EIR

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Haig's 'globality concept' for the North-South summit
Senate Democrats challenge interest rates
Military strength and the science of grammar

Who profits from the criminalization of New York?

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From the Editor

New York City has always been a battleground between British-based finance, which has dominated its banking since the late 18th century, and the industrial-growth proponents who made the city a center of manufacturing and transportation. This week's Special Report, produced by urban economic specialists Leif Johnson and Stephen Parsons, describes how, since the mid-1960s, New York has been targeted for fiscal "strategic bombing" of the industrial infrastructure and public services that had enabled it to welcome masses of unskilled immigrants and transform them into productive citizens. That process of expansion and development is being diametrically reversed in an explicit drive to turn New York into "Hong Kong West," a shrunken enclave for the "gentry" and for low-skilled, subsistence-wage labor. The billions of dollars in drug and drug-related revenues laundered through the city's banks and speculative real estate are the real "organized crime" in this paradigm of what the Koch administration's controllers intend for the rest of American cities.

This week we present as well the third installment in *EIR* Founder Lyndon H. LaRouche's series on military policy. It explicates the principles of language as the same higher-order principles developed in Keplerian mathematical physics, whose mastery is required for a nation to attain the levels of manpower resources and technology implicit in 20th-century warfighting.

I'd also like to call your attention to our intelligence on the population-control agenda, and prior destabilizations, planned for the October North-South summit conference in Mexico, and to our exclusive coverage of the unprecedented congressional upsurge against Paul Volcker's Federal Reserve, which includes an interview with Sen. John Melcher, Democrat of Montana.

Robyn Quijano

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Special Report

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Phibro, Citibank, and the Anglo-Dutch gameplan

by David Goldman, Economics Editor

Size overshadowed substance in the recent U.S. corporate reporting, which emphasized the spectacular Du Pont merger with Conoco at the expense of a much smaller, and much more important, acquisition: Phibro (Philipp Brothers) and Salomon Brothers. A set of extraordinary events centering on Salomon and its most prestigious client, Citibank, indicates that a basic change in the business strategy of some of America's largest financial institutions is under way. Set in the proper context, the actions of the Phibro, Salomon, and Citibank management betray preparations for financial shock waves of the type the best-informed market participants have been expecting since the Bank for International Settlements warned June 14 that present monetary policies are leading toward a 1930s-level depression.

Phibro, the commodities-trading offshoot of the Anglo-American financial empire, has apparently acquired not only the most important force in the American government securities market, but also policy control of New York's Citibank, as of this year the largest commercial bank in the United States. Despite the overwhelming disproportion of capitalization in favor of the banking Goliath, Phibro and its parent companies, Engelhard Minerals and Anglo-American, have something Citibank desperately needs: the means of collateralizing short-term paper of developing countries now piling up in default on several continents.

When Citibank Executive Vice-President George Vojta, deputy to the soon-retiring international department chief, G. A. Costanzo, left Citibank for Phibro a month ago, Citibank officials quietly let word out that Vojta was disgruntled over his poor chances of replacing Citibank Chairman Walter W. Wriston. Vojta's shift to Phibro, where he is now chief financial officer, did not rate mention in press accounts of the Aug. 3 announcement that Phibro had bought out the $330 million in capital and 62 partners of privately held Salomon Brothers. But industry experts believe that Vojta's job change cemented a transatlantic relationship between the biggest American bank and the biggest Anglo-South African raw-materials empire that began with Anglo-American Chairman Sir Harry Oppenheimer's March statement, "We mean to expand into North America."

Oppenheimer's vehicle to acquisitions in the American market, backed up with a $3 billion cash reserve, was the Minerals and Resources Corporation (Minorco). Citibank chief Wriston and Robert Clare, managing partner of the Citibank law firm Shearman and Sterling, joined the Minorco board when the Bermuda-based holding company was created early in 1981. The previous year, Anglo-American had consolidated control over South African gold production in a "lightning raid" for 28 percent of Consolidated Gold Fields of South Africa, the second largest producer, giving Oppenheimer about four-fifths of the gold output of the world's dominant producer. With firm control of the De Beers diamond monopoly, which handles about 80 percent of the world diamond trade, Oppenheimer is in an unchallengeable position in world precious metals and gem markets, and a major force in other mining as well.

Oppenheimer's principal American outlet (with 28 percent control) is Engelhard Minerals, which acquired

Philipp Brothers eight years ago and transformed it into a spectacular force on world commodities markets. Earlier this year, Englehard "spun off" Phibro Corporation, the new incarnation of its Philipp Brothers division, while remaining firmly in control.

The key to Phibro

Phibro is probably the most remarkable single corporation in the world, trading in 150 different commodities, and dominating the Rotterdam oil spot market, the Colombian coffee market, and a few lesser commodities. In the grain business, it is challenging Continental and Cargill. Last year its sales reached $23 billion, which would put it in the top six in the American corporate pantheon—although still at one-third the size of the biggest Japanese trading companies.

What is important about Phibro is the *interface between money and hard commodities,* which the Anglo-American spinoff embodies in corporate form. About $50 billion will disappear off the world's national payments accounts during the period 1980-1981, by Chase Manhattan estimates, a sum referred to by the euphemism "statistical asymmetry." This refers to movement of goods and services, not mere movements of capital; the monetary authorities have never even attempted to give a convincing explanation of exactly how capital flows operate. Phibro operates at its best in those areas of the world where the traceability of commodity transactions is at a minimum—the Latin coffee, copper, and sugar markets, the Rotterdam oil spot market, the world grain markets.

How closely the webworks of flight capital and commodity trade overlap is evident in the case history of Phibro's former chief of Andean Pact operations, Alvaro Meneses. Based in Lima, Meneses was tapped for the presidency of Peru's state-owned Banco de la Nación in 1977, when a Lazard Frères team reorganized Peru's finances at the depth of that country's financial crisis. In 1979, he arranged Banco de la Nación participation in what subsequently hit the headlines as the biggest flight capital operation in the Andes, the Peruvian branch of the Banco Ambrosiano. Fortunately for him, Meneses left the helm at Banco de la Nación when the Belaunde government came in last year. He was reportedly sought for questioning after Italian police arrested Ambrosiano board chairman Roberto Calvi for illegal flight capital operations, with a special emphasis on Latin America. Ambrosiano was the central bank for a massive capital-transfer operation run by "Propaganda Two" Freemasonic lodge Grand Master Licio Gelli and Italian Ambassador to Uruguay Umberto Ortolani.

Not generally known about Anglo-American is its key role in the most powerful consortium in the "offshore" markets, the vehicle for world flight capital. About $100 billion in banking assets in the Bahamas alone, as well as substantial operations in the British Virgin Islands, Netherlands Antilles, Cayman Islands, and other Caribbean banking centers move the money that disappears from the world's balance sheet. Chief investment banker to the region is the International Trust Corporation, or Itco, created by Anglo-American in consortium with Barclay's Bank of the U.K., the Royal Bank of Canada, and N. M. Rothschilds of London. Itco creates banks, investment companies, commodities firms, tax shelters, trust funds, and insurance and reinsurance outlets throughout the Caribbean, smoothing contacts with local bank regulators and backstopping the legal position of the offshore market operators with which it deals. Itco is, in effect, the offshore banking sister subsidiary of Phibro.

Third World debt implications

Strictly speaking, the international lending markets are not anticipating a crisis of Third World defaults, but are *in the middle of one.* Since the beginning of the year, as *EIR* has reported, commercial banks have concentrated their efforts on ensuring that new short-term loans to developing countries are attached to sufficient collateral, in the form of goods in international trade or commodities in warehouses. The banks are now financing perhaps two-thirds of the developing nations' $96 billion debt-service requirement for 1981 by kiting trade credits, that is, by letting countries "roll over" existing trade loans indefinitely, rather than repaying them on maturity. The banks are attempting to compensate, to the extent possible, by gaining title to increasing amounts of commodity production.

Except for Brazil and a handful of other countries that have managed to shift their export mix toward manufactures in the last decade, the debt-to-raw-materials equation prevails in calculating the serviceability of developing nations' private obligations. A rise in raw materials prices (associated with a drastic fall in the dollar's credibility) during the fourth quarter of this year, bankers hope, may permit at least the best collateralized trade paper to continue to pass in the markets.

With as little fanfare as possible, the Eurodollar market's liquidation is proceeding. Phibro's peculiar role in this extends beyond that of commodity trader. During the past two years, through its Swiss banking arm Phibrobank, Phibro has taken a leading innovative role as investment banker to the raw-materials-producing nations. Its major activity is arranging the collateralization of trade credits with commercial bankers.

Citibank needs a *hard-asset position* to survive the next year as an institution, and Sir Harry Oppenheimer is the bank's connection. Depending on the extent to which Citibank has already been able to attach hard commodities to what would otherwise be a great deal of bad paper, and depending on the price relation between commodities and the U.S. dollar, the strategy may or may not be viable.

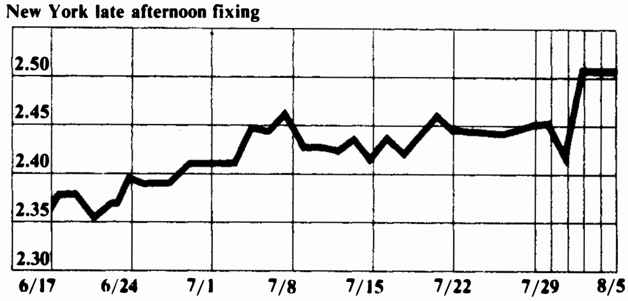
Prospects for success in the scramble for collateral are not easy to predict. What is clear is that the surfacing of the existing financial crisis dominates the maneuvering of America's largest bank. On July 30 Wriston let reporters know that Citicorp was considering selling off the core of its domestic assets in a $20 billion package to a foreign bidder, and reorganizing itself into an international banking and domestic "financial services" operation without the burden of a brick-and-mortar branch network. This incredible suggestion might have been motivated by the bungling of Senior Executive Vice-President John Reed's push into retail banking, which led to staggering loan losses in the consumer sector.

What is obvious about Wriston's proposal, however, is also true. Citibank wants to liquidate areas of previous expansion for cash, rather than borrowing to expand aggressively, as in the past. The same motivation is at work in last week's "deep discount" Eurodollor bond issue, in which Citicorp gave investors a 66¾ percent price on a bond bearing no coupon, but payable at 100 in three years. At maturity the bond yield works out to 14.42 percent, giving investors a competitive interest rate, and allowing the bank to get hold of $66.75 million interest-free for three years. Who is leading the dance is self-evident. Phibro bought up Citibank's international department chief as well as its investment banker, in the midst of a major international reorganization. Anglo-American, along with the British Petroleum-Selection Trust combination, is a pillar of a British-centered raw-materials empire that controls what hard assets are available as a crisis "insurance policy."

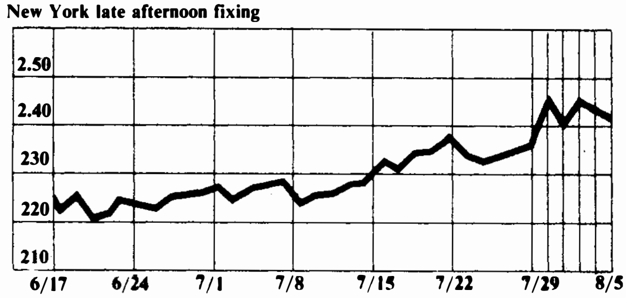
As *EIR* reported in our July 21, 1981 issue, a much larger percentage of U.S. corporate equity, in the range of 20 percent of the total, is held by foreigners than Treasury figures indicate. Who actually controls Citicorp stock is not clear. But what has happened, as of the Salomon Brothers merger with Phibro, is that the myth of aggressive, independent American commercial and investment banking is dissolving like mist. From the vantage point of the long run, the British, Swiss, Italian, and other financial powers whom Anglo-American recognizes never considered the international reserve status of the American dollar as more than a temporary nuisance following the Second World War. Real power, in their view, lay in maximum control over the only acceptable international reserve asset were the dollar to fail, namely gold, and in raw materials in the ground. Apparently, financial policy-making at the big U.S. institutions has reverted to these criteria.

Currency Rates

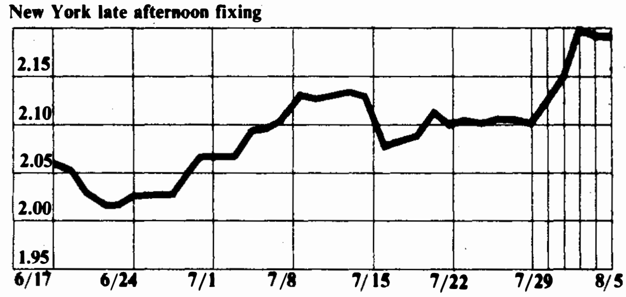
The dollar in deutschemarks
New York late afternoon fixing



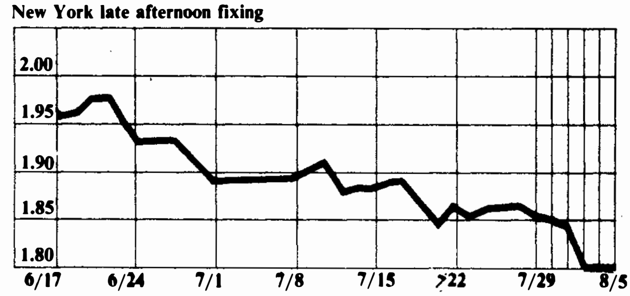
The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



Much of Third World already bankrupt

by Renée Sigerson

Twenty-six countries in the developing sector have worked up serious arrears on their debt payments to Western banks and governments, according to the International Monetary Fund (IMF), the global agency which monitors countries' balance of payments positions. In a just-released report from the IMF's Department of Exchange and Trade Relations, the sum of accumulated arrears is estimated at $6.5 billion.

Asked what the IMF meant by arrears, one author of the report stated bluntly, "defaults," adding that the published $6.5 billion figure was a "low estimate." For many countries, the official explained, outstanding bad debt was now larger than earnings on a year's worth of exports.

This is the first time the IMF has publicly admitted that bankruptcy is a serious problem in the international monetary system.

One problem associated with these Third World bankruptcies is that they quickly translate into insolvency for the lending institutions as well. Investigation has revealed, however, that the major New York banks involved in international lending are currently sanguine about the fact that large portions of their back international loans are nonperforming.

How these banks are "adjusting" to the bankruptcy of their clients was described in a private interview this week, made available to *EIR*, with a leading New York commercial banker in the international operations field.

He explained that there were new features to international lending which gave him the confidence that the expansion of international debt can continue unabated. The new features are working both on the side of lending and in the acceptance of deposits, particularly Eurodollar market deposits. The change in the structure of Eurodollar deposits has been forced partly by the shrinkage of the available surplus held by Arab and other oil-producing countries. From 1980 to 1981, the oil producers' surplus is expected to decline $30 billion from its 1980 record of $120 billion. On average, 75 percent of that surplus is placed with international commercial banks.

Our source indicated that on the one hand, the banks have become much more careful about who they lend to. "I wouldn't lend to anybody at Libor [the London Interbank Rate] plus ⅜ percent. Those countries that want to attract funds will have to pay for them. . . . Brazil is getting all the funds it needs, because it is paying two percent" over Libor.

In addition, continuing high interest rates and costly oil payments have forced many industrialized countries to go into the Eurodollar markets to fund their persistent payments deficits. These countries have been welcomed by the banks as prime borrowers, and are simply crowding those developing nations who can't pay their bills out of the market. "Remember," the officer explained, "the countries hit hardest by the oil prices . . . are in Southern Europe. Most European countries will be borrowing" this year.

He added that the pressure of high oil payments was not that great on developing countries "because they are not the great oil consumers." The truth behind this statement is that developing countries have indeed slashed their oil imports—not because they couldn't potentially consume energy, but because austerity programs imposed by the IMF, with pressure from the private banks, have forced them to reduce consumption. The IMF reports that even after reducing consumption, "the great majority" of Third World nations have simply been turned down by the banks for any new loans, relying now on the IMF, which has about $20 billion in resources, as their only means of finance. Since January, the IMF has allocated $11 billion in loans.

As the banks issue new lines of credit to European borrowers, as well as the strongest Third World economies typified by Brazil, the only question is how the banks in question are making up the deficit in deposits resulting from the reduction of oil surplus funds. Addressing this problem, usually referred to as the "recycling" problem, the banker explained that the Eurodollar market now works in such a way that "deposits are activated by demand. It is when lending occurs," he asserted, "that the deposits start coming in." The only question in getting funds is what kind of interest rate the banks are ready to pay. "At an interest rate of 10 percent, I can get $50 million. At 14 percent, $100 million."

Currently, 80 percent of all such deposits, he added, come from wealthy private individuals seeking gains on interest rate differentials. "By 1985, the [oil producers] surplus won't exist. . . the biggest component" of funds coming in "is capital flight from individuals," mostly European, Middle Eastern, and Asian family fortunes amounting to tens of billions of dollars a year.

Interview

IMF official sees 'defaults, defaults'

The following is an Aug. 2 interview conducted by EIR's *International Credit columnist, Renée Sigerson, with a high-level official at the International Monetary Fund's Exchange and Trade Relations department. The official comments on his view of outstanding debt in the Third World.*

EIR: Discussions about the problems of "recycling" Third World debt with deposits from the Eurodollar market are mounting. Do you foresee increasing "recycling" problems?

A: In order to understand how the financial system is working, you have to divide the LDCs into various groups.

There are the major borrowers, the market borrowers, with whom we expect no major problems. There are then some LDCs who succeeded in building their reserves over past years, when they could borrow a little. They have some—a small scope—for drawing down these reserves.

Then there is the great majority of LDCs. The majority are coming to the IMF.

EIR: What magnitude of funds can the IMF commit to helping them?

A: The IMF can commit itself—well, it is complicated because this includes standby credits—to, well $10 billion.

The point is that a lot of these countries are coming to us in the hope of gaining access to the banks. The rest are accumulating arrears. They are forcing exporters to lend to them.

We give a figure on estimated arrears in a just-published report, but our numbers in the report are minimum estimates.

EIR: What do you mean by arrears?

A: Defaults.

EIR: What do you think the amount of defaults actually totals up to?

A: Well, it's hard to say, but for some countries, it's 100 percent of export earnings, others 20 percent.

They've been defaulting on trade financing credits. These include commodity financing loans which have government guarantees in the lending countries.

But then there is also Peru, Turkey—and of course, Poland—which have borrowed cash loans from banks. These are not guaranteed.

EIR: Poland is a special case. I thought Peru had been cleaned up.

A: All right, fine, but Nicaragua, Turkey, all defaults.

Turkey is the worst case. Its exports cannot even pay interest on its loans. The magnitude is so great, the IMF quotas are so small, we feel like it's a case of the tail wagging the dog.

What they do is impose import restrictions, they clamp down on buying from abroad.

These countries would like to borrow, but they can't. Take Guinea. It has some arrears on its back debt. We talked to them, because they don't know how to go about changing the situation.

There's a demand among these countries to find ways for getting in better with the banks.

Of course, from the standpoint of economics, there is no recycling problem: a surplus must be relent. But, we're not working in a truly freely competitive situation.

Many banks have overcommitted themselves. There are many cases in which recycling won't work—in the case of smaller countries. There are far more cases of arrears.

Take Gambia: the government nearly fell. They tightened up too much, it provoked social and political problems. Now, the Latin countries—they will improve if the U.S. stays in recession.

You see, there was an overreaction initially. A year or two ago, when the Western financial press ran all these scare stories about a debt collapse, they scared away the Japanese banks from international lending.

Last year, the Japanese government moved to discourage lending abroad. Now they have relaxed somewhat. . . .

EIR: What are our options?

A: If one could expect a continued downturn, slowdown in the industrial countries, the profit motive will force the banks to lend abroad.

If, however, there is an economic recovery in the developed countries, I really don't know what will happen in the Third World.

European coalition against high rates

by Jacques Cheminade

The following guest editorial, slightly abridged here, appeared in the June 26 issue of La Presse Française, *a conservative political and economics publication read in every board room in France. Mr. Cheminade, currently on leave from the French Foreign Trade Ministry, is secretary-general of the European Labor Party in France, and is a longstanding associate of* EIR *founder Lyndon H. LaRouche, Jr.*

Numerous Third World nations are already in a situation of default on their international payments. In a few months at most, with the current interest rates, a chain reaction will ensue which would threaten the already precarious pyramid of the (mainly speculative) Eurodollar markets.

In order to prevent outflows of capital gravely destabilizing their economies, European countries have had to adapt their interest rates to those imposed by Mr. Paul Volcker. In France, the cost of call money rose from 12.25 percent to 20 percent, a historical record high. Consumer credit has hit 28-30 percent in July. Depending on the credit rating, corporations must pay between 19 and 23 percent for overdrafts.

In a period of recession and political instability, this policy has rapidly led to a severe deterioration of corporate liquidity, a general increase of bankruptcies and corporate defaults, and a large drop in orders placed with hire purchase companies. Productive investment has dried out as the high cost of money hits two particularly key sectors, auto and housing construction.

This situation cannot be tolerated. The Volcker policy threatens both the investments of industrial corporations, the working population's standard of living, and the growth of Third World nations, which means both the productive capacities and the demand that could ensure the activity of the former.

Basel's Bank for International Settlements (BIS), the central bankers' central bank, has just stressed in its annual report that the policy of the Fed and the U.S. Treasury would lead the world into a depression like that of the 1930s.

The remedies proposed by BIS, however, are as bad as the disease they purport to cure. BIS takes the view of controlling and managing the crisis by means of austerity, instead of creating the conditions in which recovery could occur. BIS proposes to cut public spending, to base production on nonintensive energy forms, and to link the Third World to IMF "conditionalities," "structural reforms," and budget cuts. This is exactly the language and the approach used by the Brandt Commission, which no less than BIS rejects the development of "too costly" high technologies, nuclear energy in particular. In fact, both the U.S. Federal Reserve and BIS are thinking in terms of a mere reorganization of the international financial markets, and have no intention of creating the conditions in which industrial production could be relaunched.

In the United States, a National Coalition to Reduce Interest Rates has already been created; it includes industrialists, labor leaders, and leaders of ethnic and farmers' groups. The coalition has already set up a solid, nationwide organization, with a newspaper and 13 regional coordinators. A bridge must be built between such American forces and Europe, to make the fight against monetarism more effective, to make it a coordinated struggle, and to give it a program for industrial development. In Europe, we also propose to launch a similar coalition and organize, starting next autumn, a continent-wide conference on how effectively to reduce interest rates.

The present French government and its finance minister, Jacques Delors, are also denouncing the U.S. policy of high interest rates. We tell them that such a stance, if it is to be sincere and efficient, must be part of a global perspective for development, which is not, by far, that of President Mitterrand and Prime Minister Mauroy. To be coherent, a policy to reduce interest rates must:

1) fight both the Volcker and the Brandt Commission approaches, which are both geared toward a crisis-management of the depression, and not toward solving and ending it;

2) propose a new international monetary system based on the European Monetary System, to redirect credit toward growth. The present monetary system is no better able to ensure growth than a casino to enrich its clients;

3) defend a policy of industrial development and high technologies based on the cheapest and most efficient existing energy technologies, i.e., nuclear energy;

4) orient domestic credit toward a two-tier system of favored rates for productive investment going in priority to small and medium-sized industries.

It is only a policy of this type which creates new wealth and economic surplus, that justifies a lowering of interest rates and makes it feasible. This keystone of our policy will be put forward by the European Coalition to Reduce Interest Rates, the establishment of which I hereby announce.

Domestic Credit by Richard Freeman

A new wave of unemployment

Chrysler's excess inventories can be the trigger. Steel, rubber, and construction are showing danger signs.

According to one report, Ford Motor Company will lay off an additional 16,000 workers by mid-August because of poor sales and overstocked inventories. The layoffs at Ford are just a part of the pattern of growing layoffs expected in the next few months that could swell the unemployment level by 1 million above its current 7.75 million by October. Steel, auto, rubber and construction are the major industrial sectors that will be hardest hit.

If the predicted increase in unemployment materializes by October, it will not only swell the currently huge federal government budget deficit, but also create a large political problem for the Reagan administration.

The stagnation of the economy over the last six months began showing up in the employment pattern in June. The total labor force grew by 1.3 million in June, but this was only half the expected level of growth associated with that month, when there is extra manpower needed and an influx of high school and college kids eager and willing to work. According to the Department of Labor, persons in the age bracket 16 to 24 years old accounted for four-fifths of the drop.

Unemployment will grow because of the dismal state of the auto industry and the dependence other sectors have on auto. The story of auto is best encapsulated in the example of Chrysler Corporation, and the self-destructive lengths Chrysler went to in order to show a fake $10 million profit in the second quarter, their first quarterly profit in more than two years.

Chrysler, as is widely known, has survived over the last two years by drawing down most of a $1.2 billion credit line extended to it by the federal government and by internal austerity, including a $600 million pay cut for its workers. In the second quarter, Chrysler further squeezed costs and simultaneously ran its factories on overtime. It produced 242,000 cars in the second quarter, or 52 percent more than it did during the same quarter last year. Chrysler's dealers were forced to buy the cars; and this gave Chrysler ready cash. Combined with its cost-cutting, the cash endowed Chrysler with its so-called second-quarter profits. But Chrysler dealers were unable to sell 50,000 of the cars they bought during the second quarter. The inventory of 1981 model cars sitting unsold on the dealers' lots mounted to 113 days, a staggering level; a 60-day inventory is about normal.

The problem is compounded when it is considered that in September, or the latest in October, production of the new 1982-model cars must begin. The only way Chrysler can handle this dilemma is by drastically slashing its production and allowing its dealers to sell off their inventories.

Ford Motor has an 82-day inventory and GM a 75-day inventory. Both companies will have to slow down production in the third quarter to allow dealer car inventory liquidation, and that translates into new unemployment.

Steel production has been buoyed this year by increased auto orders for steel, which are up 11.6 percent for the first five months over a comparable period last year, as well as increased orders for steel by the oil and gas extraction industries. On top of this, a number of firms built up steel inventories. Thus, steel production reached an 88.9 percent operating rate in March. But by May, this rate was down to 85 percent, and though this is the last month for which figures are available, the rate has continued to fall since then. A collapse in the auto sector will spur onwards the downward slide in the weakening steel sector, prompting new layoffs.

In rubber, the story is similar.

In construction, employment levels fell 150,000 from April through June. The housing sector, in which home starts have fallen 37 percent since January, is weakening even further, signaling a deluge of construction unemployment.

Already, the National Association of Purchasing Management, which is the organization representing the individuals who make their purchase orders at their companies, stated in its report released Aug. 2 that the unemployment level in July most likely grew because production buckled significantly in that month.

If the Federal Reserve Board chairman keeps interest rates high going into an obvious economic downturn, as he indicates he will do, that can only mean higher unemployment, with all its political and economic consequences.

Banking by Kathy Burdman

The All-Savers Certificate: it won't

Termed a 'free-market' rescue, it fails to liberate S&L capital formation from Paul Volcker's high-interest vise.

The Reagan administration's tax bill, as expected, contained the celebrated All-Savers Certificate, granting tax incentives to depositors in savings and loan (S&L) institutions, among others. The S&L lobby, led by the U.S. League of Savings Associations, expended tremendous—and single-minded—political capital to yank this legislation through Congress, in the belief that such incentives will provide the S&Ls with desperately needed deposits.

Now that that's over with, I'd like to reiterate a point I've been making for quite a while. Neither the All-Savers, nor any other federal plan now on tap, can possibly save the nation's S&Ls from bankruptcy and 1930s-style top-down reorganization in the current high interest-rate environment.

Make no mistake; as *EIR* has warned, against all the econometricians and wizards of Wall Street, Volcker has no intention of lowering interest rates—not this year, and *not in the foreseeable future.* Since even the most optimistic of S&L planners acknowledge that the very concept of a savings and loan entity stands in contradiction to a permanent high interest-rate regime, it's time to wake up.

Take the All-Savers Certificate.

It provides that S&Ls, savings banks, and commercial banks may offer these certificates with a one-year maturity, yielding interest rates no greater than 70 percent of the rate of U.S. Treasury bills, which, amounting to roughly 10 percent, is almost twice as high as the going rate for one-year savings accounts. The interest earned on these certificates will, furthermore, be exempt from taxation up to $1,000 on a single-person tax return and $2,000 on a joint return.

The U.S. League of Savings Associations, which conspicuously dropped its earlier efforts to press the administration for an end to the Volcker interest rates in return for tacit White House support for this measure, calculates that All-Savers will bring back billions in deposits into the S&Ls.

They need it: as a result of Volcker's high interest rates, more than $10 billion net in deposits has been sucked out of the S&Ls this year by money-market funds and other speculative instruments.

Yet officials at the U.S. Treasury, who, as I have reported, told *EIR* point-blank that their policy for S&Ls is "let them die," are laughing up their watchbands at All-Savers. The way they add it up, most of the new money will go to commercial banks, who will be better able to deploy the funds than the less sophisticated S&Ls, who could *lose* money on All-Savers.

To make money on such high-rate, short-term deposits, S&Ls will have to move the money out of their traditional areas of long-term home mortgage lending, and into new shoals of commercial and real-estate loans.

The Depository Institutions Deregulation Act passed last year is gradually allowing them to do just that; but the commercial banks are likely to beat them to that business.

Then take the report by Fed Governor Charles Partee that the Federal Reserve has agreed to open its discount window, heretofore reserved for commercial banks, to S&Ls in need of emergency cash. That would be helpful in short-term emergencies, if interest rates headed down soon and pressures lessened on the S&Ls. But it doesn't work that way.

Even the extreme measure of selling off S&Ls to commercial banks and to bigger S&Ls across state lines, first proposed by Volcker himself as a way to forestall bankruptcies, will not work in the current interest-rate environment. This "cross-industries mergers" clause has been inserted in the Third Institutions Restructuring Act of 1981 by Federal Home Loan Bank Board Chairman Dick Pratt.

As *EIR* has reported, even Citicorp, let alone most big commercial banks and S&Ls, cannot now *afford* to buy a failing S&L. Most banks now seem to find their own profits so weak under Volcker's regime that they simply cannot absorb any more bad paper from a weak S&L, including Citicorp.

The New York *Journal of Commerce* last month related the story of the chairman of Washington Savings & Loan in Miami Beach, who has been unable to sell his $1.2 billion institution at any price. "After visiting two New York banks, he was turned down, and reportedly said, 'We've got a Rolls Royce and we're dealing with a bunch of tire-kickers.' "

Foreign Exchange by David Goldman

Bergsten predicts dollar collapse

Come fall, the smart-money men may push for exchange controls and a spurt in commodity prices.

The spectacular increase in the dollar's value the week of Aug. 3-7, hitting its highest level against the French franc since World War II, will be short-lived, according to C. Fred Bergsten, assistant secretary of the treasury for international affairs under the Carter administration.

In an interview Aug. 4, Bergsten, who is now at the Carnegie Endowment for International Peace in Washington, D.C., said that he expects the dollar to remain firm or even rise into September or October but then to fall sharply as an American current-account deficit asserts itself.

Bergsten said, "The dollar is vastly overvalued. But the U.S. was in current-account surplus, so no one worried much. However, the U.S. current-account surplus will have pretty much evaporated in the second quarter or even have moved into slight deficit. It will be negative during the second half of 1981."

Then the problems will really begin. Bergsten predicts that the current-account deficit for the United States in the second quarter will swell "to some multiple of the 1974 U.S. current-account deficit of $14 billion," one of the largest in U.S. history. The United States will remain in deficit well into 1983. Thus, the period of U.S. current-account surplus which began in mid-1979 will be short-lived.

Bergsten explains that the high-interest policy of the Federal Reserve Board will shift the United States into current-account deficit. "The overvaluation of the dollar is cutting deeply into U.S. trade and services," he stated. "The dollar rose on a trade-weighted basis by 25 percent against all currencies since the beginning of the year, and by as much as 30 to 40 percent against the major trading currencies like the mark and the yen. But the U.S. inflation rate is above that of Japan and Germany, thus the price of U.S. goods is very uncompetitive," because of both currency appreciation and inflation.

It is only a matter of smart-money men catching onto the U.S. current-account deficit before "the dollar gets hit big," said Bergsten. He said that the high interest-rate policy of the Fed will probably continue to draw in money from abroad for several more months. This will keep the dollar firm in all likelihood. But, notes Bergsten, "this dollar inflow improves the U.S. position on capital account, but doesn't help one bit to improve the current account position."

Yet, Bergsten maintains, "the dollar inflow will not help once the U.S. current account widens. Then the dollar will get into trouble, and it will be big trouble, considering how far the dollar has been run up." Bergsten says the timing of this dollar bust is probably September or October, or perhaps a little later.

Bergsten's view is not new. *EIR* has been saying the same thing for over a month, as have some of the smart-money traders, like National Westminster's bank. However, as *EIR* has pointed out, a sharp shift in market sentiment would be enough to send the dollar falling, and this could happen well before September. West German banking authorities have already in place on their computer the blueprints for German imposition of exchange controls in case of a dollar collapse, to prevent an excess of sudden flight money into Germany.

Several economists, including Sam Nakagama, have noted that a dollar fall is necessary for an increase in commodity prices, and several money-market players would dearly like to see a new spurt in commodity prices. (The rationale is that when the dollar falls, other currencies become stronger, allowing the European nations to increase their purchase of, and thus the price of, Third World commodities.)

Bergsten is keenly aware of what a dollar crash would do to the Reagan administration's popularity. "Whether a dollar bust turns into a rout depends on how much confidence the population has at that moment in the President. If Reagan's economic program appears to be working well, then the spread of the danger will be stopped and the consequences minimized. But there are people like myself who don't think the Reagan program is going to work well, and who think that the federal deficit will be large and not controlled. Under that circumstance, the dollar will be in real trouble, because people will lack confidence in Reagan."

Bergsten will release an article, entitled "Reagonomics," in the September issue of *Foreign Policy* magazine along these lines.

Farm sector solvency threatened

Farmers are wrestling with high costs and low income. The Fed and FmHA could push them over the brink.

On July 17, the American Agriculture Movement called on Agriculture Secretary John Block to "implement procedures set forth by law and regulation for loan moratorium relief for farmers unable to repay loans due to circumstances beyond their control." The AAM action concerns the disposition of outstanding loans provided by the Farmers Home Administration (FmHA), the farm sector's "lender of last resort." An increasing number of farmers "have lost their land, farm equipment, or homes through the foreclosure of FmHA loans or through liquidations forced by FmHA's refusal to refinance" the loans.

At issue is the department's apparent failure to carry out provisions of both the Agricultural Credit Act of 1978 and the Housing Act of 1949 authorizing a loan-payment deferment in cases where the borrower is unable to make payments without unduly impairing his standard of living "due to circumstances beyond his control."

AAM investigation has found that while most of the foreclosed farmers meet the eligibility requirements for these provisions, they were never told about the moratorium option. In most cases the effects of the Soviet grain embargo and other government policies—including the Federal Reserve's high-interest policy—have determined the producer's inability to meet payment schedules.

Growing numbers of farmers have been forced into the arms of the FmHA to begin with. Over the past five years FmHA's market share of non-real-estate farm loans outstanding has more than tripled, from 5.7 percent to 18.9 percent. During the same period, the share of the non-real-estate farm loan market held by private commercial banks has dropped from 60 to 43.8 percent. Since October 1979 especially, when Volcker suddenly made thousands of farmers "uncreditworthy," the FmHA's rolls have swelled.

Though the high-interest policy has hiked production costs—interest ranks as producers' largest fixed cost, and will total more than $20 billion in 1981—it isn't just the cost side that is being affected. The policy simultaneously acts to push down farm prices and income.

In the first place, it discourages producers from removing their grain from the market. Producers will tend to be hesitant to lock up their grain at a going interest rate on Commodity Credit Corporation loans of 14.5 percent. That translates into more than 50 cents a bushel on wheat and 35 cents on corn, a stiff price to pay. But *not* utilizing the reserve will put added downside pressure on the cash markets, undercutting prices.

Secondly, the high rates act to reduce export prospects by throttling economic activity generally. More direct, but not often mentioned is the downward pressure high rates exert on farm prices by increasing the cost to mills, grain companies, exporters, etc. of handling and carrying grain inventories.

As Tommy Willis, president of the Tennessee AAM, explained to Senator Melcher's Policy Forum on High Interest Rates in late June, these "commercials" switch to a "hand-to-mouth" mode of operation to avoid inventory buildup. They widen their basis—the difference between the price they will offer local farmers for new grain and the price of the nearest maturing futures contract—to cover the increased interest and carrying charges on the grain for the six to nine months they figure they might have to warehouse it. Producers can hand over their grain for a song, or store it themselves.

Last year on June 24, Willis said, at the Continental Grain Company elevator on the Mississippi River at Gold Dust, Tennessee, for example, the basis was 30 cents under. This year on June 24 the basis was 75 cents under—almost entirely due to increased interest rates.

But in the volatile arena of the Chicago Board of Trade where farm prices are set, the widening basis acts as a signal to speculators that there is no great commercial interest in the commodity, and they will sell the market, driving prices lower in strident defiance of the so-called law of supply and demand. Last fall, for example, wheat on the Chicago Board of Trade was in excess of $5 per bushel. Today it's about $4 on the Board, and with a basis of about $1 on average, producers are barely getting $3 per bushel—despite the fact that the world carryover of wheat is 15.8 percent of total usage, the lowest figure in a number of years.

End of speculative bubble

The latest London auctions showed the effects of financial shakeout. Here are the future implications.

Recent headlines in New York and London newspapers declared that the Old Master painting market had crashed as a consequence of the bad performances at the recent auctions in London. This shows again how useless newspaper accounts of activity in the real world are.

What actually happened was the bankrupting of a phase of painting speculation as a consequence of the worldwide credit squeeze. In the coming crunch, the only assets that will remain viable will be those that have substantial value, that is, serious works of art.

The bloodbath at the auctions resulted in over half of the lots at Sotheby Parke Bernet being bought in, and over 60 percent at Christie's remaining unsold.

On the whole, this reflected the mediocre quality of the offerings, although the buyer malaise extended to a signed and dated portrait by Goya that was unsold at a price of £900,000 ($1.7 million).

However, the proof that there are still substantial amounts of money available to put into solid assets was the strong sales of Old Master drawings held by both of the auction houses during the same week.

Here, quality items were offered, led by a Rembrandt pen study that was bought at a record price for an Old Master drawing of £300,000 by the Getty Museum.

The drop in prices of Old Masters in the short term is easy enough to explain.

First, interest rates have cut into the willingness of buyers to part with cash easily, since one can find such hefty returns through lending on the Eurodollar market or elsewhere.

Second, Europeans were feeling the loss of value of their currencies, while the lots that were being offered were not on the whole strong enough to attract American buying activity.

Third, the auctions were flooded with second-rate (or worse) Dutch paintings offered by London and continental dealers who were dumping pictures in hopes of picking up cash to overcome their own liquidity problems.

These paintings had been purchased in the easy optimism of balmier days; now, when money is expensive and each buyer thinks two or three times before committing funds, such "good buys" as attractive Dutch or Impressionist paintings have tendency to lose their appeal.

There is a lesson here that goes beyond the Old Master market. The world economy is heading for a crash.

The only way it can be avoided is by an international political combination, one that can frighten the monetarist international.

If it cannot be avoided, the depth and consequences of the crash can be affected by political planning. The premise of this column is that readers of this publication are by inclination those individuals most susceptible to the pull of reality.

This attitude toward reality extends to management of assets as part of a political process. There is no reason why we should allow the monetarists to bankrupt us before we can bankrupt them. Let the wild-eyed speculator, the willfully credulous reader of the *Wall Street Journal,* and the London finance manager go before us.

Easier said than done? Not at all.

The principle that applies to politics applies to assets as well. Take a long-term position that emphasizes the essential growth quality of the asset and then fight like hell in the short term to wreck the monetarists.

Certainly at this time of expensive money, no one should be overextended in collectables. But all this airplane-magazine wisdom of jumping in and out of various exotic investments is so much hot air. Well-bought Old Masters will increase in value against most (or all) currencies in the medium term. They will represent a real hedge against inflation.

In this column, I have stressed the idea that selection of art works is not a guessing game as to where the next quick buck might be found, but a reflection in financial values of assets which are treasures in historic and aesthetic terms.

The recent London massacre demonstrates that the credit crunch wiped out easy, speculative values of commonplace objects. The London *Times* and *New York Times* notwithstanding, real works of art properly selected will prosper.

World Trade by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
$58 mn.	Mexico from U.S.A.	Tubos de Acero de Mexico S.A. (TAMSA) has Exim-bank approval to buy U.S. equipment for steel plant to produce pipes for Mexico's oil and gas industry. Exim is providing at old 8.75% interest rate, rather than new 10.75% rate, since preliminary commitment was at lower rate.	TAMSA is run by Italian and Mexican interests implicated in the P-2 scandal.
	Mexico from Japan	Nissan will soon sign contract with Aguascalientes state for new factory making 360,000 to 400,000 auto engines per year. Nissan's Mexico plant now turns out 72,000 subcompact cars and trucks and 110,000 engines.	Nissan believes Mexican annual auto market will grow by anothr 800,000 units within 4-5 yrs; also fits world car plan.
	Mexico/U.K.	British Petroleum has formed joint venture with Frisco, one of Mexico's largest mining companies, to explore Frisco claims in Chihuahua and Durango states. BP providing financing and technical direction.	Frisco controlled by Bancomer, one of two largest Mexican banks.
	Italy/South Korea	Hyundai has signed deal with Italy's Italimpianti to market Italimpianti's blast-furnace technology in Far East, which has been Japanese turf. Though largely state-owned, Italimpianti has reputation for bribery to obtain LDC contracts.	Also involved in P-2 scandal.
$232 mn.	Yugoslavia from World Bank	World Bank lending $80 mn. at 9.6% for financing 45 Yugoslav agro co-ops. Project involves increasing fruit and wine production by co-ops and funding for 3,000 farm families' cattle-raising. Yugoslav sources will finance remainder of project.	World Bank funding features "appropriate technology" like biomass plants and geothermal water use.
$233 mn.	Saudi Arabia from Holland/ South Korea	Dredging work expanding harbor of new petrochemical complex of Jubail will be done by Adriaan Volker, Bos Kalis and Dong-Ah. Dredged materials will provide 172 hectares landfill for tank farms.	Adriaan Volker dredged original Jubail harbor.
$212 mn.	Egypt from France	SGETPI won contract for design and construction of port at Damiette on Mediterranean.	
$50 mn.	Jordan from China	China Aero-Technology will build 1,523 unit housing project in Jordan, employing mainland Chinese workers.	China seeks foreign jobs for workers idled by collapse of growth program.
UPDATE			
$40 mn.	U.S.S.R. from U.S.A.	Caterpillar Tractor has reportedly won Reagan approval for long-postponed sale of 100 huge pipe-laying machines to Soviet Union. Haig, Weinberger, and Pentagon have opposed deal despite Soviet statement that would not be used on Siberian-Western European gas pipe, which U.S. still opposes. Japanese and European deals with Soviets (reported here last week) apparently convinced Ed Meese that Japanese would fill Caterpillar order if blockade continued.	"Afghan" embargo is being made more "pragmatic," but approval still on case-by-case basis.
$90 mn.	U.S.A. from Japan	Zen-Noh Grain Co. is building a large grain elevator in Louisiana. Zen-Noh is world's biggest cooperative; runs 57 feed mills in Japan.	Japanese moving closer to U.S. farmers to guarantee stable and cheaper food supplies.

Business Briefs

Commodities

Price fluctuations, some rises on commodity front

Prices for coffee, zinc and tin have leapt upwards since May, in the first noteworthy commodity-price rise since mid-1979. At the end of July, zinc started trading at £493 per ton on the London Metals Exchange, its highest level since its 1974 record, with tin only 20 pounds per ton lower than its record high of £800 per ton. On news of a major frost, which has wiped out 45 percent of Brazil's 1982-83 coffee harvest, prices on this market rose 32 percent in a two-week period to $1.23 per pound.

There is no reason to project that commodity prices will sustain an upward rebound across the board in the short term. Nevertheless, the latest round of price rises, which occurred amidst widespread fluctuations of price, are an important signal that speculative investment is beginning to pour into the commodities markets.

The last time commodity prices took off in a major speculative climb was following the 1979 Iran crisis. New international upheavals may trigger a new round of 1979-style speculation within the next few months.

Domestic Credit

U.S. bond prices forebode Treasury problems

Ten-year U.S. notes with coupons of 14⅞ percent sold at 14.98 percent on Aug. 5, a record for that maturity, as high U.S. interest rates continued to lay low the U.S. bond market.

The high yield on the 10-year notes attracted an oversubscription for the $2.25 billion issue, but the rate does not bode well for U.S. Treasury financing operations for the rest of the year. The Treasury requirement for the balance of the calendar year should total $40 billion.

"A lot of people still are shell-shocked by what's happening to bonds," stated George Johnston, president of Scudder, Stevens and Clark, a large investment management firm. "There is skepticism over the high [federal] budget deficits and whether monetary policy will succeed."

With no indication that interest rates will fall by more than 1 to 2 percentage points within the next two weeks, bond prices will continue to hit record lows.

Agriculture

New grain pact postponed at least until 1982

U.S. Special Trade Representative William Brock announced Aug. 5 that the U.S. and U.S.S.R. had agreed to extend their existing grain agreement for another year guaranteeing 6 to 8 million tons of grain to the U.S.S.R.

The decision to give leadership of the negotiations to the Special Trade Representative, a decision apparently made by the White House, finally allowed the talks to proceed. But the extension, instead of a new pact, means that State Department interference is probably continuing.

Brock also announced that U.S. and Soviet officials will meet in September or October for consultations on grain supplies for the 1981-1982 marketing year, and that negotiations on a new trade pact would probably begin before the end of the year.

Soviet Deputy Minister of Foreign Trade Boris Geordeev, leader of the Soviet delegation, refused to tell reporters how much grain the Soviets will buy. As of Aug. 5 they have contracted for just over a million tons of U.S. corn. Analysts predict that the Soviet grain crop may be even less than the projected 200 million tons, already 36 million tons under the Soviet target. Purchases from the U.S. could range anywhere from 6 to 15 million tons, they estimate; but the Soviets have built up significant and diverse trading arrangements with Brazil, Argentina, and other suppliers.

Foreign Exchange

Dollar rise due to Polish invasion threat?

West Germany's *Handelsblatt* reported Aug. 6 that the steep drop this week of the German mark and other European currencies against the U.S. dollar was due to fears of imminent Soviet invasion of Poland. German bankers confirm that Soviet officials have been warning Western contacts that they consider the behavior of the American banks in Polish debt negotiations unacceptable, and that they may be compelled to intervene in Poland to take over direct economic management.

The sharp Aug. 4-5 rise in the dollar occurred despite a reported widening trade deficit in the U.S. and indications that the U.S. current account balance was moving into deficit, presaging a weaker dollar before the end of the year.

Energy Policy

French unionists strike for nuclear power

The Communist-controlled CGT labor federation, and its Socialist counterpart, Force Ouvrière, have held demonstrations and sit-ins throughout the industrial region of Lorraine in opposition to Socialist President François Mitterrand's effort to halt construction of the 5,000-megawatt nuclear reactor complex at Cattenom, near Metz. On July 31, the CGT launched the world's first strike on behalf of nuclear energy at the 1,400-worker site.

Spurred by the "Committee for Cattenom," unionists and industrialists whose businesses depend on the nuclear industry have begun mass mobilizations in other cities, such as Golfech. The committee, initiated by the European Labor Party, has brought together the French Fusion Energy Foundation, unionists, and the Young Giscardians in Metz.

Mitterrand has already been forced to permit the first two Cattenom reactors, each 1,300 megawatts, to be completed, but still intends to postpone indefinitely work on the remaining two. The CGT's regional leader has stated to the news media that the nuclear complex is indispensable to "sustain, through hydrogen production, the redevelopment of the crisis-stricken Lorraine industries—steel, iron mining, petrochemicals, and carbochemicals."

U.S. Industry

Capital-goods investment takes second-quarter dive

Planned capital investment in the second quarter fell significantly from what had been planned three months earlier for the quarter, according to figures just published in the June *Survey of Current Business.* The decision to downscale investments, according to the Machinery and Allied Products Association, is primarily due to high interest rates. The high rates, a spokesman told *EIR,* are drying up internal funds and making external funds prohibitively expensive.

However, the just-released figures also reveal a very hesitant attitude toward the Reagan tax and budget program. First-quarter investments, made before the Reagan program had been revealed, showed a 1.7 percent increase over previously planned levels, while the second quarter level, at an annualized rate, fell 3.7 percent from previously planned levels. Corrected for inflation, second quarter investments were below the level of 1980.

The only area of general increase was in capital goods for petroleum exploration and production, the most buoyant sector for investment in the last year and a half. At annualized levels, investment in petroleum development rose 14 percent in real terms, and 18.9 percent in nominal terms.

International Credit

Polish debt talks up in the air again

An agreement reached in mid-July between Polish representatives and Western commercial banks for rescheduling Poland's 1981 debt has run into a new hitch. On Aug. 5, the negotiating partners were unable to put the finishing touches on the agreement, which extends repayment on this year's debt component over a seven-year term, after the Poles indicated they considered unfinanceable a 21 percent interest rate on the fourth-quarter component.

The hitch has provoked a new round of rumors that Poland may be forced into a default. In June, Western governments, which hold $11 billion in Polish debt, did succeed in concluding a seven-year agreement with Poland. The private debt accord, which involves a total outstanding debt of $15 billion, has been held up, according to all accounts, by New York-based commercial banks, which have insisted on adding tough financial provisions to their side of the agreement.

A Polish economist living in the West stated in an interview Aug. 6 that he expects the wrangling between Poland and its private creditors to go on for two months. In September, he asserted, Poland will begin harvesting its fall grain crop, which has turned out to be much larger this year than was expected. Food supplies from the harvest will begin to hit the market in mid-September, partially alleviating the food crisis.

Thus the New York banks appear to be attempting to gain time in an effort to push Poland towards economic decentralization and further deindustrialization. Polish debt expert Richard Portes stated in the Aug. 6 *Handelsblatt,* however, that Poland will default, and much of the fault lies with the Western creditors.

Briefly

● **TED HEATH,** former Conservative prime minister of Great Britain, and Commonwealth Secretary Shridath Ramphal will be in Washington in September for private dinner meetings with administration officials to promote the Brandt Commission report.

● **EUROPEAN** Monetary System currencies will have to undergo a major realignment with devaluations of the French franc and Italian lira, argues the London *Economist.*

● **PETER PETERSON** of Lehman Brothers-Kuhn Loeb is projecting a $100 billion U.S. government deficit for the next fiscal year.

● **PRESIDENT REAGAN** will replace both Federal Reserve Board vice-chairman Fred Schultz and chairman Paul Volcker when their terms expire within the next 18 months with hide-bound monetarists, mooted Rupert Murdoch's *New York Post* on Aug. 5. The resurfacing of this rumor seems to be a Mont Pelerin Society signal that Volcker will hold to a high-interest rate course even if the economy buckles in the third quarter, and will resist all attempts to bail out faltering firms.

● **STEEL PRICES** in the U.S., which rose by 15 percent from June 1980 to June of this year, are softening, with discounting beginning to occur, because steel users have overstocked steel inventories.

● **BRAZILIAN** farmers are increasing their corn plantings by 10 percent to take advantage of the $5 billion trade deal signed by their government in Moscow last month.

● **THE REAGAN** administration's response to the air controllers' strike was planned by the Carter administration as part of the latter's deregulation and contraction push.

Who profits from the criminalization of New York City?

by Leif Johnson

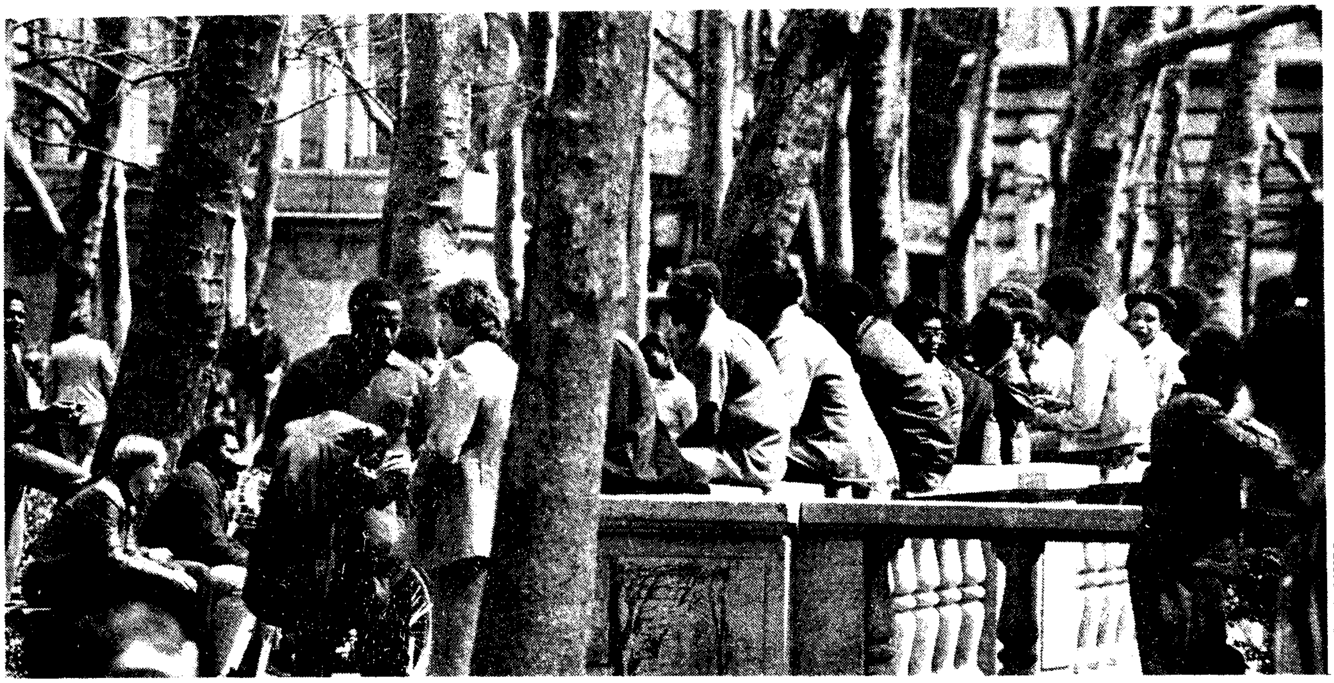
The 1975 fiscal crisis that nearly put New York City into bankruptcy was not a case of financial mismanagement or recession strains. On the contrary, it was the culmination of a decade-long pilot project for the planned shrinkage of America's leading city—the prototype for deurbanization and population policies that are now being applied to cities across the country.

As this report will document, the daily atrocities experienced by the citizens of New York—the crime and drug epidemic, the dismantling of public services, the erosion of housing and of manufacturing employment—represent the deliberate policy of the banks, insurance, and real-estate companies who control the city's government. Their policy, otherwise known as "Thatcherization" or "Hong Kong West," is to divert capital from developing technological and human resources into speculative profits, underwritten by tax subsidies and by the de facto decriminalization of the narcotics and related traffic that provides much of their cash flow.

The 1975 New York "financial crisis" was a massive banking raid on the public treasury that zoomed the city's debt to over $13 billion, attaching a debt-service bill of over $2 billion each year—a figure larger than the total budgets of all but a handful of American cities and half the states of the nation (see Figure 1). In 1976, the city paid one-third of a billion dollars in interest charges on its short-term debt alone.

The city was targeted by the most destructive urban real-estate crimes the nation had ever suffered. One and a half billion dollars in real-estate taxes remain unpaid every year as the Manhattan office-building speculative spiral accelerates; the present market value of commercial buildings south of 59th Street in Manhattan itself totals $50 billion. The city assesses this property at $7.7 billion; the tax loss amounts to $1.5 billion a year.

The city was the victim, and the major tool, in the drug war against the United States. With 50 percent of the nation's half-million heroin addicts located in the five New York boroughs, the largest cash flow in the nation pouring through the clearing-house banks, and a real-estate spiral churning money around are in geometrically expanding circles, hundreds of billions of



Drug-dealing in Manhattan's Bryant Park, located behind the once-unequalled New York Public Library.

dollars each year is currently laundered through the city—with at least $30 billion from drugs alone. The cost to municipal government from the underground economy is immense; the cost to the citizenry is impossible to calculate.

In a metropolis where $83 billion in checking deposits turns over twice each business day, 16 times faster than it did two decades ago; where the average daily trading on the New York Stock Exchange in July 1981 was $1.5 billion; and where the clearing-house banks report a yearly cash flow of $50 trillion, it is impossible to imagine that the city's government could not afford $150 million to restore police strength to "pre-crisis" levels, or $40 million to keep its libraries open five or six days a week.

Instead of the city taxing the massive cash flows of the world's financial capital, however, the city's own cash revenues were attached for the profit of ground-rent finance (see Figure 2). The loss was extraordinary: 66,000 city employees were laid off or bumped into retirement without replacement. As arson engulfed stretches of New York larger than the total area of most other American cities, 2,000 firefighters were dismissed or retired without replacement, and 35 fire companies were disbanded or relocated—most from high-incidence areas.

Fully one-quarter of all the hospital beds in the city were lost, putting the metropolitan region—once the possessor of the finest public health care system in the nation—20 percent behind the U.S. average in beds per capita. Emergency visits to city hospitals sank by 17 percent; street sweeping declined by 25 percent; and at current rates, the city's aged sewers will be replaced every three hundred years.

The city was declared ungovernable. Roger Starr, a leading social-democratic spokesman and an editor of the *New York Times*, declared the policy of "planned shrinkage," a program of driving out the citizens who could not or would not pay the costs of the real-estate spiral and the increased income and homeowner taxation, or who would not tolerate the avalanche of crime, the officially sponsored dosing of their children with drugs in the public schools and the addiction of their children outside the schools.

All control over the city's finances by elected public officials was abolished in 1976. The Financial Control Board, directed and staffed by New York's oligarchic elite, is empowered to review and control all municipal finances through July 1, 2008. The city's elected officials—the mayor, comptroller, the Board of Estimate, and the City Council—are either rubber stamps or willing operatives in the game.

New York has literally been a victim of the same Strategic Bombing Survey method that destroyed urban populations and industrial centers throughout Germany at the end of World War II, a method adopted by the financiers behind Federal Reserve Chairman Paul Volcker's interest-rate strangulation of the U.S. economy as a whole.

An immense sociological profile of the city has been established on computer banks. All buildings, vacant and occupied, their ownership, tax arrears, and sales, are on magnetic tapes classified by neighborhoods. Utility-company records, telephone company records, health, mental health, school, and income-tax records, criminal and traffic-ticket records, family court records, personal data from credit files, small business records, welfare records, state police files, Off-Track Betting stubs, medical, life, auto, and property insurance records, are maintained by the banks and insurance companies in conjunction with their allies in the city government.

Using such a calibrated profile of local areas, race-riot potential can be measured; drug-absorption capability is known; and specific triggers for forcing out a target population—like burglaries, muggings, and arson—can be introduced.

The financial crisis

There was nothing about New York City's normal operations that required the orgy of debt creation of the 1970s. On the contrary, the city was led into the bankers' maw by Gov. Nelson Rockefeller (1958-1974) and by Mayors John Lindsay (1966-73), Abraham Beame (1974-77), and current Mayor Edward Koch.

In 1960, the city's budget was $2.52 billion, well within the municipal government's ability to finance. But the refusal to assess mid-Manhattan and Wall Street real estate was already costing the city a half-billion dollar tax loss. Despite the accelerating New York real-estate boom, which had persisted ever since World War II, the Empire State Building, for example, had just had its assessment increased—to the level of its 1935 assessment, when it stood less than half occupied in the midst of the Depression.

While the city was bilked out of hundreds of millions of dollars in tax revenues, after 1960 Rockefeller and the state legislature passed various bills allowing—and encouraging—the city to float debt to pay for operating costs, especially short-term notes of every kind imaginable. In 1965, for example, a state law passed eight days before the end of the city's fiscal year permitted the issuance of Revenue Anticipation Notes (RANs)—stipulating that they need not be tied to actual revenue! By June 20, 1976, the banks had burdened the city with no less than $2.6 billion of these notes, plus $3 billion more in other short-term debt.

In 1976, the city floated $8.4 billion worth of short-term debt, on which it delivered the banks a third of a billion dollars in interest payments alone. Total debt service exceeded $2 billion per year, or 71 percent of that year's real-estate tax levy. Meanwhile, underassessment of Manhattan's speculative office property was losing the city nearly $1 billion a year.

The result was the takeover of the city government and its budget by the same financiers who had been draining its treasury. Both the Municipal Assistance Corporation and the Emergency Financial Control Board were created in 1975, and within two years had slashed the municipal workforce by 20 percent and dramatically cut every city service.

Since then, crime and arson have soared, mass transit has ground to a crawl, and whole neighborhoods like the South Bronx and East New York have been systematically depopulated. Today, MAC and the FCB have dictatorial, unconstitutional mandates to seize city revenues, veto the budget, and abrogate labor contracts.

Figure 1

The real-estate raid on New York's treasury

(in millions of current dollars)

Fiscal year	Total debt	Total debt service	Debt service as % of real-estate taxes levied
1963	$ 4,100	$ 478	34.4%
1969	5,550	721	38.1
1975	12,313	1,896	67.2
1979	12,122	1,838	74.0

The transit drain

From the 1960s on, culminating with the establishment of MAC and the EFCB, an increasing horde of fiscal "whiz kids," computer specialists, efficiency experts, and financial inside men have run the municipal government side of the bank plundering, with a City Planning Commission "Master Plan" detailing the neighborhoods that would receive "major action" (see map, page 27).

While Lindsay opened the public treasury and computer-profiled the city's neighborhoods and citizens, in 1967 the Rockefellers reorganized the transit system into a "quasi-public" holding company to float additional billions in interest-free municipal bonded debt. The resulting Metropolitan Transportation Authority, presided over by Rockefeller subordinates, some of whom later turned up on the Emergency Financial Control Board, brought the notorious New York transit crisis full circle.

Having 60 years earlier floated the municipal bonds for the original subways while garnering the operating profits, the Rockefeller-Whitney-Morgan-Belmont group "sold" the subways back to the taxpayers for $315 million in 1939, handing the unfortunate citizenry the cost of replacing the tattered trolley and subway cars.

In 1953, the Rockefellers took the subways from the control of elected officials, obtained the right to raise the fare indefinitely, and invented the mechanism for floating an additional $10 billion new tax-free debt without any obligation to make improvements, extensions, or replacements of the world's largest, now-ruined, transit system.

The 1967 Metropolitan Transportation Authority was the creation of a classic holding company draining its subordinate operating companies, which now included the Long Island Rail Road, the suburban Conrail lines, and the Triborough Bridge and Tunnel Authority.

The real-estate siphon

The Pan Am building, a large office tower that sits astride Grand Central Station on Manhattan's East Side, was sold in 1980 to the Metropolitan Life Insurance Company for $400 million. It had been assessed for, and had paid real-estate taxes on, $80 million. Embarrassed public officials were forced to revise the assessment after the sale to $179 million.

The total office space in Manhattan south of 59th Street is 275 million square feet. At an average rental of $30 per square foot and using a minimum standard multiplier of 5 times yearly rental income to arrive at an estimate of market value, the total value, conservatively judged, is $41.25 billion. It is currently assessed at $7.7 billion, a sum the city claims is 60 percent of full market value, which would make the properties worth, although not taxed for, a total of $12.3 billion—easily less than a third of present speculative market worth.

When one realizes that the flagrant tax underpayment, so meagerly compensated for by overtaxation of individual incomes, sales, and homeowners, continues every year, it becomes clear that the sum lost to the city since World War II approaches $15 to $20 billion.

The city's loss in the current year is at least $1.5 billion. That annual figure is large enough to restore all the basic services eviscerated during the 1975-77 "emergency" and its Koch sequels—to restore full transit service, replace the 10,000 teachers lost, reestablish health and sanitation services, and properly fund law enforcement, as *EIR* will elaborate in a future sequel to this report.

Figure 2

Major expenditures as percentage of total budget

Fiscal year	Labor	Social welfare	Debt service
1970	51.5%	22.3%	10.5%
1975	46.1	22.8	14.5
1978	41.5	22.8	15.1
% change 1970-78	**−19.5%**	**+ 0.2%**	**43.8%**

The Crime Record

Behind New York's drug and arson wave

by Stephen Parsons

Crime in New York is neither random nor inherently uncontrollable. On the contrary, the vast bulk of crime is very tightly *organized;* it is an integral component of the planned shrinkage program and the simultaneous diversion of capital flows into the underground economy. The benefactors are the same bankers who bled the city's treasury in fomenting the fiscal crisis in 1975—a crisis which has been used to cut uniformed police officers 25 percent in six years.

The key is illicit drugs.

The major New York commercial banks launder hundreds of billions of dollars every year in "hot" money, funds that are then deposited and redeposited in unregulated foreign banks and their branches in the Caribbean, London, Switzerland, and Hong Kong, and eventually return to the United States as "venture capital" for real-estate, money-market, and similar investment. The source of the funds is organized crime: narcotics, prostitution, gambling, and the like. In New York City the drug market alone accounts for at least $30 billion of this cash flow every year, with organized crime as a whole earning something in the order of magnitude of $100 billion annually.

Estimates of the heroin addict population in New York City vary from 168,000 to 275,000. Studies conclude that 90 percent of heroin addicts' income is derived from crime, with an addict averaging 200-300 felonies per year, ranging from prostitution and drug retailing to muggings and murder. The total heroin addict income level is estimated at $20 billion annually, or $100 per day per addict.

All this has many implications. Even if heroin addicts commit only 25 felonies per year (about 10 percent of probable levels), their crimes alone would surpass the total U.S. felonies in the FBI's official crime index. One hundred and fifty thousand addicts in New York City committing only 25 crimes a year would surpass the 625,000 crimes reported in the city for 1980. This means that an enormous number of crimes go unreported and uncounted; most important, it indicates that most in one form or another relate to drugs and associated kinds of organized crime.

Street heroin payouts in New York City add up to $5-

$10 billion at a minimum. Other drug sales included, the amount is at least tripled. When other organized crime revenues are added in, the $100 billion a year figure becomes very realistic.

This puts the wave of muggings and burglaries in a specific light. If only 10 percent or so of such crimes result in arrests, then does the $846 million worth of stolen goods recovered represent one-tenth of what is actually stolen? One-fifth?

The drug and crime wave began in the mid-1960s, as did the expansion of unregulated offshore banking and real-estate speculation, all centered in New York. Today, the city's major financial institutions are totally dependent on this cash flow, without which many would go bankrupt because of bad loans to underdeveloped nations and other insolvent entities.

The New York Police Department (NYPD) has been shredded in the past five years, with the Organized Crime Bureau, which has narcotics oversight, reduced from 1,600 men to 439. Beyond the manpower losses, law enforcement has been systematically rendered ineffective.

The process began in 1966, when crime (and drug use) doubled and tripled. Youth gangs nurtured by Ford Foundation-funded agencies began to "take on" the police. Mayor Lindsay used the crime and racial tensions to charge "police corruption" and "police brutality" against the most dedicated officers and commanders. By 1970, the Knapp Commission and the federal Law Enforcement Assistance Administration (LEAA) had purged the NYPD's Intelligence Division on this basis. The LEAA's first director, Patrick Murphy, was next installed as police commissioner to oversee the further demolition of the department.

Previously, the heart of the department's crime-solving capability had been the ordinary cop on the beat, who knew everyone in his area and had access to crucial information to help detectives solve major crimes like murder or major burglaries. Murphy introduced rotating precinct assignments instead, with the rationale that cops on a regular beat are open to bribery and corruption. In 1972, Murphy ordered all police to stop making "harassment" arrests of suspected criminals on minor charges, and forbade anti-crime teams to make narcotics arrests; only the narcotics squad was permitted to do that.

Koch took the next step by actively promoting the marijuana decriminalization bill that became state law in 1977: now street-level drug pushers in New York City at most receive a summons, for which they pay by returning to the streets and selling more drugs. In effect, the city has begun to go into the dope business.

That is literally the case for prostitution. Arrests are limited to prostitutes making direct solicitation. Every day, the courts "clear the calendar" by 1:00 P.M., fining the prostitutes and letting them out for appointments to pay the fine. "The biggest pimp in the city of New York *is* the City of New York," said one NYPD source, who added that prostitutes commit about 50 percent of all midtown robberies.

Today one in every 11 New Yorkers is directly victimized by felonious crime. Yet for the first time in memory, felony arrests actually declined each year during Koch's tenure; they are now at only 70 percent of the 1977 arrest rate, while felonies have increased 21 percent.

In 1980, less than 16 percent of felonies resulted in arrests, compared with 33 percent in 1958. In 1980 less than two-thirds of all murders resulted in arrest; arrests were made in less than half of all assault cases, only two-fifths of rapes, one-fifth of robberies, and less than one-tenth of burglaries and larcenies (see Figure 3). Koch has removed 10 percent of beat policemen since his advent.

The crime wave has been fueled by a criminal justice system under which only one in 263 burglars ever goes to jail; the odds now are that a New Yorker has a far greater chance of being mugged than the perpetrator has of being arrested, and there is almost no chance that justice will be done.

Figure 3
Law enforcement trends, 1977-80

	% change 1977-80		**Arrests as % of felonies**	
	Crimes reported*	**Arrests made**	**1977**	**1980**
Murder & manslaughter ...	+17%	+15%	64.9%	64.0%
Forcible rape	− 5	−17	44.5	39.0
Robbery	+35	+ 7	24.7	19.6
Felonious assault	+ 1	−19	58.4	47.3
Burglary	+19	−23	13.5	9.1
Grand larceny ...	+40	−27	15.8	8.2
Total felonies	**+21%**	**−14%**	**22.2%**	**15.8%**
Narcotics felonies	−21%	−21%		
Narcotics misdemeanors ...	−10	−10		
Total narcotics crimes	**−16%**	**−16%**		

Organized Crime Bureau personnel: (1977) 1,600 (1980) 439

* Substantially less than actual crimes committed, especially in the case of narcotics crimes.

Arson and the RAND project

Fires in New York City have increasingly become the work of arsonists. Arson has in fact become a very profitable business venture for the banking, insurance, and real-estate sector, with the overall strategic benefit of securing "urban removal" of minorities and blue-collar workers, whose burned-out neighborhoods can then be transformed into "green belts" or sweat-shop enterprise zones.

It was under Mayor Lindsay that New York's arson and fire epidemic began in earnest. While Lindsay's associates supervised urban riots across the country in the 1960s, what was unleashed in New York City was a wave of crimes and fires in ghetto areas like the South Bronx, Bedford-Stuyvesant, East New York, Harlem, and the Lower East Side. In 1966-68, total fires in New York increased 42 percent; in the Bronx, the increase was 60 percent.

Fires per uniformed firefighter increased 50 percent; the department was so overwhelmed that the Public Employees Board granted the Fire Officers Union demand for the creation of 14 new fire companies in 1969-70. Fires increased only moderately over the next several years.

In 1968, Lindsay countered by bringing in the RAND Corporation to perform an "efficiency study" of the Fire Department, which he charged was spending too much of the city's limited funds. RAND concluded that the department could be run with fewer units, and in five rounds of closings between 1972 and 1976, the city eliminated or relocated 35 fire companies. Twenty-seven of them—75 percent—were from areas with the highest incidence of fire.

At the same time, Lindsay systematically reduced building inspections from 1.42 million in 1966 to .47 million in 1976, a two-thirds decline. Fire marshals were cut to about 60, precluding serious investigations of arson.

At that point, fires began to increase dramatically again; in 1972-76, the number of fires per fireman rose another 50 percent, with 2,400 firefighters being cut from the department, nearly 23 percent of the force. Areas like the South Bronx simply burned down. RAND's strategic bombing had succeeded.

While available arson statistics are understated because the majority of questionable fires go uninvestigated, at least 20 percent of all structural fires in New York are officially termed arsons, and it is estimated that in actuality the figure is 50 percent. In 1979, only 6 percent of the officially designated "suspicious fires" resulted in arrests.

A common modus operandi for "clearing" a neighborhood is cited in the book *Studies in the Collapse of Fire Service in New York City,* 1972-1976, written by Rodrick and Deborah Wallace:

> The Planning Commission informed the Fire Department that certain sectors of the Rockaway Peninsula were to undergo urban renewal and that fewer fire units would be needed because new fireproof high rises would replace the flammable old wooden houses. What was not included in the note was the fact that only a couple of blocks of wooden houses would be displaced and that the rest of the area would remain the same. After elimination of one of the engine companies, large areas of that sector were cleared by fire for redevelopment without the City having to spend the time and money for the legal urban renewal.

The way arson characteristically works is that the value of a decrepit residential building is artificially jacked up through resales and buy-backs among a group of owners. A series of arsons eventually drives out the tenants, while the landlords collect insurance each step of the way. In many cases, the burned-out hulk and the land are sold or retained for new developments that receive a plethora of tax abatements and exemptions, and in some cases, federal rent-subsidy guarantees. In all cases, tax write-offs and credits make the undertaking worthwhile in itself.

The banks and insurance companies lose nothing, because they raise their premiums and actually increase cash flow and deployable investment funds, and the banks can deal in new mortgages at much higher interest rates.

Mayor Koch emphasizes that he has hired back several hundred laid-off firemen, reopened a few fire houses, and achieved a decrease in fires. Yet the stage is set for a new round of fire increases. Already, in the first half of 1981, arsons have increased by 78 percent over 1980 in areas contiguous to and overlapping the South Bronx.

Koch's appointee as fire commissioner, to replace career fireman Augustus Bekkman, is Charles J. Hynes, who has no department experience whatever, but is skilled at conducting "corruption" purges of austerity opponents. Hynes became special prosector for nursing-home scandals and deputy attorney general for Medicaid fraud control after supervising coverups in the Brooklyn District Attorney's narcotics and rackets investigations.

The Fire Department's budget continues to erode in constant-dollar terms; 1980's budget was 35 percent below 1975's. Violations issued have decreased 40 percent since 1975. In 1979, the latest year for which statistics are available, Koch had cut residential inspections by 39 percent, to only 67,381, in the space of two years. That is *16 percent* of the level a decade ago.

The long-term strategic bombing attack on New York City's public services

by Stephen Parsons

New York City has undergone 15 years of strategic bombing by the advocates of "postindustrialism." The method of strategic bombing was devised by the Prudential Life Insurance Company World War II group to destroy Germany's and Japan's industrial output so that they could not recover after the war.

Strategic bombing doctrine holds that the most efficient way to wreck industry is not to bomb the industrial installations themselves, which may be heavily defended, but to destroy the infrastructure on which production depends—the transportation, labor supply, and sources of materials. In wartime, once industry is ruined, the war effort collapses; in peacetime, once industry is wrecked, the population is at the mercy of the financial oligarchs who largely own the existing, scarce commodities of life: housing, services, water, and food. With a shutdown of supply, the costs soar and the population declines.

New York's pre-eminence as a commercial and industrial center has in no small measure been due to past investment in its capital equipment and infrastructure. New York has the world's best water supply system and the largest mass transit network. Its port is foremost in the nation, its skyscrapers world-renowned. Public education, public health, hospitals and libraries were unparalleled in any American city.

It is the breakdown of that infrastructure and the disintegration of New York's industrial base, still the largest in the nation, that has driven two million citizens from the city over the past 25 years.

The destruction of industry and employment

Apart from the recent increase of construction employment—whose total workforce in 1980 stood at 74,500, still 5,000 below 1975 levels and 35 percent below 1958's recession level—employment increase has been almost completely in services and in finance, insurance and real estate (FIRE). Between 1977 and 1980, services employment increased by 106,000, FIRE by 31,400. The largest proportional increase, 19.5 percent, was registered by securities and commodities brokers.

The most productive and vital sectors of the economy have suffered a catastrophic long-term decline.

The largest drop has been in manufacturing:

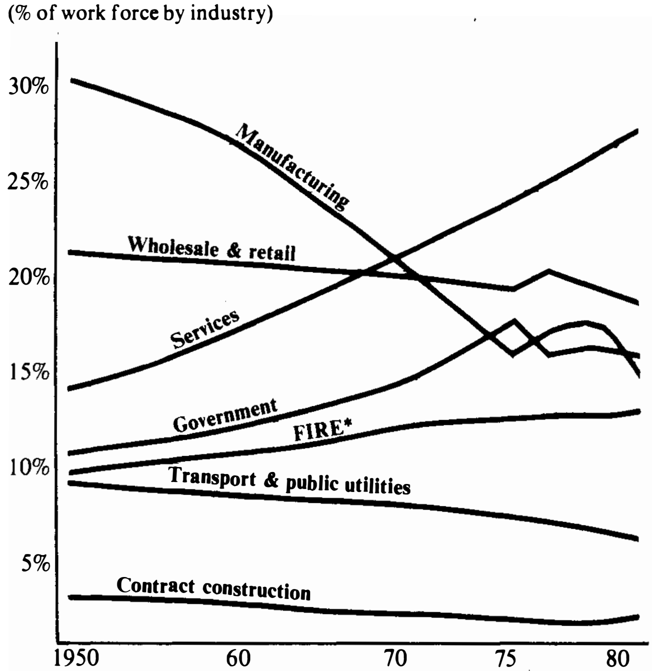
- Manufacturing employment has fallen by 40,000 under Mayor Edward Koch.
- Manufacturing jobs peaked at 1,073,000 in 1947 and have declined almost every year since 1953. As of last year, less than 500,000 remained—a 54 percent drop.
- Nearly 40 percent of New York City's manufacturing firms have folded since 1960.
- In 1950, manufacturing comprised 30 percent of all city jobs. Last year, the figure was only 15 percent.

In the last 30 years, the proportion of jobs in the four wealth-producing sectors of manufacturing, contract construction, transportation and utilities, and wholesale-retail trade fell from 65 percent to 44 percent,

Figure 4

Employment trends, 1960-80

(% of work force by industry)



* Finance, insurance, & real estate

while services, FIRE, and government employment went from 35 percent to 56 percent (see Figure 4). Since their peaks in the late 1950s-early 1960s, employment in the four productive sectors has declined overall by 38 percent, breaking down as follows:

- Wholesale and retail trade—down 19 percent
- Transportation and public utilities—down 25 percent
- Construction—down 64 percent

The General Accounting Office reports that private sector employment during the 1960s rose only 2 percent in New York City, versus 27 percent in the United States as a whole. Manufacturing employment declined 19 percent in New York, while rising 7 percent nationally.

By contrast, services and FIRE employment have increased 55 percent and 20 percent, respectively, since 1958, with gains of 14 percent and 8 percent under Koch.

The gutting of the municipal labor force

The onset of the contrived fiscal crisis in 1975 was the trigger to begin wholesale gutting of city services, beginning first with the municipal labor force. In just two years, Mayor Abe Beame—the bankers' underling who, as comptroller under Lindsay, rigged the fiscal crisis and ran up the debt—laid off and attrited 20 percent of the city's employees. Under Mayor Koch, 10,000 more have gone (see Figure 5).

But of equal significance is the erosion in the pay scales and standards of living—and consequently the morale—of those employees who remain. In the past five years total benefits per worker has barely kept up with inflation, and real wages have fallen substantially.

Moreover, while it is true that New York City employee labor costs increased 10.65 percent annually from 1961-1975, debt service increased *14 percent* annually. Policemen might well have received a 10.3 percent increase in constant dollars from 1970-1976; but the debt collectors got a huge 27 percent increase over a shorter period, from 1971-1976—and most of it was tax-free.

Moreover, during this period of real labor gains, *labor has fallen as a proportion of the total budget,* from 56.2 percent in 1965 to just 41.5 percent in 1978. In contrast, debt service went from 10.5 percent to 15.1 percent of the budget from 1970 to 1978.

On top of all this, the only actual "gain" employees have received is that more and more of their money is being thrown into pension funds—that is, into the asset pool controlled by the very financiers who have made their lives miserable. While pension fund contributions in constant dollar terms have increased 10 percent per employee in the last five years, workers have taken an average 3 percent real wage cut.

Figure 5
City government employment, selected sectors

	As of June 30, 1975	As of April 30, 1981	% change
Police	35,447	27,697	−21.9%
Uniformed officers	30,601	22,862	−25.2
Dept. of Social Services	28,331	21,052	−25.7
Fire	13,885	12,429	−10.5
Education	81,970	69,847	−14.8
Dept. of Environmental Protection*	18,846	15,958	−15.3
Health & Hospitals Corp.	43,128	40,735	− 5.5
Total	**296,805**	**231,903**	**−21.9%**

* Includes sanitation

The devolution of New York's industrial economy has already reduced population. Brooklyn, the city's largest and most populous borough, lost 14 percent of its residents. The Bronx lost 20 percent of its people. The 10 percent decline in population over the past decade is a net result of the outflow of a stable workforce and administrative workers and the influx of largely impoverished immigrants, many of them "illegals." Fearful of being discovered and deported, the illegals demand few services, and cannot vote; many of them accept the most abysmal sweatshop working conditions. Thus the city's population mix has been radically changed in the past 25 years: two million more skilled and stable workers have been driven from their neighborhoods into the suburbs or other parts of the country and a million newcomers began to fill the same neigh-

Figure 6
Replacement cycles for infrastructure

	Maximum life span before replacement needed (years)	Current replacement cycle (years)
City streets	25	200
Cast-iron water mains	50	275
Sewers	100	300
Hospitals	60	350
Subways	75	400
Bridges	75	300

Figure 7
City-operated hospital services

	Employment	Days of in-patient care	Emergency visits	Total beds (public & private)
1971	40,036	4,345,062	1,633,047	24,274 (1969)
1975	49,080	3,639,027	1,514,506	—
1978	40,750	3,280,268	1,360,312	18,502 (1979)
% change 1971-78 ...	**+1.7%**	**−24.5%**	**−16.7%**	**−23.8%**

borhoods, now largely destroyed by drugs, arson, service cuts, and unemployment.

Transportation

The Strategic Bombing Survey, whose leading member was New York investment banker and population-reduction proponent George Ball, found that disruption of transportation was a primary means of halting production. In New York City last year, 200 subway

In New York City last year, 200 subway trains broke down every day—71,700 breakdowns for the entire year. This was 68 percent more than the previous year's breakdowns and 139 percent more than 1977, the year before Mayor Edward Koch took over City Hall.

Trains and buses traveled 28 percent and 23 percent, respectively, fewer miles between breakdowns in 1980 compared to 1977 and subway track fires increased 40 percent.

Subway and bus maintenance staffs have been cut by 35 percent since 1977, and total service reduced by 30 percent. Transit police were cut by one third from 3,600 in 1974 and subway felonies soared by 75 percent. In that same seven years the fare rose from 35 cents to 75 cents.

Figure 8
City sanitation services

	Employment	Tons of refuse disposed of	Miles of street swept
1971	15,327	7,910,481	1,121,168
1975	14,338	7,534,988	1,223,998
1978	11,745	6,468,221	836,442
% change 1971-78	**−23.4%**	**−18.2%**	**−25.4%**

The city's 6,200 miles of roads and 2,000 bridges fared no better (see Figure 6). While the average lifespan of a city street is approximately 25 years before rehabilitation is needed, the current level of expenditure allows rehabilitation only once every 200 years. Since the 1976 "crisis" no major bridge repair has been undertaken.

Under the city's streets, only 20 miles of the city's 6,100 miles of water mains are replaced each year, a replacement cycle of 275 years. While cast iron mains are designed to last 50 years, 11 percent of Manhattan's water mains are obsolete 6-inch mains laid as long ago as 1870, accounting for 40 percent of water main breaks in the borough. Six percent of the 20,000 trunk valves are so decrepit that they cannot be closed if a break occurs.

Sewers are currently on a 300-year replacement cycle although even the newest sewers have a use-life of 100 years.

The accumulated capital deficit of the mass transportation system is estimated today at $14 to $18 billion. The city streets require $250 million each year; water mains, $150 million and sewers another $150 million.

Housing, health, and services

By 1979, the latest figure available, 2,000 blocks of housing in the Bronx had been destroyed by arson and vandalism. Today that borough loses 5 square blocks of housing every week.

The city needs 62,000 units of housing built every year to replace its housing stock. In 1980 fewer than 9,000 units were built—all of them "luxury rent" units requiring a family income of $50,000/year. No middle or low income housing has been built since 1977.

Since 1970, 27 hospitals have been closed, eliminating 2,400 beds (see Figure 7). The city now has 20 percent fewer hospital beds per capita than the rest of the nation, while its public health department has been cut by 38 percent. Sanitation service has undergone an 18-25 percent reduction (see Figure 8).

Fifty-three schools have been closed or put to other than instructional use while 10,000 teachers have been lost since 1975. Library hours have been reduced by 50 percent in ten years with neighborhood branches reduced to branches open four afternoons a week.

It should finally be noted that between 1961 and 1976, public assistance rolls more than trebled to over 1.2 million, or from 4 percent of the population to 17 percent. Today, one New Yorker in every six gets some form of public assistance. The bulk of the welfare checks has gone directly into escalating rental payments, which in turn have financed inflated mortgages and real-estate speculation, while the city was encouraged to loot its capital budget for operating costs.

Strategic bombing survey of New York City

Based on the 1969 City Planning Commission Master Plan

Above is a strategic bombing map of New York City seen from the gunsights of the RAND Corporation. The first circle, on a radius of four miles from Times Square, defines the "gentrification zone," the region of immense cash flow through the office buildings, hotels, East Side luxury housing, and other "services": drugs, prostitution, gambling, and pornography. The second concentric circle, nine miles in radius from Times Square, is the "enterprise free-fire zone" marked for annihilation of its present manufacturing, housing and public services. The remaining population will be re-employed in the unregulated, tax-free enterprise zones.

Two pockets within the gentrification zone, the Italian/Spanish-speaking/Black areas of East Harlem, will be replaced by a northward extension of the East Side luxury zone, while the Lower East Side will be maintained as a drug emporium as the older Jewish-East European residents are dispersed.

Mayor Edward Koch and his backers

The people who are particularly pleased at the job Koch has done as mayor of New York are those who put him into power in 1977, and those who have benefited most from his reign.

Koch, while in Congress, was, along with Jacob Javits, one of the chief congressional champions of marijuana decriminalization. According to National Organization for the Reform of Marijuana Laws (NORML) founder Keith Stroup, Koch was instrumental in the creation of the Shaefer Commission, a federal blue-ribbon panel set up in 1970 to investigate the marijuana issue. Headed by ex-Pennsylvania Gov. Raymond Shaefer, the commission recommended some form of decriminalization, claiming that scientific and medical evidence against marijuana was inconclusive.

Although President Nixon rejected the recommendation, Stroup says the commission's findings were invaluable to NORML's drive to decriminalize marijuana on a state-by-state basis. "Without the Shaefer Commission, and without Ed Koch, there probably would be no decrim laws anywhere," he asserts. George Furnham of NORML enthused recently, "Koch has turned New York City into a model for drug decriminalization."

In addition, Koch has a hard-core group of real-estate speculators among his supporters, including Cadillac Fairview, Olympia and York, and Trump Management, representing Canadian and British interests.

Among Koch's biggest financial contributors in 1977 were:

• Edgar Bronfman, director of the American branch of Seagram's, the Canadian distillery that has documented ties to the international drug trade. The Bronfman family has major interests in Olympia and York, Cadillac Fairview, and Trizec, three of the Canadian-based real-estate concerns that have bought up big chunks of New York real estate, thanks to Koch's generosity.

• Donald Trump, the 33-year-old owner of Trump Management Co., whose multibillion-dollar real-estate empire includes the newly converted Grand Hyatt Hotel and Trump Towers cooperative which, when completed, will command minimum prices of $5 million per apartment. It is rumored that purchasers will include the Prince and Princess of Wales. Trump's lawyer is Roy Cohn, attorney for a host of organized crime interests.

• A number of other major real-estate and banking interests including Harry Helmsley; Lew Rudin; such Wall Street firms as Kuhn Loeb, Euro-American Bank, and the Hong Kong-linked Bear, Stearns. Steven Ross, head of Warner Communcations; Mrs. Cornelius Vanderbilt Whitney; and Occidental Petroleum's Armand Hammer, patron of Libyan strongman Col. Muammar Qaddafi.

Most of these individuals and organizations are joined by Citibank, Hilton Hotels, Time, Inc., Bear Stearns, David Rockefeller, IBM's Thomas Watson, Felix Rohatyn, and *Screw* magazine publisher Al Goldstein—throwing money into Koch's campaign this time around, a reward for a job well done. Koch's 1981 campaign apparatus is also indicative.

Sitting on his finance committee are former Secretary of State Cyrus Vance, an author of the Carter administration's *Global 2000 Report* that calls for eliminating 2 billion people from the earth over the next 20 years; conservative Republican William Simon, a former secretary of the Treasury and now a Wall Street banker; and the heads of Equitable Assurance, Colt Industries, AT&T, and Chemical Bank.

An instrument of the liberal Village Independent Democrats against the city's Democratic machine, Koch was also a dogged congressional opponent of NASA as a member of the House Science and Technology Committee. He had first been picked up as an asset in much the same way as the nonentity Henry Kissinger had been: Koch served as a denazification bureaucrat in postwar Germany, under the direction of Gen. Julius Klein and of Fritz Kraemer, the notorious Kissinger stringpuller and Pentagon mole on behalf of London and the Hapsburgs, who is avowedly dedicated to "postindustrial" policies.

A strategy for 'free enterprise zones'

by Lonnie Wolfe

Like the generals of a plundering occupation army, the bankers and real-estate interests that run New York have devised a plan for the nation's bombed-out urban areas. The plan, called the "Urban Free Enterprise Zone," is embodied in legislation recently introduced by Reps. Jack Kemp (R-N.Y.) of Buffalo and Robert Garcia (D-N.Y.) of the South Bronx.

The Kemp-Garcia bill prescribes tax breaks and similar devices to attract low-wage, labor-intensive industry to locate in devastated and abandoned urban areas. Its key point of saleability to the gullible White House is its "free market" orientation: it is low cost and emphasizes job creation through the private sector. The plan has already received the tacit endorsement of the administration, and Kemp's office expects a full endorsement to come some time in the fall. New York City's mayor, Ed Koch, was among the plan's earliest and loudest backers.

Almost any 20-block ghetto area could qualify for enterprise-zone status. Kemp's office openly boasts that their plan would turn the nation's ghettos into "thriving" economies modeled on the low-wage, dirty-money economy of Hong Kong.

Fabian authorship

The plan was developed by and for the same British banking networks that run Hong Kong. Its originator and loudest proponent is Peter Hall, the former chairman of the British socialist Fabian Society. Hall relayed the plan to Conservative Chancellor of the Exchequer Sir Geoffrey Howe, who passed a version of it through Parliament last year. Conservative Howe and Fabian Hall collaborated on pushing the plan in the United States as proposed policy for the Reagan administration, dispatching Hall's associate Stuart Butler to the Fabian Society's conservative trojan horse, the Washington, D.C.-based Heritage Foundation. Butler worked with supply-side proponent Kemp on drafting the legislation and selling it to the White House. Hall himself was brought in last winter and stationed at the University of California at Los Angeles to help direct implementation of the Butler-Hall plan.

As Hall described the enterprise zones at a Heritage Foundation-sponsored conference in Washington last fall, they represent "guild socialism." The model for the zones is the kind of work-camp economy described in Jeremy Bentham's *Panopticon.* Butler emphasizes that the concept is small, low-wage shops, like the sweat shops in Hong Kong, where unskilled workers can be recycled at barely survival wages.

Butler and the framers of the bill hope that the poor will eventually create self-sufficient communities, insulated from the rest of the city. As such the Kemp-Garcia proposal represents the ultimate in the "community-control" schemes devised by the Ford Foundation and others in the 1960s.

The bill would designate such areas as "free trade zones," opening the door to Hong Kong-style foreign investment. A company could locate light assembly operations in the zone, taking advantage of the cheap labor and tax breaks, and then export its product for further assembly or for sale without paying any duty. Butler prefers a variation of this—contracting out such assembly to small enterprise zone-based companies. Other sources note that such arrangements are notoriously used as money-laundering investments—as Butler and his cothinkers privately admit.

Sources in the real-estate industry expect major benefits, even before the legislation is passed. Currently, real-estate values in such places as New York City's South Bronx are, in real terms, zero; yet they are kept on the books at inflated values. The promise of the enterprise zones is expected to trigger a new speculative boom in these worthless property titles.

Butler and his Fabian colleague Peter Hall would prefer that the legislation creating the zones wipe out the minimum wage, rent control, Social Security requirements, and so on. Kemp's office is more practical. They say that such measures, however desirable as a "social experiment," would politically jeopardize the bill. Already the AFL-CIO has denounced Kemp-Garcia, and additional opposition might paralyze the bill. In a nearly six-month mark-up process, the more politically odious components of the Hall-Butler plan were discarded. Kemp's office adds that many individual zones may decide to "democratically" waive such things as the minimum wage once the zones are in operation.

This pared-down bill is now scheduled for congressional action some time in the fall. If Kemp's schedule holds, the enterprise zones could be created nationally by 1982. Even if that doesn't occur, efforts are under way in several states to create zones modeled on the Butler-Hall plan. Already such legislation has passed the Connecticut legislature. If the national Kemp-Garcia bill gets bogged down, Ed Koch's backers plan to have a "New York State" bill introduced.

EIR International

Haig wants depopulation on North-South agenda

by Dennis Small, Latin America Editor

A two-day caucus of foreign ministers from 22 nations—representing both the developed "North" and the underdeveloped "South"—ended in Cancún, Mexico on Aug. 2, having set the tone and agenda for the historic Oct. 22 Cancún summit of heads of government. The world's leaders, including President Ronald Reagan, will discuss how to reduce the world's population by denying the developing sector advanced technology, and how to limit nations' sovereignty through the ruse of "global negotiations."

Almost every participant at the foreign ministers premeeting issued awkward disclaimers that "nothing concrete" should be expected from the October summit, and that it would be a purely informal exchange of views. But the fact of the matter is that the Cancún summit is scheduled—as of this writing—to take a long step toward the implementation of a criminal one-worldist policy of population reduction as the supposed "solution" to the current international economic crisis.

The just-completed preparatory meeting indicates the direction the October meeting will take. Mexican Foreign Minister Jorge Castañeda, as the representative of the host country, said that no fixed agenda will be presented to the heads of government. However, four broad topics for discussion will be presented, including energy; food security and agricultural development; raw materials, trade and industrialization; and monetary and financial matters, according to various sources.

The groundwork for the adoption of the "population" and "globality" themes was laid at last month's disastrous Ottawa summit of the West's seven most advanced nations, where President Reagan joined the heads of government of Britain, France, West Germany, Japan, Canada, and Italy in adopting the infamous Article 20—which calls for international negotiations on how to stop population growth. *EIR* has since learned that the author of Article 20 was none other than Aurelio Peccei, the head of the Club of Rome, which group advocates drastically reducing the world's population by various billions by the year 2000.

Peccei's resolution was inserted into the final Ottawa communiqué by Canadian Prime Minister Pierre Trudeau—also a dedicated one-worldist. "Trudeau is totally committed to our idea," said a Club of Rome executive.

A link between the Ottawa meetings and the Cancún summit preparations is the increasingly important role in international affairs of the Socialist International and its chairman, Willy Brandt. Brandt is also chairman of the so-called Brandt Commission, organized by former World Bank President Robert McNamara. Brandt has written a study titled "Strategy for World Survival" that proposes the creation of supranational institutions to manage "limited" global resources and control transfer of technology from the developed sector to the Third

World by lowering growth rates worldwide.

While the Brandt Commission takes credit for the idea of a selected heads of government summit, informed sources indicate that this idea originated at the Society for International Development (SID) meeting in 1979. The SID has a sister organization in Washington called the Overseas Development Council, but operates primarily through a close relationship with the British Tavistock Institute. It is significant that while British Foreign Minister Lord Carrington was described as "enigmatically quiet" at Cancún, the summit script is believed to be in preparation with the close coordination of the British monarchy.

Key to both the SID and Brandt Commission proposals are efforts to use the summit to exercise "political will" for supranational solutions to "global" problems such as energy and finance. And while Mexico has agreed to hold the summit, informed sources report that President López Portillo's views and those of the Brandt Commission are diametrically opposed.

Haig backs globality

Well-informed sources at the Club of Rome also report that President Reagan's initial resistance to discussing the depopulation of the globe was neutralized at Ottawa by their top asset inside the cabinet—Secretary of State Alexander Haig.

General Haig again played the crucial role last week in putting America's name behind the call for "globalism" at Cancún—and he allied closely with the Socialist International to achieve this.

France's Socialist foreign minister, Claude Cheysson, for example, frankly reported that "Haig has accepted the concept of a round of global negotiations. Before, the U.S. did not even admit that." Canada's Mark McGuigan praised the marvelous "concession" Haig had made to the Third World by accepting the concept of "globality." And Austrian Foreign Minister Willibald Pahr exulted that Cancún would "open the doors that lead to the initiation of a global round of negotiation . . . within the framework of the United Nations."

Pahr was referring to the scheduled 1982 U.N. General Assembly session that will be specially devoted to "global negotiations"—that is, to nailing down the genocidal specifics otherwise agreed to in principle at Cancún. The predominant U.N. role was also reflected in the decision by the foreign ministers to invite U.N. Secretary-General Kurt Waldheim to participate in the October Cancún summit. Waldheim is an avid one-world proponent.

Haig also received support from the foreign minister of Mexico, Jorge Castañeda, who expressed his hope that the Cancún Summit "could launch the global negotiations that have stagnated thus far."

Castañeda has had a long career promoting supranational causes, such as the Law of the Seas negotiations, and is closely allied with the terrorist-promoting Socialist International. Castañeda more often than not speaks for the Socialists, not for the Mexican government of José López Portillo.

The development issue

But things will not be quite that simple at Cancún for the oligarchists and their genocide lobby. From among the 22 participating heads of government, there are still those who favor industrial growth as the future for humanity—and will promote economic cooperation between North and South to achieve it. They are looking to the Cancún summit as a unique opportunity to take up the substantive issues of technology transfer and monetary reform.

Mexican President López Portillo, for example, the host at Cancún, has been a tireless proponent of industrial modernization not only for his nation but for the entire Third World. López Portillo issued an international appeal for lower interest rates on the eve of the Ottawa Summit, and informed observers expect him to bring this same anti-Volcker organizing to Cancún.

Wire reports from Agence France Press, the French news service, note that the Mexicans will be seconded in this by Brazilian President João Figueiredo, who "believes that monetary problems and high interest rates in the U.S. financial markets are highly damaging to the Third World nations." Indian Prime Minister Indira Gandhi is another strong proponent of nationalism and industrialization. And West German Chancellor Helmut Schmidt is also opposed to zero growth. All will be present at Cancún.

The one-worldists could even run into some trouble from President Reagan. Although Reagan this week recommitted himself to suicidal support for Volcker's depression policies, he is known to have a gut hostility to anything that smacks of depopulation or supranationalism. Organizers for the one-world cause at the United Nations have revealed their nervousness about being able to sell Reagan on the idea of "globality." "And if he doesn't go with the plan, the whole thing is shot," they note ruefully.

To corral these heads of government—and others they might organize to their views—into supporting a program of genocide, the oligarchists are planning to stage a major dollar crisis in the period leading into the summit. Under such conditions of severe crisis, they hope to stampede the gathered heads of government into accepting "crisis-management" options that limit national sovereignty through global institutions.

Special treatment of this sort is being reserved for the government of Mexico which, as the host country and the outstanding leader of Third World development, will wield enormous influence at the summit. Major economic warfare against the Mexican economy has already been launched by Wall Street forces, who are using astronomical interest rates and credit strangulation to try to bankrupt entire sectors of Mexican industry and undermine Mexico's impressive 8 percent yearly growth rate.

Tremendous pressure is also being applied to the Mexican peso, in an attempt to stampede investors into a run on the currency and capital flight.

This combined operation is designed to bring Mexican President López Portillo to his knees politically, *before* the Cancún summit. If such terror tactics are allowed to succeed, that is also how the entire world's leadership will leave Cancún—subjugated to a policy of depopulation by the one-worldist financiers.

Club of Rome maps new U.S. strategy

A senior official of the U.S. Association for the Club of Rome commented in an Aug. 3 interview that he expects the North-South meeting in Mexico this October to reach no significant agreements, but he was confident that the discussions would not obstruct the potential for private and semipublic supranational organizations to proceed to link economic programs to population-reduction programs through the IMF, World Bank, United Nations, commercial banks, and multinational corporations.

The official was preoccupied with the Club's new strategy for the United States. His comments intersected an Aug. 4 interview in which Club of Rome cofounder Aurelio Peccei spoke frankly of "getting rid" of President Reagan and putting "an end to the American way of life, to the idea of progress." Peccei hoped that forms of cult-religion would aid in an American ideological transformation, citing Buddhism and in particular, the Jesuits, whom he called "my good friends." Peccei became notorious for a time in 1974 when he suggested that cannibalism would be a courageous program for undernourished peoples.

The official also noted that a special book will be designed for Americans, *Making It Happen in America—A Guide to Our Future*—the very title bearing "cowboy" language-preferences in mind. "We are not opposed to technology," he reported suddenly. "We think that it should be better understood. Technology must be delinked from the idea of unlimited growth and be relocated in people's minds as a tool for coping with scarcity. It is a question of perceptions. We came on too strong before. It was all right in a way, because it shook people up, but now to be effective, we have to change our presentation."

He cited President Reagan himself as a typical example of an American who can be fooled into supporting an idea he opposes just by changing the language in which the idea is expressed. For instance, Reagan sharply opposed the Carter administration's *Global 2000 Report,* which called for a reduction of world population by 2 billion persons in the next 20 years, "to safeguard the environment." But according to the Club of Rome, "Reagan is now a big supporter of the information society or technetronic society," both catch-phrases for an economy without any industrial progress, unthinkable to Reagan when described in Global 2000.

"Some people at the State Department turned his head," he continued. "Some good people at the State Department told Reagan that he can't just burn the report, that he should look at what he can agree with."

It's all a question of language, he emphasized. "When he is told population is a national security question, he listens. When you talk to him about an ecological disaster, he doesn't. When you talk about living in harmony with the biosphere, he will listen. If you talk about a pure conservationist or environmentalist ethic, he won't. It is a question of language. This is how we are packaging things. It is how people talk at the State Department."

If Reagan can't be totally fooled, the official said, he will just have to be thrown out of office. "But right now, we're going after Watt." Interior Secretary James Watt, staunchly favoring economic development and rarely fooled by any form of environmentalist program, he called "a committed ideologue," and a "major roadblock." "We want to knock him out. This would be a clear signal. He is an important roadblock because you can only go so far with things like Global 2000 as long as people like him are around. If he goes, and we have pressure on the inside building up, then it will give people who agree with us at Treasury and State greater freedom of action. . . . Watt is a good target."

This spokesman spoke of a November Club of Rome conference in Washington, which would be a "war council" to launch the propaganda drive. "We were known for limits to growth," he stated, "Now we will be known for the idea of sustainable development—an ethic of sacrifice and progress, a new era in human history. . . . We are going to tell America that we can solve our problems, that there need not be doom, but that we must set an example for the world in this. America is confused. It doesn't know where it wants to go. People are ready for a new ethic and we are going to give them one. . . . We have to create new modes of language to communicate these ideas."

CENTRAL AMERICA

Hesburgh oversees regional blowups

by Timothy Rush

Father Theodore Hesburgh, C.S.C., president of Notre Dame University, began a month of "vacation" in Latin America July 27. At least three countries are on the tour—Mexico, Panama and Chile—and in the first two he met with groups of Notre Dame alumni as well as numerous others in private meetings.

EIR has determined that these meetings and his activities are one of the most important command levels of current preparations for an explosion in Central America and Mexico. Some elements of the timetable are set to go off in the next six weeks: precisely in the countdown period for the October North-South summit in Cancún. The death of Panamanian strongman Omar Torrijos while Hesburgh was in Panama heightens the volatility of the region and hence the chances for the Hesburgh program to succeed.

Why is Hesburgh important? As this publication has repeatedly documented, *both* sides of the Central American carnage are being manipulated by the same controllers. Jesuits and related orders such as the Maryknolls, are integral to the field orchestration of this charade, and the destabilization of Mexico is a fundamental underlying objective.

Hesburgh provides a textbook illustration of the interlocking levels of control. He is chairman of the board of the Rockefeller Foundation; a director of Chase Manhattan Bank; a director of the Council on Foreign Relations in New York; and long-time president of the board of the CFR's joint affiliate with British Intelligence for Third World policy, the Overseas Development Council (ODC). As one Hesburgh-watcher summarized it, "He's on the payroll of David Rockefeller and the Trilateral Commission."

Yet, through his role in the Church and Notre Dame alumni circles, it is the same Hesburgh who shows up "on the scene" guiding both sides of the Central American destabilization. His Panama alumni session, according to high-level South Bend sources, included no less than Napoleon Duarte, president of El Salvador; leaders of both the Sandinistas and pro-Somoza forces from Nicaragua; and Archbishop Marcos McGrath of Panama, one of the principal behind-the-scenes controllers of "Theology of Liberation" forces on the continent.

"There's sort of an inside connection" between Hesburgh and McGrath, confesses a knowledgeable Notre Dame source. "They are both ordained in the Holy Cross order," which is a teaching order "established according to similar principles to the Jesuits' " two centuries ago. McGrath is on the board of trustees of Notre Dame, where he studied as an undergraduate at the same time Hesburgh was chaplain, and "comes to Notre Dame at least once a year for close consultations with Hesburgh."

The most important of the Maryknoll and Jesuit controllers of the Sandinista government, Panamanian Xavier Gorostiaga, S.J., is the personal protégé of Marcos McGrath.

"I don't know just why there's such a close Notre Dame-Central America connection," continues the Notre Dame source. "But it's been in effect since the 1940s. Nicaragua is particularly interesting. During the period of the civil war, active members of the Sandinista opposition and Somocistas were both studying on campus. You almost needed bodyguards to prevent fights. A lot of the Cardenal people [Ernesto and Fernando Cardenal, respectively, Trappist and Jesuit priests who have taken high posts in the Sandinista government—T.R.] graduated here, and there's a big Maryknoll connection through Notre Dame."

September scenario

The same days Hesburgh was conferring with Notre Dame networks in Panama, the regional leaders of the Jesuit order were also meeting in Panama. This "double" planning event takes on special significance in light of new destabilizing factors coming to a head over the upcoming weeks. Some regional specialists point to a "September scenario" of enlarged chaos throughout the region.

One of the most important anticipated triggers is the Sept. 21 granting of independence to the British colony of Belize, long claimed by Guatemala. Another key trigger-potential is represented by the continuing weakening of internal Sandinista control in Nicaragua. The splintering was highlighted the first week in August when Fernando Chamorro, of the well-known family which had cooperated with the revolution, fled the country. The levels of fighting in both El Salvador and Guatemala are on the upswing.

Target: Mexico

Hesburgh is personally involved in carrying the destabilizing work to the ultimate target: Mexico. It was Hesburgh who chaired the "Select Commission on Immigration and Refugee Policy" which recommended earlier this year proposals which would effectively shut off the flow of Mexican labor to the United States. As he well knows, sealing the border is a prescription for unrest in Mexico and a blowup in U.S.-Mexico relations.

A Hesburgh associate at Notre Dame candidly described the strategy: "The two equally destabilizing pressures on Mexico are its northern and southern borders. On the north, Mexico has to be very concerned about a cutoff from the U.S. side; and in the south, it faces Guatemala, with fighting and refugees spilling over."

On his way to Panama, Hesburgh stopped in Mexico and reportedly consulted with his personal protégé Jorge Bustamante, a Notre Dame graduate. "Radical" Bustamante, a widely quoted "expert" on immigration, then flew to Washington where he headed up loud protests to the newly announced Reagan administration immigration program.

Hesburgh is simultaneously in the thick of new efforts to resurrect church-state conflict in Mexico, in the hope of creating a virtual civil war situation. The scenario for this "new Cristero Rebellion" was fully spelled out in an article in the *Wall Street Journal* in mid-July, molded by Hesburgh's Notre Dame specialist on the Mexican Church, Father Claude Pomerleau (see *EIR*, Aug. 2, 1981). And as Hesburgh arrived in Mexico last week, a new surge of radical church attacks on the government erupted.

'Father Ted on the Rockefeller payroll'

Father Theodore Hesburgh has carefully cultivated an image as a disinterested churchman called to public service at the highest levels of policy making, but always returning to the simple cot and hotplate of his ascetic domitory lodgings at Notre Dame.

What he is returning from are board meetings of Chase Manhattan Bank, the Rockefeller Foundation, the Council on Foreign Relations, and the Overseas Development Council. And the unifying thread of his Church and public careers is a policy of rolling back science and technology in the interests of a neo-feudalist "one-world" order.

Hesburgh on the Church

When Hesburgh became president of Notre Dame in 1952 he turned that institution into a bastion of anti-Papal "American Hersesy" activity. Hesburgh has endorsed what he calls the "Gamaliel principle": that there is no effective criterion for human reason to separate true Christian doctrine from false. In 1968 he installed birth control crusader Father James Burtchaell as head of the Notre Dame Theological Department. Burtchaell, just back from study at Cambridge, England, was described by observers at the time as "an Anglican bishop gone pop." Hesburgh recently rejoiced that the Church faces an "increasingly decentralized and declericalized future." He should know: he separated Notre Dame from formal Vatican control in 1967.

In some ways his most important effort in the Church has been the destruction of Pope Paul VI's great teaching of the encyclical *Populorum Progressio*, that "the new name for peace is development." In his 1974 book, *The Humane Imperative*, Hesburgh counterposed to this the writings of Theology of Liberation guru Gustavo Gutiérrez: "What the new breed in Latin America want is a change of concept, substituting the word 'liberation' for 'development.' "

On science and development

From early on Hesburgh was given the special assignment of "humanizing" technology, a code word for destroying new advances in science and their spread to the developing sector. In 12 years on the National Science board, Hesburgh personally turned American science funding for the first time away from basic natural science and into "social-science" studies for social control. He continued the same crusade from his perch at the top of the Rockefeller Foundation and in a 1979 article summed up his adherence to the "postindustrial society": U.S. technology, must shift to be "more service-oriented" and "less geared to production of goods."

On North-South

In the early 1970s Hesburgh assumed the presidency of the Overseas Development Council, a joint project of the Council on Foreign Relations and the British Colonial Office mutation, the Society for International Development at Sussex, England. From this key post he has been in the thick of directing "North-South" discussion along lines of "global" deindustrialization and depopulation. "The simple fact is that developed or developing countries control their populations and the less developed countries do not," he wrote in his 1974 book; "studies by the Overseas Development Council" prove this. Quite naturally the ODC became the official sponsoring agency in the U.S. for the neo-Malthusian Brandt Commission report in 1980, and is deeply involved in meprations for the October North-South summit in Cancún, Mexico.

Hesburgh made clear his rabid one-worldism in a 1974 keynote address to the elite Anglo-American Ditchley Foundation near Oxford, England. The world map must be re-drawn into a "triregional global North-South configuration," he stated, made up of the Orient; Europe together with Africa and the Middle East; and the Western Hemisphere. "The greatest enemy to all of these proposals is nationalism, a kind of historical insanity."

PANAMA

Torrijos death opens the way for chaos

by Gretchen Small

The sudden demise of Panamanian strongman General Omar Torrijos July 31, when the Twin-Otter airplane in which he was traveling hit the side of a mountain, remains shrouded in mystery. Panamanian officials deny any foul play—but most knowledgeable observers believe he was assassinated, and are asking themselves who wanted Torrijos dead.

The suggestion, for instance, that Torrijos' death was due to deliberate sabotage by the CIA was floated by Soviet radio the day after the crash, and it was promptly—and vehemently—denied by the U.S. State Department. Others are privately charging the ultraradical insurrection networks in Central America linked to Cuba and the Society of Jesus with responsibility. According to this view, Torrijos was holding back on endorsing an all-out insurrection in the region as per the "September Scenario" for blowing the area up.

Whatever the case, the fact is that General Torrijos was deeply involved with the Latin American operations of the Propaganda 2 (P-2) networks of Masonic Grand Master Licio Gelli, and with the terrorism and shady financial dealings that the P-2 crowd has been proven to specialize in.

Torrijos achieved international prominence for successfully obtaining the agreement of the Carter administration in 1978 to relinquish U.S. control over the Panama Canal, following years of protracted negotiations. The Panamanian strongman also became a hero of sorts in the Third World for his well-publicized support for sundry radical causes, including the Nicaraguan Sandinista revolution, and Libya's Muammar Qaddafi.

But during the almost 13 years that he ruled Panama after staging a military coup in 1968, Torrijos presided over the transformation of Panama into one of the world's largest offshore international banking centers. Over 110 multinational banks—ranging from David Rockefeller's Chase Manhattan to Trilateral Commission member Sol Linowitz's Marine Midland (recently purchased by the drug-running Hongkong and Shanghai), to the Royal Bank of Canada—which jointly control close to $40 billion in assets, now operate in the almost unregulated environment set up by Torrijos and his former planning minister, Nicolás Ardito Barleta. Barleta, one of Milton Friedman's "Chicago Boys," is now the World Bank's vice-president for Latin America.

It is no secret that much of the banking activity in Panama is related to the country's longstanding role as a contraband entrepôt. Panama is the largest duty-free port in the world after Hong Kong. And during Torrijos' reign, the country's traditional role as a transit point for drugs from the Orient to the West was overshadowed by the growth of its role as a transshipment point for the South American drug flow.

In fact, one of General Torrijos' brothers, Moisés, was indicted in 1971 by a federal grand jury in New York for heading a heroin smuggling ring. The scandal caused by the Moisés Torrijos affair, who at the time was Panama's ambassador to Argentina, almost scuttled the canal treaty negotiations.

It was through Argentina that the Torrijos brothers maintained one of their most direct links to the P-2 lodge headed by Licio Gelli. General Torrijos, it has been revealed, was a key factor in obtaining the recent release from prison of Argentina's former president, Isabel Perón—the widow of dictator Juan Perón—who was in jail for stealing national funds in collaboration with listed P-2 member José López Rega.

Torrijos, according to Mrs. Perón's own testimony, was so close to the P-2-controlled Perón that, before his death in 1973, Perón proclaimed Torrijos his "political heir" in Latin America. Torrijos reportedly was even given Perón's swagger stick as a symbolic gesture.

Last week the Argentine daily *Clarín* reported that Torrijos was also allied to David Rockefeller's Trilateral Commission, which is extensively interlinked with Gelli's P-2 lodge. According to *Clarín*, the Trilateral Commission decided to back the canal treaties after getting Torrijos to agree to establishing Panama as an offshore banking center in 1970.

During Torrijos' reign, Panama also became a key command center for the deployment of Socialist International-controlled terrorist activities. Just three weeks ago, Edén Pastora, better known as Nicaragua's "Commander Zero," fled Nicaragua to Panama, where he joined forces with Hugo Spadafora, Torrijos' former Vice Minister of Health, to launch regional "wars of liberation." Spadafora, part of the famous Italian noble family of that name, received guerrilla training through Qaddafi's networks, and has since fought on the side of the guerrillas in Guinea-Bissau, Nicaragua, and is soon to join the civil war in El Salvador, he claims.

In Panama for talks during the last weeks before Torrijos' death were the head of Spain's Socialist Party Felipe González, Portuguese Socialist Mario Soares, Colombian author and terrorist-controller Gabriel García Márquez, and his Peruvian counterpart and London resident Mario Vargas Llosa.

THE VATICAN

Cardinal renews charge of conspiracy

by Giuseppe Filliponi,
Milan correspondent

The Primate of Poland, Monsignor Jozef Glemp, declared publicly the last week in July that the Vatican does not accept the verdict of a Roman court that Ali Agca, the would-be assassin of the Pope, was acting as an isolated madman.

In a discussion with journalists immediately after he visited the convalescent Pope John Paul II in the hospital, Monsignor Glemp said: "No one knows if this man who raised his hand against the Pope has someone behind him who is still protecting him. We thought that the verdict of the judges would have clarified this problem; but there was nothing on this. The whole world is wondering, where does Ali Agca come from?"

When one member of the astonished press corps asked if he thought the attempt on the Pope's life had come from the East, Monsignor Glemp answered smiling: "One could also say that it comes from the South."

Monsignor Glemp's reference to the "South" immediately evokes in the mind of every Italian the Libya of terrorist Qaddafi. To the more informed Italian, it also evokes the Venetian oligarchy and their partners in British secret intelligence, who control Libyan terrorism as a key asset in the Mediterranean area.

It was these Libyan networks, together with the Israeli secret services, that were deployed in the spring of 1978 to kidnap and kill Christian Democratic Party President Aldo Moro. Moro's death triggered the rapid destabilization of the country and the collapse of the Andreotti government's alliance between the Christian Democracy and the Communist Party. That alliance was destroyed to prepare for a totalitarian regime under Italy's would-be Mussolini, Socialist Party head Bettino Craxi.

Simultaneous with Monsignor Glemp's declaration, the magazine *Studi Cattolici,* official organ of the Catholic organization Opus Dei in Italy, carried a lengthy denunciation of the conspiracy behind the "Global 2000" population report endorsed by U.S. Secretary of State Alexander Haig.

The article, signed E. Blondet, reports that this plan was elaborated by the U.S. State Department and White House under the Carter administration to "resolve" the problem of the economic crisis, not through progress and economic growth, but by reducing the world population by two billion human beings before the end of the century. The article specifically denounces the role of the Club of Rome and the Rockefeller family in this project.

These two developments leave no doubt that the forces around Vatican Secretary of State Agostino Casaroli are now conducting an open battle against the "Global 2000" advocates, i.e., the same interests that had hoped to use the assassination of the Pope to break the resistance and unity of the Catholic Church and thus clear the way for Global 2000.

Moves against P-2

The first important response by the Church was the unmasking, days after the hit on John Paul II, of the subversive activities against the institutions of the Italian republic by the Propaganda 2 Masonic lodge and its financial henchman, Roberto Calvi. Both Alexander Haig and the Trilateral Commission of David Rockefeller (members of which were revealed to be in the fascist P-2 lodge) were implicated in the widening scandal, as well as top collaborators of Bettino Craxi.

But in recent weeks Craxi and his ally in the small Italian Social Democratic Party, P-2 member Pietro Longo, counterattacked with heavy pressure to block further revelations. Less openly but no less arrogantly, Haig's men, led by his "adviser on terrorism," Michael Ledeen, were deployed to Italy to back up Craxi.

Reliable U.S. intelligence sources have confirmed that the reason the Pope has remained hospitalized is not because of his health, but because Vatican security services think a second attempt on his life is likely.

There is good reason to be apprehensive. The Milan court that condemned P-2 financier Roberto Calvi to four years in prison has turned around under pressure and released him, while the Rome court trying Agca ruled that he was a "lone assassin."

The beginning of this counteroffensive by terrorist controllers dates from the arrival in Rome of Michael Ledeen, nominally on vacation, the day before the daughter of fugitive P-2 Grand Master Licio Gelli arrived in Rome with key documents to blackmail high-level government and NATO officials.

According to press reports, her suitcase contained, among other things, a NATO document dated 1970 and signed by General Westmoreland (code-number FM 30-31) containing instructions on how to infiltrate and manipulate terrorist groups in NATO countries. Given that the famous "Haig dossier" found in Gelli's villa reported the results of meetings between Haig and Gelli in 1969 to plan the construction of a subversion network in Italy, and terrorist massacres began in late 1969 in Italy, there are more than enough reasons for Haig to have sent Ledeen to Rome.

The function of teaching of grammar as a crucial element of military policy

by Lyndon H. LaRouche, Jr.

Former candidate for the 1980 Democratic Party presidential nomination, the writer of the following, Lyndon H. LaRouche, Jr., is among the most outspoken and controversial among contributors to the military-policy debate now raging within and outside the Reagan administration.

The writer's general point of view, in all of the articles of the current military-policy series, is that the leading NATO circles are attempting to parody the Nazi Germany military policy of 1933-45, to the degree of deploying slightly updated and nuclear-armed versions of the Nazi V-1 and V-2 (the cruise and Pershing) as the characteristic elements of NATO posture. The transformation of Atlantic Alliance nations into "postindustrial society" wreckage, through U.S.A. support for the dogmas of Professor Milton Friedman, Representative Jack Kemp, and Paul A. Volcker, is a mere parody of the policies of Nazi Finance Minister Hjalmar Schacht under, inclusively, Chancellors Brüning and Hitler. NATO policy-makers have insisted that military policy must be subordinated to the effects of such a neo-Schachtian policy for the U.S.A. et al., obliging themselves to adopt a parody of Hermann Goering's "Guns Instead of Butter" doctrine of arms and operations.

The writer proposes a return to a "traditionalist" military doctrine. He proposes that the technology of warfare be defined in respect to a reference-policy of "Manhattan Project"-scaled, broad-spectrum development and deployment of relativistic plasma-beam anti-missile weaponry, combined with the strengthening of the civilian-economic agro-industrial basis for in-depth logistical, mobility, and personnel features of military capabilities.

In the course of the series of articles outlining this proposed change in policy, the writer reaffirms the continuing relevance of the traditionalist republican military science of Alexander the Great, George Gemisthos Plethon, Leonardo da Vinci, Niccolò Machiavelli, Gottfried Leibniz, Lazare Carnot, and the Prussian state reforms of 1809-10.

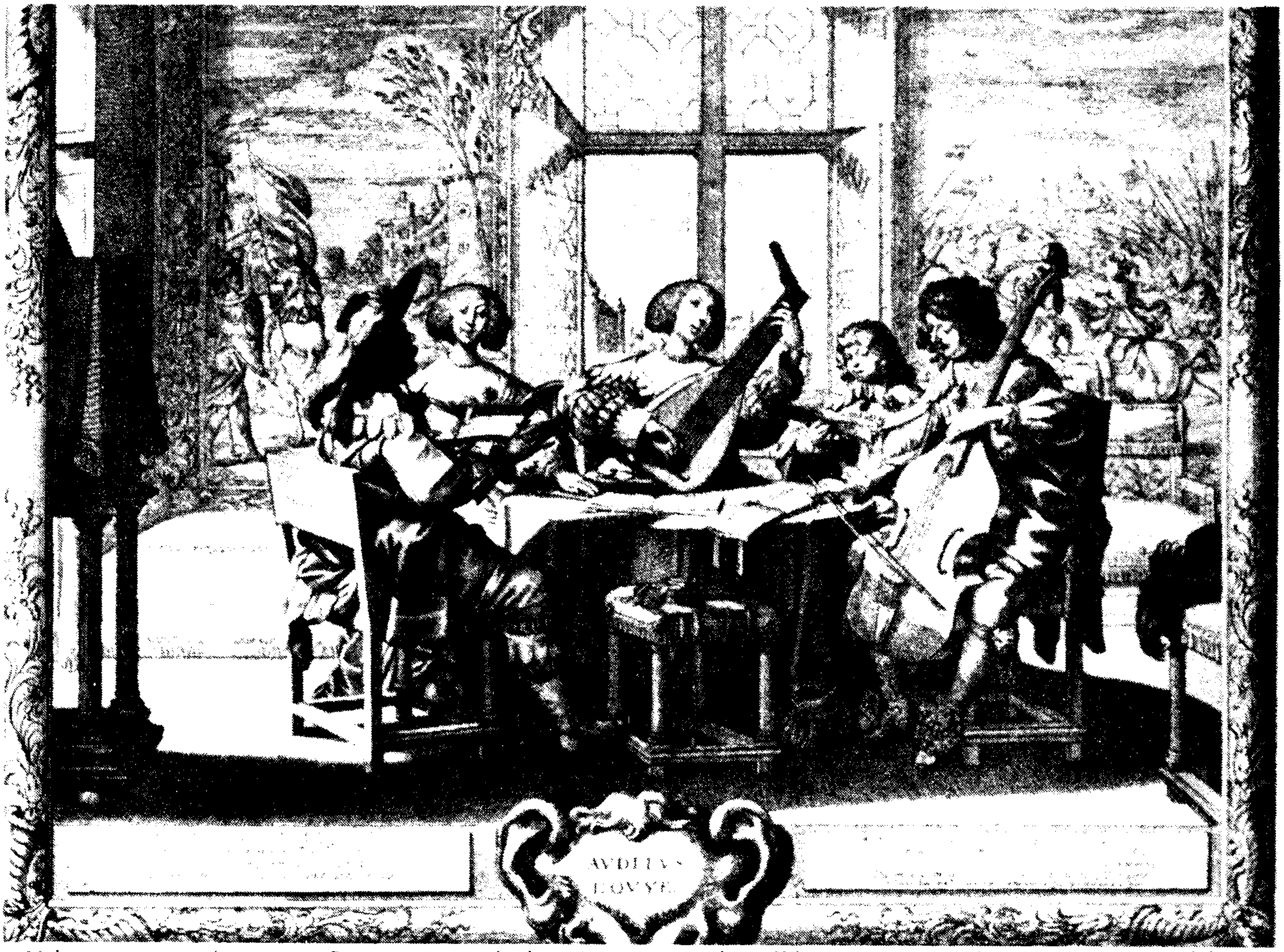
In the following article of the continuing series, the writer concentrates on a crucial, included feature of the Prussian reforms: the decisive role of classical philology in promoting the quality of science and citizen-soldier essential to in-depth capability in arms.

During a mere several years, circles under the direction of Lazare Carnot developed the expanded industrial basis needed to support what was, for that time, unprecedented rates of mass production of improved, lighter, more mobile field artillery. Around the change in battlefields implicit in a mobile base of massed artillery-fire, Carnot et al. effected a correlated transformation in the development and coordinated deployment of arms of battle.

What Carnot demonstrated to all with the comprehension to recognize that fact, is that the leading role of scientific progress, in defining qualitative advances both in arms and in the logistical, civilian basis, is the essence of all proper military science. This was recognized by the Prussian reformers, who coopted first (1809-10) Carnot's military doctrine, and later (1815-23) Carnot himself, to shape the development of Prussia's 19th-century strategic capabilities.

However, the Prussian reformers did not merely emulate Carnot's reforms. Through the Humboldt reforms in education, reforms based on principles of classical philology, they ensured the superiority of German science and fostered a superior quality of officer among both professionals and trained reserves.[1]

For reasons adduced from study of the Humboldt reforms, it must become U.S. national-security policy to demand immediately certain critical reforms in education at primary, secondary, and university levels. These re-



A 16th-century musical evening in Paris: engraver Abraham Bosse captioned it, "When one considers the infinite sweetness of the sounds of music and their many combinations, it is not without reason that it is said that the harmony of movement of the heavens gives order to the universe."

forms must be informed by understanding of the proper role of principles of classical philology in promoting not only the general moral and intellectual potentialities of the young future citizen. Special, included emphasis must be made on the connection between principles of grammar and the development of the student's mathematical potentialities.

Although the following outline takes into account work done by scholars, including the writer's wife and Uwe Parpart, on the Humboldt reforms as such, the analysis also takes into account discoveries accomplished by Bernhard Riemann and others later than Humboldt during the 19th century, and the relevance of those principles to problems of plasma-physics research today.

Grammar as such

To the best of our present knowledge, the explicit connection between grammar and mathematics was first documented by Leibniz,[2] a connection later stressed by such students of the classical philology of Wilhelm von Humboldt as August Boeckh.

Any language developed as a literate language has neither more nor less than 7 grammatical cases, com-
or, defective form of language. Any person lacking
bined with neither more nor less than 180 distinct forms for expressing verbal action in respect to subjects and objects defined in terms of those seven cases. In other words, the grammar of any literate language has in and of itself 1,260 grammatical degrees of freedom, situated within a user's rigorous command of vocabulary of between 50,000 and 100,000 terms.

Any form of language lacking those rigorously defined degrees of freedom and vocabulary is an inferi-

[1] For a broader view of the Humboldt reforms, see Helga Zepp-LaRouche's article, "Die Modernität des humboldtschen Bildungsideals," in the forthcoming September 1981 issue of the magazine *Ibykus* (Wiesbaden, West Germany).

[2] Uwe Parpart of the Fusion Energy Foundation has emphasized this connection. Parpart also pointed out August Boeckh's emphasis on this connection to Karl Jacoby.

command of the powers of a literate language is to a corresponding degree functionally illiterate, and incompetently educated.

The classes of objects of verbal action in language are neither more nor less than three: *subject, direct object,* and *indirect object.* These three elements of grammatical cases are configured either as *terms, phrases,* or *clauses* of speech, each of which is discriminated in that statement in either a *nominative, genitive, dative,* or *accusative* case-form. This defines for any literate language neither more nor less than seven cases:

Case	Object
Nominative	Subject
Genitive 1	Direct Object
Genitive 2	Indirect Object
Dative 1 (direct action)	Direct Object
Dative 2 (indirect action)	Indirect Object
Accusative 1	Direct Object
Accusative 2	Indirect Object

These cases are discriminated within the use of literate language by a combination among either inflection or aid of prepositions.

In misinformed teaching of grammar, the terms, phrases, or clauses of cases are misidentified as *substantives,* in the sense consistent with the Aristotelian syllogism. Exactly the opposite function is properly performed by such parts of speech. The *verbal action,* to which we turn our attention next, is the true substantive of literate speech. It is from that standpoint, and only that standpoint, that the proper connection between literate language and mathematics can be situated.

The first feature of the verbal action is *tense.* There are only three primary tenses, *past, present,* and *future.* The primary tense distinguishes the time at which an *ongoing, completed,* or *previously completed* occurrence is a *condition of action.* Such a condition of action of these times can be neither more nor less than *continuing, completed at that point in time,* or *completed prior to that point in time.* There are neither more nor less than *nine tenses* in a literate language.

These tenses of verbal action can be expressed in either of *two voices* (active, passive), also as either *self-reflexive* or *not-self-reflexive* action, in a choice among neither more nor less than *five moods.* The moods are *indicative, imperative, conditional, subjunctive,* and *conditional subjunctive.*

Hence, verbal-action can be discriminated in $9 \times 2 \times 2 \times 5$ distinct ways: 180 ways and in respect to 7 cases: $7 \times 180 = 1,260$.

Any language whose usage does not satisfy those most-basic grammatical requirements is a defective language. Any person whose use of a literate language does not efficiently command those grammatical features is to that degree a functional illiterate.

The development of grammar

The normal form of rigorous use of language is the classical poetic composition, as associated with principles which Western European languages have learned chiefly from the classical Greek. By classical Greek, one means properly the progression from Homer's *Iliad* and *Odyssey* through the dialogues of Plato. To understand the composition of literate prose, prose must be viewed as the principles of poetic composition projected upon the prose-line.

The metrical features of classical poetic composition have two mnemonic aspects. First, the metrical organization of speech is key to the user's efficient memory of passages. Second, the ordering of syntax according to subject-matter of lines within a stanza links passages to their properly intended antecedents within the entire composition, a second aspect of the mnemonic potentialities of poetic composition.

The requirements of poetic composition thus determine the proper evolution of the syntactical conventions of ordering of grammatical parts of speech, under the governance of classical poetical principles of composition. The task assigned to poetic composition is determined by the kinds of ideas to be communicated. In this way, poetic composition serves as the most efficient means for bringing the usages of a literate language into agreement with the reality of society's domain of practice.

The principles of poetic composition cannot be fully understood except from the vantage-point of an assimilation of the principles of well-tempered counterpoint. For related reasons, literate persons characterized by immersion in the music of Bach, Mozart, and Beethoven will most probably be qualitatively superior as productive scientists, when compared with a scientist with a comparable technical education but less attachment to such music. The case of Johannes Kepler is the "Rosetta Stone" of preferred choice for proving and understanding this connection.

That point will enable us to close the circle in this report. Kepler's work brings us directly to uncovering the deeper connection between literate language and mathematical powers.

Principles of music

Classical musical composition, since no later than the classical Greek period, has been based on the well-tempered system outlined during the 10th century A.D. by al-Farabi, and elaborated during the 16th century by the greatest musical theoretician of modern times, Zarlino. This classical musical composition rests on three interconnected and unchangeable facets: first, the principle of modulation in a 24-key domain; second, the principles of metrical composition of classical poetry; and, third, the principle of polyphony.

The argument for a "natural" scale is absurd. Human beings are neither vibrating strings, wheezing tubes, nor reverberating gongs. *Human music,* as opposed to the bestial "rock," is based harmonically on the principles of development. To modulate lawfully within a 24-key domain requires that all of the absolute and interpolated tones of each key have the same tone in each key as in all the other 23.

For elementary geometric reasons, such modulation must be ordered among keys according to a sequence of fifths, a geometrical principle which rigorously defines the necessary values of each of the 12 tones of an octave-scale by a unique geometric projection.

The elaboration of music within that 24-key system (domain) is ordered metrically according to classical poetical principles. This governs the definition of measures and time-signatures of passages. It governs the metrical elaboration of the tones constituting the underlying modal sequence of a thematic statement, which statement is equivalent to a line of poetry.

Development in musical composition is affected either through explicit polyphony, or the projection of a polyphonic elaboration of development upon the line of a single voice. It is polyphonic development which is the ordering-principle of musical composition.

Contrary to commonplace musical miseducation since (for example) Rameau, the harmonic structure of musical composition is not primarily "vertical" (chords), but "horizontal." Look at the vicinity of the first beat of coming-in of the second voice in a simple canon. At that point, we have more to consider than the sequences of tones within each of the two voices. The tone of the first beat of the second voice is, for example, in implied sequence to the preceding and following tones of the first voice, and so forth and so on. It is these "cross-voice" sequences of polyphony which are the point of reference for musical development.

Once Beethoven took up mastery of the writings of Zarlino, a study dominating Beethoven's work from about 1819 onwards, his composition developed new dimensions of power, developing a general, new form of double-fugal counterpoint exemplified in the late string quartets and the *Missa Solemnis.* The associated feature of his behavior during this period was his increased attention to writing canons, using these exercises as means for new refinements in redesigning thematic material. In brief, study of the kinds of cross-voice relationships generated by canonical elaboration of thematic material exposes to the insightful composer what modifications of thematic material will result in the most interesting problems and opportunities for elaborated development of an ensuing composition.

The significance of these principles of composition for locating the implicit mathematical powers of literate language is our point here. The few bare remarks submitted on music so far are sufficient to locate the connection to Kepler's work.

'Harmony of the Worlds'

By successive inscribing and circumscribing of the series of Platonic solids with respect to spheres (e.g., ellipsoids), Johannes Kepler determined the necessary ordering of the solar orbits. The geometrical proportioning of the orbits Kepler proved to correspond to the principle of modulation by fifths in music.

The gross misrepresentation of Kepler's work usually afforded to students is that Kepler was engaged in fitting various geometric figures to the array of astronomical data accumulated by adding his own observations to those of his predecessors. That commonplace representation of Kepler's discovery is utter nonsense, and an outright lie if it issues from the mouth or typewriter of anyone who has actually read Kepler's writings.

The devastating point of crucial experimental proof against the commonplace classroom and textbook commentaries on Kepler's work, is the case of the asteroid orbit. On the basis of his geometrical series, Kepler reported the former existence of a decomposed planet in the position we now know as the asteroid belt. This belt was not known to astronomical observation until Karl Gauss recognized that the position of a small planetoid, later named Ceres, belonged to the missing-planet orbit earlier defined by Kepler. That, together with much other evidence to the same effect, indicates that the lawful organization of the universe is ordered in the geometrical fashion Kepler represented, and not in the sort of schemes associated with Descartes, Newton, Cauchy, and Maxwell.

The view of the lawful ordering of the universe identified with Kepler was directly adopted from Kepler by Leibniz, who elaborated Kepler's proposal for development of an integral calculus on the basis of extensive studies of Kepler's work in general, as well as that specific proposal. This was the basis for the crucial work of Leonard Euler, and the entirety of the approach employed by Gaspard Monge and Lazare Carnot to develop the foundations of modern thermodynamics and the theory of functions. This was also the basis for the method of Monge, Carnot, Gauss, Jacobi, Dirichlet, H. Weber, B. Riemann, K. Weierstrass, and G. Cantor, although not that of such German Cauchy allies on method as Kronecker and Dedekind.

The fact that the geometrical determination of universal laws of Kepler, Leibniz, Riemann, et al. is congruent with well-tempered polyphony, as Kepler adduced this, is the preferred "Rosetta Stone" for uncovering the inherent powers of literate language as a mathematics.

This connection is crucial for understanding the significance of the Humboldt reforms, and for understanding that the entire primary and secondary curricula of public education ought to be based primarily on classical philology, poetry, music, geometry, and the grounding for student's mastery of a science of universal history. This is to say that literate language is composed of facets including poetry, music, and geometry. The development of mastery of all these facets and their interconnections is the full development of the mental potentialities for reason of the future citizen. The subject to which the student should apply those developing powers of literate language is a study of universal history, including geography and technology, as the primary reality which conscious thought, embodied in language, must master for practice.

Geometry

The geometry which the student must master is not the Euclidean axiomatic schema, nor any formal non-Euclidean schema based on substitute axioms and postulates. The student must begin, so to speak, with discovery of the elementary fact that a line is not determined by two points, but rather a point is a region of ambiguity defined by the intersection of lines. Similarly, a line is a region of ambiguity defined by intersection of surfaces, and a surface is a region of ambiguity defined by intersection of solids.

The generalization of this approach to geometry is what Leibniz termed *analysis situs,* and what is termed *topology* since (putting aside axiomatic topologies as brain-damaging misconceptions of topology).

From that vantage-point it becomes rather simple for the student to discover that the kinds of ambiguities associated with points, lines, and surfaces in rudimentary geometry are also what topologists and physicists term *singularities,* and that points, lines, surfaces, solids, etc., define respectively distinct species of singularities, ordered in ascending geometric degree.

Once that is understood, the secondary-level student ought to be enabled to recognize that a literate usage of language is nothing but such a geometrical mapping of reality, but such a form of topology.

The objects of speech (subject, indirect object, direct object) are not self-evidently particulars, but are regions of physical space within which perfect connectivity exists for the discriminated forms of verbal action. The combination of all of the qualifying statements in case-form within a unit statement define bounding conditions of singularity, which delimit the verbal action of the statement as a whole.

Any statement corresponding to the real universe's ordering, given in literate form of language, is a statement of transformation, accounting for a transformation from n degrees of freedom either into a condition of $n + m$ or into $n - m$ degrees of freedom. If the change in degrees of freedom is *actual,* then the verbal action is *transitive.* If not, the transformation is merely *virtual,* and we customarily view such transformations as *intransitive* verbal actions.

Statements concerning God

Once such background-knowledge is possessed, science begins with rigorous examination of statements concerning God. Let us first situate the problem as a grammatical one.

Let us begin with a critical examination of the statement, "I am." This statement is not cured of its grammatical defects by altering it to become "I am myself." Is the speaker registering in the *active* voice ("I am that respecting myself which I make myself to be") or the *passive* voice ("I am what I am made to be")? The former is a *self-reflexive* statement in the active voice, equivalent to "I create myself" as the alternate, active form for "I am myself." The second is a *passive* statement (geometrically) in the *not-self-reflexive* form.

Try, in this light, the statement "I am only that which I make myself to be," as the significance of the statement, "I am that I am," whose name is otherwise unutterable, as consistent Judaism has it and as Christianity appropriates this conception of God from Judaism.

This statement is topologically a report of the highest order of unity possible in the universe. Whatever degrees of freedom exist in the universe as a whole, they are reduced to a perfect connectivity in terms of this unity.

In physics, this involves a conception which B. Riemann associates with Dirichlet's Principle.

Define the simplest kind of mathematical function in the following way:

$$a_n x^n + a_{(n-1)} x^{n-1} \ldots a_0 x^0 = 1.$$

For which the coefficients ($a_n \ldots a_0$) are each integers and $a_n \neq 0$, and for which x^j has the included significance of designating the j-th order of degree of freedom in terms of geometrical species of singularities.

We have then stated the simplest notion of functions relative to the case of defining a corresponding, relatively higher unity within which perfect connectivity exists.

In literate language this act of integration to define a higher species of reality is located in the transformation associated with the principle of verbal action. The form of verbal action which subsumes all verbal actions corresponding to true statements in the universe, is the form of transformation which corresponds to the perfect, corrected self-reflexive form of "I am." This verbal action is otherwise unutterable in language as existence and of itself, except as the universe is viewed as a continuing creation, so defined as such in terms of a principle of self-generation, describable as a principle of transformation associated with progression from any existing order n into a higher order $n + m$.

The notion is precisely the root of the notion of perfect consubstantiality of the Trinity in Apostolic

Christianity (e.g., the opening verses of the Gospel of St. John) and in correlated writings of Philo Judaeus of Alexandria. The universal principle of verbal action is termed the *Logos,* which is consubstantial with the self-perfecting unity.

This was Kepler's standpoint, in adopting the principle of Augustinian Christianity, that the discovery of the geometrical ordering-principle consistent with the geometric-mean relationship of "divine proportion" is the test of discovery of a manifestation of the lawful ordering-principle of continuing creation. This is the key to Leibniz's entire scientific method, and is also explicitly B. Riemann's treatment of what he named Dirichlet's Principle.

The fallacy of arithmetic algebra

The opposing view of physics is the hermeticist argument against Kepler by Fludd, otherwise at the bottom of the fallacies of Descartes, Newton, Cauchy, Kronecker, Maxwell, et al. This defective view starts with the assumption that either irreducible particles are self-evident existences or, more skeptically, that in the appearance of the universe accessible to human knowledge, the universe must never be represented to appear as if it were organized in any form contrary to the axiomatic Descartes-Newton assumption.

The ordering of geometry in the manner of Euclid's text relying upon axiomatic-postulational assumptions, or any analogous construction employing different postulates to form a non-Euclidean geometry, is the form in which the defective, hermeticist-cult doctrine of Descartes, Newton, Cauchy, and Maxwell is reflected in formal geometry.

The second law of thermodynamics, for example, rests entirely upon that same arbitrary assumption: that the universe is fixed at n possible degrees of freedom of organization, and that only devolution from n to $n - m$ degrees of freedom is possible (entropy), or that, the same thing, the universe is like a clock winding down (Newton). This is otherwise, theologically, the Manichaean cult-dogma slightly disguised, an explicit rejection of the Apostolic Christian and Philo's Judaic conception of the ordering of the universe.

In the real universe, contrary to the Second Law's hermeticist cultism, we can create transuranic elements beyond the degree of elements previously existing in the universe, on conditions that our mode of attempted action to this purpose is coherent with the Logos-principle.

A correlated experimental proof of our point is readily accessible to anyone who takes the trouble to turn his eyes upward on a clear, starlit night. If the universe were infinite, then, except (chiefly) for those singularities named "black holes," the night sky would be a bowl of light more intense than that of the daylight orb of the sun. The universe is finite. Caught between that larger finiteness and the lower bound of the Leibniz-Planck quantum of least action, the highest number required to count the universe's quanta of action up to and including any instant is a finite number definable in the sense Archimedes outlined for this case.

This signifies that the smallest number locatable as ontological actuality between any two points of the number-line is implicitly defined by a function associated with the largest integer counting the universe up to this instant. Therefore, the assumption that the interval between two points on a number-line can be made infinitely small is an absurdity. (The general proof of that need not be elaborated here; the conception of the implications of the proof is sufficient for our purposes.)

In any case, all integers count nothing real excepting singularities. *Singularities* of real processes, and all numbers not integers (or not normalizable as integers) are reflections of geometrically-determined proportions. Although no perfectly adequate projection of the distribution of prime numbers is yet known, the Euler-Riemann attacks on this problem, as well as the implications of the convergence of arithmetic and geometric means in a Fibonacci series, are collateral expressions of the ontologically geometric characteristics of all meaningful arithmetic statements.

In actual mathematical operations reflecting the actual ordering of reality, we merely substitute symbology for statements otherwise better understood as to origins when rendered in a bulkier literate language-statement. Once that connection between literate language and symbolic language is adequately understood, the danger of a student's metaphysical folly of attributions to mathematical statements is greatly minimized, at least.

Conversely, for reasons we have summarily identified here, the command of a literate language equips the graduate of secondary-school education with a potential for a mathematical literacy functionally far superior to that the same student would have acquired if his education to that point had been directed to assimilation of "mathematical skills."

Mean and ignorant policy-influentials delude themselves and do grave mental damage to the potentialities of youth when they imagine that a "cost-benefit" doctrine of emphasis on "learning skills" is a desirable alternative to a classical, "Erasmian" approach to education. Wilhelm von Humboldt was essentially correct. The sooner we recognize the connection of that to fostering increase of scientific potentials and the improved quality of the new citizen, the quicker we shall begin to recover from the drift into New Sodom and functional illiteracy, the drift which is the root of the presently accelerating erosion of our in-depth military potentialities.

In the wake of Britain's wedding: social controllers see new feudal order

by Mark Burdman

Q: What do you estimate to be the psycho-sociological and political significance of the royal wedding in London?
A: Well, in general, spectacles like this are rather diversionary. But I would like to make the more general observation that most people want something like the institution of the monarchy. People want leaders over them, rulers like monarchs. I would say that the anti-royalists are a small minority in the world, although they've gotten all the publicity. People want a ruler. We've studied 100 cultures all over the world and we can say this definitively. It's basic human nature to have a leader, as is the case with a pack of wolves.

Q: You compare human behavior to a pack of wolves?
A: Yes, surely. Most animals do have a leader, so why should the human animal be any different? That's the lesson we've drawn from studies of many primitive tribes. It's clear: basic human needs cannot be changed. . . .

Q: How does this view correspond to what we've seen in the case of Fascism, Hitler, Mussolini, and so on?
A: It's basically the same thing. Hitler and his appeal to the youth movement of Germany expressed the Germans' need to have a strong leader; it's the same kind of process. . . .

Q: And in terms of the spectacles you've talked about, are you referring to the Roman circuses organized by the Roman emperors, that kind of thing?
A: Yes, that's right. There have been countless examples throughout the ages, but that's the kind of thing.

—Excerpts from a July 30 interview with Dr. David Nias, "academic psychologist" at the London Institute of Psychiatry, and associate of racialist I.Q. theorist Dr. H. J. Eysenck of the same institution.

The above comments by Eysenck associate David Nias on the July 29 extravaganza in London are only a brutally frank expression of the sentiments expressed in a more private and sedate manner by the inner circles of the royal family itself and its friends in the aristocracies of Venice, Geneva, and Munich.

For these royalist circles, as expressed overtly by many of their favored press conduits in Britain and Continental Europe since the wedding, that event and the media brainwashing overkill that accompanied it, are designed to usher in a new political order throughout Europe, including Eastern Europe. This "new order" will be characterized by the short-term imposition of fascist crisis-management regimes, often presided over by restored monarchies, to replace existing parliamentary and proto-parliamentary regimes. These fascist regimes are to provide law and order over populations driven into chaos and desperation by the financial collapse now being engineered by the same royalist families and associated financial institutions.

George III at the helm in England?

In the words of Dr. Nias, the new system emerging will conform to the "philosophy of Thomas Hobbes," the 17th-century British philosopher-bestialist who espoused that a universal "war of all against all" could only be "managed" by brutally repressive kings and queens.

According to "psychiatrist" Dr. Nias, "People now need some structure to their life, that's the key thing. People are now not sure what they're doing; there's uncertainty, so we're getting unrest. So we need more structures, to make life more *predictable.* Concretes are sometimes hard to specify, but I guess you can say that the words 'law and order' communicate best what I'm saying."

In the weeks leading to the Charles-Diana fantasia, *EIR* had consistently warned that such a royalist reordering was being made operational. *EIR*'s investigation into the Venetian-run P-2 Freemasonic lodge had ascertained that the lodge's terrorism, financial warfare, and associated destabilization activities were all aimed at creating the conditions for the return of the House of Savoy to the throne in Italy and for parallel restorations to be carried out elsewhere in Western Europe.

If the House of Windsor succeeds in its current plans, P-2 Grand Master Licio Gelli's conspiracy will be realized early in this decade.

As *EIR* has previously indicated, the first step in this process could well be to dump Margaret Thatcher in Britain and to have Prince Charles emerge as the prototype "strongman" monarch. The adulation accorded Charles in recent days certainly points in that direction. Hardly had the wedding ceremony ended when the British press wildly escalated its anti-Thatcher campaign. The Aug. 2 London *Observer* went so far as to speculate that Thatcher would be "ditched" and replaced by Lord Carrington—an act which would necessitate a revision of British law prohibiting a Lord from succeeding to the premiership. Obviously, such a revision could pave the way for the indicated P-2-centered conspiracy.

The practical political-economic implications of such a development in Britain were stated in a July 29 article in the arch-Fabian London *Guardian* by "investment columnist" Robin Stoddart. "Restoration of an absolute monarchy, or at any rate one with the hiring and firing powers of an early George III [the lunatic king against whom the American Revolution was fought] might be the quickest, if most unlikely solution to the social divisions that today's celebrations can only temporarily gloss over," Stoddart wrote. "The failure of monetarist policy [i.e., Thatcher's] even in terms of its own false and futile statistics is complete. . . . Cementing the social structures is the overriding obligation of governments."

Preliminary investigation indicates that the extension of the scenario into the rest of Europe would largely involve the royalty that attended the wedding under the pretext of familial attachment to the House of Windsor. For example, King Constantine of Greece was described by Buckingham Palace as "King of the Hellenes." This so irked the Greek government that Prime Minister Karamanlis refused to attend the wedding because, as the July 28 *Daily Telegraph* noted, "the title given to [Constantine] suggests he is still Greece's ruling monarch."

'These are not normal times'

The broader European implications were drawn, not surprisingly, by the Munich newspaper *Suddeutsche Zeitung*; Munich is the most entrenched royalist area of Europe. The *Zeitung* July 29 praised the German-connected House of Windsor and took pains to note that the media—most of whose controllers in the U.S., U.K., and Europe were trained by the British monarchy's intelligence services—are using the wedding to brainwash the population.

"What do we have Prince Charles, Lady Diana and also the Queen for?" the *Zeitung* queried. "Naturally, for the people. They are 'ours,' and not only the rulers of the English. . . . To say it more precisely, we have a claim on the Windsors; in their veins also flow German blood. And, to be fair, the English royal house deserves our admiration. They did not, like the members of the Dutch, Danish, or Norwegian royal families, descend to climbing on bicycles. The lowest thing Queen Elizabeth ever descended to was the back of a horse. Thus, we can still look up to her and her family. This, the English monarchy, is the only one which still maintains some of the mystery of godly descent. This is not something to laugh about. *Every fifth inhabitant of the earth will sit in front of the TV screen today. Only a very few of them will be conscious whether they are republicans or monarchists* (emphasis added)."

A different version of the same diatribe was launched later by arch-Tory Peregrine Worsthorne in the London *Sunday Telegraph*. Deriding Britain's main politicians as "lesser fry," Worsthorne exulted: "the roles are being reversed. It is the modern democratic institutions which seem increasingly ritualistic and archaic, unable to cope with its contemporary job. . . . When Buckingham Palace takes over, things work. . . . Of all Britain's institutions, only the monarchy today has vastly increased its authority."

On the role of the media, Worsthorne continued, "Let us stop talking about the magic of monarchy as if what happened last week was the result of some medieval spell. The spell, if spell it be, has been brought up to date, and is as good as new, if not better, owing quite as much to modern techniques of media manipulation as to ancient rituals whose origins are buried in the mists of time. . . . The blood royal is patently a potent elixir, a transfusion of which the body politic desperately needs, not in dribs and drabs every so often, but regularly, in the main artery."

And in case the point was not made, Worsthorne added: "No, I am not going to invite ridicule by prophesying some kind of eventual restoration under King Charles III. But on the other hand, it would be equally ridiculous to ignore this monarchical phenomenon which grows ever more sensational. Conventional wisdom would have us believe that the monarchy is reversed precisely because it is above the political battle, and would soon cease to be revered if it sought in any way to intervene in the fray. In normal circumstances, yes. But these are not normal times."

Appeasement by the OAU

The 50 member nations of Africa will be led next year by Qaddafi, the man whose policy is to destroy them.

It's just like Chamberlain's appeasement of Hitler at Munich," commented a German specialist on Africa about the Organization of African Unity's (OAU) agreement to hold its 1982 summit in Tripoli, Libya. This means that Muammar Qaddafi, Africa's "Hitler," will chair the summit and be the official leader of the 50 member nations of the OAU for one full year.

Qaddafi, in a recent memo to African leaders on "how to behave" at the summit, told them they "will be required to rise to the enlightened and progressive political and cultural levels they will find in Tripoli," and will not be allowed to exhibit their "lack of political and social development through the influence of the cultural backwardness that afflicts much of Africa. . . . All regimes must be compelled to accept the leadership of those that are fitted to lead."

This little Hitler is a mere puppet of the wealthy "old families" centered in northern Italy and England, whose policy for Africa is to drastically reduce its population, using social chaos, starvation, and epidemic disease accompanying endless warfare, internal strife, and government destabilizations.

Qaddafi has provoked a bloody civil war in neighboring Chad, and in December, invaded and annexed the country. He financed rioting inside Nigeria; he armed guerrillas in Uganda, Tunisia, the Central African Republic, and Morocco.

The OAU reached its decision at the last minute, at 4:00 a.m., with only 14 member nations voting for Tripoli and Qaddafi "because of the need to maintain African unity." Afterwards, "One can negotiate with Qaddafi," said a Nigerian diplomat. Others voiced hopes that the OAU chairmanship would force the Libyan to moderate his policy; if not, some threatened they would not attend.

But no amount of threats or appeasement has changed Libyan policy toward Chad, which borders the most populous African nation with the greatest development potential, Nigeria. As Qaddafi's troops took over Chad in December, bloody riots inside Nigeria left over 1,000 dead in the northern city of Kano. Nigerian sources say that the responsible parties received financing from Tripoli.

At the time, Nigerian President Shagari ordered a reevaluation of Nigerian military and intelligence capabilities, evidently concluding that Nigeria, despite an army of 200,000 men, was not prepared to challenge Qaddafi's well-equipped legions. Subsequently, at a special OAU meeting on the crisis, Nigerian opposition to Qaddafi's annexation of Chad evaporated.

Perhaps the greatest danger is that Qaddafi will split Chad into two parts, an Islamic north and an African-Christian south. That could spark dismemberment of Sudan, Niger, Mali, Mauritania and other nations also divided between Muslims and Christians.

The key for Qaddafi's Anglo-Venetian controllers is Nigeria, on which much of Africa's future depends. When Cameroon border guards fired on Nigerian troops last month, provoking border clashes, "white officers" are said to have given the order. The only "white officers" there are French, and President Mitterrand is a close Qaddafi collaborator.

"Nigeria is a country which is not cemented together. . ." commented the German specialist on Africa. "If you look closely, you will see that all federal states have their own policies. It could easily fall apart. The same as Chad [and] Sudan. . . . The only country which would not fall apart is the Central African Republic. It is the only country which has one language and a relatively united national identity. Cameroon has problems [and] Sudan is having problems, too. Niger has a larger population of Touregs that Qaddafi could stir up; Algeria has problems, and as for Mali, let's not even discuss it!"

Qaddafi is also subverting the Central African Republic, where President Dacko has outlawed opposition parties, arrested party leaders and declared a state-of-siege after bombing attacks on government offices. Qaddafi is reported to want oppositionist Patasse put in Dacko's place; Qaddafi will then use the Central African Republic for operations against Zaire.

Such is the OAU's new leader. African nations may not "have the means to fight Qaddafi." He could however, be stopped were President Reagan to follow up domestic actions against Qaddafi's agents with certain foreign policy actions.

Trade unions attack Bundesbank

Chancellor Schmidt's labor base, centered in the Ruhr, has challenged the "independent central bank" dogma.

The Frankfurt fortress of the venerable "guardians of the currency," the German Bundesbank, is under siege. The aura of composure that its president, Dr. Karl-Otto Poehl, and his staff present to the outside is badly shaken. In bankers' cocktail parties there prevails a grumbling murmur: West German Chancellor Schmidt has parried the drastic deflationary programming of his domestic economy demanded by the International Monetary Fund and designed at the Ottawa summit meeting, thanks in very large part to his base in the nation's trade unions.

What has the Bundesbank irked is the fact that the chancellor's trade-union power base cannot be dismissed as a "leftist" phenomenon. The strongest trade-union power is concentrated in the industrial Ruhr region of North-Rhine Westphalia, where a frontal attack on the Bundesbank's screen of "independence" is under preparation.

Herr Siegfried Bleicher, Ruhr chairman of the German Trade-union Federation (DGB) and a leader of Schmidt's Social Democratic party (SPD), has issued a number of interviews and press releases reiterating the theme that "it is no longer tolerable that an institution which does not answer to the parliament like the Bundesbank continues to prevent necessary monetary policy actions on the part of the government."

Judging from several discussions with trade-union spokesmen across the country, this blast against the Bundesbank is spreading like wildfire. It also represents a significant escalation above the line of resistance drawn by the central headquarters of the DGB, which has confined itself to insisting, correctly, that the Bundesbank interest-rates policy has failed to stop the erosion of the German current-account deficit due to skyrocketing import prices booked in dollars.

Worse for the Bundesbank, the Ruhr trade-union mobilization against the sanctity of Bundesbank "independence," which has no more base in the *Grundgesetz* Basic Law, or (constitution), than that of the Federal Reserve in the United States, is spreading to its own branch offices there.

Trade-union representatives there tell us that ranking officials of the Landeszentralbank in the Ruhr have their ears "very close to the gound when it comes to the mood of industry," and are revolting across the board against Bundesbank arguments that record high interest rates in Germany—15 percent for top addresses, and over 18 percent for consumer credit and overdrafts—is having no appreciable effect on investment.

As Herr Bleicher's people tell us, "we are fed up with the sociologists' approach, trying to sponge up unemployment in the service sectors. We are going to have an industrial policy here, and if that means we have to escalate and move to directly change the Bundesbank law, then that is what we will do."

No one in the Ruhr would ever think of trying to fight City Hall, because most of the Ruhr cities are in firm control of the "Ruhr mafia," SPD mayors with a strong capital-intensive industrial-technology bias. Despite Bonn's current budget-cutting, the chancellor and his base are bound and determined not to allow the heavy-industry, steel base of the Ruhr to be eroded into a "postindustrial" swamp.

As the Bundesbank states in its July monthly report, the monetary growth target has been adjusted to the bottom corridor of 4-5 percent for 1981 because the recession has knocked the dynamic out of growth in "productive potential." The Bundesbank, however, aims its monetary policy to hold down this "productive potential." Capital goods demand has "shifted from investment that directly increases the growth of production to energy-savings investment, which . . . is essential for structural changes in the economy but contributes little or nothing to the expansion of productive potential."

From that the trade unions draw the simple and straightforward conclusion that the Bundesbank intends to favor a "structural change" toward less production-oriented, less energy-intensive investment, ideally represented by the service sectors of the economy. They have heard that line too long from Socialist International chieftain Willy Brandt.

George Gregory and Rainer Apel are the Executive Intelligence Review *bureau chiefs for the West German capital.*

Defferre caught in the SAC

"Gaullist" and Socialist gang wars show the falling out among thieves in the midst of the Massie affair.

A gangland-style war between opposing "Gaullist" and Socialist Party-run mafias has broken out in France as Gaston Defferre, the Socialist interior minister, is leading a purge of the so-called Gaullist mafia.

But far from cleaning out dirty drug, gun-running, and terrorist networks run by "Gaullists" located in Marseilles, Defferre is himself worthy of investigation for his 15-year "French Connection" past. Defferre is well known to be implicated in the drug, gun, and terror operations run out of Marseilles.

The most recent incident, one which points directly back to the Socialists, is the murder in July of the newly nominated police inspector of Marseilles, Jacques Massie, and five members of his family. Massie was a former SAC (Service d'Action Civique—Civic Action Service) boss for the Marseilles region until about a year ago.

Under French law, the SAC, created in 1958, is a perfectly legal group.

Originally, it was set up as a police force parallel to the anti- de Gaulle OAS to counter OAS terrorist actions during the French-Algerian war. Once that conflict was resolved, the SAC should have been dismantled.

Under Georges Pompidou, the SAC was purged in 1969, when Pierre Debizet, the right-hand man of Jacques Foccart (de Gaulle's chief of intelligence in Africa) took over the SAC to clean it out. Currently, Debizet is secretary-general of the national SAC.

Following Massie's murder, Debizet was interrogated and arrested for complicity in the murder. Why?

A reliable source, apparently not directly involved on either side, told the Communist Party daily *La Marseillaise* July 27 that Massie was a member of the "Sovereign and Military Order of the Temple" since 1977. This order, one of some 150 "Templar orders," related to the Freemasons, is headed by a certain Roger Holderbach.

According to *B comme Barbouzes,* a book by Patrick Chairoff put out by a Socialist publishing house that exposes Gaullist intelligence networks without revealing similar Socialist operations, Holderbach had a regular gun-running operation with Spain. Jacques Massie himself was involved in an arms sale some months ago to the Red Brigades ordered by the Italian para-Masonic P-2 lodge.

Massie was apparently closely connected to Defferre's Marseilles operations.

As early as 1969, purged SAC elements began to shift political camps, and went over to the Socialists. SAC members helped former RPR Gaullists-turned-Socialists in the recent legislative elections.

According to a recent issue of *Minute,* the right-wing weekly, Jacques Massie's uncle Yvon Massie had run as a Socialist in 1971; Jacques Massie's father-in-law Maurice-Jules Jacquemes had also run in a 1965 municipal election as a Socialist.

Jacques Massie himself was formerly a Gaullist RPR party member. But Massie had worked in the election campaign of lawyer Michel Pezet, the first secretary of the Socialist Party in the Marseilles region.

Pezet, in addition to being Massie's lawyer since 1973, was involved in the liquidation of the shipping company Midi Containers, bought up by Massie's father-in-law, Jacquemes, who, according to *Minute,* grew wealthy from buying up bankrupted firms dirt cheap "with the discreet complicity of a high functionary of the city of Marseilles."

Jacquemes also worked with Charles "Milou" Emile-Loo, former close associate of Gaston Defferre and at one time treasurer of the Socialist Party.

So why was Massie killed? Massie was apparently planning to sell out to the Socialists. He was said to possess documents and lists of members of organizations like Francia, a right-wing "Gaullist" group dedicated to eliminating left-wing Corsican Liberation Front (FNLC) terrorists.

The left-wing paper *Liberation* has also reported that Massie may have had compromising pictures of Jean-Joseph Maria, current regional boss of the Marseilles SAC, that allegedly show Maria at the Ajaccio, Corsica airport on April 16, the day of a failed assassination attempt against former President Giscard.

Katherine Kanter and Sophie Tanapura are EIR*'s Paris bureau chiefs.*

British push Saudi option

Despite the pressure, the Saudi Arabians may not play along with the latest London-choreographed peace effort.

Given the failure of the Reagan administration to come up with a foreign policy approach for resolving the long-festering Middle East problem, the British are tripping over themselves to seize the initiative in the region.

British efforts center on inducing Saudi Arabia to cooperate with a new, London-choreographed "peace effort." The goal, however, is not peace. Rather, it is to knock out Saudi Arabia as a source of abundant oil and financial aid for the Third World and at the same time to prevent the Saudis from linking up with growth-oriented West Germany and Japan against the International Monetary Fund's drive to impose worldwide austerity.

Working in cahoots with its ally Secretary of State Alexander Haig, Britain's method is to lure the Saudis into playing along with Anglo-American military and diplomatic scenarios for the region.

"The answer is to get the Saudis involved," said one well-placed U.S. intelligence source. "Suck them into managing crises. That's the key. Look at Lebanon. The whole purpose of this latest Lebanon crisis had very little to do with Lebanon. The purpose was to get Saudi Arabia involved. And that is exactly what has happened. First, the Saudis got involved in the Zahle ceasefire. Then they were drawn into joining the quadripartite committee to resolve the Syrian missile crisis. Now they have helped in mediating the Palestinian-Israeli ceasefire.

"Get them involved, I say. Break their resistance. And eventually you'll find a few things start to happen. Saudi oil production will be cut, prices will go up, and step by step the Saudis will accept the idea of the need to station U.S. troops in Saudi Arabia. This is [Defense Secretary] Weinberger's plan. Haig's too, except that Haig sees his as some sort of Pax Americana encompassing Turkey, Pakistan, Israel, Egypt, as well as Saudi Arabia."

Egyptian President Anwar Sadat is doing his utmost to facilitate this scenario. Before arriving in Washington Aug. 3, Sadat stopped in London to meet with Queen Elizabeth and other British officials. The topic: Britain's role as current head of the European Community (EC) and its efforts to expand the moribund Camp David process to include other states, namely, Saudi Arabia. The method: building on the current Lebanon ceasefire.

"The Jordan option is dead," said one Washington source. "It would be suicidal at this time for the little king to act like Sadat did and embrace the Israelis. The Jordan option was even dropped as an issue in the Israeli elections. The Saudi option is what must be pushed. And then maybe Jordan and others will follow."

In London, Sadat effusively praised British Foreign Secretary Lord Carrington's pro-Arab, pro-Palestinian policies. He also made a point of lauding Saudi Arabia.

"Saudi Arabia did a right thing" in prevailing upon the Palestine Liberation Organization to accept the Lebanon ceasefire, Sadat said. "I consider this a turning point in the Middle East. I think the proper approach now should be to build upon this ceasefire and work toward mutual and simultaneous recognition by the two sides. This will open the door to the comprehensive settlement we are after."

Sadat called it a "very good omen" that Carrington had taken over the EC presidency, saying he showed a "detailed grasp of the problem" in the Middle East.

The British press is unanimously pushing for Carrington's approach. An Aug. 5 *Guardian* editorial, for example, stressed that "Saudi Arabia and its more intimate Arab friends can, if they wish, bring a realism about the recognition of Israel into the counsels of the PLO."

Will the Saudis play along? It is highly unlikely. "It's one thing to help mediate a ceasefire," said one source. "It's a much different thing to widen that ceasefire to bring about a peace arrangement that, in all candor, will just be a bigger version of Camp David."

Part of this plan is to use the Israelis to blackmail the Saudis and other Arabs into submission. "Philip Habib told us to lay off Begin," said one European diplomat at the United Nations. "Because if we condemn Israel in the Security Council, the Israelis may use this as a pretext to break the ceasefire. And then the Arabs will be in real trouble."

Credit squeeze in agriculture

Volcker is a hated name among the most efficient growers and producers in Sonora, Mexico's farm belt.

One of the sectors of the economy which is hurting most from the international effects of Volcker's high interest rates is agriculture. And the bellwether section of Mexico in agriculture is the northwest state of Sonora.

Two of my associates recently in Sonora have brought back a somber report which I want to share with you. Sonora is the capital of efficient, high-technology farming in the country; if it is seriously undermined, you can bet the situation is even worse elsewhere.

In the climate created by the Volcker rates, a group of regional private bankers are squeezing the productive capacity of the region dry.

Documents show that Banpacífico, one of the area's largest banks, is charging 35.5 percent as its "official" interest rate. But by the time hidden charges are fully calculated, says the manager of a major industrial park, the effective rate is 48 percent. "This is usury, pure usury," he charged.

The case of this industrial park is as follows: the park obtains some 70 percent of its financing from government sources at 28 percent interest. It pays 48 percent on the rest—and barely scrapes by. The private banks "skim off," in his term, every possibility of profit and expansion afforded by the lower government rates (which are still high, it should be noted). "We don't make a thing, we're working for the private bankers," he laments.

This is a common complaint heard around the state, and Sonora's agricultural and industrial leaders are talking about mobilizing to turn the situation around. As the "tip of the iceberg" of this process, the National Association of Agricultural Credit Unions has scheduled an extraordinary national congress for November to "fight for a cheapening of credit," according to Association President Enrique Rodríguez Rivera.

Rodríguez Rivera told my associate that the congress will take place in Hermosillo, the capital of Sonora, "because the Hermosillo producers have been the strongest in responding to our call."

Sonora's producers are also enthusiastic about a major agroindustrial and industrial fair sponsored by the state government later this year. This is "Sonora '81," set for Oct. 11 to 24 in Hermosillo. But the producers are wondering how they will be able to follow through on the business opportunities of the fair if interest rates are not reduced.

One of the local political figures coming in for some heat is Adalberto Rosas, the mayor of the state's second largest city, Ciudad Obregón. A member of the conservative PAN party, Rosas is married to the daughter of one of the bankers who most vociferously defend Volcker-style policies, and Rosas has refused to join the protests against the rates.

But the bigger target of anger is Arcadio Valenzuela (no relation to the Dodgers pitcher, my Sonora friends hasten to point out), the director of Banpacífico and former president of the Mexican Bankers Association. Knowledgeable local business leaders say that the "Grupo Valenzuela" made its great surge forward in the mid-1970s in the midst of two dubious circumstances: 1) the height of the northwest drug economy, since virtually shut down by Echeverría and López Portillo; and 2) the crisis of 1976, when massive amounts of capital were shifted out of the country and then brought back in with princely speculative returns.

Valenzuela is a particularly close friend, it appears, of Gastón Azcárraga Tamayo, the head of the business think tank called CEESP, and one of the most outspoken current advocates of a devaluation of the Mexican peso. Valenzuela is thus linked to circles attempting to recreate a 1976 today.

There may also be a foreign dimension to the Sonora fight. A curious reference in the London publication, *Latin America Weekly Report (LAWR),* recently caught my attention. After reassuring its readers that "lending to one of the official banks under the guarantee of the government is not risky," the *Report* adds out of the blue: "On the other hand, a foreigner investing in agribusiness in the state of Sonora might conceive of circumstances well short of socialist revolution in which he could lose his money."

The patent absurdity of this evaluation makes one wonder just what *LAWR* is trying to achieve with its scare tactics.

International Intelligence

Soviets score NATO naval maneuvers

Pravda launched a scathing attack Aug. 4 against the ongoing NATO naval maneuver code-named Ocean Venture '81. The war exercises in the South and North Atlantic, in which non-NATO countries are also participating, were denounced by *Pravda* as "extremely dangerous and irresponsible . . . involving countries not belonging to this aggressive bloc—Argentina, Brazil, Uruguay—are a provocation and rude show of force on the part of the United States."

The Baltic phase of the naval maneuvers scheduled for September and code-named "Magic Sword," is restricted to NATO members. The Soviets describe Ocean Venture '81 and Magic Sword as the biggest maneuvers "since World War II, which will affect areas in close proximity to the frontier with the Soviet Union in the north Atlantic and even in the Baltic. . . . The legitimate question arises whether these exercises are a direct continuation of a show of rude force under another disguise."

A further commentary on Western policy is TASS's characterization the first week in August of the North-South summit meeting in Cancún, Mexico Oct. 22, as "a dialogue of the deaf."

Pakistan tries to re-take Bangladesh

President Zia ul-Haq of Pakistan is planning to visit Bangladesh, the Indian press reported recently, in the first visit by a Pakistani head of government to Bangladesh since it liberated itself from Pakistan in 1971. Discussions would reportedly focus on formulating a joint defense policy between the two nations.

The visit would take place only several months after the assassination of Bangladeshi President Ziaur Rahman in a coup carried out by both pro-Pakistani Islamic fundamentalists and pro-Chinese elements. Closer ties with Pakistan—which is still hated by most of the Bangladesh poulation for the genocide carried out by its army before 1971—has been facilitated in the aftermath of the coup by the removal of military leaders who fought against Pakistan in 1971.

According to reports in the Bangladesh press, five Pakistani ministers secretly visited Bangladesh last month to discuss the possibility of turning it into a "confederate" of Pakistan. It is also reported that the "secret" delegation asked Bangladesh authorities to build up their military strength. Another report indicated that Bangladesh is sending army officers to Pakistan and China for special training.

Several weeks ago the Indian government-linked daily, *National Herald* reported that Pakistan is planning to deploy up to 100,000 troops in Bangladesh. Although the report has been denied, it reflects India's growing concern with the consolidation of this Pakistan-Bangladesh axis.

Begin's mandate: military confrontation

The coalition government formed by Israel's Prime Minister Menachem Begin this week after five weeks of political infighting will be operating on a mandate as extremist as the Israeli prime minister: continued Israeli occupation of Sinai instead of relinquishing it to Egypt; annexation of the West Bank; and the deliberate rupturing by Israel of the Lebanon ceasefire.

"You may say we shall pursue a somewhat isolationist policy," said Avraham Sharir of Begin's Likud bloc. "It's about time we had a head-on confrontation with some of our friends and some of our enemies, especially over the Palestinian issue." When asked if such a policy could jeopardize relations with Washington, Sharir said, "The Americans will just have to swallow it."

Almost the entire Israeli cabinet is lined up behind this war policy, the leading proponent of which, other than Begin, is Israel's new hardline Defense Minister Ariel Sharon.

The new regime's bellicosity was underscored by Begin at the beginning of August, when he stated that Egypt should "abandon the idea of including the PLO in the autonomy talks, which might not be resumed at all."

CIA-Peking conspire on Afghanistan

New information has surfaced on the extent of U.S.-China dealings for funneling arms to Afghan rebels based in Pakistan. According to a story on Aug. 3 in the London *Guardian*, one of the secret agenda items discussed by Jimmy Carter's Defense Secretary Harold Brown during his 1980 Peking visit, was joint operations to supply arms to the Islamic fundamentalist rebels in Pakistan.

The deal made by Brown was to get Chinese agreement to permit overflights of their territory for planes carrying arms bound for the Afghan rebels. The Chinese also agreed to supply SAM-7 and RPG anti-tank rockets, and if the Afghan-Pakistan border was closed, the Chinese would take over transshipment of weapons, unloading planes in China and using Chinese personnel to carry the cargo to the Afghan-Pakistan border. This procedure was important because it permitted Pakistani dictator Gen. Ziaul Haq to deny charges that he was supplying arms to the rebels directly.

Israelis linked to Propaganda-2?

Italian police, who already knew that Licio Gelli, the head of the Propaganda-2 Masonic lodge now in hiding, had been coordinating Italian arms sales to Israel, have now discovered other connections between the terrorist-linked lodge's members and the state of Israel.

Recently, Italian financier G. Fabbri, an associate of Gianni Agnelli of Fiat, was indicted after police discovered him and his father-in-law preparing to flee Italy. Carrying out surveillance of Fabbri's villa, they caught his bodyguards and father-in-law Benjamin Einstein loading art works and other valuables onto two trucks bound for Switzerland.

Einstein happens to be a former Israeli consul in Switzerland. Some observers indicate that the P-2 affair's unraveling may reveal some role for the Israeli secret services. It is recalled that when the P-2-controlled Red Brigades terrorists killed five bodyguards and kidnapped (later murdering) Aldo Moro in 1978, they used Israeli-made bullets.

Swiss paper reveals P-2 holdings

The *Neue Zürcher Zeitung*, the paper of the Swiss financial community often described as the "leading Masonic liberal paper in the world," published an account July 31 of the holdings of the Banco Ambrosiano, connected to the Italian illegal Freemasonic lodge Propaganda 2.

The Swiss paper is the only newspaper in the world to publish the revelations concerning Banco Ambrosiano other than the U.S.-based *New Solidarity* and *EIR*, both of which published the full story more than two months ago when the P-2 scandal first broke in Italy.

Banco Ambrosiano is headed by Roberto Calvi, a leading member of P-2 who was arrested in May on charges of engineering capital flight from Italy.

Writes the *Neue Zürcher Zeitung*: "Cälvi has found mercy among the owners of the bank. Perhaps one might explain this with the circumstance that he controls a big part of the stock himself. It is only known that, apart from the financial organization of the Vatican, a whole series of foreign companies are to be found among the 30,000 shareholders. Are these companies themselves controlled by Ambrosiano and therefore by Calvi?"

Soviet defense chief: threat to our security

A full page of *Pravda* July 25 was given over to the defense minister of the Soviet Union, Marshal Dmitrii Ustinov. He joined a host of marshals and generals, recent contributors to the official Soviet press, in alluding to the need for a large military buildup in the U.S.S.R.

Ustinov enumerated crisis situations from Poland to the Persian Gulf, but his fundamental message to the Soviet party and population was that the world is dangerously, unpredictably unstable. The defense minister termed Reagan administration policy, which he said included "the line of destabilizing the sociopolitical situation existing in Europe since World War II," a "direct threat to the security of the U.S.S.R. and its allies."

Cognizant of the intense debate on military strategy under way in the United States, Ustinov directly addressed the incompetence of U.S. Defense Secretary Caspar Weinberger, for pursuing a track that continues "the well-known Carter Directive No. 59, that banks on so-called 'limited' nuclear war." This policy, he warned, "merely undermines stability in the world and makes the United States' own security more shaky."

The same, said Ustinov, goes for NATO's deployment of a new generation of highly accurate medium-range missiles in Europe, scheduled for the beginning of 1983. Like Chief of Staff Ogarkov in the current issue of the journal *Kommunist*, Marshal Ustinov said that their installation would "substantially alter the strategic situation," because they are supposed to be "first strike" weapons capable of hitting Soviet territory in less than five minutes.

The Soviet response to this development is already in action, entailing diversion of resources into military programs.

Ustinov put it: "If the necessity arises, a due response will be given to all this. We have the possibilities to prevent U.S. military superiority. The equilibrium will be maintained, but on a higher level."

Briefly

- **HELMUT SCHMIDT** appeared on television Aug. 6, describing his current budget plan as part of an economic growth policy. Rejecting the high interest-rate policy of the U.S., France, and Italy, he said, "The only way to reduce unemployment is growth," and therefore liquidity will be injected into such crucial industrial sectors as machine tools. The dollar's strength, Schmidt stated, is due to an influx of funds seeking high rates, but funds are also moving into the mark despite lower rates because investors see that "in the long term, the deutschemark is a stable currency."

- **GASTON DEFFERRE,** the French interior minister, recently declared, "Maybe because I have lived in hiding, I feel very strongly that to extradite is contrary to all French traditions, especially when it has to do with a political fight. . . . Extradition—no, this is not possible." Defferre was referring to his government's decision that it will not return Basque terrorists to Spain for prosecution.

- **RAMSEY CLARK,** the veteran of the Shah's overthrow, on Aug. 3 publicly attacked the Reagan immigration plan as an attempt to "violate undocumented workers' human rights" which will increase "tensions in U.S.-Mexican relations."

- **LEONID BREZHNEV** and East German party chief Erich Honecker met Aug. 4 in the Crimea and sent out a signal that they want to go ahead with the long-delayed summit meeting between Honecker and West German Chancellor Helmut Schmidt.

- **CAP WEINBERGER** is said to be preparing a contingency plan for placing theater nuclear weapons in Northeast Asia, a plan sharply attacked by Radio Moscow. Former Ambassador E. O. Reischauer says Japan would never accept such a plan.

Democratic senators in open challenge to Volcker

by Graham Lowry

An open battle over the high interest-rate policy of the U.S. Federal Reserve has erupted in Washington, and its outcome may well determine whether the United States can avert a full-scale economic blowout looming for the month of October. The danger of that blowout is increased by the fact that the Reagan administration is not merely tolerating Fed Chairman Paul Volcker's usury policy, but, especially since the Ottawa summit, is actively supporting it.

While President Reagan and the heads of government of the other leading industrial nations met in orchestrated "sensitivity" sessions, agents of the IMF, the OECD, and the Bank for International Settlements convened the actual Ottawa summit to complete their plans for the economies of the advanced sector. A primary instrument of those plans has been and continues to be the 20 percent interest-rate regime overseen by Paul Volcker on behalf of the stated intentions of the international oligarchy and its British royal family to eliminate the nation-state—most particularly, the constitutional republic of the United States.

The signs that President Reagan was becoming locked into a position of support for the policies of the central bankers became publicly visible at Ottawa, in his widely reported adulation of Prime Minister Margaret Thatcher, who presides over that devastated plot of real estate known as Great Britain. A further indication was provided by Reagan's eager embrace of French President François Mitterrand, who, in his brief tenure of office has already begun to obliterate the political and economic institutions of the Fifth Republic. Finally, and most emphatically, President Reagan flatly rejected the forceful appeals of West German Chancellor Helmut Schmidt to take action to bring down interest rates, despite Schmidt's longstanding and repeated warnings that Volcker's policy threatened the economic survival of Western Europe and the military security of the NATO alliance.

Spurred by tremendous constituency pressure, congressional opposition to the Fed's high interest rates has been building steadily, despite a significant diversion of legislative and public attention by the protracted fights over the President's budget and tax programs. But in the aftermath of Ottawa, even as the tax bill moved onto the floor of the Senate and House for adoption, the dam broke on the interest-rate question. On July 28, Sen. Lawton Chiles, a Florida Democrat, introduced an amendment to the tax bill condemning high interest rates which, though later dropped by the conference committee, passed the Senate 100-0, with the Republican leadership seeing to it that no Republicans went on record in support of Volcker by voting against the Chiles initiative.

Then on July 30, Sen. John Melcher, farm spokesman and Democrat of Montana, introduced a joint House-Senate resolution that, if passed, would force immediate White House action to bring down interest rates. The teeth in Melcher's bill, which as a joint resolution would have the force of law, are provisions directing President

Reagan to establish a consultative board that would ensure that the Federal Reserve lowers interest rates within 90 days, and mandating that credit be made available to the nation's ailing productive industries and farms.

Further evidence of the growing demand for action, especially among conservative Democratic senators, came from another proposal made during debate on the tax bill by John Stennis of Mississippi. Stennis presented a bill to establish a National Commission on Interest Rates, joining together government officials and representatives of the private sector, to determine administrative and legislative means of achieving "moderate and stable rates of interest." Under pressure from Sen. Robert Dole, the Kansas Republican who is close to the White House, Stennis withdrew the bill in return for a promise of hearings in the Finance and Banking Committees after the August recess.

Senate Democrats in particular have mapped out an ongoing campaign of committee hearings and public forums to shape a policy fight against high interest rates. But the party's congressional forces, especially on the House side, are suffering from a lack of leadership and from successive defeats by the administration. Lyndon H. LaRouche, Jr., chairman of the advisory board of the influential National Democratic Policy Committee, announced in a July 30 news release that the time has come for a Democratic Party "war council" against Volcker's policies and their supporters. LaRouche called on representatives of the party's political action committees to join with him in accomplishing what California banker and Democratic National Committee Chairman Charles Manatt has failed to do to protect the nation from Volcker's usury.

Both Democrats and Republicans in Washington are fully aware that President Reagan has been sold on maintaining high interest rates, and since the Ottawa summit especially, the President has made his support known. One source close to the White House's inner circle reports that "a heavy commitment" has come down from the President for Volcker's policy. On the Hill, a key staffer for a conservative Democrat who supported the President's economic program, reported the congressman's chagrin that the President was "adamant" in his backing for the Fed chairman.

Playing to the President's "all-American" profile, key administration officials, as well as Paul Volcker himself, have gilded the high interest-rate policy in such a way to convince Reagan that it is indispensable to his program for "economic recovery." According to *EIR*'s sources, Volcker has persuaded the President that high interest rates will help repatriate dollars currently in the Eurodollar market by attracting them back to higher returns in the United States, while one of Reagan's economic advisers has described the same process as providing more "liquidity" for America. Topping these "newsspeak" designations for Volcker's operation are arguments made by CIA and State Department officials that high interest rates are an important weapon against the Soviet Union, since by drawing money into the United States, they will restrict the amount of credit available to the Soviets.

No matter how persuasive such casuistry may be to President Reagan, the reality is that the world's economic and political stability is rapidly disappearing in the wake of the central bankers' blitz against production and industrial investment, a blitz that has intensified since Ottawa. Helmut Schmidt brought that reality home to a press conference in Bonn on July 30. "We're suffering from high American interest rates," the West German chancellor said. "I told President Reagan that unless the United States brings its interest rates down, then we will have to cut public spending everywhere in Europe." The resultant budget for Germany announced by Schmidt for next year includes a real cut in the defense budget of nearly 2 percent when adjusted for only a 6 percent rate of inflation. Schmidt's warning on the threat to Western security posed by Volcker's policy took on added significance this week with the news that the U.S. Department of Defense has been ordered to prepare a 5 percent cut in military spending for fiscal 1983.

Despite the Reagan administration's "rearm America" pledge, its support for Paul Volcker and the Federal Reserve throws America's defense capabilities—and those of our allies as well—into the shredder. Backed by support from the President, the Fed has responded to congressional demands for lower interest rates by saying it will "ignore them." An official of the New York Fed said last week, "Congress isn't serious about wanting interest rates down. They have just acted in the most irresponsible manner in passing a tax cut and a big defense budget. That makes it impossible to lower interest rates."

To add weight to this blackmail, the New York Fed has prepared a report, written by Morgan Bank and Goldman, Sachs investment house, claiming that the only way to bring down interest rates is to cut the defense budget. Scheduled to be released shortly, the study reportedly has already been endorsed by Defense Secretary Caspar Weinberger.

At the same time that Secretary of State Alexander Haig drives the United States toward a full-scale confrontation with the Soviet Union, America's strategic military capabilities are collapsing with its industrial base and technological resources. Without freeing the economy from the control of Paul Volcker and his backers, the administration's bankrupt but dangerous foreign policy, supported only by a nearly bankrupt economy, leads the United States not toward a "new beginning" but toward World War III.

How the fight emerged

While national media attention has focused predominantly on the group of conservative Democratic congressmen known as the Boll Weevils, who delivered the decisive margin in President Reagan's budget and tax victories, a parallel Senate caucus, operating almost unnoticed for the past seven months, suddenly redefined the terms of economic debate in recent days as they forced the issue of usurious interest rates to the floor of the Senate. With allies such as Sen. John Melcher (D-Mont.) and the venerable Sen. John Stennis (D-Miss.), these conservatives intend to make President Reagan's suicidal embrace of Paul Volcker's policies the single economic issue upon Congress's return in September.

An important political lesson emerges from the differing approaches adopted by Senate and House conservative Democrats. In the Senate, many Democratic traditionalists quietly voted for the President's budget and tax programs but increasingly pointed to high interest rates as the "Achilles heel" of the President's program. A crescendo of activity around this issue led to Senate passage of the Chiles amendment on July 28 by the astounding vote of 100 to 0.

The Chiles amendment blasts high interest rates, and recommends that the Federal Reserve Board act to ensure adequate credit for productive purposes. But on the House side, the "Boll Weevils" left the interest-rate issue publicly untouched, as they were forced by Tip O'Neill's confrontationist stance against the President to expend much of their own political capital in the fiery budget and tax battles. As a result, also on July 28, when a resolution on high interest rates reached the floor of the House, the resolution was the product of Volcker ally Rep. Henry Reuss (D-Wisc.). Reuss's resolution condemned continued budget deficits as the cause of stratospheric interest rates—not his friends at the Federal Reserve Board.

The defeat of ultra-liberals such as George McGovern and Frank Church last November left Senate Democrats, now in the minority, largely bereft of national spokesmen. Remaining liberals such as Ted Kennedy have surfaced only sporadically. So, at the outset of the 97th Congress, a group of 10 conservative Democrats formed an informal caucus composed of Sens. David Boren (Okla.), Sam Nunn (Ga.), Lawton Chiles (Fla.), Ernest Hollings (S.C.), Dennis DeConcini (Ariz.), Howell Heflin (Ala.), Edward Zorinsky (Neb.), Bennett Johnston (La.), James Exon (Neb.) and David Pryor (Ark.). This group of primarily newer senators was soon joined by Russell Long (La.), the still powerful former chairman of the Senate Finance Committee.

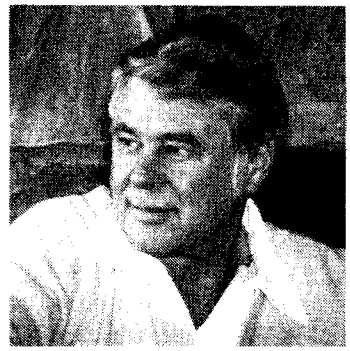
Early activity of the caucus centered around how and in what form to support the President's programs and issues, such as reduction of violent crime. While some caucus members, such as Boren, and other mainstream Democrats, such as Melcher, began to raise the interest-rate issue in private discussion, there was a tentativeness and a feeling of "let the experts on the Banking Committee or in the various policy groups take the lead."

But by July, it was clear that interest rates were not coming down and that whoever those "experts" might have been, they were not going to take the lead. Boren began to make daily speeches on the Senate floor on the devastation caused by interest rates. Three caucus members, Boren, Zorinsky, and Pryor, joined Melcher and James Sasser (D-Tenn.) in a series of "public forums" to hear from constituencies hit hard by interest rates. Boren, Nunn, Chiles, Exon, and Johnston shot off a letter to President Reagan calling for a domestic economic summit shortly before the Chiles amendment passed and the Melcher resolution was introduced. Economic debate in September will be dominated by this group.

In contrast, the House Democrats are in disarray following Tip O'Neill's tax and budget debacles. The Boll Weevils' Conservative Democratic Forum (CDF) never broke open on the issue of interest rates. Perhaps, unlike their Senate colleagues, they continued to listen to their "economic experts"—people like Mont Pelerin Society asset Phil Gramm of Texas, who calls Senator Melcher's resolution "baloney," and banking committee and CDF member Doug Barnard of Georgia, who used to work for the Federal Reserve in Atlanta. For whatever reason, their abrogation on this issue has left it to the likes of Henry Reuss to misdirect.

While Tip O'Neill is everybody's bad joke, moderates such as Majority Leader Jim Wright (D-Tex.) and Deputy Chief Whip Bill Alexander (D-Ark.) have not yet been able to catalyze effective action on interest rates. They will probably remain in political limbo until the Boll Weevils follow the lead of their Senate counterparts and make Paul Volcker and high interest rates the focus of economic debate.

Interview



Senator John Melcher on the U.S. interest-rate fight

U.S. Senator John Melcher, Democrat of Montana, gave the following interview to Anita Gallagher on Aug. 3 in Montana as he was preparing to hold three "town meetings" on interest rates in his home state during the August recess. Sen. Melcher introduced Senate Joint Resolution (SJR) 104 on July 30, a binding resolution that calls on President Reagan "to immediately begin consultation with the Board of Governors of the Federal Reserve for the purpose of modifying the Board of Governors' monetary policy." Melcher and four other Democratic senators staged two previous hearings in Washington on the impact of high interest rates. Now that the tax and budget packages are finished, many observers think interest rates will be the number-one item before Congress in September.

Gallagher: Senator, what is your Senate Joint Resolution 104 and what led you to introduce it?
Melcher: Obviously, the high interest-rate policy that we have going on in this country under [Federal Reserve Chairman] Volcker is a very tough policy. It's hard on small business and agriculture and a whole lot of other people and it's going to wring the economy out to where we have a sharp recession unless we change the policy. And that's why I think it's apparent why we better start by asking this administration to reverse Volcker's policy, or at least to consult with him about reversing his policy. That's what the intent of the resolution is: to bring the President directly into play with the Federal Reserve Board to discuss lowering the discount rate, lowering the reserves required of banks, and bringing interest rates down promptly.

Gallagher: Many congressmen cited Lyle Gramley's testimony that interest rates would only go down when wages went down as a factor in their taking action. What did you think of Gramley's statement?
Melcher: I think that Governor Gramley's statement is unrealistic, impractical, unworkable and totally out of step with what is happening in inflation-ridden countries such as America or any other country in the world today. It isn't going to happen that wage rates are going to drop as the cost of living goes up. I don't know where Governor Gramley gets those ideas, but they are nothing that contribute to a policy that is workable in this country.

Gallagher: What is the plan for SJR 104 when Congress reconvenes in September? Will it be voted upon?
Melcher: Well, I would hope that it's voted upon. In the meantime, I would hope that we don't even have to wait for President Reagan and Secretary of the Treasury Regan to realize that this type of policy that we're under is so far down the road toward a serious economic recession that they'll want to start jawboning with Volcker even before we come back after Labor Day. But nevertheless, I'll push very hard after Labor Day after we reconvene for consideration of the resolution, and also to get cosponsors in the Senate, and I hope that it can be introduced as a companion resolution in the House also, to get prompt action on both sides.

Gallagher: This is one of a series of initiatives that has been going on over interest rates for some time, such as your own hearings.
Melcher: Well, that's right, but what we are trying to do is to focus the public's attention on the problem and get them to realize that this is a rather deliberate policy by the Federal Reserve Board. Volcker *used* to say that we needed to have high interest rates to keep ahead of the inflation rate. Now that we've got the inflation rate coming down, and I think everybody agrees that it's around 8½ percent right now, we haven't seen a corresponding decrease in monetary policy by Volcker. He's still kept the interest rates very high, and he hasn't allowed them to come down at all, and considering that they haven't come down, as nearly as we can read his statements made in various speeches and the statements of the governors of the Federal Reserve Board, such as Gramley.

Gallagher: If your resolution is not acted on, or if the President does not respond to it, will you introduce legislation to reform the Federal Reserve?
Melcher: Well, you have to understand that the resolution, in a very mild form, is legislation. It directs the President to make a consultation. It is not very tough

legislation at all. But it's a way to start, and if the President doesn't want to respond, I think we should face the responsibility in Congress to check the powers of the Federal Reserve Board by introducing and passing tougher legislation checking the Board's powers.

Gallagher: If that is necessary, what direction would your legislation take? What about the abuses of the Fed's Open Market Committee?
Melcher: Well, the Open Market Committee is often criticized, and we are wondering just exactly what their function in the monetary policy is and if it helps anybody that's in business. But I am not prepared at this time to say how tough of legislation Congress would be willing to pass.

In my own view, I would want to restrict the powers of the Board in their monetary policy so that interest rates could never be anywhere near the level they are now. I'd want to see some sort of a cap installed that interest rates could not exceed. But that's my view, very strong. Not too many people in Congress share that kind of view at this time and that type of restraint on the Federal Reserve Board, so I don't want to predict what type of legislation we would be thinking of should the President not act and should we not be able to pass the mild type of resolution that I have introduced.

Gallagher: Senator, what is your view of a two-tier credit system, with one interest rate for productive activities like farming and manufacturing and a higher interest rate for more speculative activities?
Melcher: I think it's a difficult type of law or policy to enforce. You never know where you're at with it. I hope that we don't have to come to that. I want to return to decent interest rates, and I don't want to have to jiggle around between deciding who would go on one tier and who would go on another tier, and which category fits a particular type of endeavor.

Gallagher: What has been the response to your interest rates hearings in Montana and in Washington?
Melcher: We are just starting on the first one in Montana on Aug. 4, and we are getting some feedback already that there is a great deal of interest in it and a feeling that it's timely. The two forums that we've held in Washington [on agriculture and housing] have been constructive in that they have drawn the attention of a great number of people across the country to the fact that at least some of us in Washington seem to be waking up to the fact that the policy is so damaging to the country that we are courting economic disaster.

I feel very strongly on the subject myself; I notice several senators seem to share my concern. We hope that we're a growing number. We hope that we'll be able to alert the public and the Congress and hopefully also the Reagan administration that we are indeed going down the wrong path, that it's a very dangerous path we're pursuing, and that there is still time to turn back and correct the situation before we have economic collapse.

Gallagher: Do you think a lot of Republican congressmen are going to get messages from their constituents on interest rates during this recess?
Melcher: Well, I don't see how they can help but get the message if they spend any time with the home folks. I don't care what group of small business people you're talking to now. They all bring up the interest rate problem. Agriculture is having a particularly tough time with it, but it's clear across the spectrum. It is involving everybody that is in business in an ordinary way that I find here in Montana, and I think other states must be the same way too.

Gallagher: Do you think Republicans will find it easy to support your bill? After all, Volcker is Carter's appointee, not Reagan's.
Melcher: Well, I don't think Republican people in Congress, either in the House or the Senate, should be reluctant to speak up for the interests of their constituents. And if their constituents are telling them what my constituents are telling me, and it doesn't make any difference which party they belong to or whether they're completely independent of either major party or even the so-called Libertarian Party or one of the other parties. They are all telling me the same thing: that this high interest-rate policy is very harmful and they want it changed. And they don't care two cents about what Mr. Volcker thinks about it. They're tired of his theory and they want to see some action reversing his policy very quickly.

Gallagher: Are you going to be forming an interest rate caucus or is there already such a group in the Senate?
Melcher: We already have such a group, I would say, in the Senate that's pretty broad. I don't know that we think we're a very formal group, but we certainly think we are a pretty broad cross-section of the Senate, and particularly strong on the Democratic side. Volcker, after all, you're right, is an appointee of Carter, and I don't think that bothers us a nickel's worth, that he was appointed by a President that was a Democrat.

Gallagher: Do you think it would help the United States with its allies to reduce interest rates?
Melcher: Oh sure, I think it would. I don't believe it would weaken the dollar to see interest rates come down, though that is one of the arguments Gramley made. There are other things we need to do that will keep the dollar strong, like keeping the American economy ticking. And you can't do that with high interest rates.

Leftist purge attempt follows key election

by Donald Baier

In a pre-rigged election on Aug. 1, the forces of the Socialist International seized control of the "official" Democratic Party organization in the state of Washington, installing ultra-liberal Karen Marchioro as the chairman of the state central committee. Among their first actions was the passage of a resolution of censure condemning the voting record of U.S. Congressman Norman Dicks, a Washington Democrat who had introduced a resolution in Congress early this year opposing Paul Volcker's high interest-rate wrecking job on the U.S. economy.

The National Democratic Policy Committee, which for the past two weeks had waged a high profile campaign throughout the state under the slogan "ABM—Anyone But Marchioro," issued a statement Aug. 1 defending Dicks and other Democratic moderates targeted by such purge efforts.

"These tricks are not just going on in Washington," NDPC chairman Warren Hamerman charged. "They are being carried out in California and around the country by the Socialist wing of the Democratic Party in its mobilization with the Socialist International for high interest rates."

Noting that so far national Democratic Party chairman Charles Manatt has allowed Marchioro, millionaire socialist Tom Hayden, and other creatures of the Socialist International a free hand for their takeover efforts, the NDPC called on Manatt to "turn this around immediately."

Although zero-growth austerity candidate Marchioro, a product of the Seattle-area King County Democratic forces which have sabotaged the state party for years, won the election over "unity candidate" Diane Oberquill by a vote of 100-71, the state party will remain split for the moment. Former IBEW official Joe Murphy, the statutory chairman of the party, has announced he will not resign his post but will continue to fight the Marchioro takeover. Murphy had previously withdrawn from the election race in favor of Oberquill, an appointee of pro-growth former Governor Dixy Lee Ray, and said he would have stepped aside had Oberquill won.

But the election was stacked against the Democrats' pro-labor, pro-industrial FDR traditionalists from the start, because in mid-1980 the Marchioro liberals packed the state convention in Seattle and rewrote the party rules to ensure their dominance on the central committee. Under the old rules, Oberquill would have won the Aug. 1 election by a vote of 70-7!

During the same spring/summer period, the Trilateral Commission forces allied with the Socialist International unleashed the "Gamscam" FBI sting operation against the state's traditionalist Democrats, framing up pro-labor Senate Majority Leader Gordon Walgren and Speaker of the House John Bagnariol on racketeering charges, and dragging the Dixy Lee Ray administration through the mud as well. This softened up the party for what was expected to be a quiet takeover by the Marchioro forces. Then the NDPC stepped in.

Putting the Gamscammers on trial

In mid-July, the NDPC released a 20-page dossier on the Gamscam frameups, documenting the Trilateral crew behind the FBI "sting" and their collaboration with the Socialist International/Democratic Socialist Organizing Committee forces backing Marchioro. For the next two weeks, NDPC spokesman Mark Calney held near daily press conferences in every major city and town throughout the state, and the Trilateral/Socialist operation to "Volckerize" the Democratic Party into a weapon for depression enforcement of austerity became the hottest political issue in Washington. Everyone from local party women's caucuses to top party political figures in the state capitol at Olympia discussed the Gamscam dossier, and scores of moderate Democrats and anti-Trilateral Republicans were drawn into the mobilization.

Most of the state's major newspapers, radio, and television stations covered the story; and twice the Seattle area KING-TV station felt compelled to run strident editorials denouncing the "insignificant NDPC" for its exposés.

Several of the state's most prominent Democrats reportedly campaigned for Marchioro to withdraw her candidacy in the interests of party unity after Murphy announced that he would step aside; others, as one put it, "wanted to do it, but lacked the guts."

The impact of the NDPC's efforts was clearly visible in Marchioro's own speech to the central committee after she was installed as chairman, which she began by invoking the names of every nation-building Democrat from Franklin Roosevelt to John F. Kennedy who had upheld the party's tradition of progress. But her only programmatic recommendation was a campaign to "get the reactionaries like James Watt," the Reagan administration's interior secretary who has become the target of a Democratic Socialist Organizing Committee/Sierra Club environmentalist mobilization.

CFL suit against the FEC draws line against regulatory overreach

by George Canning

Since its founding in the wake of the Nixon-Watergate crisis, the Federal Election Commission (FEC) has acted as the government watchdog over campaigns for federal office. The commission has over the years weathered charges of First Amendment violations, bias against non-liberal candidates and causes, and bureaucratic nit-picking. On July 17, however, a class-action suit was filed against the FEC in U.S. District Court for the Southern District of New York that is the most serious challenge yet mounted to the commission's power to regulate elections.

The suit, brought by Citizens for LaRouche (CFL—the principal 1980 presidential campaign committee of Democrat Lyndon H. LaRouche, Jr.), CFL's treasurer, Patricia Dolbeare, and seven CFL contributors and/or campaign volunteers "on behalf of themselves and all others similarly situated," seeks declaratory and injunctive relief against the FEC from the court. The suit, *Patricia Dolbeare, Treasurer of Citizens for LaRouche, Inc., et al.* v. *Federal Election Commisson,* charges the FEC with carrying out, under cover of its investigative and audit authority, an ongoing campaign of intimidation against the committee and its political supporters. The plaintiffs are asking the court for a declaratory judgment "that the FEC investigation of plaintiffs was motivated solely by bad faith, constituted in whole or in part an abuse of process, violated plaintiffs' constitutional rights and unconstitutionally applied provisions" of the Federal Election Campaign Act (FECA).

Furthermore, they have requested preliminary (followed by permanent) injunctions to force the commission to refrain from any further investigation until it demonstrates to the court "that it is proceeding with a lawful investigation within the scope of its investigative authority," and when and if it so demonstrates, that the commission be required to notify CFL and any individuals involved and "proceed expeditiously with any such investigation limiting its inquiry to facts relevant to the investigative order."

FEC animus

Central to the suit is the charge that the commission acted out of an animus against Mr. LaRouche and his associates, including the plaintiffs. This animus is traced not only to the conflict between LaRouche's 1976 presidential campaign committee, Committee to Elect LaRouche, and the FEC, but also more deeply, to powerful political forces using the FEC as an instrument to harass and disrupt political efforts by LaRouche's associates. The CFL complaint points out that:

> The regulatory scheme favors incumbents and discriminates against new candidates and third parties. There is a major interchange of FEC employees with the political campaigns of established Washington, D.C.-based politicians which facilitates the unequal application of the laws. These structural aspects of the Commission became especially critical in 1980 when the Democratic National Committee, controlled by an incumbent President, virulently opposed LaRouche's Democratic candidacy.

One result of the relationship between the FEC and the various established political machines was the use of the agency in tandem with press outlets for "dirty tricks," some of which helped to establish an atmosphere for the later FEC investigations.

Affidavits submitted in evidence with the complaint detail activity such as Federal Election Commission staffers misinforming inquiring reporters that LaRouche was a candidate for the U.S. Labor, rather than the Democratic, party nomination, as well as the statement by a staff member of the Democratic National Committee that LaRouche would be penalized with an FEC investigation were he to continue to claim designation as a Democrat.

As early as December 31, 1979, two weeks after CFL had qualified for federal matching funds, commission chairman Frank Reiche was cited in the *Philadelphia Bulletin* as being "wary about approving the subsidy for LaRouche."

The article revealed the assumptions under which Reiche was working: "Legally, he said, he could not refuse it unless he found irregularities suggesting possible fraud by LaRouche's campaign. 'Thus far, no such irregularities apparently have been found,' he said."

This statement was made in the context of a press campaign in Washington, D.C. and elsewhere complaining that CFL's receipt of matching funds represented a "flaw in the law" in that it allowed LaRouche and his supporters access to the political process and legitimized his Democratic candidacy.

Launching of direct harassment

Early in February 1980, the FEC began audit and investigative proceedings that were and are, according to papers submitted in support of the preliminary injunction, "based on differing technical interpretations of a law which is constantly evolving in terms of the actual practices of political campaigns." The papers go on to point out, "The unconstitutionally intrusive proceedings were based in all instances on practices of the plaintiff committee which were fully disclosed to the FEC with specific guidance and affirmative recommendations on those practices supplied by FEC regulations, instructions of the commission's audit division, and past application of statute."

During and after the audits, which lasted a total of 16 weeks during the campaign, the FEC began to investigate what it deemed irregularities in the campaign's finances. To do so, it subpoenaed for deposition—without giving notice to CFL—contributors and/or campaign volunteers in numbers of cities across the United States. Depositions were taken in Baltimore, Chicago, and Portland, Oregon. The subjects of the investigations that allegedly persuaded the commission to send its attorneys to cities around the country were:

> In each and every case . . . contributions or expenditures in the area of \$40 to \$250 in a political campaign which raised \$1,450,253. The total amount of contributions under scrutiny by the FEC to date has been \$5,321.00. The investigation has confirmed that these individuals made their contributions to CFL although some contributors have not been able to remember the specifics of each and every contribution.

Action initiated by CFL in the U.S. District Court for the District of Columbia established CFL's right to be notified of any depositions or other investigative action being taken concerning the committee, but subsequently failed to halt the taking of the depositions that the court had initially enjoined.

Cutting candidate's financial base

A major object of the never-completed series of FEC investigations, the CFL suit charges, is the sowing of discord between the committee and its political and financial base. This is allegedly intended to prevent not only the repayment of campaign debts, but also future political activity by LaRouche and his associates. Affidavits submitted in evidence outline the *known* extent to which this object has been obtained.

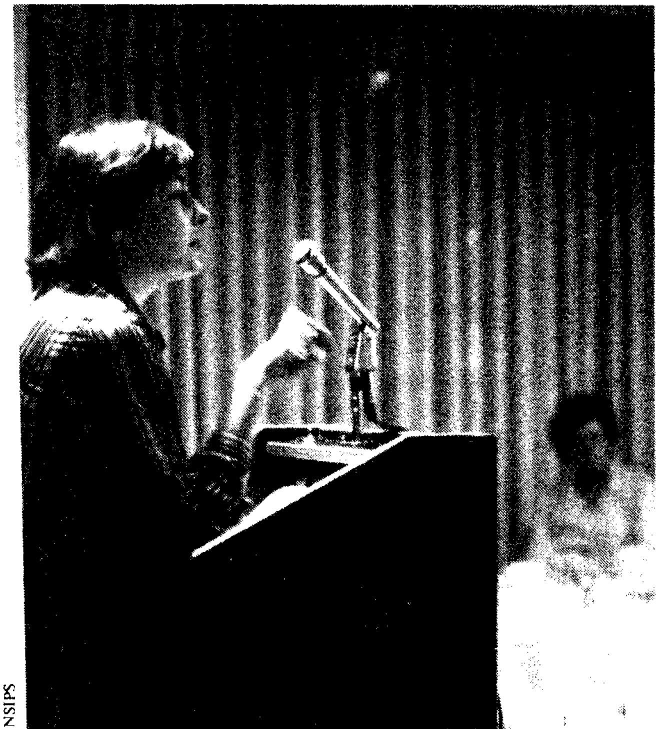
One plaintiff, a volunteer for CFL in Baltimore, describes in an affidavit the types of detailed and often irrelevant personal questions asked her in her deposition, and concludes:

> I seriously considered dropping out of the LaRouche campaign as the result of this investigation. This was not because of anything the campaign did or did not do. I just did not want the hassle when I was starting a new job of having marshals at my house, the FEC on the phone endlessly, and having to explain to my employer that I was being questioned by the federal government as a result of my political activities.

Another plaintiff, a leading campaign organizer and fundraiser for LaRouche in Baltimore, details in her affidavit a list of instances of supporters receiving letters or subpoenas from the FEC, becoming hysterical believing they'd been caught up in an activity the government considered illicit and breaking all relations with her and the campaign. One such contributor "stated that in some way I or the campaign committee had 'screwed up,' otherwise why would the Federal Election Commission be harassing him and demanding detailed responses from him in ten days." A woman who had been subpoenaed "was totally hysterical and threatened to sue me, stating that somehow the committee must have been at fault since she only acted legally in giving a campaign contribution." The plaintiff concludes:

> All of these incidents are, I believe, what the FEC intends by this entire illegal course of conduct against me and CFL. It is intended to create the smear of illegality in campaign fundraising where no substance can possibly exist in that accusation and in that way prevent CFL from raising further monies or garnering further support from its contributors. My reputation has been irreparably damaged as a fundraiser and a political organizer among the persons I worked long and hard to establish that relationship with. These persons will not, I believe, ever again give money to CFL or any cause associated with Lyndon LaRouche.

Yet another plaintiff, who had been a leading fundraiser for the LaRouche campaign in Portland, Oregon, details similar reactions among LaRouche supporters in that city, and concludes that "because of the effects of the FEC's investigation on my contacts, and because of the harassment the FEC seems bent on conducting against lawful contributors, I don't believe I could successfully fundraise from these persons again for Citizens for LaRouche, as I do not want to subject


NSIPS
Plaintiff Patricia Dolbeare of CFL at a fund-raising event.

them or myself to any similar legal process."

An unloved bureaucracy

The conflict that has been brought to the courts in *Dolbeare et al.* v. *Federal Election Commission* is by no means unique in type, though it has been carried out with extraordinary intensity. No one, it seems has much good to say about the FEC.

Earlier this year, a joint letter was sent to the commission by the attorneys of several campaigns for federal offices. The letter asked for a moratorium on findings being made and published in audits of campaign finances. The reason for the requested moratorium was strikingly consonant with the experience of CFL (which was not one of the senders of the letter): the commission and its audit division continually picked at campaign practices on which they had earlier been asked for advice, only to later apply *ex post facto* law to the same details to "find" violations.

The Reagan campaign came under FEC scrutiny earlier this year, and was finally fined $1.6 million for alleged overexpenditure in various states. As is usually the case in the midst of an effort to reach the electorate and attain public office, the Reagan campaign paid part of the fine rather than divert its time and resources to contest the matter. Some observers have suggested that President Reagan's puzzling hesitancy to fulfill his campaign pledge to abolish the FEC stems from the agency's hoked-up investigation of his campaign, an investigation whose primary object at this point is the continued existence of the Federal Election Commission itself.

The commission has not been able to carry out its nitpicking and political harassment totally without penalty, however. A series of stinging setbacks has been given the FEC in the last month, setbacks that call into question its attempts to regulate elections the way government agencies such as the Securities and Exchange Commission or the Federal Trade Commission regulate business practices.

Writing the opinion in *Federal Election Commission* v. *CLITRIM,* the Chief Judge of the U.S. Court of Appeals for the Second Circuit (which is the circuit in which *Dolbeare* was filed) noted:

> This case has served to reinforce my view that we "must remain profoundly skeptical of government claims that state action affecting expression can survive constitutional objections. . . ." From this perspective, I continue to believe that campaign "reform" legislation of the sort before us is of doubtful constitutionality. . . . This danger is especially acute when an official agency of government has been created to scrutinize the content of political expression, for such bureaucracies feed upon speech and almost ineluctably come to view unrestrained expression as a potential "evil" to be tamed, muzzled, or sterilized.

More recently, the U.S. Court of Appeals for the District of Columbia made a strong differentiation between the FEC and other regulatory agencies with broad-ranging powers. In *Federal Election Commission* v. *Machinists Non-Partisan Political League,* the Court pointed out that

> . . . the activities which the FEC normally investigates differ in terms of their constitutional significance from those which are of concern to other federal administrative agencies whose authority relates to the regulation of corporate, commercial or labor activities. . . . The subject matter which the FEC oversees, in contrast, relates to the behavior of individuals and groups *only insofar as they act, speak and associate for political purposes. . . .*
>
> This information is of a fundamentally different constitutional character from the commercial or financial data which form the bread and butter of SEC and FTC investigations, since release of such information to the government carries with it a real potential for chilling the free exercise of political speech and association guarded by the First Amendment.

Several months before the *MNPL* decision, a decision in the U.S. District Court for the Southern District of New York struck down just such an intrusion by the FEC into political speech in *Reader's Digest* v. *FEC.*

The FEC carried out a long-term investigation on the theory that an article in the magazine about the Chappaquiddick incident and sales-promotional videotapes about the article were corporate contributions against Senator Kennedy's 1980 presidential campaign. The court in that case noted the statutory loophole that allows the FEC to prolong pre-enforcement investigations indefinitely, and also distinguished the FEC from other government agencies. Several months later, the FEC quietly announced it would probably find "no probable cause."

Criticism of the commission's overblown powers has begun to come from other quarters as well. Last year, the *Yale Law Journal* published a study that, while not considering the question of the FEC's being used for partisan political ends, concluded that the FEC's enforcement scheme in practice had consistently violated due process rights guaranteed under the U.S. Constitution. The source of these violations is the fact that respondents to FEC investigations have no opportunity to examine or challenge the alleged facts or the legal conclusions based on those "facts" until the agency brings the matter to court.

More recently, the *Wall Street Journal* on July 15 published a scathing editorial attack on the FEC after the commission had announced its withdrawal from the *Reader's Digest* fray. After defending press freedom, the editorial asked whether there will be free elections in America, pointing out:

> Although the FEC is supposed to be nonpartisan, it had its origins in a partisan struggle by liberal Democrats to weaken their conservative opponents, mainly by setting limits on cash campaign contributions. . . . It is not surprising, however, that a body with these origins might sound to some of us rather selective in the candidates it chooses to defend.

The *Journal* concluded its editorial with a call for Congress to dismantle "the ill-conceived agency."

Displaying a striking bureaucratic instinct for survival, the commission recently responded to the *Wall Street Journal*'s editorial charges of liberal bias by starting an "investigation" of Senator Edward Kennedy's 1980 presidential campaign. FEC documents on the campaign indicate that the commission is carrying out the same sort of picayune, bizarre investigation as previously initiated against the LaRouche campaign. More blatantly than the sword of unpaid civil fines held over President Reagan's head, this action appears to have been initiated solely to maintain the agency's existence by displaying a newly painted face of impartiality.

The Federal Election Commission has demonstrated a remarkable capacity for survival, owing primarily to its targets' preference for "copping a plea" rather than descending into the quagmire of legal nitpicking in which the FEC has few, if any, equals. Such a capacity has repeatedly enraged, yet kept at bay, political figures ranging from grass-roots congressional candidates to an elected President of the United States.

The LaRouche campaign's suit against the FEC, however, represents the opportunity to end the agency's abuses once and for all. Part of the case concerns a matter very similar to that in the *Reader's Digest* case: the commission sought to show that leaflets produced by CFL during the Wisconsin primary violated the FECA. The leaflets attacked Rep. Henry Reuss's economic policies as against the nation's interest and advocated his electoral removal from Congress. This action by the FEC may convince the Court that the FEC's intrusion upon First Amendment rights in the *Reader's Digest* case was not a momentary aberration, but a matter of bureaucratic habit. More importantly, however, the suit clearly documents a case of administrative process aimed not at preventing the buying and selling of politicians, but at destroying First Amendment-protected political associations built up during the process of the presidential campaign. In the atmosphere of the recent court decisions and commentary, the *Dolbeare* suit may catalyze the forces required to reestablish the primacy of the U.S. Constitution over the Federal Election Commission.

National News

Liberals: fewer people strengthen defense

"We have developed a consensus against high-level tecnologies and for arms control in this country, and cannot afford to have it dissipated," Nancey Ramsey, the director of the liberal Committee for National Security (CNS) told a reporter this week.

"At all costs we must stop the development of space based antiballistic missile systems. If we don't, all that we have achieved goes out the window."

In the place of ABMs, Ramsey said, the United States should seek to defend itself by imposing population control and preventing nuclear energy development and industrialization in the Third World.

This program, outlined in the Carter administration's *Global 2000 Report,* is the only way to achieve "world stability," she asserted.

Ramsey's CNS was set up in July 1980, at about the same time the *Global 2000 Report* was released. The CNS board includes leading lights from the liberal wings of both parties, including Paul Warnke, Henry Cabot Lodge, John Kenneth Galbraith, Hodding Carter, Richard Barnet, Sargent Shriver, and Harrison Salisbury.

B'nai B'rith establishes Willy Brandt Youth Fund

The most prominent Jewish organization in the United States, the B'nai B'rith, announced at the beginning of August that it will award a gold medal to West German Social Democratic Party chairman Willy Brandt as their "Man of the Year," and establish a new "Willy Brandt Youth Fund."

Chairman of the Socialist International, Brandt also heads the commission on North-South economic policy known by his name, which was founded by World Bank president Robert McNamara.

The Brandt Commission's 1980 report recommends an end to national sovereignty, reversal of industrialization and urbanization, control of world trade and investment by the World Bank and International Monetary Fund, and the use of "appropriate," labor-intensive technologies because "overpopulation" is placing a strain on "limited resources."

The Brandt doctrine in practice is thus equivalent to the doctrines of slave-labor and extermination of "useless eaters" enforced by the Nazis, who substituted looting of existing industry and manpower for investment.

Last year's B'nai B'rith Man of the Year award went to *Playboy* founder Hugh Hefner.

How the DOD plans to strengthen industry

The U.S. Department of Defense announced Aug. 4 that it will spend more than $500 million a year for the next several years to strengthen U.S. defense contractors, thus preparing the United States to wage a long, conventional war. The announcement was made by Undersecretary for Policy Fred Iklé, an agent of Venetian-Swiss banking circles, whose cousin has been head of the Swiss National Bank.

Among the Defense Department's quick-fix schemes are measures to recruit more workers for periods of emergency, and to give financial incentives for expansion of defense-plant capacity. Some prototype weapons that could be rapidly produced in event of an emergency are also planned. Undersecretary for Research and Engineering Richard DeLauer also announced that he was reviewing, with an eye toward reducing, the myriad laws that oversee contractors fulfilling emergency orders.

The real problem with the U.S. defense industrial base, which Iklé neglected to mention, is that enormous numbers of small businessmen have been bankrupted because of the high interest rates imposed by Iklé's banking associates, including Federal Reserve Chairman Volcker.

A source at the Defense Department's Industrial War College has emphasized that the interest rates are causing a severe crisis. For example, the source noted, the U.S. could produce large numbers of airplanes; but only two small companies in business are able to forge the landing gear.

Only one company remains, the source said, that can build the turrets for the newest tank. The problem, he stressed, is that the small businessmen have either gone out of business, or have been forced into other areas of production.

NASA studying large-scale space assembly

An assembly line in space is being studied at NASA's Langley Research Center that would allow astronauts to construct large platforms or antennas in Earth orbit from the Space Shuttle.

The concept uses an electrically powered mobile work station to position a pair of pressure suited astronauts so they can move freely within a prescribed area to build space systems which are too large or complex to fold up and transport aboard the Shuttle.

The experimental station will be used to construct large-truss segments from lightweight graphite-epoxy conical tubes that can be compactly stacked, like plastic cups, within the Shuttle. A pair of the tubes can be joined together to form an 18 foot strut, which in turn can be assembled without tools, using special cluster joints, into large truss structures for antennas, beams, or platforms for satellite, telescope, or communication systems.

The concept will be tested under normal Earth gravity conditions at Langley during August and under simulated space weightlessness conditions in the Neutral Buoyancy Facility at NASA's Marshall Space Flight Center in Huntsville, Alabama, in September.

Union pension fund sued for low-rate lending

The Labor Department is suing Operating Engineers Local 675 Pension Fund in Fort Lauderdale, Florida for providing home mortgage loans to its members at 11 percent interest rates. The suit charges that this practice violates the Labor Department's ERISA criterion that loans be given at a "reasonable" rate of interest. "Reasonable," according to the DOL, means the prevailing rate of interest under Paul Volcker.

If the union fund is judged guilty of "breach of fiduciary duty" and found imprudent, the pension fund's trustees will have to personally make up the difference between the "reasonable" interest rate of 17 percent and the 11 percent rate the fund charged.

IUOE Local 675 pension fund's legal counsel, Jayne Zanglein, says: "We invest our total pension assets as we choose—unions more and more are starting to do this. Union pension assets equal 25 percent of the stock market; there is the fear that if unions can control this much, we can get pretty much anything we want." She said that the fund had allocated $2 million to the low-interest mortgage program, which had made loans to 25 families thus far, and plans to lend the remaining $850,000 the same way.

The union's business manager, Dennis Walton, is on a campaign to educate labor about pension-fund investment. Walton charges that pension managers like Prudential Insurance are not only financing the right-to-work effort against organized labor, but making "atrocious investments" of union funds. "These slick three-piece-suiters are using our members' money to prop up a sick capital market," he said in a recent interview with the *American Labor Beacon.*

Koch charged with wrecking schools

Mel Klenetsky, an opponent of incumbent Mayor Ed Koch in New York City's Democratic primary, has charged Koch with deliberately planning a 10 percent reduction in the city's public education.

Koch's policy, said Klenetsky, stems from his commitment to "implement the Global 2000 plan to shrink New York's population by 2 million people."

Koch closed 11 schools in 1979, and was only prevented from closing 24 more by parents and teachers groups. In 1980, he closed 12 more schools, nearing his goal of closing 40. In 1982, he is concentrating 60 percent of all austerity budget cuts on the school system, yet only 20 percent of the budget goes to schools.

Meanwhile, Board of Education statistics show 17 percent of fourth-graders, 21 percent of seventh-graders, and a total of 24,475 students reading at least 1.5 years below grade-level. Klenetsky continued, "Each year when the test scores are released, there is a mini-scandal. Yet no one but myself has pointed to the sources of the problem: Koch's austerity policies."

Klenetsky, a former teacher, has commissioned a study on the decline of New York education since 1975, focusing on the period since 1978, when Koch became mayor. He says the report will show that not only have 53 schools been closed, but the dropout rate has increased 45 percent. "Since 1975," reports the candidate, "real expenditures for the Board of Education have dropped by nearly 25 percent."

Klenetsky's program calls for reopening the schools, rehiring 10,000 fired teachers, and limiting of class size to 20-25—many classes now have over 40 students. He also wants a crackdown on drugs. Since Mayor Koch pioneered in "decriminalizing" marijuana, Klenetsky reports, "pot-smoking among school children has increased by 300 percent."

Briefly

● **TOM FOLEY** is being heavily boosted to replace the washed-out Tip O'Neill as speaker of the House in 1982. Foley (D-Wash.) is a member of the Trilateral Commission. His candidacy is supported by the liberal wing of the Democratic Party and the British Intelligence-run Committee for an Effective Congress, both of which had previously been strong supporters of O'Neill.

● **HENRY KISSINGER** was dispatched on his recent world tour as an official representative of the Reagan administration, according to sources at the New York Council on Foreign Relations. While in France, Kissinger stayed at the house of French Socialist President François Mitterrand. Proceeding to Japan, the former Secretary of State reportedly had discussions with high Japanese officials about the Defense Department plans to place nuclear-armed Pershing missiles in South Korea and Japan.

● **GEORGE BALL** appeared in a red, hooded cape to ceremonially put a torch to some coffins at the annual celebrations of the Bohemian Club in California's redwoods this year. Also present at the celebrations, during which the Club's all-male membership runs about the woods naked, was Defense Secretary Caspar Weinberger.

● **A COALITION** of Missouri labor leaders has broken a 30-year tradition and endorsed liberal GOP incumbent Sen. John Danforth for re-election in 1982, sending a signal to the Democratic Party that they consider their constituency neglected. The group comprises Teamster and Building Trades leaders who had opposed Danforth in 1976, when he was first elected.

Stanger on the key to the drilling funds

by William Engdahl

In response to reader requests, the Energy Insider held an interview with one of the country's top analysts of oil and gas drilling funds, Robert A. Stanger, of Rumson, New Jersey, who publishes the monthly Stanger Report, *an investment guide for Wall Street brokerage houses evaluating and advising clients on investment into oil and gas.*

Engdahl: Mr. Stanger, right now the press is filled with talk of an international "oil glut," stock prices for major oil stocks such as Exxon, Gulf, etc. are generally down. How does this affect prospects for investment in the various independent oil and gas drilling funds?
Stanger: First, we must be clear that there is no direct link at all between Exxon common-stock price and the raising of drilling fund capital. A drilling fund, by its nature, is very different. It is a medium-term 12- to 15-year investment in an oil and gas reserve. It could be a year and a half or two years before any revenue is realized from the drilling fund. So the earnings per share for, say, Mobil or Exxon are much more directly linked to the immediate day-to-day world market.

Another attraction is the fact that a drilling fund is, by its nature, an investment in domestic, onshore U.S. exploration. This has a long-term security attraction in these times.

Engdahl: Will drilling funds continue to be as attractive for investment over the next 6 to 12 months as they have been in the past months?
Stanger: The publicly registered drilling-fund business will continue to grow again in 1981, this time by 30 to 40 percent. It grew by 100 percent in 1980 over 1979. That was because of unique, specific circumstances. Drilling funds will continue to grow, but the rate of growth will be slower for two reasons: 1) the underlying economics are not growing as fast as in 1979-80 [price decontrol, etc.—W.E.]. 2) With the passage of the Reagan tax-cut bill, the tax-shelter attractiveness need will be slightly less than before; although, studies we have done show that on a *successful*, and I emphasize that, oil and gas investment, the return on investment is actually improved by the tax-cut package. So it cuts different ways.

Engdahl: In 1980, there were 93 publicly registered drilling funds. Why are most of these geared to natural gas rather than crude oil development?
Stanger: Right now, natural gas is one-sixth to one-eighth the BTU [British Thermal Unit]-equivalent price of crude oil. If it was fully equivalent, $36 per barrel crude oil would mean $6 per thousand cubic feet [mcf]. Now, under the terms of NGPA [Natural Gas Policy Act of 1978], it's at an average of about $2.75 per mcf. We face what I call a "happy" price scenario for natural gas, even with continued sluggish crude markets. Tight gas or so-called deep gas [15,000 feet or deeper] is now decontrolled under the NGPA. It is sold and blended with cheaper gas, for $5 to $8 per mcf. The problem is that if you're an independent with deep or tight gas holdings, you don't want decontrol of other gas because your advantage is gone. Thus, the industry is split on decontrol of NGPA. . . .

Engdahl: What criteria do you use to evaluate a drilling-fund investment?
Stanger: Of 93 publicly registered drilling funds in 1980, 45 had raised public money for three or more years going, and raised $5 million or more in 1980. For specific criteria, I look at a number of things. Continuity of personnel as well as area of operation; track record—what is their finding cost for proven reserves? Is it $10 per barrel oil equivalent or less? Is it a company with market net worth, balance sheet plus reserves, of $10 million or more?

I would look closely at a company looking to raise $10 to $15 million through a drilling fund if it had a drilling budget last year of $3 million. Why do they think they can make such a large leap? This has to be scrutinized. . . . No independent should enter into a drilling fund unless he is willing to stand the scrutiny of a public company, though technically he isn't, because that's what we look at before we recommend an issue for "due diligence" to an underwriter.

Engdahl: What trends do you see for drilling fund investment?
Stanger: Institutional investment is growing. Prudential Insurance recently announced a $400 million drilling investment program. The entire drilling-fund industry last year was only $1.8 billion. Goldman, Sachs just placed a single $118 million private placement for Coseka Drilling out of Canada. That's the largest private placement in history. These large institutional investors see drilling fund investment as a better performer, insulated from inflation over the long term.