as both Sandinista and opposition forces call on their foreign friends for aid. With talk of possible Guatemalan military action against Belize if Great Britain grants the colony unilateral independence on Sept. 21, as has been announced, the Central American region as a whole is now set for a blowup in September.

The first major break in Sandinista ranks occurred just 10 days before the anniversary celebration. Deputy Defense Minister Eden Pastora resigned his various government posts and left Nicaragua with Deputy Interior Minister José Valdivia and eight other Sandinistas. A Jesuit-trained Social Democrat, Pastora left a note saying he had gone to join the "liberation wars" elsewhere on the continent. The group reportedly went first to Panama—to the home of Panamanian Social Democrat and international mercenary Hugo Spadafora, who has been organizing a "Simón Bolívar Brigade" made up of Latin American guerrillas of all types to fight anywhere "requested" for the "liberation struggle."

Nicaraguan sources in Mexico, however, report that for the past year, Pastora has functioned as an "inside man" for the Nicaraguan forces around Alfonso Robelo, a social democratic business leader who quit his post in the junta after a meeting with the State Department approximately a year ago. Robelo has collaborated closely with the State Department since that time.

Rumors now abound that Pastora, who retains enormous popularity in Nicaragua and had been in charge of creating the new national militia, may be the figure who could head up an eventual counterrevolution. One opposition leader, Fernando Chamorro from the Nicaraguan Democratic Union, told reporters as he was arriving in Miami in late July that Pastora is a "nationalist, not a communist," and was "purged" by the Sandinistas. "When Pastora says that he is seeking the smell of gunpowder, we think he is referring to Nicaragua," Chamorro stated. "We hope to count on him in the ranks of the soldiers we are forming for the true liberation struggle in our country."

Chamorro is an ex-Sandinista who fought with Pastora, Valdivia, and Spadafora in the Socialist International-controlled "Southern Front" against Somoza, who sought political asylum in Costa Rica shortly after Pastora's dramatic resignation.

The Nicaraguan government was caught off guard by Pastora's resignation, at first forbidding any mention of his whereabouts or his activities after his departure. Even Sandinista radio stations were officially sanctioned for breaking the ban—the first known time in the past two years that censorship has been imposed on a Sandinista news source. After nearly a week, Pastora was officially "discharged" from the Sandinista army, and no mention of him was made during the anniversary celebrations—despite the fact that he would rightly have been a major speaker at the event.

Clearly nervous, the Sandinistas have announced a "war on bureaucracy" and reliance on "mass organizations" instead of bureaucrats to make policy in the country. "The same ones who called Sandino a bandit now call us mobs," Nicaraguan junta coordinator Daniel Ortega told the crowds at the celebration, "and here are the divine mobs of the revolution!"

 by Josefina Menéndez

The private sector, then and now

López Portillo is strengthening his alliance with Mexican businessmen to stabilize the beleaguered peso.

It has almost become commonplace over the past weeks to talk about how Mexico may be experiencing a rerun of the 1976 earthquake of political and economic instability that shook this country. The peso was devalued by 50 percent in August 1976. Billions of dollars fled the country, responding to an international media campaign discrediting Mexico. And there was near civil war between the Monterrey-based private sector and the government apparatus led by President Luis Echeverría, who traded violent accusations over who was responsible for the crisis.

Will it all happen again?

High-level government officials have privately stated that they believe Mexico is now being assaulted economically and politically much as it was in 1976—and by the same combination of international and domestic forces. They point to the Rockefeller-initiated boycott of Mexican oil; the Wall Street-led attacks on the peso; and the Jesuit-inspired conflict between the Catholic Church and the Mexican state.

But President José López Portillo has over the past weeks taken a number of politically astute steps to ensure that these forces don't succeed as they did in 1976. Particularly critical is his renewed campaign to win over large chunks of Mexico's private sector to defend the peso and the nation's high growth rate. This is something that his predecessor was never able to achieve—and it proved an Achilles heel for Echeverría in 1976.

On July 24, for example, López Portillo took his *entire* cabinet with him to the second annual industrial fair of the National Chamber of Processing Industries (Canacintra), that brought together many of the nation's industrial leaders.

Canacintra has always been Mexico's most nationalist business grouping, systematically defending state-private sector cooperation for industrial development.

López Portillo appealed directly to these sentiments in impromptu remarks. "You too are the nation," he told the businessmen. "[You are] fundamentally helping to build Mexico, and carry it along the route it must traverse." He called on the industrialists to continue working "without breaking stride, closing ranks behind Mexico."

The businessmen responded by renewing their support for Mexico's system of state-directed economic planning. Taking the lead was José Luis Ordóñez, president of the Mexico City Chamber of Commerce, who attacked "alarmist" reports being spread against the peso. "The most important thing is the interest of the state, because the state is all of us," he declared. "We respect and understand the activities of the state, because we know that we are in a mixed economy. In these conditions we are working and collaborating."

José Porrero Lichtle, the president of Cancintra, singled out the government programs in oil and agriculture for praise, declaring that they helped preserve "the most important" element of all—"national sovereignty." He also made it clear that business and government could together achieve the country's modernization.

While many businessmen have demonstrated confidence in the president's ability to pull the nation through the crisis, others have clamored for a sharp devaluation of the peso, especially many of Mexico's private commercial banks.

For example, the senior analyst at Banpaís, José Demers, this week called outright for the private banking sector to impose a devaluation, against government wishes. If such a measure is not taken, he threatened, "a wave of distrust in our currency will increase . . . and there will be a rush of capital out of the country." Officials of the Serfín bank publicly echoed this call, after meeting with López Portillo personally at the beginning of July, to demand a devaluation.

Banpaís formerly went under the name "Bank of London and Mexico," and retains close ties to British finance today. Serfín, the bank of one of the largest Monterrey Group business factions, is reportedly linked to at least three international banks involved in the P-2 Masonic scandal in Italy: Banco Ambrosiano, Banca Commerciale Italiana, and Banco di Lavoro.

These P-2 networks are in turn connected directly to Chase Manhattan Bank and the Trilateral Commission—the very forces that launched 1976-style economic and political warfare against Mexico over the past weeks.

Iranian S.S.R.?

London's Muslim Brotherhood mullahs may have already been checkmated by the Russians.

Almost unnoticed amid the hubbub created by Menachem Begin's Arab bombings, the Soviet Union is tightening its grip on war-wracked Iran. Ronald Reagan, preoccupied with other matters, is oblivious to Iran's drift; and the British, masterminds of the 1979 revolution, seem almost resigned to their inability to salvage the "Khomeini experiment."

A superficial sign of the changing Soviet attitude occurred in connection with the ill-fated Israeli arms-smuggling effort. A jet transport carrying Israeli arms of U.S. manufacture from Cyprus to Iran, on contract from the Ayatollah's defense department, was shot down over Soviet territory last week. Aboard the plane was a well-known British arms merchant who had chartered the Argentine jet. Available evidence now suggests that the plane was lured into Soviet airspace and then shot down by Soviet air-to-air missiles—an unmistakable warning that Moscow may be cracking down on the Iranian military relationship with Israel and the West.

According to Arab sources, the event signals a shift on Moscow's part toward a tougher line on Iran, including a closer, more cozy relationship with Iraq. Signs of increasing Soviet activity in Iran also include the following:

- Tudeh communist organizers have reportedly established well-ordered Peoples' Commissars in the ranks of the armed forces at the level of individual units.
- Col. Seyyed Mousa Namjou, Khomeini's new armed forces representative in charge of purging the military, is a reported KGB agent.
- The leadership of Iran's radio and TV system is now in the hands of Tudeh-allied radicals.
- Iran's oil workers, almost totally passive amid all the recent Iranian turmoil, have assented to the mullahs' regime only because of tactical advice from the Tudeh. "And oil is where the power is in Iran," said a former official.

It is therefore not surprising that Parliament Speaker Ayatollah Hashemi Rafsanjani announced that he will visit Cuba and East Germany in the coming weeks. Newly elected President Mohammed Rajai—an unshaven, illiterate thug—is said to be a puppet of Rafsanjani, and intent on maintaining Tudeh support for the ever-weaker Islamic Republican Party (IRP).

Since the blowing up of the power behind the IRP, Ayatollah Beheshti, the IRP's influence has been declining steadily, and the absurdly rigged July 24 presidential elections hardly bolstered the mullahs' power.

In fact, at the climactic Teheran electoral campaign rally, scheduled to take place in a huge sports stadium capable of seating tens of thousands, only 1,000 people showed up to hear Rajai, and the event was canceled, attesting to the IRP's lackluster position.

The pathetic flight into exile by ex-President Abolhassan Bani-Sadr, sans Groucho Marx moustache, was a sign of the declining influence of the British in Iran. Fearing the Soviet coup, the British, as evidenced by recent editorials in the London *Times,* now feel compelled to "do something" about Iran.

But it may be too late.

One London *Times* editorial in mid-July called for a military coup. On July 27, a contradictory editorial hoped that Bani-Sadr, the leftist Mujaheddin, and some Kurdish factions could assemble a challenge to the mullahs. And a plethora of letters to the editor and opinion columns bemoaned the fate of the Ianian Bahai, darling cult of the British Secret Intelligencee Service since the 1840s.

To carry out such editoral policy on the ground in Iran will prove most difficult. Partisans of the Iranian monarchy, based in Cairo, are reportedly hopeful that President Anwar Sadat's Aug. 4 visit to Washington will help persuade President Reagan to back a restorationist coup d'ètat. But Sadat is not expected to get too far with that idea, if he indeed raises it at all.

On the other hand, ex-Chief of Staff General Bahram Aryana, a nationalist officer, has moved his Paris headquarters to Ankara, Turkey, telling friends that he wants to launch a counterrevolution. But, short of money and without a military camp to base an army, he is unlikely to have much effect immediately.

Now, if a Soviet-Iraq accord does materialize, London may find itself checkmated.

International Intelligence

Bronfmans aid the Muslim Brotherhood

Six months after the conviction of Space Research company chairman Gerald Bull for weapons smuggling, and the firm's subsequent reorganization, the company's controllers, the Bronfman family and Arthur D. Little and Company, have sold Space Research to Saad Gabr, an agent for Pakistani dictator Zia ul-Haq who runs a multimillion-dollar electronics patent empire out of the tiny Quebec resort town of North Hatley, near Space Research's property.

Gabr's Ummah Islamiya Institute, also in the town, is cosponsored by Saudi Arabia's Prince Nawaf, a friend of Libya and patron of Chicago's East-West University.

The university, like the institute, has been under investigation for safehousing Libyan terrorists.

Space Research was documented as of 1977 to have smuggled advanced howitzers and ammunition to the Republic of South Africa for use in the Angolan war; to Israel; and, through Israeli arms smuggler Shaul Eisenberg, to Iran. Space Research also has documented links to terrorist networks in the Caribbean, through its bases in Antigua, Dominica, and Barbados.

Negotiations proceed on gas pipeline

Details are beginning to emerge about the Bonn-Moscow negotiations on the planned, controversial gas pipeline deal. "The cornerstone has been laid," a leading West German banker told the business daily *Handelsblatt* July 24. The Soviets will reportedly pay an effective 8 percent interest rate on about DM 4 billion for equipment to be financed by German banks; two-thirds of that will be channeled through the Ausfuhrkredit Gesellschaft, which has access e Bundesbank's special discount facility for export credits.

The remaining DM 7 billion will be financed by Mannesmann, the pipe supplier, in the form of annual tranches at floating rates, but essentially along the same guidelines that pegged the 8 percent effective rate, bankers say.

Mannesmann has ongoing trade relations with the U.S.S.R. which the deal will increase to 1 over million tons per year in deliveries, secured for at least three years.

The Bundesbank recently increased the limit on the export credit facility from DM 2 billion to DM 5 billion, but denies that this was done in order to help finance the gas deal.

The central bank also refuses to confirm that the facility will also be open for Mannesmann to reduce its own interest rates for suppliers' credits.

EIR bureau chief visits Mexico

Richard Cohen, Washington bureau chief of *Executive Intelligence Review*, held a July 27 press conference and a private seminar in Mexico City. At the press conference, attended by every newspaper and television network in the city, Cohen explained how Mexico could help spring President Reagan from his adherence to the Federal Reserve's interest-rate policies, and turn the North-South summit meeting this October in Canún, Mexico into a counterattack against the International Monetary Fund's credit controls and population reduction programs.

The television networks conducted interviews with Cohen, focusing on questions of immigration policy. Cohen issued a warning about Father Theodore Hesburgh's visit to Latin America—the Notre Dame "close the border" advocate was in Mexico at the time—as designed in part to spur conflict between Reagan and Mexican President José López Portillo over immigration issues.

Nucleo Radio Mil, one of Mexico City's largest stations, carried Cohen's warning that unless Federal Reserve Chairman Volcker's policies are reversed, there will be an economic collapse. The evening newspaper *El Universal Grafico* ran a front-page report on Cohen's analysis of Reagan's interim capitulation to David Rockefeller's Trilateral Commission policies for the Caribbean.

Socialist mafia tries to cut out 'Gaullists'

The discovery last month of the mutilated body of Police Inspector Massie in Marseilles has generated a series of scandals and intelligence wars. Massie was a top official in the SAC intelligence branch which was set up by the "Gaullist" wing of the Corsican mafia in 1938 to fight the OAS during the Algerian war, but quickly became a cover for drug trafficking and other illegal operations.

Interior Minister Gaston Defferre, a leader of the opposing Socialist wing of the mafia, has used the incident to try to purge the SAC, arresting its national leader, Debizet, and the chief of the Marseilles regional SAC, Yves Destrem, both non-Socialists.

Destrem, the Marseilles Communist Party daily reported July 27, was also a member of a secret Masonic organization, "The Templars," headquartered in Zürich, which ran military camps in southern France and is allegedly implicated in arms and narcotics traffic. The Communist newspaper, called *La Marseillaise*, charges that the murdered Massie himself was involved in arms deals for the Italian Red Brigades, through the Italian Freemasonic fascist lodge, Propaganda-2.

According to this report, Massie was killed because he tried to pocket the receipts from an arms shipment going to the Red Brigades.

The Socialists meanwhile moot the prospect of going after Gaullist bigwigs like General Secretary Bernard Pons and Jacques Chirac himself, under the auspices of the SAC scandal. The SAC leaders and their attorneys, in turn, have threatened to make counter-revelations on the Socialists' ties to the narcotics business.

As of July 30, the latest indications were that Massie had been a double agent for the Socialists within the SAC. His lawyer, Michel Pezet, heads the Socialist Federation for the Mediterranean Marseilles region.

Behind the charges and counter-charges remains the fact that for many years the Socialists' and Gaullists' Corsican-linked operations have worked in tandem, since the days of the "French Connection" heroin racket which Defferre, as mayor of Marseilles, is known to have protected, and in political maneuvers against former President Valéry Giscard d'Estaing. Now that the Socialists have assumed state power, they are trying to bump aside their Gaullist counterparts.

P-2 scandal breaks out in Brazil

The reverberations of Italy's P-2 (Propaganda 2) scandal are still being felt in the South American haunts of P-2 Grand Master Licio Gelli. Last week, the 12th assembly of the Brazilian Confederation of Symbolic Masonry summarily expelled the P-2 members for refusing to answer certain questions that have been raised by Italian police.

The biggest question was how the 19 Brazilian P-2 members, gathered in the Rio-based World Organization of Masonic Thought and Assistance, managed to send Gelli sufficient funds in 1976 for him to buy a $8 million Roman villa for the cult's headquarters. The P-2's Guanabara Lodge in Rio has the largest concentration of P-2 members outside of Italy, but all of them are middle class professionals with little apparent connection to Italy, politics, or high finance. Their serving as conduits for Gelli's dirty money was uncovered in documents found in Gelli's daughter's baggage in Italy last month and was not denied in the Brazilian Masonic inquiry.

Clues may come from Argentina, where the P-2 government of Isabel Perón and her Svengeli, José López Rega, were overthrown in 1976.

Retired Admiral Emilio Massera, who earned himself P-2 membership by trying to persuade the military to allow "Perona" to stay in power, has just announced his plans to become president of Argentina.

Massera merits careful scrutiny. Like his Italian comrade, PSI leader Bettino, Craxi, Massera is fully plugged into both the Socialist International and the fascist P-2 crowd. More than a few eyebrows went up in Argentina when the signatures of Mrs. Perón's closest aides appeared on a newspaper ad supporting Massera in his dramatic confrontations with the incumbent government of General Roberto Viola.

Italian CP and DC bow to Socialists

Enrico Berlinguer, secretary-general of the Italian Communist Party, announced July 27 his support for French Socialist President François Mitterrand, and advocated a Mitterrand-style government for Italy. His startling statement also included a condemnation of Christian Democratic (DC) leader Giulio Andreotti, his erstwhile de facto ally against the Socialists.

Andreotti himself had just announced that he is ready to work with the Socialists, whose chairman, Bettino Craxi, has been approvingly designated "the new Mussolini" by sections of the Italian press. Andreotti stated that he had resolved his differences with the Bisaglia wing of the Christian Democrats, the faction most committed to helping Craxi to power.

Briefly

- **THE BUNDESBANK** is ruining West Germany through its high interest-rate policy, said the Ruhr region's chairman of the national Trade Union Federation (DGB) in a series of interviews in July. Siegfried Bleicher told the DGB weekly *Welt der Arbeit* that the Bundesbank is "an institution not under any parliamentary control yet still able to shape state economic policies, as it does here in the Ruhr region." This independence of the central bank should be challenged by the trade union movement, he said.

- **BEGUM NUSRAT BHUTTO,** leader of the Pakistan People's Party, was released from a Pakistani jail July 22 as a token response to pressure exerted from Washington. Reportedly Gen. Zia ul-Haq had been informed that the U.S. Congress was uncomfortable with backing arms sales to Pakistan at a time when Zia has shown no signs of relenting on political repression of his opponents. The same sources indicate that Zia chose to release Mrs. Bhutto and not her daughter Benazir, because he fears Benazir's political organizing capabilities.

- **A "COMMITTEE** for Cattenom" has been formed in France to defend the construction of the nuclear plant there from President Mitterrand's attempt to close the complex, which is projected to comprise four 1,300 megawatt reactors. Located in the Lorraine region of northern France, two of its reactors are already built. Mitterrand hopes to delay the go-ahead past September, when the next engineering stage must begin.

- **INDIA's** six-month ban on strikes in vital industries, announced July 27, is aimed at undermining the social democratic and Maoist networks who control the trade unions in those sectors, and are determined to destabilize the government of Indira Gandhi.

The lesson of Nazi jet aircraft development

by Lyndon H. LaRouche, Jr.

There is a presently accelerating opinion among policy-influentials affecting the Reagan administration's decisions, that the United States can imitate successfully the precedent of the German war economy under Nazi Finance Minister Hjalmar Schacht and Albert Speer. In brief, that the United States can continue to tolerate the monetarist austerity of Federal Reserve Chairman Paul A. Volcker, and nonetheless mobilize military expenditures in the proportions of President Franklin D. Roosevelt's 1938-1945 effort.

Most of the leading senior specialists supporting that presumption would agree that the case of achievements of both the aeronautical and rocket-research divisions at Peenemünde are the preferred topic of choice for examination of their adopted theses. That topic demonstrates with shattering force that the thesis is suicidally absurd.

Like the Nazis of yesteryear, the present drift of Pentagon doctrine does not originate in military or scientific thinking. It originates as a classical psychic *reaction-formation* among key military specialists and scientists who have responded to a Nazi-modeled Friedman-Volcker Schachtian policy of austerity, and in much the same pathetic manner the psychoanalyst Bruno Bettelheim analyzed the reasons some Jewish inmates of Nazi concentration camps (among other inmates) came to identify with the automobiles, shepherd dogs, uniforms and mannerisms of their SS guards. They have accepted the authority of the federal government's commitment to a Nazi-modeled austerity policy, and have restricted their proposed technological and related military choices to those choices which do not conflict with the Nazi-modeled Volcker monetarist dogma.

The case of Dr. Edward Teller is exemplary of this problem. Teller came to the United States as a refugee from the fascist regime of Admiral Horthy in Hungary. A brilliant engineer whose knowledge was significantly influenced by the diluted version of Riemannian physics prevailing at Germany's Göttingen University into the World War II period, Teller's achievements—in opposition to the Fabian-influenced Robert Oppenheimer and others of the Bernard Baruch inclination—in connection with the H-bomb and in stretching the potentialities of Cauchy-Maxwell-disoriented plasma physics practice to their virtual limit, are incontestable points in respect to which Dr. Teller's competence must be admired. We should note that Dr. Teller recently achieved one of the finest hours in his personal public life, in a 1977 international tour in which he clearly and correctly posed the facts showing that antinuclear "neo-Malthusians" are genocidalists in practice. Yet, repeatedly, politically, he has capitulated to the dictates of the same circles which were represented during the 1960s by Hitler's protégé in Hungary, Ferenc Nagy.

Dr. Teller's problem exemplifies an influential community of leading figures of science and related military policy who have failed or refused to break free of control by the international network of "families" centered historically on Venice and Venice's Switzerland and former Austro-Hungarian Empire colonies, a circle for which the fascist P-2 Freemasonic lodge of Italy served (1969-

1981) as the principal coordinator of international terrorism as well as fascist coups, the same P-2 network, including Libya's Qaddafi, funding the projected outbreak of urban riots and terrorism in the United States today.

We single out Dr. Teller for his virtues, not his political flaws. He is the most easily recognized among a number of key scientific figures whose competence should have guided them to the same general assessment of the Peenemünde case we outline here. If such figures would come to their political senses, and apply their scientific competence to the issues of present Pentagon policy, their concerted efforts might bring the White House to its senses—*before it is too late.*

The problem on which attention is to be focused here, is the case of those intellectually cowardly careerists of both leading military-professional and civilian ranks who are disposed to seize upon any evidence, including the Nazi war economy case, to justify their elaboration and support for a military policy which is both immoral and incompetent. They do so under the auspices of a perverted doctrine of "state interest" adduced from the worst features of Clausewitz's *On War*, that strategic planners must brainwash themselves into swallowing any strategic policy adopted by forces which give orders to our Presidents. "This is the policy, buddy. Get with it! Shape up or ship out!"

Peenemünde

This writer has before him at this moment a sampling of reports of Peenemünde's work on jet and rocket aircraft designs bearing on the cases of the wartime Me 163b, the Me 262, the Arado 234, the He 280. This information is viewed from a background of first-hand discussions by himself and his associates with former specialists working at Peenemünde, and considerable research into the development and significance of the scientific and educational institutions which the Nazis mobilized from Göttingen University and other sources to make Peenemünde possible.

The writer also has on his desk at this moment the 1509 *Divina Proportione* of Fra Luca Pacioli, which is not only the most influential single source of the broad sweep of modern scientific progress since, but which has the most specific, although mediated bearing on understanding the specific physics which was decisive for the crucial military applications of Peenemünde.

This material, exemplified by the cited items now spread upon the writer's desk-top, is properly focused on the famous 1859 paper of Bernhard Riemann, which successfully predicted the physics of generation of discrete "shockwave" phenomena in a hypothetical "infinite cylinder," the most crucial single paper for modern aeronautics and the frontiers of present-day relativistic-beam and related plasma physics research and development. Attention is inclusively focused on the conical or "wedge" variants for the "infinite cylinder," the most important of the subsumed lines of investigation defined by Riemann's 1859 paper.

Attention is also addressed to the archive of geometric designs, representing the work which Felix Klein demanded of graduating students in his program at Göttingen, a feature of training orientation which has been largely neglected since, to the effect of tragic weakening of competence among entrants to our own present-day scientific community.

The fallacy toward which our attention is focused is an argument which can be fairly simplified: "Since the Nazis developed frontier-quality military-technological capabilities under the terms of the Schacht-Hitler-Speer political-economic policy, we can replicate the same relative achievement. Moreover, since we represent a complex of global geopolitical assets far exceeding those of the Nazis, we can succeed where the Nazis failed." The fallacy of the first part of that argument, on which this report is focused, is that *the Nazi economy used up a previously established scientific and industrial potential which no Nazi or kindred political-economic order could produce.* The correlated point is that *we lack technological resources comparable to those the Nazi regime appropriated in subjecting the German nation to its rule.* In terms of the present state of our educational system, the potentialities for producing, assimilating and applying technology, in our industrial establishment, and in the qualifications of and extent of our scientific community, we are *relatively* far below the resources of the nation which fell into Hitler's and Schacht's hands.

In short, the essential rationalization, on which the present drift of Reagan administration military policy depends, is a pathetic and properly obvious fallacy of *post hoc ergo propter hoc.*

In other words, the Reagan administration has been duped and pressured (e.g., by the Trilaterals and the Heritage Foundation) into adopting a military policy which might have succeeded in 1938-1940, but which cannot succeed in an economy suffering the combined moral and economic debilitation aggravated by nearly 18 years of the rock-drug counterculture, a comparable period of destruction of our educational system, the past 15 years' growing influence of "cost-benefit analysis" and neo-Malthusianism in government policies and the economic carnage wrought by four years of the Trilateral Carter administration.

The opposite side of the case is that the Nazis found placed at their disposal the fag-end of what had been the world's greatest public and university educational system, an approximately halved remnant of what had been the world's most powerful combined military and industrial capacity per capita for any population, and the remnants of what had been the world's most advanced scientific capability. The complementary point is the fact that although the Nazis commanded the German state, it was the German nation which deployed *its non-Nazi resources* to fight the war.

Peenemünde efficiently expresses, in the most accessible and concentrated way, the role of *non-Nazi-created* scientific and industrial resources in developing an advanced military capability, *despite* the contrary implications of Nazi economic, social, cultural, and political characteristics.

In terms of military history, the Nazi case is the obverse of the case of Alexander the Great. Philip of Macedon, the "Adolf Hitler" of the fourth century B.C., represented, together with most of the Macedonian generals, a commitment to establishing the Western Division of the Persian Empire based on what the documents from that period describe alternately as the "Persian Model" or "Oligarchical Model." This is the same "model" later deployed as the Roman Empire and as the Byzantine Aristotelian tradition, mediated through the Byzantine sub-capital at Venice into such later projects as the role of Venice, the Bank for International Settlements and Montagu Norman of Britain, in putting the Nazi Adolf Hitler into power. The combined forces of the Platonic Academy at Athens and the Cyrenaic Temple of Amon assassinated Philip of Macedon and placed Alexander the Great in power, destroying the Persian Empire on which Philip's plot was based.

In the case of Nazi Germany, but for intervention in support of Hitler by the British government, during 1936-1938, and again during the war itself, *as Winston Churchill admitted to the British parliament at the close of the war in Europe*, Hitler would have been destroyed by his generals as Aristotle and the proto-Nazis among the Macedonian generals assassinated Alexander by poisoning.

In the earlier case, a morally positive force, Alexander, commanded an instrument whose character was defined previously by the proto-Hitler, Aristotle's patron, Philip. In the latter, Nazi Germany case, the institutions deployed by Hitler were the relatively positive moral forces whose capabilities were determined by a character opposite to that of Hitler and the Nazis.

Societies do not function in terms of the independent judgments of the average individual member of society. Only a tiny minority in any society to date acts according to independent rational judgment. Most people in societies, including the United States up to this point, behave as their wills are controlled by those institutions with which sections of the population associate themselves. To make the United States a Nazi state, the present combinations of Buckley types and rock-drug counter-culture neofascists, although aggregating to less than one-quarter of the population, would be a sufficient, already philosophically fascist base. The majority of the people would probably accept American "neo-Nazism" just as most anti-Nazi Germans submitted during 1933-1936 and then fought the war for Nazi Germany. They submitted because the Nazis captured the wills of the top-most layers of the institutions which controlled the judgment and wills of the majority of citizens, Nazis and non-Nazis alike. After the war, the same citizens became fervently anti-Nazi, for the same reason: the change in command of institutions dictated an abrupt shift to a policy of anti-Nazism. As election data of the postwar period prove conclusively, the majority of Americans exercise not one bit more independence of judgment than the German population of 1932-1945 did.

People generally will loyally support the most evil sort of regime, if the institutions with which the people associate themselves do not mobilize resistance of major combinations of institutions against that evil.

it is such moral weakness of judgment of most citizens which has rendered the United States apparently defenseless in face of the growing drug epidemic. The leaders of national parties have supported "drug decriminalization" and gutting of law enforcement action against both drug-users and drug-pushers. Meanwhile, prodrug (NORML) forces of William F. Buckley and the Anti-Defamation League deploy lying defamation and other dirty tricks against any group of citizens which resists this spread of the drug traffic. In moral principle, any New York citizen who supports the re-election of Mayor Ed Koch is guilty of being a witting accomplice of the drug-pushers. In principle, any person who collaborates with William F. Buckley or the Anti-Defamation League is a witting accomplice of drug-pushers, just as anyone who supports Rep. Richard Ottinger is as guilty of supporting genocide as a wartime supporter of Nazi mass-murderer Albert Speer. Morally, there is no difference among Adolf Hitler, Albert Speer, Irwin Suall, James Hoge of the *Chicago Sun-Times*, and Richard Ottinger. The person who will support any one of these will wittingly condone a regime equivalent to that of Adolf Hitler's.

So, from present everyday American experience today, we see the resemblance in morality between the majority of American adults and 1932-1945 supporters of Adolf Hitler.

The majority of citizens behave in that immoral way not because they are personally evil, but because they are intellectually and morally "little people." Each "little person" is contolled by his or her aspirations for

Field Marshal Erwin von Witzleben, who was to command the Germany army if Churchill had not blocked the plot to kill Adolf Hitler.

what Dante Alighieri termed "earthy paradise"—career, pension, peer-group status, and petty, day to day hedonistic "needs" of his or her self or adopted immediate circles. The passion of "Look, guy, I've got to look out for myself," and "take care of my personal family responsibilities" are typical of the phrases by which most people justify their customary immorality on the "big questions" of national and foreign policies.

The policies and behavior of nations and their peoples are not determined by the rational, independent judgment of a majority among their citizens. The policies and behavior of nations are determined by the institutions of which they are composed, and according to what forces control the top-most command structure of executive functions and opinion-making in those institutions. In the long run, the character of the ruling forces of a state shapes the internal character of its institutions. In the shorter and medium term, the internal characteristics of institutions are determined predominantly by the institutionalizing processes of preceding periods of development.

Although Peenemünde was an institution controlled by the Nazi regime, the character of that regime and its political-economic policies are less than irrelevant to the characteristic features of the work accomplished there. Peenemünde was a product of pre-World War I Germany, and, most emphatically, of pre-1848 Humboldt University in Berlin and nineteenth-century Göttingen University. The most crucial among the advanced capabilities expressed at Peenemünde were all directly derived from the 1854-1866 work of Bernhard Riemann at Göttingen and Riemann's employment of what he termed "Dirichlet's Principle"—of the brother-in-law of the composer Felix Mendelssohn, Lejeune Dirichlet—and of Lazare Carnot's and Alexander von Humboldt's project, the University of Berlin (Humboldt University). The most specific among the broader influences of Riemannian physics was the cited 1859 paper.

The Nazi Party and leadership was philosophically a neo-Malthusian, "postindustrial society" cult, from Hitler and cult-doctrinaire Alfred Rosenberg on down. The majority of the Nazi Party's active membership base of 1932-1933 was a precise analogue of the present-day transatlantic rock-drug counterculture, the Weimar counterculture of the 1920s and early 1930s. This connection of Hitler to the rock-drug counterculture was anticipated by the leading postwar homosexual fascist leader of the period, Stefan George, the first among the Weimar fascist leaders to articulate the "leadership principle" later made the centerpiece of the Hitler cult. There is no essential philosophical difference between Hitler and the genocidal Club of Rome today.

In power, Hitler's leading political problem was the fundamental opposition in philosophical outlook between the Nazi neo-Malthusian ideology and the commitment to industrial and technological progress of the majority of the German population and national institutions. Hitler required these institutions as forces indispensable for his military aims, but was determined to subvert and then destroy those German national institutions as quickly as they had served his war-fighting purpose. Had Hitler won the war, his world would have been ordered exactly as the Draper Fund, the Club of Rome, and allied genocidal institutions envisage today. Hitler was a fanatically anglophile protégé of Houston Stewart Chamberlain, Neville Chamberlain's cousin, and imbued with the Anglo-Saxon racial theories identical with those of Cecil B. Rhodes and Colonel (later General) William Draper of the American Museum of Natural History in New York City *at that time*. Wipe out all "inferior races" (Jews, Slavs, blacks, etc.) to create living-room for world-empire of a world-federalist system based on the Anglo-Saxon "racial stock." That is the same policy embraced by such figures as Aurelio Peccei of the Club of Rome, by the World Bank, by the leaders of NATO's OECD organization, and by such functionaries of the genocidalist Draper Fund as General Maxwell Taylor.

Germany generally was not anglophile, even under Hitler. German citizens volunteered with enthusiasm for a war against the Versailles-enemy Britain, and with shudders of reluctance for fighting on the Russian front. Hitler was obliged to save Britain from the German nation by such means as holding Guderian's tanks back (on Hitler's personal orders) at Dunkirk, by diverting the Luftwaffe from strategic targets in Britain into the prepared antiaircraft shooting-gallery over London. Hitler was quite sincere in sending Rudolf Hess to negotiate an anti-Soviet alliance with Britain, through the Duke of Hamilton—and somewhat justified in his probe through Hess, as Brigadier Rees and others disclosed, "Hess had arrived much too late."

Except for Hitler's crucial interventions to save Britain from conquest by the German military, the war in the West was conducted according to classical German military doctrine, a successful re-enactment of the Schlieffen policy employed in World War I. In the East, Hitler fell into the same kind of trap which Scharnhorst et al. had designed, baited, and closed against Napoleon in 1812—as the professional German military recognized that from the beginning. The Soviet defense of Moscow and Leningrad, during the winter of 1941-1942, had the same principal stategic significance as the Germans' blowing up of pre-mined Moscow around Napoleon's ears. The failure to take Moscow and Leningrad in the successive winters of 1941-1942 and 1942-1943 set up the logistical geometry in which the potential of the Stalingrad flanking counterattack became possible. This was German knowledge since 1809-1812 of the principles of a Russian campaign.[1]

It is that and related interaction between German nationalist institutions and the contrary character of the Nazi regime which define every crucial feature of the Nazi period.

Putting aside for the moment the monstrous immorality of those who propose to model a transformed U.S.A. on the Nazi war economy, and considering only whether the war economy feature of such a scheme might succeed, *does the United States today have potential Peenemündes? It does not:* during the recent two decades, culminating in the combined effects of the Carter administration and six months of Volcker's Nazi-modeled monetary policies, the United States has been virtually stripped of nearly all of those institutional capabilities equivalent for today to the German nationalist institutions of industry, science, and military which the Nazis appropriated and exploited over the 1933-1945 period.

What is striking, in this comparison, is a study of both the science and the applied technology embodied in exemplary form in the aircraft identified at the outset. These facts show how damned little progress has been made over the course of 35 postwar years. That poverty of progress since the days of the Manhattan Project and Germany's Peenemünde attests to the inner character of our institutions: except for the brief and glorious period of fostering of NASA by the Eisenhower and Kennedy administrations, we have destroyed the efficient impulse for progress within the relevant institutions, and have stripped our labor-force of what might have been reserve potentialities in depth, for the kind of high-technology mobilization which might have matched the Nazis' use of the German nationalist institutions represented at Peenemünde.

The exception: Japan

To illustrate most efficiently what is wrong with the policies of the United States, it is most useful to look at Japan. What is it that causes many to accuse Japan of being "unfair"? Simply, Japan "unfairly" refuses to be as stupid as the United States has become. Japan has continued to follow, at least predominantly, the principles of the American System, articulated by President George Washington's treasury secretary, Alexander Hamilton. The names of the leading economists of the American System—Hamilton, Carey, and List—are by-words of every literate figure of Japan, almost unknown in the presently decaying economy of the United States. Japan is "unfair" because it has maintained its prosperous growth, by refusing to import ignorant follies, such as the anti-American System political-economic dogmas of Adam Smith, John M. Keynes, and of the British Fabian Society's University of Chicago economics department.

The leading circles in Japan have reached the proper conclusions on economic policy. The most advanced circles among Japan's trading-company complexes have adopted the term "knowledge-export industry" to describe the policy best ensuring that nation's future prosperity.

We stupid American say: "It is not necessary to be first on principal fronts of technological progress. It is not necessary to revive the precedents of the Manhattan Project and NASA's moon-landing, to give priority to public support for research-and-development undertakings. Besides, the "free-enterprise" freaks and the "environmentalists" are both against it.

"It is sufficient," say the stupid Americans, "that we force labor to work for less and much sweat much more, to drive down U.S. wages toward Third World levels, so that our backward, labor-intensive, obsolescence-ridden, and shrinking industrial base can compete with more productive industries abroad. Otherwise, we shall use our muscle to bludgeon our allies into bankruptcy, so that they will no longer be able to compete with us in foreign trade."

It is the attempt to graft a booming war economy buildup on top of such a lunatic policy of Nazi-modeled austerity in basic civilian agriculture and industry, which is the cult-like madness dominating the utterances of strategic policy utterers.

That is the short of it all. We must give first priority in national-defense policy to forced-draft expansion of our advanced research and development capabilities, in an environment defined by high rates of technologically advanced, capital-intensive investment in increasing the base and scale of goods-producing output, and building up thus the civilian economic and tax-revenue base for an adequate defense expenditure. We must complement this by measures which foster high-technology economic growth among our industrialized allies, and among our friends of the developing nations, creating an economically powerful community of principle among sovereign nation-state republics, as the institutional base for strategic defense capabilities.

The trouble with the Reagan administration so far is twofold. First, for its own part, the administration is riddled with Fabians (Stockman, Heritage Foundation, Buckleyites), Friedmanites, and Siena Group-controlled "supply-siders," who rally into Walpurgis Nacht intensities of psychedelic antics against any measure which offend their *British* versions of "free enterprise." Second, there is massive blackmail pressure from the Trilateral Commission's forces and the "Harrimanites," such that to the extent the administration wishes to do the right thing, it is terrified of offending these forces, and backs down.

Yet, having thrown away everything needed for a competent defense policy, the administration nonetheless plunges ahead with a determination to deploy a tattered and drug-ridden U.S. military establishment against "the Russkies." It devises its military policy to fit the limiting prescriptions of a lunatic economic and monetary policy. In this way, the administration finds itself verging ever closer to a decayed parody of the Nazi war economy. Obviously, not a single one among the supporters of this imbecilic orientation is exhibiting the slightest knowledge of *the past 500 years of military history since Plethon first set forth the modern doctrine at the beginning of the 15th century.*

Behind Peenemünde science

The achievements of Peenemünde's forces were most immediately the fruit of the tradition of Gottfried Leibniz in science and Leibniz's 1670s founding of economic science as the science of *technology.* The crucial developments of the 19th century on which Peenemünde drew were (a) Alexander von Humboldt's close collaboration with Lazare Carnot (1815-1825) to bring the French science being destroyed by A. Cauchy into Prussia, and (b) the Prussian system of education inaugurated by the student of Friedrich Schiller, Wilhelm von Humboldt, a system of classical education, based on the classical Greek of Homer through Plato, which produced the highest quality of scientific potential among *gymnasium* graduates.

Although the vitality of German science was greatly diluted from the 1860s onward, after Britain's choice, Bismarck, secured the Prussian chancellorship, that diluted science remained an adequate basis for Germany's scientific superiority over all other nations through World War I. It was, as we have noted, the impact of Riemannian physics which enabled Peenemünde to achieve aeronautical designs superior to those of any other nation.

The scientific community outside Germany was inferior to German science because of the influence of a method typified by that of A. Cauchy and J. Maxwell, tracing its roots to Newton and Descartes of the 17th century. As a result, Peenemünde's theoretical physics is either not understood or little understood among most professional physicists in the United States even to this day, and the work of Adolf Busemann and his associates continues to be a matter of relevance for advanced-physics problems in leading circles of both the United States and Soviet Union to the present time.

Unless the physics community of the United States is disposed to give up the variety of mathematical method associated with Newton, Cauchy and Maxwell, for the physics traced through Leonardo da Vinci and Pacioli, through Kepler, Leibniz, Euler, Monge, Carnot, Legendre, and Riemann, it is impossible that U.S. science institutions, already numerically far smaller and still shrinking relative to the Soviet physics community, could sustain a match with the Soviet Union in respect of advanced technologies of military relevance.

The current military buildup outline of the Reagan administration reminds any informed military historian of Napoleon III's mobilizations in preparation for the battle at Sedan. Just as Napoleon deprecated the significance of then-modern forms of breech-loaded steel artillery, so the presently visible Pentagon policies deemphasize the qualitative change in warfare embedded in the rapid, large-scale deployment of x-ray and gamma-ray relativistic-beam weaponry. Such latter technology is a subject of Riemannian physics, associated with principles alien to the tradition of Newton-Cauchy-Maxwell.

To begin developing the institutions on which an effective defense potential in depth depends, it would be wise to begin with closer attention to the 1509 *Divina Proportione* of Pacioli.

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[1]*Note:* For the same reasons, the attempt to pinpoint the inner Russian industrial base with precision low-kilotonnage missiles, such as the Pershing II has, in Russian classical military outlook, such significance that the Soviets are assured to react preemptively to prevent such capabilities from being emplaced. There are some genuine idiots involved in shaping our military policy.

The two varieties of strategic folly

On the weekend of July 31-August 2, a select group of individuals who fancy themselves as "strategic thinkers" will convene privately at Leeds Castle in England to discuss "war-winning strategies" for the West. The participants will include U.S. National Security Adviser Richard Allen, Frank Barnett of the National Strategy Information Center, Ed Fuelner of the Heritage Foundation, and several cothinkers from the British Isles and continental Europe.

EIR correspondents found several variations of warped strategic thinking in recent meetings in Washington. For example, a congressional aide with a reputation as a top defense expert told us he fully recognized that U.S. military and NATO forces were at a horrible disadvantage to the Soviets, that U.S. industrial capacity was eroded to a point of collapse. It would take years to catch up. The solution was for the United States to develop a credible first-strike capability and then threaten the Soviets with acting insane and using it. This would keep the Soviets "off balance." The United States and NATO should move toward a confrontation with the Soviets and hope to bluff them down. It may work, this expert reasoned. If not, Europe would go up in nuclear smoke, but it may be necessary to write off Europe to survive.

The same scenario was making the rounds at Henry Kissinger's Georgetown Center for Strategic and International Studies. It will no doubt be discussed at Leeds Castle.

The man responsible for organizing the Leeds event is British Air Vice-Marshal Stewart Menaul, reportedly a close associate of British Foreign Secretary Lord Carrington. Menaul does not subscribe to the above scenario. He recognizes the current vulnerability of the NATO forces, and proposes crash development of space-based laser weapons systems, in particular an antiballistic missile system.

With its emphasis on a high-technology solution, Menaul's proposal is enticing. His thinking, however, is flawed in crucial areas. He claims that it is possible to carry out his program within the context of austerity and deindustrialization in the West. The vice-marshal further claims that the Soviets will never launch a full-scale thermonuclear war; he therefore upholds James Schlesinger's limited nuclear-war doctrine, and his correlative concept of the "aura of power."

When it comes down to it, Menaul and his cothinkers are also bluffing. His views, as expressed in several locations including a document in circulation by the Carrington-linked Foreign Affairs Research Institute, presume that the laser ABM system is an almost foolproof defense. There is no such thing as foolproof defense. What is required is an in-depth buildup of war-fighting capabilities.

From Stewart Menaul

The following excerpts are from two exclusive interviews, on July 24 and July 29, with British Air Vice-Marshal Stewart Menaul. The interviews were conducted by EIR *European correspondent Mark Burdman.*

Burdman: On the question of weapons systems, I wanted to convey to you my information from the United States that contradicts your assessment that Weinberger is in favor of the development of space-based ABM laser systems. My reading is that he is obsessed with the type of cost-accounting approach that will never allow for laser systems to come into existence.

Menaul: Well, whatever Weinberger's sentiments are, his *advisers* certainly aren't against this. You should read the latest edition of *Aviation Week.* The senior scientific adviser to the Reagan administration on future defense systems, whose name I don't remember, makes a very good case for the necessity of high-energy beam systems. He says this won't come next week, but by the end of the decade. The problem is that the Russians are now way ahead of us. They'll be sending up their Salyut-7 next month. The Cosmos 1267 involves three to four new Cosmos space stations. They will develop the capability to use lasers from space systems. I hope that when they announce they've done it, some people here will take the whole thing more seriously! The problem is all sorts of so-called scientists, leftist academics, etc., who impede any serious discussion on this.

Burdman: Well, who then specifically is the "lobby" in the U.S. for developing laser systems?

Menaul: Senator Wallop, Senator Tower. Almost anybody who knows something about reality. Bill van Cleave, Harold Agnew, the people at Hughes and Boeing. The problem is that we are governed by politicians, some of whom are lunatics on questions like this. . . .

Burdman: What is your evaluation of the perspective of Carrington in respect to such questions?
Menaul: He's trying to do his job under very difficult circumstances. You see, the problem here is that you have a government of very old-fashioned dyed-in-the-wool conservatives who think the United Kingdom is still a superpower, and they're completely wrong! We're a third-rate power! So look at the problems we create for ourselves. The Trident submarine, for example, is sheer lunacy, and with our total commitment to it, we are savagely cutting back on our navy, air force, army. The U.S., which is manufacturing the Trident, doesn't even take it seriously. The same issue of *Aviation Week* I referred to earlier is saying that the U.S. Air Force would like to be rid of the MX and Navy feels the same way about the Trident.

Burdman: So you feel the MX should be scrapped?
Menaul: It's unnecessary! Why all this talk of bigger and better *offensive* capability? We already have super-over-kill capability, it's ridiculous! We must defend, and have available second-strike capability. The key is developing the systems that destroy the incoming missiles, not constantly building new offensive systems! The MX, Trident I, Trident II, it's the same track, all of it. Of course, by building these, we force the Russians to match it, but with the Russians there is one big difference. They know that more and more offensive weaponry is not the necessary new element in the situation, so are proceeding full-steam ahead with the new kinds of *defensive* systems.

Burdman: Where do you locate the doctrine in Western strategy that thinks in these latter terms?
Menaul: There are many people who feel this way, led by me! Why the hell go on doing this? We can already destroy all of Russia, China, Eastern Europe. If we were really worried about security from the Soviets, we would stop the incoming missiles. You have to build up your *defensive* capabilities, and we now have to reverse the years of scrapping such capabilities associated with Carter-Callaghan-Wilson ways of thinking.

Burdman: With everything you've said, how do you explain the John Nott "cost-accountancy perspective" of accommodating to the parameters of scarcity and so on? Also in the U.S., there is a strong similar tendency in economic policy. . . .
Menaul: In Britain, the government has inherited a completely chaotic situation from the previous years, and social problems are increasing, so there are some very real limitations. In the U.S., I don't agree with you; defense expenditures are up 5 percent from last year, and the 1982-83 budget is miles ahead of what Carter would have put in there.

In the U.S., there are also many people who know very well that we could go into space tomorrow and develop the necessary technology and approaches if we decided to do so. The aircraft industry—Martin-Marietta, Rockwell, Boeing, Hughes—has prepared numerous studies indicating the feasibility of doing this. That's why Wallop recently made his impassioned plea, stating that the technology is *here,* let's develop it. But you get all sorts of blockage of the idea, including within the major industries, where you hear all sorts of fatuous arguments.

Burdman: Who do you have in mind?
Menaul: Figure it out for yourself. It's the companies that make the ballistic missiles, they argue for more and better of the same, it's ridiculous.

We need a *tough* U.S. administration that is ready to say, "To hell with you, this is what needs to be done, and we're going to do it!" Reagan's is that kind of administration, definitely, he's got that kind of toughness. I think that will become apparent in two to three weeks, in the debates in Congress on the question of the Stealth system and the cruise missile bombers. The Reagan administration will say, rightly, that we have the Stealth technology and the Russians don't know how to stop it, so let's go with it! I agree with that, we need the new kind of bomber with the Stealth technology.

Burdman: By late autumn, Weinberger is expected come to some definite decisions on weapons systems. By that time, what assurance do you have that the U.S. will in fact go in the direction of developing the new generations of technologies?
Menaul: Because I know the work being done by the Defense Advanced Technologies Organization in DOD. They have done studies which prove that this *can* be done. This group inside the DOD has access to Los Alamos and Lawrence Livermore, and they asked Livermore, for example, two years ago, whether it were possible to develop x-ray lasers, and Livermore said yes. The only problem, of course, is that the Russians are way ahead, with their Salyut-7 and one or two other advanced research systems. They spend 12 to 14 percent on defense, the U.S. thankfully is going up to 8 percent; in Europe it's much worse.

Burdman: But, frankly, you must admit the impossibility of doing everything you're talking about in the context of the economic policy typified by the Volcker interest-rate policies. How can you develop necessary new technologies and a competent military strategy without developing the industrial base of the society? From all the information, Volcker's measures are really doing damage to the American industrial infrastructure, so how can you have a defense program of the type you want without ditching that policy?

Menaul: We understand the situation. The recession has hit *every* country, not just the U.S., that's the current reality. What it means is that we can't now run 26 programs of research in new systems like we would like to, we can only have 12 or 14. So the question now is fundamentally one of priorities. The problem as I see it is not as you are outlining it, but more of the fact that we are giving too much priority to old-fashioned systems, instead of asking, what must we develop for the 1990s? In defense technology, the U.S. is way behind; the Soviets have sent up 1,000 satellites in the past years, the U.S. none, but at the same time, the U.S. has better *available* technology than does the Soviet Union, if it would just use it. The U.S., that is, has nothing like the Salyut and Soyuz systems, but the kind of technology in question is available, if it is just used. the Columbia Space Shuttle was certainly a great thing, but we have wasted an awful lot of time. Look at the MX and Trident: they will both be out of date by the time they are developed, given Soviet technological breakthroughs!

So we need an expansion of the NASA approach. NASA of course has already military foci, as was seen in the plans arond the Space Shuttle, but we must do far more of this. He who controls space will control Earth—the Russians are aware of this simple fact. The Russians have literally built a commuter system into space! . . .

Burdman: A further question: isn't it clear that the Soviet doctrine rejects the idea of limited nuclear war? They will fight a total war and have made that quite clear.

Menaul: This is wrong! The Soviets have modified their doctrine in the past years. They're ready to fight war in Europe alone, conventional war, conventional chemical war, and nuclear war. If they decide to fight a war in Europe, they have whatever means available that they consider appropriate, whether it be chemical, conventional, or nuclear. They're ready to fight war in Europe without getting the U.S. involved. This new modified doctrine has evolved from Kulikov, from Ogarkov, from Ustinov, they're the architects of the massive Soviet buildup in conventional forces. Obviously, the Soviets see purely conventional war as possible. They also have an ocean-going navy to starve NATO, deny it oil, raw materials. They're ready for *any* eventuality and the West is not. . . .

The new Soviet doctrines began five, six years ago, with the advent of technologies in computers, microprocessors, electro-optical equipment and so on, infrared equipment, millimeter radar, etc. According to Soviet doctrine, they must be ready to fight *any* war, and their technology for doing so has greatly improved. Their T-80 tanks are as good or better than anything in NATO, as are their MIG-23s and MIG-25s. Happily, we're developing the F-16 and Tornado, but as we do so, the Russians have another five being developed. So, simply, any war in 1981 is different for Europe than would war have been in 1968-70. I deplore the attitude of some strategists in the U.K., France, and West Germany who talk only in terms of a conventional buildup. They only think that way because Europe is so far behind the U.S.A. and U.S.S.R. in technology. Yet with its 250 million people, Europe combined could easily be more capable of sustaining the necessary defense expenditures than are the U.S. or the U.S.S.R.; there's just no will to do it.

PD-59 [the Carter presidential directive that acknowledges tactical nuclear war as U.S. policy] makes quite a bit of sense. McNamara and Schlesinger were both on the right track, and finally Carter got in line. We now have the ability to hit military targets with precision and accuracy. As for limited nuclear warfare as a doctrine à la Schlesinger, it is absolutely necessary, given Soviet doctrine. The Soviets no longer are against the idea of fighting limited nuclear wars. Old-fashioned generals talk awful rubbish about this. The Soviets, with their generals' training in electrical engineering know more about precision targeting than do the Europeans, so for the Soviets limited nuclear war is now distinctly a possibility. The SS-20s are there to be used!

The Soviets in fact prefer conventional war in Europe so that they can occupy and take over the industrial infrastructure of the U.K., Germany, and France, rather than a radioactive landscape. If they were winning a conventional war in Europe, the U.S. would do nothing. Could you imagine the U.S. launching missiles at Minsk and Moscow in retaliation for the Soviets' occupying Germany? It would never happen; the U.S. would only launch weapons in response to the Soviets' directly attacking the U.S.

From an intelligence critic

On July 23, EIR *Counterintelligence Editor Jeff Steinberg interviewed a recently retired national security analyst whose career in the Pentagon and in the intelligence community dates back to the immediate postwar period. His historical observations regarding the administration's endorsement of the Schlesinger Doctrine of limited nuclear war follow.*

It is absolutely correct to describe the present military posture of the United States as a "blitzkrieg" policy. I was involved in the first postwar studies done by the Pentagon on the deployment of missiles. We went down to Huntsville and interviewed all of the ex-Nazi scientists who we brought over from Peenemünde, von Braun, Berger. They had developed the identical technology that we are talking about today. They had the V-1, which we now call the cruise missile. They had the V-2, which back in 1949 we renamed the Pershing.

The use of these weapons systems was debated out from 1952-56, and it was rejected as a strategic military doctrine. Zumwalt and guys like that were pushing this limited nuclear war doctrine back then, but it was rejected at the time. This was not even considered to be smart tactics. No one ever came up with a competent battle plan based on this tactical nuclear warfare idea. But there it was under McNamara and later under Schlesinger again; the same tactical nuclear warfare nonsense. I like to think that some of the people in the defense establishment are smart enough to know that none of this stuff works. I believe that there is a whole other thing going on.

I think the administration knows that we have a tough recession coming on, and a real possibility of a lot of angry people taking to the streets. Right now we have no room in the Social Security or food-stamp budgets to give any more. We do have an inflated defense budget. We could cut as much as $60 billion from current programs, and frankly, it wouldn't hurt our strategic defenses in the least. We're not producing anything worthwhile. With the push for a draft and with the inflated defense budget, we have all of the ingredients for a controlled domestic counterinsurgency force to maintain order in the context of a lot of people taking to the streets. Do you remember the old Morgenthau Plan that we had cooked up for Germany right after the war? Well, I think that the real story behind the defense planning is that the Morgenthau Plan is being resurrected, except for use right here in the United States.

From the Pentagon

The U.S. Department of Defense July 24 provided some official answers to questions submitted by Executive Intelligence Review *concerning the secret consolidated guidance leaked two weeks ago in the* Washington Post.

The five-year, policy-planning "guidance," signed by Defense Secretary Caspar Weinberger, speaks of three possible levels of military buildup which range from doubling the defense budget to spending 50 percent of the GNP or about $1.5 trillion in defense. The document also revives the Schlesinger doctrine of tactical nuclear war.

The questions, submitted July 20, were answered by a DOD spokesman who cleared them with superiors.

Q: Who is responsible for the drafting of the guidance?
A: The guidance was drafted by the undersecretary for policy, with participation from other sections of the department. [The Undersecretary for Policy is C. Fred Iklé, who has long-standing connections to Aquarian Rand networks and Swiss banking circles.]

Q: What was the role of the Joint Chiefs of Staff?
A: The Joint Chiefs of Staff strategic-planning document provided the information which went into the formulation of the guidance. [The key component of the JCS strategic-planning document is the work of the J-5 group. Asked whether this was the group that contracts out to such agencies as the Futures Group, and the Rand Corporation and which uses Delphic methods of policy analysis, the spokesman replied, "Yes."]

Q: When was the guidance written and signed by Defense Secretary Weinberger?
A: The final draft was written and signed in mid-June. There were several earlier drafts, parts of which were rejected and modified.

Q: What was the role of the Defense Resources Board? Did it work on the guidance?
A: Yes it did. It played a big part. [The DRB is headed by Deputy Defense Secretary Frank Carlucci and includes the service secretaries, most assistant secretaries, and the director of national and international security of David Stockman's Office of Management and Budget. Carlucci, whose name has come up in regard to the Italian P-2 scandal, reconstituted the board as an executive committee within the department.]

Q: Was the final draft of the guidance given to other sections of the executive branch?
A: No.

Q: Was it given to the White House?
A: No, I don't think it was.

Q: To the National Security Adviser?
A: No.

Q: Who gave a copy then to the *Washington Post*?
A: No comment.

Q: Is this being investigated?
A: Not at the present time.

Traditional Democrats challenge Volcker, Socialist International

NSIPS

Warren J. Hamerman, the chairman of the National Democratic Policy Committee (NDPC), was interviewed by EIR *on July 30. The NDPC is a multi-candidate political action committee, independent of the Democratic National Committee. Its advisory committee is chaired by Lyndon H. LaRouche, Jr., the founder of* EIR.

EIR: What do you think is the most fundamental policy question facing the Democratic Party today?

Hamerman: The most crucial policy issue challenging the entire American nation at this time is the question of instantly ending the high interest-rate policy of Paul A. Volcker at the Federal Reserve before our economy is choked into a full-scale depression greater than that in the 1930s. On July 28 the United States Senate unanimously passed a resolution by a vote of 100-0 introduced by Senator Chiles [D-Fla.] which demands that the President and the Federal Reserve act to ensure the availability of low-interest credit to small businesses and productive enterprises. The bill was entitled: "Resolution Regarding the Protection of Small Business, Financial Institutions, Farms and the Housing Industry." The bill clearly identifies high interest rates as a direct threat to America's commitment to economic growth. Further, it spells out the clear and present danger to the very survival of thrift institutions, farms, and small businesses when credit is diverted from productive investment into corporate takeovers. The unanimous passage of the Chiles resolution followed by one day attempts by Senators Exon [D-Neb.] and Bradley [D-N.J.] to pass an amendment to the Reagan tax package, making the third year of the tax cut contingent on the lowering of interest rates to 10.5 percent. Senator Melcher [D-Mont.], who has been holding hearings on the economic impact of high interest rates, is planning to introduce a joint resolution into the House and Senate demanding that interest rates be brought down. Senators Boren [D-Okla.], Chiles, Exon, Nunn [D-Ga.] and Bennett Johnson [D-La.] have sent a letter to President Reagan urging him to take immediate action against high interest rates. Furthermore, on the same day that the Chiles resolution passed the Senate by a vote of 100-0, on July 28, the House of Representatives overwhelmingly passed by a vote of 403-17 House Concurrent Resolution No. 160 which begins: "It is the sense of Congress that current interest rates are needlessly and destructively high." The House resolution was cosponsored by Reps. Henry Reuss and St. Germain.

EIR: Where did all this motion come from?

Hamerman: Beginning in October 1979, Lyndon LaRouche, our advisory committee chairman, first began discussing the necessity to change the Volcker high interest-rate policy. In fact, during the 1980 presidential campaign, LaRouche ran in 16 state Democratic primaries, and gave several nationwide television addresses which directly focused attention on this issue. In time, even Ronald Reagan was stirred up to make several campaign assertions opposing high interest rates. However, just before he took office Reagan capitulated to the Volcker crowd. Reagan, under pressure and threats, made a deal that he would "go along" with Volcker's high interest rates in return for the Volcker crowd's applying its muscle to pass the Reagan budget and tax programs. Now the President has a near-depression collapse on his hands. He is repeating every mistake made by Herbert Hoover and his Treasury Secretary Andrew Mellon in the spring and summer of 1929.

Since Reagan's capitulation to Trilateral Commission member Volcker in December 1980, Lyndon LaRouche and the National Democratic Policy Committee, have been on a nationwide mobilization to focus and channel opposition to the Volcker policy from 50 states directly into the U.S. Senate and Congress, forcing the issue through constituency pressure. We organized several special lobbying events where scores of leaders from labor, agriculture, banking, and business visited their congressmen and senators in teams of 10 to 25 to demand action on this question. In fact, in the six weeks before the Senate and House resolutions passed, we in the NDPC distributed over 4 million leaflets nationwide to break the pressure-hold on the President.

There is also an international dimension to this issue. As a result of Volcker's policies, our neighbor Mexico is suffering under interest rates of between 30 and 40 percent, while in continental Europe, France, West Germany, and Italy are suffering from economic and social chaos caused by the effects of America's high interest rates. West German Chancellor Helmut Schmidt has been attacking the U.S. high interest rates for months and made a fight on this issue at the recent Ottawa heads of state summit. The Socialist International in Europe headed by West German provocateur Willy Brandt, French President Mitterrand, Italy's would-be "Il Duce" Bettino Craxi, and Sweden's Olof Palme, is only making political gains in Western Europe because of the economic convulsions caused by America's high interest rates. Paul A. Volcker, a member of the notorious Trilateral Commission, is wrecking the Western alliance.

EIR: Does the Socialist International have a foothold in the United States?

Hamerman: The Socialist International of Willy Brandt has a full-scale offensive on to take over the Democratic Party and transform it into a European-style social democracy. This is being organized top-down by the British Labourite Harriman wing of the Democratic Party. Last Dec. 5-7, in Washington, D.C., the Socialist International held a conference entitled "Eurosocialism and America." Brandt, Mitterrand, Palme, Wedgwood Benn of Britain, and a host of Eurosocialists were there along with their American colleagues in the Democratic Party. the Americans included William Winpisinger [president of International Association of Machinists]; Rep. Ron Dellums [D-Calif.]; feminist Gloria Steinhem; Jeremy Rifkin and Gar Alperovitz of the Institute for Policy Studies, [IPS]; Michael Harrington, the head of the Democratic Socialist Organizing Committee [DSOC]; and hundreds of others. Then on Memorial Day weekend in Philadelphia, the official wing of the Socialist International in America, the Democratic Socialist Organizing Committee, held an implementation conference. Over 40 elected officials in the United States are official members of DSOC. These include Congressman Dellums, Minneapolis Mayor Don Fraser, Ed Wallace and Ruth Messinger of Ed Koch's New York City Council, and Detroit City Councilman Mary Ann Mahafferty. Already three DSOC members sit officially on the Democratic National Committee: William Winpisinger, president of the International Association of Machinists, Jerry Wurf, president of AFSCME, and Jolene Unsoeld from Washington State. In the state of Washington, DSOC has formally backed Karen Marchioro in the election for state Democratic Party chairman. Even in Kansas, four members of DSOC officially sit on the Kansas State Democratic Committee; these four are now redrafting the Kansas State Democratic Platform. Can you imagine a Socialist International platform for the Democratic Party of Kansas?

EIR: How is this process occurring?

Hamerman: The Harriman wing of the Democratic Party is consciously controlling this process. Old Averell's new wife Pamela C. Harriman is a British-born socialite and the mother of Winston Churchill III by a previous marriage. She has formed a new political action committee called **Democrats for the Eighties** whose members include Averell Harriman, Robert Strauss, Edmund Muskie, Stuart Eizenstat, Tipsy O'Neill, Robert C. Byrd, Bill Clinton and Henry McPherson, formerly of the New York Council on Foreign Relations. Pamela C. Harriman has been holding sessions in her house—one for labor, one for foreign policy, and so forth—and the entrance fee is $5,000 to her PAC.

In addition, there is a very insidious organization called the **Committee on Party Renewal** which is explicitly dedicated to transforming both parties—but especially the Democratic Party—into a European-style social democracy. Many in this committee want to totally overthrow the American Constitution and force America to adopt a British parliamentary system. A number of state Democratic chairmen, DNC members, and executive directors are actually on the Committee for Party Renewal and they even carried through a series of reforms at the August 1980 Democratic Convention.

Carol Casey, the director of the Committee for Party Renewal, and also the chairwoman of the Vermont Democratic Party, once remarked: "If I had my way every one of the Boll Weevils [the 40 or so Southern conservative Democrats—ed.] would have a Democratic Party opponent in the next primary. I would purge them. I would put up candidates against them and make sure that funds were cut off. I think the Democratic Party could be transformed into a British Labour Party. My personal feeling is that there should be some way for the national Democratic Party to say, 'No, George Wallace, you cannot run as a Democrat' or 'No, Lyndon LaRouche, you are not a Democrat,' and you can't compete in our primary."

Pamela C. Harriman and others from the Democrats for the Eighties have gone out to the media calling for a purge of conservative and traditional Democrats.

There is another organization in this same orbit. It is called the **Democratic Conference** and it is headed by Minneapolis Mayor Don Fraser who has had personal meetings with Willy Brandt to plot the best way to transform the United States Democratic Party into a Socialist International asset. This group is especially interesting because current Democratic Party Chairman Charles T. Manatt was a member of this committee and worked closely with Fraser.

EIR: How do these committees operate on the state level?

Hamerman: The Committee for Party Renewal has two state organizing pilot projects going on right now—one in Connecticut where after the death of traditionalist Gov. Ella Grasso there has been a complete restructuring of Democratic institutions under way.

The second target state is California, where Party Chairwoman Nancy Pelosi actually is a full-scale member of the Committee for Party Renewal's California organizing project. In California, the fruity Gov. Jerry Brown, and the Jacobin radical Tom Hayden have wrecked the Democratic Party.

Tom Hayden has infiltrated the Democratic Party with an organization he calls the **Campaign for Economic Democracy** [CED]. At the last California State Democratic Convention, Hayden directly controlled 419 delegates. Hayden's CED has taken over the majorities in two city council governments—Santa Monica and Chico. Hayden's slate also took over the leadership positions in the Orange County Democratic Party. Hayden is well financed. He gets official California state funds, arranged by Jerry Brown, through several front groups for solar power which Hayden directs. Actually, Hayden also gets funds from the Department of Energy in Washington which were arranged when James Schlesinger headed the department. Hayden also gets grants from the U.S. Department of Commerce set up during the Carter administration. On top of that he married into actress Jane Fonda's money.

A few days ago a big scandal hit the front page of the *Los Angeles Times* exposing that one of the biggest Democratic Party fundraisers in Los Angeles was laundering illegal drug money through his bank and then conduiting the funds into political campaigns. The Democratic Party fundraiser, John Gabriel, heads Garfield Bank. He took in huge amounts of "hot" drug money and wire-transferred them to Bermuda, Liberia, and Panama. Then the "laundered" money was transferred back to the bank and was given as political contributions to none other than Gov. Jerry Brown and the very important Congressman Dymally [D-Calif.]. Dymally is on the board of Tom Hayden's Campaign for Economic Democracy and he, himself, is implicated in the Jim Jones massacre, as is the promarijuana Jamaican Prime Minister Edward Seaga. This is all very interesting, because the current chairman of the Democratic Party was also a banker from Los Angeles.

EIR: What has been the attitude of Democratic Party Chairman Manatt to the Socialist offensive?

Hamerman: In virtually every state in the country Democrats cannot understand why Chairman Manatt is trying to further dissolve the party. There is a strange pattern on several key questions. Right now the Democratic Party treasury is nearly bankrupt, while independent political action committees are flourishing. There are over a dozen PACs. Pamela C. Harriman has the Democrats for the Eighties; television producer Norman Lear heads a PAC called **We the People,** which is actually run by Tony Pedeste, William Winpisinger's personal man for years; Warren Beatty, the brother of Shirley MacLaine, is the front man for a PAC being cooked up by Miles Rubin, the owner of Calvin Klein jeans; the Kamber group has the **Progressive Political Action Committee;** Moe Udall has a PAC called **Independent Action;** Walt Mondale has the **Committee for the Future of America, Inc.;** Ted Kennedy has his **Fund for a Democratic Majority;** Henry Steele Commager and Hans Morgenthau head the **National Committee for an Effective Congress;** and, of course, on the traditionalist side, Lyndon LaRouche heads the advisory committee of the **National Democratic Policy Committee.** By the way, there are scores of additional PACs for trade unions, businesses and for various issues.

But let's return to the strange pattern of Chairman Manatt's behavior. Manatt has more than ignored Lyndon LaRouche's proposal in the interest of party unity to coopt all the PACs onto the DNC. Instead Manatt was involved in excluding the PACs and their ideas. He helped to engineer a resolution at a recent Democratic executive committee meeting in California to attempt to overthrow the open-door tradition of the Democratic Party by passing a resolution attempting to exclude LaRouche's NDPC. But Manatt is going even further. He is allowing the dissolution of the power of the party's county chairmen. It was at the same meeting in California, where Manatt was personally present, that the resolution against the PACs was passed. They also passed a resolution to take power away from the county chairmen. Many questions are now being asked about Manatt around the country.

After the debacle of Carter, did the Democratic Party make a mistake in selecting banker Manatt as its chairman? As leader of the Democratic Party, why has banker Manatt not spoken out against the Volcker high interest rates? Is Manatt serving the American Bankers Association or the Democratic Party? Why is he looking the other way as the Socialist International and Harriman crowd advances in its design to drive the traditional Democrats out of the Party? Why did the DNC at its recent Denver meeting, with Manatt present, block the NDPC's resolution condemning Paul Volcker's high interest rates?

EIR: What is the objective of the Socialist International?

Hamerman: They want to overthrow the American Constitution and transform the United States into a British parliamentary system. This is treason. They themselves are quite open about this. Professor James MacGregor Burns is a former cochairman of Carol Casey's Committee on Party Renewal; he is also founder of Don Fraser's Democratic Conference and a leader of the **Project '87** constitutional "sprucing up" group which Ted Kennedy, Henry Reuss, and Lloyd Cutler are mixed up in. James MacGregor Burns has actually said we are in a crisis of governance, and expects "there may well be a dramatic crisis in America that rivals the crises of Vietnam and Watergate. It could be an economic crisis that the country simply could not cope with. It might be an international economic collapse that surpasses the oil crisis of the past few years. It could be the kind of crisis facing Britain now. Putting aside whether you like what the [British] Parliament does about these riots, there's no question about the Parliament's ability to act. Parliament can act. The people won't sit by and debate, if they have the power to act, like they would here. We are looking at the problem of a deadlock in democracy. We are looking at making a horse-and-buggy constitutional system work in the 20th century."

Henry Reuss has introduced five amendments authorizing the Congress to transform various aspects of the U.S. Constitution. Lloyd Cutler, the former White House counsel authored a widely circulated article for the Council on Foreign Relations calling for a strong parliamentary system in America. Old Averell Harriman, even if he can no longer hear so well, has been associated with such projects for decades.

EIR: Is there any resistance to the Socialist International?
Hamerman: Absolutely. The underlying political reality of the traditionalist-oriented rank and file of the Democratic Party is asserting itself. One good example is that the NDPC, the traditionalist wing of the Democratic Party around LaRouche, is growing very rapidly. In the past six weeks we have increased the circulation of our *NDPC Newsletter* from 5,000 to 20,000 and have more than doubled our membership. The exemplary case of reality asserting itself can be seen in the recent Philadelphia special election for the seat of Abscam victim Raymond Lederer.

In the election, ultraliberal David Glancey, the head of the Democratic Party in Philadelphia, had the full backing of liberal Mayor Bill Green and the entire official Democratic Party machine of Philadelphia. Even Ted Kennedy and Walter Mondale both personally traveled to Philadelphia in the days before the election to campaign for Glancey. With this support Glancey raised over $200,000 for his campaign and spent close to half of it on television and radio. Glancey's opponent, Democratic State Senator Joe Smith, forced to run on both the independent and Republican lines, with one-third the funds, ran an "old-style" precinct-by-precinct, door-to-door campaign with the backing of labor. Smith smashed Glancey by over 7,000 votes! On election night Congressman-elect Smith said, "The politics that I've learned is the politics of the neighborhood. This was a victory that was put together by the labor movement, and they better take a big bow." Smith also had the backing of all the traditionalist Democrats who had been framed in Abscam convictions over the past years. This process is beginning to shape up throughout the country.

EIR: Where else are traditional Democrats fighting?
Hamerman: In the state of California, we in the NDPC have catalyzed a head-to-head direct confrontation with the Hayden-Brown forces by distributing over 1 million leaflets. A bipartisan Ad Hoc Committee Against Tom Hayden has been formed. The County Board of Supervisors of Tenhema County, north of Sacramento, has passed a resolution calling for Jerry Brown to resign as governor over his mishandling of the fruit fly affair. There is a major battle going on there among traditional Democrats to prevent Hayden and the Cesar Chavez gang from gerrymandering the election districts.

Also, on the West Coast, in the state of Washington, we are in the middle of a major war to prevent the Democratic Party from being destroyed by the King County ultraliberal crowd around Seattle. The election for party chairman is about to occur. Karen Marchiaro is backed by the Democratic Socialist Organizing Committee. Over the past year this crew has decimated the traditional Democrats. Gov. Dixy Lee Ray and Rep. Mike McCormack, both national leaders in the fight for fusion energy and advanced technology, were defeated. Two of Washington's most prominent moderate Democrats—State Senate Majority Leader Gordon Walgren and State Speaker of the House John Bagnariol—were convicted of trumped-up racketeering charges. Democratic Party representation in the congressional delegation has been decimated. The Democratic Party no longer controls the state legislature.

We in the NDPC put out a full dossier exposing the frameup of Walgren and Bagnariol as part of the national drive of the Socialist International and Trilateral Commission against traditional Democrats. The release of the NDPC dossier has stimulated a firestorm of television, radio, and newspaper coverage throughout the state on the eve of the election.

Down in Texas certain Democratic Party fundraisers are refusing to send funds to the national party until the DNC takes concrete action against the Socialist International crowd. In Michigan, traditional Democrats are fed up with the way Morley Winograd, Ken Cockrell, and Leonard Woodcock wrecked the party and the city of Detroit. The Democratic Party in Michigan has been destroyed. Recently they opened new party headquarters in downtown Detroit and only 30 people showed up for the opening. In Cleveland, the Democratic Party is split.

Finally, on July 12 in Princeton, Wisconsin, on a sweltering day of 100 degree temperature, Lyndon LaRouche drew an audience of 600 citizens to hear his announcement of his availability as a candidate for the 1984 Democratic presidential nomination. This event was held in a Republican stronghold and drew an audience larger than the number of registered voters in the town! There is no doubt that we can restore the pre-1968 Democratic Party.

The Casey Scandal

Reagangate threat contained, for now

by Jeffrey Steinberg, Counterintelligence Editor

On July 29, the Senate Intelligence Oversight Panel issued a unanimous temporary vote of confidence to the Reagan administration's Director of Central Intelligence William Casey. The vote followed two weeks of intensive pressure from the Eastern Establishment press, led by the *Washington Post*, for Casey to step down in the wake of the stock manipulation scandal that forced CIA deputy director and Casey protégé Max Hugel to resign in mid-July. Casey's own past financial dealings came under the Senate panel's scrutiny as the result of accusations surfaced in the New York *Daily News* the same day that Hugel resigned. The *News* charged that Casey had withheld information on his business associations with fugitive financier Robert Vesco. While it was the Socialist International-linked press that carried the ball in the temporarily aborted drive to oust Casey, *EIR* has confirmed that the "Get Hugel" orders were first made public in a column in the London *Daily Telegraph* by Robert Moss, the British intelligence "spike" master deployed into the United States through the Heritage Foundation.

U.S. intelligence community professionals and community spokesmen like Sen. Barry Goldwater have in the past indicated their dissatisfaction with the Casey-Hugel team and have expressed the strong desire to have the DCI post filled by an in-house veteran of the intelligence wars; yet a strong overriding factor prompted Goldwater and the intelligence "old boys" to close ranks behind the administration's appointee.

The primary factor that defined the policy debate on the independent status of the intelligence community was Reagangate.

As early as the Dec. 5-7, 1980 Washington, D.C. conference of the Socialist International, it had been the publicly stated policy of the one-worldist faction associated with the Socialist International, the Trilateral Commission, the Bank for International Settlements, the Heritage Foundation and the International Monetary Fund to bring down the Reagan presidency by approximately the fall of 1981. Since no later than December, U.S. media outlets associated with the above world federalist institutions have bee[illegible]king feverishly on a series of icebox scandals ostensibly linking President Reagan and his closest policy advisers to leading figures in organized crime.

When Sen. Daniel Moynihan of New York, a spokesman for the Averell Harriman "British Labourite" faction within the Democratic Party, began screaming for Casey's scalp in perfect harmony with the *Washington Post*'s Katharine Graham, some of the more astute people around the President recognized that the Casey affair had been seized upon as the opening salvo of Reagangate. The final piece of compelling evidence regarding the Reagangate "secret agenda" of the Casey flap arrived on July 27, when the *Washington Post* published three articles linking Casey, through *Manchester Union Leader* publisher and strong Reagan backer William Loeb, to the International Brotherhood of Teamsters. The Teamsters, the most powerful trade union in the United States and the only major union to endorse Ronald Reagan's presidential campaign, are known to be the major constituency institution slated for destruction through Reagangate.

While the Reagangate momentum may have been temporarily stalled following the Senate panel's reprieve of Casey, the Reagan White House has by no means yet launched the kind of counteroffensive required to lay the Reagangate subversion to rest.

Such a counteroffensive would be best facilitated by a presidential blue-ribbon grand jury convened to investigate the Billygate affair. Such a broad-based attack against those officials in the government, in the press and in the international financial community who are complicit in the drug-terrorist crime scandal of the century would effectively strike at the very heart of the cabal now attempting to brand the President with an organized-crime label.

Among the principal targets of a thorough Billygate inquiry would be: the Public Integrity Section of the Justice Department, including a number of Carter appointees still in place in the DOJ; Armand Hammer, the Occidental Petroleum magnate and political "godfather" to Libyan dictator Muammar Qaddafi; Michele Papa, the Sicilian-based point man for the Propaganda 2 Freemasonic networks that were bought into the Carter White House through a $200 million offshore bank account in the name of the President and his brother: and David Rockefeller, whose Chase Manhattan Bank and Trilateral Commission represent the most significant bridge between the Carter White House and the Italian-based financial circles that brought Billy Carter to Tripoli.

A clearing of the air on the Billygate affair would be met with active support from the American people. Only by drawing upon that potential for mobilizing the American people can the now overriding power of the Eastern Establishment press—which remains committed to an early Reagangate massacre—be defeated.

The Pratt ruling on Abscam: a travesty

by Mary Jane Freeman

Federal Judge George C. Pratt, of the Eastern District Court of New York, ruled July 24 to uphold the racketeering convictions of four former U.S. congressmen and three other defendants victimized by the Carter Justice Department-FBI Abscam sting operation.

Pratt's ruling is a rubber stamp, as critics of Abscam have stated, for a McCarthy-style witch-hunt against the traditional and labor-based political machines. Each of the four former lawmakers indicted is a Democrat from the New York-New Jersey-Philadelphia region, strongly supported by organized labor.

Defendants, as well as one former U.S. attorney, Robert Del Tufo of New Jersey, and his two assistants, Edward Plaza and Robert Weir, have charged that Abscam was a political targeting operation as well as an unconstitutional overreach of government power. Despite these charges of misconduct, Judge Pratt demonstrated such enthusiasm for the Abscam performance that he equates politicians with drug pushers: "The cynicism and hypocrisy displayed by corrupt officials, pretending to serve the public good, but in fact furthering their own private gain, probably pose a greater danger to this country than all of the drug traffickers combined."

Pratt's ruling denied that any constitutional rights of the defendants were violated by the FBI; and thus ordered former congressmen John Murphy, Frank Thompson, Michael Myers, and Raymond Lederer, along with the other defendants, to appear before him Aug. 13 for sentencing.

Contrasted to Pratt's dismissal of outrageous FBI conduct and due process violations is Judge John P. Fullam, of the Federal District Court of the Eastern District of Pennsylvania, who has gone on record against Abscam antics. In a well-reasoned decision, Fullam found that the FBI was guilty of major violations of constitutional law. The key distinctions of law to be examined here are the differing views of government-instigated crime and entrapment as a matter of law.

Pratt and Fullam differ greatly on whether or not the presumption of innocence continues to be the benchmark of our constitutional form of law. At issue is the right of the government to create crime.

Judge Fullam's ruling is emphatic:

> It is perfectly proper for law enforcement officials to engage in undercover activities, including deception and trickery. . . . Entrapment issues arise only where the government induces or persuades a person to commit a crime, or actually participates in the commission of the crime.

For Pratt, "Entrapment is a difficult, conceptually slippery, and philosophically controversial concept." He, therefore, rules out that the government's actions in these cases was "outrageous."

Pratt refuses to differentiate the conduct of the government officials in the Abscam cases from routine narcotics investigations. Abscam, to him, is merely another investigation of corruption.

Fullam, on the other hand, does not endorse the media-promulgated concept that politics equals corruption. The subjective test for entrapment is based on the predisposition of the defendant.

The standard the Supreme Court decisions have set puts the burden on the government, as is appropriate in an adversary form of law, to prove the defendant's predisposition. The defendant, according to Fullam, had shown no disposition to commit the crime in the cases before him. Pratt concludes that the defendants were predisposed because they didn't walk away.

The apparent psychological key to the differing decisions is Judge Pratt's view of FBI con artist, Mel Weinberg. As a Runyonesque romantic figure, Weinberg apparently relieved the boredom for Pratt of sitting in the federal courts. Judge Pratt cited Weinberg as the authority in ruling that the FBI doctoring videotapes had no bearing on the trial. Pratt states: "There is no evidence that the recordings thereby erased were anything but what Weinberg judged them—unimportant." Pratt further backs the convicted criminal: "But it was precisely because of his unsavory background, his ability to lie convincingly, his understanding of the corrupt mind and his ability to imagine and execute a grand charade on the scale of Abscam that Weinberg was enlisted for the investigation." Pratt concludes his ruminations on Weinberg, "The court finds no constitutional infirmity in the government's use of a person of Weinberg's background." Besides, Weinberg has contributed "to law enforcement" and endured "personal sacrifices."

Judge Fullam had a more reasoned view of Mel Weinberg: "Mr. Weinberg was strongly motivated to produce results for his FBI employers. At the time he was recruited, he faced a substantial prison sentence on charges of mail fraud." The FBI's offer to intercede and pay him to do what he was good at must have "temptations for one who, at other stages of his career, probably represented the archetypical amoral fast-buck artist."

Is NCPAC involved in bribery attempt?

Representative Stephen Neal (D-N.C.) has accused the National Conservative Political Action Committee, a PAC put together by close associates of Mont Pelerin Society member William Buckley and drug mafia lawyer Roy Cohn, of attempted bribery.

Neal made his charge based on a letter he received from NCPAC dated July 24 which declared, "If you will make a public statement in support of the President's tax-cut package and state that you intend to vote for it, we will withdraw all radio and newspaper ads planned in your district. In addition we will be glad to run radio and newspaper ads applauding you for your vote to lower taxes."

Neal said he has asked the Justice Department to investigate. Although no official decision to investigate has been taken, a senior federal prosecutor said July 29 that the wording in the letter was "very very close to the line" dividing acceptable behavior from an illegal attempted bribe.

Drawing up measures to cope with oil crisis

At hearings before the Senate Energy Committee on July 30, a high official at the Department of Energy revealed that the administration and liberal New Jersey Democrat Sen. Bill Bradley have nearly identical approaches to coping with an oil cutoff.

Testifying for the administration, the DOE spokesman, Kenneth Davis, said the administration was examining ways to redistribute the windfall profits that would accrue to the major oil companies, either through income-transfer payments to low-income individuals and/or as block grants to governors in states hard hit by shortages.

Bradley commended the adminstration approach and pointed out that it was almost identical to his bill, S. 1354, the Emergency Preparedness Act of 1981. However, Davis averred that the administration is not ready to take a position on the Bradley bill.

But committee chairman Jim McClure (R-Ida.) and farm-state Republicans Mark Andress (N.D.) and David Durenberger (Minn.) have introduced two other pieces of legislation that would continue to give the administration pricing and allocation powers in the event of an emergency.

While correcting serious defects in the Emergency Petroleum Allocation Act (EPAA) which expires Sept. 30 of this year, the two bills maintain that the federal government must ensure that there are no serious regional or sectoral inequities that would ensue from an oil disruption.

Senator Wendell Ford (D-Ky.), at the July 30 hearing, concurred in this philosophy, noting that hard-to-reach areas of the country, particularly the vital farm areas, are likely to be cut off by the "free market" in a crisis, since greater profit can be had by selling oil in the more accessible, populated areas. Said Ford, "It would be a lot easier to call you down at the Energy Department and ask you to get crude to refineries near farm states who have crops to bring in than to try to call Exxon and be told, no thanks, we can make more money selling it in New Jersey."

Exxon Corporation headed up a subcommittee of the National Petroleum Council which recommended an approach similar to Bradley's and the administration's.

Bradley demands report on East-West trade plans

In July 28 hearings in the Senate Finance Subcommittee on International Trade, Sen. Bill Bradley (D-N.J.) an emergency-planning buff, demanded that witness Alexander Haig or an appropriate administration official provide the committee with details on its plans for dealing with the financial disasters that would result from the trade war measures contemplated by the United States against the East bloc.

Haig had just told the subcommittee that the Western alliance was "in intensive, continuous discussions ... to put together responses" to Soviet acts of aggression in Poland or elsewhere and that the coordinated Western response to such developments would include a "trade aspect."

Asked by Bradley if the extent of U.S. investments in the East bloc exposed the United States to financial danger in such a situation, Haig replied that since control over such investments had been "largely turned over to the private sector," the administration could not adequately monitor or limit it, but that it totaled about $70 billion.

As a result, Haig said, "as things get tense, the knuckles of our private institutional officials get quite white on this issue.... The consequences of a Soviet invasion of Poland would be dramatic and long lasting."

Bradley then demanded of Haig, "What are you doing to ensure that the whole house of cards doesn't fall down?" Haig lamely replied, "Contingency solutions have to be considered...." "Who is making the plans?" Bradley asked. The secretary of State could only say, "The secretary of the Treasury is very much aware of the vulnerabilities. I'm not sure that all has been done that might be done."

At this point, Bradley demanded a full contingency-planning report from the administration, before a closed committee session if necessary.

Fund Clinch River reactor, Tenn-Tom Waterway

The House has voted, by extremely narrow margins, to approve funding for the completion of the Tennessee-Tombigbee Waterway (208-198) and the Clinch River breeder reactor (206-186). Both industrial development projects have been used as political footballs by environmentalists since the beginning of the Carter era.

The Tenn-Tom Waterway had at last seemed on its way to completion, enabling a linkage of the port of Mobile, Alabama (via the Tombigbee River) with the Tennessee River that would ensure greater industrial development of the area due to increased ease of transportation of raw materials and finished industrial goods, when the prodevelopment Reagan administration came into power.

Instead, Republicans suffering from Stockman's budget-cutting fever joined with the environmentalists and railroad interests to block funding.

The most recent vote to fund the project showed diverse support from Republicans, Democrats, the Black Caucus, conservatives, and liberals, who split their votes pro and con.

Tenn-Tom is 95 percent complete, yet awaits the filing of still another court-ordered environmental impact statement before work can again proceed.

The Clinch River Breeder Reactor (CRBR) has suffered a similar fate. Opponents of the CRBR have argued that a recent study shows the project suffering from incredible management delays and cost overruns.

Proponents have countered that delays have not resulted from mismanagement, but from politically motivated delays.

Representative Robert Roe (D-N.J.), speaking in favor of the Clinch River breeder warned his colleagues to "worry about the sovereignty of the United States" if projects like CRBR are halted.

Representative Richard White (D-Tex.) noted that "in view of recent political developments in certain Western countries, notably France, the CRBR may become the only reliable technological undertaking of its kind in the Free World."

Chiles introduces tougher marijuana seizure laws

Forida Democratic Senator Lawton Chiles has introduced S. 1522, a bill to combat the importation of large amounts of marijuana, on July 27, 1981. In a Senate floor statement, Chiles pointed out that when the High Seas Seizures Act (PL-96-350) was passed last year, Congress inadvertently left in an older and softer version of the penalty provisions for illegal marijuana importation.

At the time of the passage of the High Seas Seizures Act, new legislation was in effect for land seizures which significantly stiffened the penalty for large marijuana traffickers from a maximum of 5 years in prison to a maximum of 15 years, and from a fine of up to $15,000 to a fine of up to $125,000. Chiles's S. 1522 would institute those tougher provisions for drug seizure on the seas as well as land seizures.

In his floor statement, Chiles also pointed out that most marijuana coming into the United States comes from Colombia, and most of that by sea.

National News

LaRouche calls for 'war council' on interest rates

1980 Democratic Party presidential candidate Lyndon H. LaRouche, Jr., *EIR*'s founder, called July 30 upon Democratic National Committee Chairman Charles B. Manatt to convene an immediate emergency "war council" of both the DNC and the leaders of Democratic Party-affiliated independent political action committees (PACs). This council, he said, should act under the auspices of the votes of opposition to Fed Chairman Volcker's "usurious" interest-rate policies by both houses of Congress.

LaRouche, advisory board chairman for one of the most prominent Democratic PACs, the National Democratic Policy Committee, added: "This is the time for banker Manatt to cease his stonewalling opposition to the rising hue and cry against 'Hooverization' of the United States by Volcker's monetarist policies.... Unless the DNC and banker Manatt respond to reality immediately by convening the proposed 'war council' on this issue, that failure must be viewed as a signal for a revolt of the national party ... a revolt to force into being immediately a new combination of leadership which is responsive to the reality faced by the nation's citizenry."

Melcher bill demands action on rates

Senator John Melcher (D-Mont.) July 30 introduced a bill to force immediate presidential action to bring down interest rates.

Unlike the other anti-high interest rate legislation passed that week, the Melcher bill, introduced as a Joint Resolution of the House and the Senate, has the force of law. Precisely for this reason, the bill will not sail through the Senate easily, but faces a protracted battle that cannot be resolved until Congress reconvenes in September.

The Melcher bill resolves as follows: "That the President immediately begin consultation with the Board of Governors of the Federal Reserve Board for the purpose of modifying the Board of Governors' money policy to significantly reduce interest rates within the next 90 days.

"The consultations should include modification in the areas of:

"1. Easing reserve requirements to member banks. 2. Controlling the Federal Open Market Committee activities which reduce the money supply and push up interest rates. 3. Lowering the Federal Reserve discount rates to member banks."

According to one of Melcher's aides, the final straw which caused the senator to take this move was the testimony of Fed Governor Lyle Gramley to the effect that the Fed has no intention of reducing interest rates despite the passage of the Reagan tax and budget cuts, and despite the fall in the official inflation rate to 8 percent, until wages are lowered. According to the aide, many of the GOP senators who helped vote down the anti-Volcker Sasser resolution two months ago will be prompted by Gramley's arrogance to vote for the Melcher bill. Their illusion that the passage of the Reagan program will bring down interest rates has now been exploded.

Texas water plan on November ballot

Texans will have a chance to vote in November on a plan that proposes to meet the state's surface water needs until the year 2020. Sponsored by House Speaker William Clayton and endorsed by Gov. William Clements, a bill to that effect passed the state senate July 28 by a vote of 21 to 8.

If the November referendum succeeds, the state constitution will be amended to provide 50 percent of the annual state budget surplus as collateral to guarantee local water authority bonds, so that the latter can obtain preferential interest rates.

The bill has previously passed the Texas House of Representatives by a wide margin. No difficulty is expected in reconciling the Senate and House versions before Clements signs the measure. The governor, a Republican, had ordered the special July session of the state legislature and restricted its considerations to the water question and five other topics.

Herbert Grubb, director of planning and development for the state's Department of Water Resources, has prepared a plan for surface water problems to rectify the traditional draught/flood cycle.

FEF briefs press on rebuttal to Global 2000

Fusion magazine Editor-in-Chief Dr. Steven Bardwell held a briefing for press and diplomats at the United Engineering Center in New York July 29 to announce the release of "The World Needs 10 Billion People," an econometric population study refuting the neo-Malthusian arguments of the *Global 2000 Report*. The article, by Bardwell, will appear in the September issue of *Fusion*.

"American foreign policy is currently determined by the *Global 2000 Report*," Bardwell stated. "The FEF is issuing its study for the urgent purpose of countering the report's unscientific predictions of global disaster resulting from overpopulation."

Bardwell announced that for maximum impact, the study will appear in the Spanish, German, French, and Italian language versions of *Fusion*.

The briefing was attended by press representatives from UPI and TASS wire services, *Civil Engineering*, *Spectrum*, Dutch radio, and by diplomats from Egypt and Swaziland, and drew sharp questioning from everyone.

"You mean the scarcity of water and raw materials has no relevance?" asked one press representative.

"The availability of resources is absolutely a question of what investment policy you choose," Bardwell answered.

Asked why the advanced countries should want to transfer technology to the Third World, Bardwell said, "It's good business, that's why—quite apart from the moral issue involved."

Reagan immigration plan upholds U.S. tradition

The Reagan administration officially released its immigration and refugee policy July 30, a viable, though minimum, program for immigration. Statements by both Attorney General Smith and President Reagan stressed that Mexico had been fully consulted and both have "carefully considered the views of our Mexican friends."

In a listing of "eight principles" underlying the immigration package, Reagan stressed as uppermost, "We shall continue America's tradition as a land which welcomes peoples from other countries."

In the most significant aspect of the package, the administration rejected instituting I.D. cards for the American workforce. The program does recommend fines for employers who willingly hire illegal labor, but calls on employers to simply ask for any two pieces of standard identification to establish a worker's status.

In other key measures, the administration called for 1) increasing border patrol resources, 2) a small 50,000 "experimental temporary worker" program, 3) an amnesty program for undocumented workers currently in the country, in the form of a "renewable-term temporary resident" 10-year category, after which workers could apply for full residency, and 4) increased "consultation and cooperation" on the international level, particularly with countries of the Caribbean.

Fed jumps at congressional censure

The Volcker Federal Reserve, in direct response to the half-dozen censure motions circulating against high interest rates in the U.S. Congress, has gone into a furious mobilization against the constitutional government of the United States. Reached for comment, a Fed official in Washington, who had every congressional resolution on his desk, stated flatly, "How do you ignore 100 senators? It's hard, but that's what we intend to do—ignore them. This won't soften our resolve to continue on our course of tight money. They can't budge us. When you're the Federal Reserve, there are polite ways of saying no."

The official was referring specifically to the resolution against high rates introduced by Sen. Lawton Chiles (D-Fla.) passed 100-0 by the Senate July 28.

The Fed official indicated that Volcker is worried that the White House might "doublecross" him and support the Senate Republicans who voted for the resolution. "The resolution isn't binding, but it is 100 senators," he said.

Immediately, the Fed is moving to demand that if Congress wants interest rates down, it will have to agree to the demands of the IMF to deflate the U.S. economy by slashing the nation's military and other budgets instead. "Congress isn't serious about wanting rates down," a top New York Fed official told *EIR* July 30. "They have just acted in the most irresponsible manner in passing a tax cut and a big defense budget." While the defense budget is large, he said, "This makes it impossible for the Fed to lower interest rates."

The Fed in Washington is also moving to get the Chiles resolution "withdrawn," and is working with Senate Banking Committee chief of staff Danny Wall, an asset of the Heritage Foundation, to convince conservative senators on the Banking and Finance Committee that the Chiles resolution should be overturned because it calls for *directed* credit to productive activities.

Briefly

● **THE BAILLY** nuclear plant in Indiana, whose construction has been stalled by regulatory obstructions, was the site of a rally of 300 labor and business supporters July 25. Spokesman John Brtis, an engineer with the Illinois Council for Energy Independence Radiation Protection Unit, strongly denounced nuclear opponents as representing "neither the business community nor the public interest."

● **THEODORE HESBURGH'S** current tour of Latin America includes Mexico, Panama, Colombia, Argentina, Brazil and Chile. The Notre Dame president is making "a study of the Latin American Church." According to Notre Dame alumni in Mexico City who met with Father Hesburgh, he is "David Rockefeller's favorite priest."

● **FRANK BARBARO,** who is running a model social-democratic campaign against New York City Mayor Edward Koch, has met with the leadership of the union-busting apparatus involved in last month's confrontation with construction workers, his staff reports. The social-democratic segment of the city's Central Labor Council, led by District 65, is backing Barbaro, who in addition to his union-busting proclivities endorses "gay rights" and lax drug enforcement.

● **PETER FONDA,** brother of actress Jane, who was arrested at the Denver airport July 24 for slashing a humorous poster displayed by representatives of the Fusion Energy Foundation that read, "Support Nuclear Power: Feed Jane Fonda to the Whales," took his campaign to protect his sister to the Los Angeles airport July 29. Fonda tried to have FEF spokesmen there arrested for displaying the identical sign. Police deliberated, then responded that "there are no whales in the vicinity of the Los Angeles airport."

Energy Insider by William Engdahl

The administration's new energy plan

Pronuclear, prodevelopment policies predominate, but implementation is left to 'market decisions.'

The Reagan administration's first comprehensive document on energy policy, the *National Energy Policy Plan: Securing America's Energy Future,* has just been presented to Congress.

The report was written by the office of Energy Secretary James Edwards and a 22-member task force headed by Tulsa oil equipment executive Robert L. Parker. It is worth a brief look because it is the first such official policy statement.

To its credit, the report states that it is part of a new "national energy policy for the nation," one which, unlike the Rand Corporation's "conservation" approach of the Carter years, will encourage the private and public sector to "produce and use energy resources wisely and efficiently."

The Edwards policy statement thus emphasizes the government's role (through the Department of the Interior), as steward of the Outer Continental Shelf and some 762 millions of acres of public lands with an estimated "85 percent of the nation's oil, 40 percent of our natural gas, 40 percent of our uranium, 35 percent of our coal, 85 percent of our tar sands, 80 percent of our oil shale, and 50 percent of our geothermal resources."

The new NEPP emphasizes none of the crackpot solar, biomass, and other negative-efficiency "alternatives" so loved by the "small-is-beautiful" planners that infested Carter energy bureaucracies. It avoids the kind of hard-and-fast future energy demand-projections used by Carter planners to justify anti-growth policies.

On the nuclear front, the report hints tantalizingly at the plans I reported earlier to issue a specific nuclear policy statement. Here, it merely reaffirms the responsibility to "two areas that are integral to the future role of nuclear power"—radioactive-waste disposal, and development of fast breeder demonstration technology.

A separate section emphasizes the role of controlled thermonuclear fusion research, stating that "the federal government recognizes a direct responsibility to demonstrate the scientific and engineering feasibility of nuclear fusion, one of the most promising new approaches to the generation of electricity."

The report outlines its production policy beginning with oil as "the most appropriate starting point," as it represents about 40 percent of primary energy consumed. It promises increased relief from environmental and other regulations so as to spur further domestic production.

On the issue of removing the phased price decontrols on natural gas, the NEPP indicates that a review of "options for future natural gas policy" is underway. Since the document was written, Secretary Edwards' office has submitted a preliminary report June 11 which states that "if we do not address the [decontrol] issue today, we are likely to see the extension of price controls beyond 1985."

Next priority is given to coal, "the nation's most abundant fossil fuel," with indications of easing restrictive past federal leasing and regulatory impediments to the wider use of coal for utility (steam) fuel.

The document is a brief, 35-page statement of general policy, not a detailed sector-by-sector policy map. But its vagueness and its almost religious recitation of "increased reliance on market decisions" to sort out and solve complex and tangled fundamental issues of the future growth potential of the entire world economy, is naive.

This is a precarious period, with usurious interest rates fostering negative industrial growth in the free market that is not essentially different from the anti-growth policies of the Carter administration. If Secretary Edwards has a knee-jerk reaction in favor of a "private marketplace" which has seen Canadian takeovers of energy production, and manipulation of energy supplies, especially oil, together with the legacy of antinuclear hysteria spurred by the media, the U.S. and the world are unlikely to make it past the decade.

The Reagan administration must address the urgent questions of formulating an aggressive federal nuclear policy, premised on broad-based advanced nuclear research, reprocessing (which is sidestepped in this report), high-temperature gas reactor development projects, and MHD-coal development. All of these fall within the domain of a necessary, and desirable, energy policy.