

# EIR

Executive Intelligence Review

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New IMF conditionality: depopulation  
Will Mitterrand restore the French monarchy?  
Chile's free-enterprise model doesn't work

**Schmidt: Germany will not  
take the Brüning road again**



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# EIR

## From the Editor

It is an historical truism that Nazi rule was the stepchild of economic depression and political radicalization. In this week's Special Report, European Economics Editor Laurent Murawiec—currently visiting the United States—specifies how that depression was created by the Bank of England-centered strategists to wreck their industrial adversaries, and how that radicalization was deliberately primed by the brutal austerity policies of Chancellor Heinrich Brüning and Hjalmar Schacht, while the Nazis were placed in position to demolish the discredited Weimar Republic.

West Germany's Helmut Schmidt, who knows enough of that history, and has enough sense of national and international responsibility to act upon it, now stands—unfortunately quite alone—in resisting what many other allies acknowledge to be a fatal combination in the United States: depression-bound economic policies and military provocations. Schmidt's own situation is the subject of Economics Editor David Goldman's introduction to the report.

Our International Intelligence this week features Contributing Editor Nancy Spannaus's overview of those military provocations, and the immediate danger that ongoing military exercises could explode into war, as the U.S.-Libya encounter showed in miniature. From Washington, Richard Cohen traces the process by which the President has been drawn into such policy disasters, which now comprise as well a blueprint for "emergency" top-down controls over the U.S. economy.

In addition to his study of the Brüning interval, Mr. Murawiec contributes a dossier on the monarchist networks in France with whom the latterday Socialist François Mitterrand has been intimately associated throughout his career. *EIR* will publish sequels to both reports.



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R. Bossu/Sygma

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## IMF depopulation plan moves into the open

by Kathy Burdman

Jacques de Larosière, managing director of the International Monetary Fund, made public Aug. 8 the basic conditionality for IMF loans of which informed bankers have known for some time. In a major policy address in Salzburg, Austria, de Larosière announced that the IMF openly seeks the enforced reduction of the world's population by several billion human souls at the end of the century. "Global population projections recently published by the United Nations are disturbing," he stated. "The world's population, today approaching 4.5 billion, will increase by a further 6 billion before stabilizing at 10.5 billion within 130 years. . . . On more pessimistic assumptions, it could rise to more than 14 billion before leveling off within 150 years.

"Clearly, all countries have a vital interest in encouraging and participating in the massive effort that will be required if the world is to be protected from the pressures of a population growing beyond the capacity of its resources endowment."

The IMF, together with its sister institution, the World Bank, which demanded sharp world population reduction in its August *World Development Report 1981*, has determined to actually reduce the volume of credit available to the Third World during the immediate period ahead to enforce this population policy. This means, according to the U.S. Treasury delegation to the IMF, that nations will reduce their populations by reducing their actual consumption of food, oil, and other basic goods, thus reducing their imports and their foreign borrowing needs.

The IMF apparently believes that this will allow a

reduction in the size of the Third World's borrowing needs for 1981, now estimated by *EIR* at over \$150 billion, and help hold the banking system together by easing refinancing needs. Yet the bungling Fund's austerity causes more political chaos and national bankruptcies than bank lenders can paper over.

Donald Regan's Treasury and Alexander Haig's State Department have already endorsed the IMF's goal of population reduction as official U.S. policy, a Treasury source told *EIR* (see page 7). "We shouldn't finance deficits," the source stated. "We must force internal adjustments in the Third World."

This is not only a monetary policy: it implies a deliberate policy of wars and starvation in addition, to ensure that 6 billion people or more *are never born* over the next 130 years. The fact is that mean world population age is so low that the sheer number of women *already living* at child-bearing age today will ensure the birth of 6 to 10 billion more people before zero-population stabilization may be reached. No birth-control program known will prevent this. The only way to prevent it is to "kill the men and the child-bearing women," as recommended by the Haig State Department's Office of Population Affairs.

The explanation for such a remarkable policy in the capital of the United States must be laid squarely at the door of its authors: the British royal family and the British Commonwealth. It was the British Commonwealth that commissioned Chancellor Lord Keynes to set up and staff the IMF after World War II and continue the British Empire by making the noncommunist world

dependent on the IMF for all financing. As we reported last week, British Foreign and Commonwealth Minister Lord Carrington is currently acting on behalf of the royal family to make the British Commonwealth as an institution "the seed crystal for a global order," according to the Commonwealth Secretariat in London.

The Commonwealth takes direct credit for the IMF's current population policy. "The Commonwealth already has a population policy" said a source close to Carrington at Washington's Heritage Foundation. "It is in line with Global 2000," the Carter administration blueprint for the reduction of world population by 2 billion people over the next two decades. "The Commonwealth is a power bloc for the British Crown that functions as a weapon in time of crisis. Now we have a crisis."

### A Chinese model for Cancún

The British Commonwealth, the IMF, and the International Commission on Development Issues headed by former West

specific program for their depopulation push. Their target is the Oct. 22-23 North-South summit for heads of government at Cancún, Mexico. Their model is the barbaric population program now being implemented in Maoist China—the forced abortion at gunpoint of tens of thousands of Chinese women who have exceeded the legal limit of one childbirth.

All Third World countries will be told at Cancún that they must use China as the "model," and "set some upper limit" of children allowed per family. a high official of the Aspen Institute who helped ghostwrite the Brandt Commission's report told a journalist. Several Brandt Commission delegations have visited China to study its population program. "It's pretty authoritarian, but they're getting the job done," said the Aspen official. He noted that Secretary of State Alexander Haig and his Undersecretary of State for Security Affairs James Buckley have quietly endorsed the Chinese program as a "model" for the Third World.

An aide to Undersecretary of State for Economics Meyer Rashish, who is in charge of organizing the Cancún summit in Washington, told *EIR* that Haig "had met with Chinese Foreign Minister Huang Hua" in early August and "believes that the Chinese are a most positive force in international relations, especially in their working with the IMF and the World Bank.

"The Commonwealth has played a big part in the Brandt Commission's policies," said the source, noting that former Conservative Prime Minister Edward Heath, a collaborator of Carrington, runs the Brandt Commission in practice.

The British Commonwealth in fact sent a delegation to Peking Aug. 17-28 headed by Canadian Foreign Minister Mark MacGuiggan, expressly to coordinate a joint Commonwealth-China strategy for the Cancún

summit. In meetings with Huang, MacGuiggan endorsed the Chinese Maoist work-camp economy as a model for the Third World and studied the Chinese population program. The World Bank has meanwhile issued an official, on-paper endorsement of the Chinese population program as the global model.

## World Bank, IMF, and Aspen on the future

*From the World Development Report 1981.*

It took 35 years for the world's population to rise from 2 billion to 4 billion; the next 2 billion is likely to be added in only 25 years. Most of that prospective growth is alterable only between narrow limits. But the extent of progress in development during the rest of this century will make a major difference to population growth in the next. What happens between now and 2000 will determine whether world population can stabilize at about 8 billion in the 21st century, or carry on growing more quickly to 11 billion or more. This will depend in part on government actions during the adjustment period—in particular, whether they can maintain and expand the programs that influence fertility decline. . . .

- **China's** crude birth rate declined from 34 in 1957 to 18 in 1979, and the population growth rate was only about 1.2 percent a year in 1980. The official family planning program was started in 1956, but only acquired impetus in the early 1970s, with the introduction of free contraceptives, delayed marriages, quotas, peer pressures and economic incentives and disincentives. The result: about 70 percent of the women who might become pregnant practice contraception, a rate comparable to that of the United States—68 percent in 1976—and significantly higher than that in other developing countries—23 percent in India, 41 percent in Sri Lanka, and 46 percent in Colombia.

Until recently 28 was the recommended marriage age for men and 25 for women in cities. . . . Women receive paid vacations after undergoing sterilization and abortion. In some provinces, couples pledging to have only one child receive financial allowances and priority in education, employment and housing. Couples having more than two children are penalized. Disincentives are mostly social—the community disapproves of those who do not conform to the birth planning policies. . . .

- By contrast, in **Brazil** official support for family planning is not strong. Despite rapid economic growth, Brazil's population growth rate remained at 2.2 percent a year in 1970-79.

*From an Aug. 17 interview with a senior Aspen Institute official who took part in drafting the Brandt Commission report.*

**Q:** Will anything be accomplished at Cancún?

**A:** Yes, because these summits require, within a nation and administration, a going-over and briefing on these matters as to what they want. . . . There's more of a note of realism around the world regarding North-South issues, there's going to be less shouting and more dealing with the issues.

**Q:** Can the Brandt Commission get a consensus on its proposals?

**A:** I mentioned this before, I worked with Chancellor Brandt on the commission, and strangely enough, that report has been picked up recently. . . . The Brandt report doesn't go away.

**Q:** What about Article 20 of the Ottawa communiqué on population? Was that part of the efforts of the group?

**A:** I'd say population, food and water, yes, these are the issues. They're all in there.

**Q:** In the Brandt report?

**A:** Yes, population, food and water, armaments, and social unrest, those five factors are embedded in the report and in countries' policies, both foreign and domestic, no matter what they do. If one looks at it hard-headedly, to see what can be done, the more one realizes that with 6.2 billion population at the end of the century, we're going to need more than band-aids. . . .

**Q:** Operating from the Brandt report, what do you mean by "something more than band-aids"? What would you do on the population issue specifically?

**A:** I'd keep two things going. One, is I'd continue to call attention to the strain of another, well, one-quarter of a billion people now and 2 billion people that are going to be there, in terms of what it means in food, water, and so on, that we just can't go on this way.

The second thing I'd do is just keep legitimizing that this is a choice of individuals and countries, that the world just can't go on indefinitely adding [people] and expect to have our life continue. Those people who feel that way, can take measures, if that's the way their governments and their individuals choose. China, of course is taking very strong measures, toward the family of more than one child; a lot of countries couldn't do that.

**Q:** Is there a way to get other countries, besides China, to start thinking in those terms?

**A:** Oh, I think so. Like Mexico, Colombia, various—

well—you can go around the world say, "There is a point beyond which there's going to be disincentives [for having children], and whether it's two or three or zero, population growth for each country, there will be some level of choice." But you have these goals set, and constantly referred to, and *played back* against that 2 billion to be born, and what its cost is to the welfare of those that are around, I think it can be done.

**Q:** And the China policy?

**A:** Well, I just happened to mention that because that's the most stringent.

**Q:** But they're getting the job done?

**A:** They're getting the job done, it's pretty authoritarian, but, yes, they're getting the job done, and for them it may be the right course. China gives penalties after one [child].

**Q:** Are there people in James Buckley's group at the State Department who are looking at China, who think it can serve as a model for other LDCs?

**A:** Yes, the entrepreneurship, and the role of the family in agriculture has a certain model to it. It's the greatest social experiment around.

**Q:** Is Buckley working with the Chinese population plan as a model?

**A:** I don't think anyone can go to China without hearing about the Soviet Union, the population problem, and small investment in large-scale agriculture. There are certain themes that everyone gets. The earliest mission I remember was the Draper mission on population; they did very thorough work . . . even during the Cultural Revolution on the population thing. . . . That's just deeply embedded as a policy.

**Q:** What lessons will Mr. Buckley draw for the rest of the Third World?

**A:** That any nation that has the determination to do something about it, that it can be done. As long as they do something effective, there's no great resistance on the part of the people. . . .

**Q:** What will be China's general role at Cancún?

**A:** They're the biggest social-change country in town, they are the entrepreneurial show in town, they are setting up entrepreneurial centers.

**Q:** You mean free-enterprise zones?

**A:** Yes, modeled on Taiwan and South Korea. . . . They have overseas Chinese coming in there. . . . I think they'll use the overseas Chinese, including Taiwan. They use two dozen institutes in the West, including ourselves.



From an Aug. 17 interview conducted by EIR European Economics Editor Laurent Murawiec in Washington, D.C., with a senior U.S. Treasury official at the IMF who preferred not to be named.

**EIR:** How do you see the near-term role of the IMF?

**A:** Four weeks ago we had a round of consultations and we were able to explain our policies. . . . There was a lot of discussion on the mix of fiscal and monetary policies. So we explained that if we [the U.S.] did a tighter fiscal policy [as a tradeoff for lower interest rates] now, there would be a recession and lower U.S. economic growth would hurt the rest of the world. Everybody is focusing on interest rates; for me it is quite frustrating to see this, as if interest rates were the only thing in the world. . . .

**EIR:** A good many countries are in serious trouble.

**A:** What do you Europeans really want? After all, a couple of years ago you were telling us to take drastic steps against inflation. The high interest rates will not last. There is an excessive preoccupation with U.S. interest rates per se. Tradeoffs are necessary. . . .

Third World countries' problems are essentially major problems within their own economies . . . in most cases of Third World countries coming to the Fund, they need to make internal adjustments, eliminate price controls, subsidies for food, and consumer prices which discourage production. They must stop maintaining totally uncompetitive exchange rates. Do we keep funding ever larger deficits, or force internal adjustments? The Fund must not so much provide money; that is not its main task . . . the more money is lent, the less the incentive and the pressure to adjust. The strength of the Fund is in advising, then this encourages private lenders to lend.

**EIR:** [IMF Director General Jacques] de Larosière just told a population conference in Salzburg that global resource constraints would be reflected in population policies. Do you think the Fund should take an active role in this respect?

**A:** Let us not make it an institutional focus at the Fund. If you ask my personal advice, I personally agree with de Larosière. Not at the Fund—but McNamara's World Bank pushed a lot in this direction.

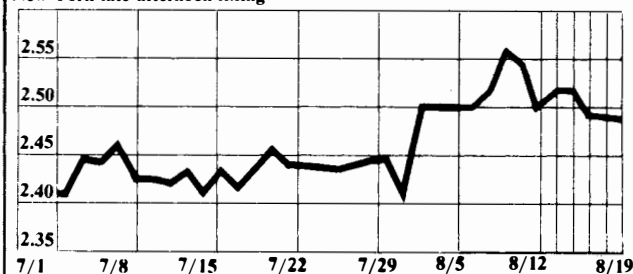
**EIR:** Look, the immediate problem is that half the Third World is plainly bankrupt.

**A:** Oh, you are painting too black a picture. I am not that worried. The real problem is whether these countries can control their current-account deficits. . . . We must keep wrestling with the countries in question for internal adjustments. Maybe it would be healthy for the international system if a few controlled bankruptcies occurred.

## Currency Rates

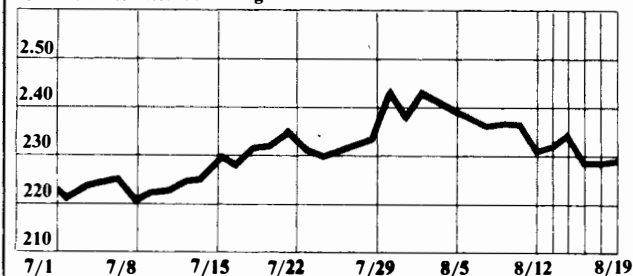
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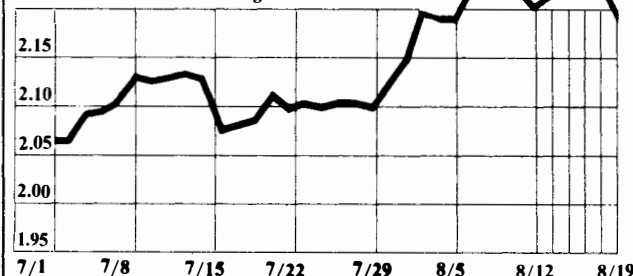
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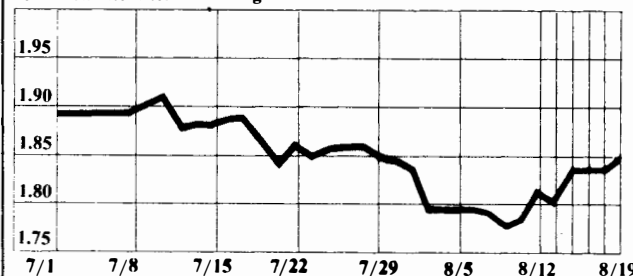
### The dollar in Swiss francs

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### The British pound in dollars

New York late afternoon fixing



## A glance at the budget

*EIR was right about Volcker's effect on the federal deficit. Reagan is wrong about the measures needed to curb it.*

**F**irst, a short quiz on the administration's plans for the fiscal year 1982 federal budget.

The Reagan administration will: a) cut the military budget; b) not cut the military budget; c) cut Social Security; d) cut Medicaid; e) move the military to China; f) get funds for the budget from Brazil; or g) all of the above.

If you, the reader, chose f), then you obviously missed President Reagan's Aug. 18 press conference in Los Angeles. When asked by a reporter where he planned to obtain the funds to increase defense expenditures while at the same time achieving a balanced budget by fiscal year 1984, President Reagan responded, according to the reports of all authoritative wire services, "Well, we sure won't get them from Brazil."

In the course of his press conference with reporters, that answer was perhaps the only one that could be taken at face value.

As for the rest of the President's responses concerning the 1982 fiscal year budget, he was mostly treading water, and made several statements that sharply contradicted statements he or his aides had previously made.

The President had closeted himself with his three top economic advisers on the morning of Aug. 18: Treasury Secretary Don Regan, Budget Director David Stockman, and Council of Economic Advisers chief Murray Weidenbaum, re-

viewing whether the President should jettison his January 1981 forecast and late July revisions that showed that the federal budget for fiscal 1982, which begins Oct. 1 of this year, would show a deficit of \$42.5 billion.

The previous day, Aug. 17, a White House press spokesman had said that the 1982 deficit would be \$20 billion larger than originally projected. Now, after meeting with his advisers, Reagan has retracted that estimation.

If the Reagan projections on the size of the budget deficit seem like a Laurel and Hardy routine, there is actually method in the madness. In point of fact, Reagan is stuck. The high interest-rate program of Federal Reserve Board Chairman Paul Volcker sent the fiscal year 1981 budget, which ends in six weeks, into an estimated \$60 billion deficit.

As we predicted on Feb. 17, the 1981 and 1982 Reagan budget projections overstate revenues and understate expenses because they omit from their estimates the true destructive effects Volcker's high interest rates have on the economy. With industrial shutdown, revenues are lower, while the cost of unemployment insurance payouts is higher.

Moreover, as others have belatedly joined *EIR* in stressing, high interest rates swell the interest cost on the public debt. *EIR* projects gross interest on the public debt will be in the range of \$115 to \$125

billion in fiscal 1982, one-sixth of all budget expenses.

As Ben Laden, chief economist of T. Row Price stated Aug. 19, "the actual 1982 fiscal year budget deficit will be \$60 to \$70 billion, with another \$10 billion on off-budget items." Laden notes that the Reagan administration projected a 4.2 percent real GNP growth rate for 1981, while the rate will probably not exceed 2 percent, in his estimation.

Reagan has been searching for a way out of this maze that would preserve Volcker's interest-rate policy. Such a solution does not exist. Office of Management and Budget Director Stockman, working from a secret IMF report, has proposed cutting \$40 billion from the defense budget through 1984, but that would make a mockery of the alleged military buildup.

The other options are cuts in Medicaid, Medicare and Social Security. But cuts cannot be made for the fiscal 1982 budget, which has already been debated and voted on by Congress, unless Reagan vetoes the appropriations; that is risky politically, and perhaps unconstitutional.

Reagan in the end will probably have little choice but to admit that the 1982 budget deficit will be \$60 to \$70 billion. "I think, he'll do that in about three months," said T. Rowe Price's Laden. "By that time, Reagan hopes that inflation will be down, and there will be some good economic figures and therefore a \$60 to \$70 billion budget deficit won't look so bad."

In the meantime, Reagan and his staff are attempting to hide the desperate straits they are in, and so they are releasing budget figures that make no sense.

## Why is the Fed supporting the franc?

*Volcker's officials fear that the Germans may cut Mitterrand loose in order to strengthen the mark.*

West German Bundesbank President Karl-Otto Poehl has been insisting since the beginning of the year that the German obligation to aid in the support of other currencies in the European Monetary System has been a source of weakness for the German mark. As such, the European Monetary System has been a convenient channel for a political subsidy from Helmut Schmidt's government in Bonn to his erstwhile political allies, the French government of Valéry Giscard d'Estaing and the Christian Democrats in Italy. Now that those governments are out, Schmidt may well let the subsidy go.

After falling from about 5.00 French francs to the dollar to less than 5.60 after Mitterrand's May election, the franc fell to 6.18 by Aug. 12. The French finance minister Jacques Delors, hastened to assure the financial press that no devaluation of the French franc was contemplated, praising the EMS as an "island of stability in a sea upset by the dollar." Some commentary attributed the franc's subsequent modest recovery to the Delors statement. But well-placed West German banking sources reveal that the Federal Reserve began substantial intervention on behalf of the French currency that week, at the same time that the Bundesbank reduced its scope of intervention in the Paris market. This extraordinary action on the part of the Federal Reserve is doubly strange in the

context of Treasury Undersecretary Beryl Sprinkel's revival of the old "benign neglect" policy toward the currency markets.

Apparently, the West German bankers conclude, Washington has a greater interest in supporting France's new Socialist President François Mitterrand than Bonn does. State Department chief Haig and CIA director Casey began a campaign on behalf of the French Socialist president soon after he was elected.

With an inflation rate already at 13 percent, double the West German rate, Mitterrand's hold on the French body politic was shaky to begin with, despite the strength of his vote in both the national and the parliamentary elections. French investors are putting funds into hard assets, and into Switzerland, as quickly as possible. Were the franc to drop, the rate of inflation would rise by roughly half the amount of the devaluation due to higher import prices, throwing France from the verge of an economic crisis into the thick of it. The French are hoping for a German revaluation inside the European Monetary System, a fixed-parity agreement among the European currencies excluding the British pound. German sources say that Bonn has rejected this proposal out of hand.

The remaining possibility is a devaluation of the French franc, along with the Italian lira and the

Danish kroner, at least, against the German mark. Mitterrand wants to keep such a devaluation to a minimum, but the new tough line out of Bonn suggests that a devaluation would be major. Joining the franc would be the Italian lira which, according to some Italian press accounts last week, nearly left the European Monetary System altogether in mid-August.

Surprisingly, the British have joined the act. The London *Financial Times* Aug. 18 revived long-dormant discussion of possible sterling entry into the EMS in an editorial entitled, "Why Sterling Needs the EMS."

That the same institutions, e.g. the British cabinet and the U.S. Federal Reserve, which looked on the EMS with such hostility a few months ago, should now turn into its most fervent supporters is not surprising. They opposed a German political subsidy for Giscard and deposed Italian Prime Minister Arnaldo Forlani, and support such a subsidy for Mitterrand and for Italy's current prime minister, Giovanni Spadolini.

Turnabout, however, is fair play, and the Germans may cut the dead weight loose.

Schmidt fought his Bundesbank president bitterly on the subject of the European Monetary System, which he hoped would evolve from a mere currency area to a fully developed European Monetary Fund. Now he can let Karl-Otto Poehl take the blame for having wrecked the fund.

German bankers predict a "tactical shock" to the foreign exchange markets, in which the Bonn government would suddenly stop intervention on behalf of the French franc.

## Will Reagan jump for a gold standard?

*The last-ditch option on remonetization is now, at least, out in the open, but nothing will happen immediately.*

Several reports have circulated in the newspapers suggesting that President Reagan will attempt to cut the Gordian Knot of monetary policy with a golden sword. He will remonetize the Treasury's gold reserves in order to finally bring down interest rates and thereby eliminate the huge gap in next fiscal year's budget deficit that will otherwise arise from the Treasury's added interest costs.

Such has indeed been suggested by the economist of the Office of Management and Budget, Dr. Lawrence Kudlow, who, before he came to Washington, was chief economist of Bear, Stearns and Company. He is a protégé of Mr. William Rees-Mogg, the London *Times* editor who campaigned incessantly for a return to the gold standard. Indeed, it was Dr. Kudlow who first gave to the press the budget office's revised estimates of a deficit nearly double Stockman's previous figure. Of course, the type of gold approach that Rees-Mogg, Siena Group economist Robert Mundell, and Kudlow have promoted will not meet the President's requirements. The ex officio member of the administration who has been most tireless in promoting the sort of gold standard which simply stops all credit creation, Mr. Lewis Lehrman, a Warburg family protégé, has managed to obtain a seat on the President's gold commission, which next meets Sept. 18. However, Mr. Lehrman considers

himself "on the outs," for the obvious reason that a gold standard of his sort would promote a general crash of the credit system immediately it were adopted. The meeting of the commission next month will result in mere press fluff.

It is more important that the discussion has begun, than that it is not immediately feasible to reintroduce gold on the model that Lehrman, Kudlow, and others propose. As I have emphasized, no one who has a senior role in the institutions which propose to manage the developing credit crisis has the least confidence that the crisis can indeed be managed; the entire senior officialdom of the International Monetary Fund and the Bank for International Settlements are keeping their personal funds in the form of gold and highly liquid paper of the leading industrial nations.

Further evidence of the extent of gold hoarding emerged last week when Japan released figures for gold imports for the month of July, in which that country brought in 25 tons of gold; the Japanese total gold imports for the year now exceed \$88 billion, or five times the gold imports of last year. What Japan's trading companies are accumulating outside Japan is hard to say, but is probably at least as much as has been imported.

The rate of accumulation of gold in private European hoards was also a record last year, as well as the rate of increment of central

bank gold holdings, which rose in 1980 for the first time in a decade. The Japanese have apparently waited for a bargain before buying. European investors, characteristically more cautious, emptied the developing sector of over 150 tons of the metal in 1980, buying at the highest average price ever.

Both at the political and the market level, the evidence continues to build that the nature of the crisis expected before the end of this year is such that neither governments nor private fortunes will do very well without a substantial gold portfolio commitment. To the extent that a strategic upset enters the picture, the desire to accumulate gold will be all the greater.

In this context it is indicative that the price of gold reached \$430 during the week of Aug. 17, responding to the clash of American and Libyan fighter aircraft in a way that it had not to the drawing out of the Polish domestic crisis. It is impossible to say, and not of great interest to this writer, whether the price will fall back again, perhaps to the \$350 range, as astute analysts like August Arace of Tucker, Anthony, Day still suggest. Should the world strategic situation worsen in an important and obvious way, the gold price will have bottomed on the day that should happen.

The very minimum price that could bring gold back into the monetary system, were world leaders to experience a sudden conversion to rationality, is \$500 per ounce, and under less ideal circumstances, is likely to be considerably more. Gold is therefore attractively priced as a vehicle for long-term capital preservation; a further price fall would merely make it more attractive still.

## The Fed's great crash of '81

*The Volcker Fed predicts a banking crash—and the savings and loans institutions are meant to take the brunt.*

**D**eep in the caverns of Paul Adolph Volcker's Federal Reserve, a band of feral little econometricians is busily producing scenarios for a banking collapse in the 1980s. But not all banks will go.

According to one of my sources at the Treasury, the plan is to "isolate" the effects of the crash among the nation's savings and loans institutions, and "let them die, let them take the brunt of the collapse."

It all began last June, when Federal Reserve econometrician Robert P. Flood, Jr. produced a study titled "A Systematic Banking Collapse in a Perfect Foresight World," which was published by the Chicago School's National Bureau of Economic Research (NBER) in Cambridge, Massachusetts. In the NBER study, Flood and his collaborator, Peter M. Garber of the University of Rochester built an econometric model for international banking collapses, and applied their model to the financial statistics of the 1920-1931 period. The Flood-Garber model predicted from the statistics exactly the sort of collapse which in fact ensued in 1931.

I found the Flood-Garber model on 1931 to be nothing more than an elaborate defense of the Fed's tight-credit policy. It was not the Fed, but rather *America's European allies* who forced the tight-credit policy of 1929, Flood writes, because they insisted on borrowing billions of U.S. dollars. No mere

historical exercise this. Reached for comment, Mr. Garber informed a journalist that he has since run current data for this year through the Fed model and come up with a prediction of a 1980s bank crash mirroring the 1931 Great Crash.

It's the U.S. S&Ls that go first in the Great Crash of '81, Garber says. It starts when the Fed's high interest rates force dozens of S&Ls under, which has already begun to happen. According to Garber's latest run, the Federal Savings and Loan Insurance Corporation will try to bail out the failing S&Ls, but S&L losses will be so massive that the insurance funds will be emptied. Then an old-fashioned bank run will begin, as the public, fearful for its deposits, begins to remove them from the S&Ls. The Fed then prints money to try to forestall collapse, but this only causes more inflation. This is supposed to "further weaken all banks," causing a second bank run and general bank crash.

Is the Fed planning a real crash? Robert Flood's boss at the Fed, Robert Gemmel, associate director for international research, of course, denies that the Fed stands behind this study, when asked to go on record. So does Flood, and so does Garber. But I don't buy the cover story that this is just a nice "intellectual exercise" by Flood as a bright young econometrician.

First, although the 1981 model run clearly shows that the Fed's

tight credit pulls the S&Ls under and starts the crash, the Fed insists it will go ahead with the credit squeeze.

Second, Volcker's ally Treasury Secretary Don Regan is already "thinking the unthinkable": why not have a "controlled crash" in which the S&Ls are let go, "to take the brunt of the collapse and act as a buffer to protect the commercial banks?" a source in Regan's shop asked me this week.

Commenting on the Fed model, this public servant was unfazed. "The Fed has a good scenario," he stated, "but why should an S&L run harm the commercial banks? Unlike in the 1930s, when the commercials held the bad bonds, today it's the S&Ls in trouble.

"We've isolated the thrifts from the rest of the banking system, and we don't need them anymore. They finance a sector no one wants—homebuilding." Why don't we just have a run on the thrifts, just let them go?"

Because the key in controlling a bank collapse is the psychology of the public, he said, the Fed and Treasury have "spent the last year isolating the S&Ls in the minds of the depositors. People are now aware, as they would not have been a year ago, that if S&Ls are in trouble, you pull your money out of S&Ls, but you stay in commercial banks.

"We've succeeded in making it clear to people that you can have a run on the S&Ls without a run on the commercial banks," he concluded. "In fact, a run on the S&Ls would *help* the commercial banks, because depositors, especially large commercial depositors, would pull money out of S&Ls and put them into commercial banks."

# Collusion with fruit flies: a chronology

by Carol Cleary

In 1955-56, and again in 1962-63, the state of Florida eradicated infestations of the Mediterranean fruit fly, or medfly, in its rich agricultural areas using aerial malathion-spraying programs. In 1966, Texas successfully used the same program to eliminate the same pest. But in 1981, after malathion aerial sprays had been used safely for 30 years, Gov. Jerry Brown of California insisted on using ineffective Chinese techniques to contain the problem. The following chronology summarizes how Governor Brown placed California's \$18 billion agro-industry in jeopardy.

**May 5, 1980:** Adult medflies are discovered in suburban San Jose and Santa Clara counties in California. Brown begins the release of 120 million sterile fruit flies a week at a cost of over \$25 million, rather than allow pesticides to be aerially sprayed.

**November 1980:** The medfly problem explodes; Governor Brown declares a state of emergency in Santa Clara and Alameda counties and mandates a compulsory human-wave fruit-stripping program, in addition to the continued use of sterile male flies.

**March 1, 1980:** The states of Texas and Florida, with support from other southern states, begin to embargo California fruit from infested areas. The ban is conditionally lifted one week later after the intervention of the U.S. Agriculture Department to seek a negotiated settlement.

**April 1981:** Supporters of Jerry Brown in the San Francisco Bay area bid in court to halt all future aerial spraying of malathion over their cities, but the federal judge dismisses the case.

**June 26, 1981:** More medflies are discovered in traps in

suburban areas in California. Spread of the flies could threaten the state's \$18 billion agro-industry.

**July 9, 1981:** In an atmosphere of intense crisis, Governor Brown rules out aerial spraying of malathion on philosophical grounds. Instead, he orders roadblocks using the National Guard to search for infested fruit from contaminated areas.

The California Senate responds to Brown's insane control techniques with a 28 to 0 vote ordering the state's Department of Food and Agriculture to begin aerial spraying of malathion before the medfly, with its short, 10-day life cycle, spreads to agricultural areas. Senate Minority Leader Bill Campbell calls for Governor Brown's impeachment on the basis that Brown has incompetently handled the medfly problem over the past year. The California Assembly is called back into session to endorse the Senate vote to enforce aerial spraying.

In Washington, D.C., 28 congressmen from California send a letter to Agriculture Secretary John Block demanding a federal takeover of the medfly battle, beginning with immediate aerial spraying of malathion. The states of Florida and Texas again demand a quarantine. By late in the day, Secretary Block is considering signing an order that mandates a quarantine of California fruits if effective spraying is not immediately instituted to bring the infestation under control.

**July 10, 1981:** Governor Brown agrees reluctantly to allow aerial spraying of malathion to begin on July 14, but in doses that are roughly half of what has been successful in the past. Brown orders 800 California Conservation Corps youth and 500 to 1,000 National Guardsmen to occupy infested areas to begin a human-wave "people's effort" to strip all fruit over the July 11-12 weekend. Fines of \$500 or six months in jail are levied against property owners who fail to complete fruit-stripping by Monday, July 13.

**July 18, 1981:** Texas begins a quarantine against California fruit, but is blocked by the courts.

**July 23, 1981:** Brown issues a statement condemning the use of pesticides, published in the *Los Angeles Examiner*: "The issue of chemicals is not a trivial issue. . . . And as we begin to understand that we are part of nature, and if we begin to destroy a part of nature, we destroy a part of ourselves."

**Aug. 15-17, 1981:** Medflies spread from suburban counties into the San Joaquin Valley agricultural heartland of California. Three California state legislators, Ken Madry (D), John Thurmond (R), and Assembly Minority Leader Carol Hallet (R), join State Sen. Bill Campbell's call for Brown's impeachment.

# World Trade

by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
<b>NEW DEALS</b>			
\$280 mn.	Nigeria from Israel/Italy	Israel's largest construction company, Solel, has signed contracts with Anambra state, Nigeria, for 3 hotels, flour mill, cement products plant, aluminum plant. Solel organized a consortium of 50 banks to provide \$190 mn. financing for 8 years. Italian government is guaranteeing loan, signed in Zürich, in return for promise Italian equipment will be used in projects.	Solel is owned by Israel's social democratic Histadrut labor federation; Anambra is heavily populated by Ibo tribe.
\$142 mn.	Romania from U.S.A.	Steam-turbine generating equipment has been sold to Romania by General Electric, thanks to Eximbank approval of a \$121 mn. credit. GE will take Romanian machinery in barter and resell the machinery in LDCs.	To beat tough European competition, GE added its own ¼% subsidy to Exim's 8% interest rate.
\$30 mn.	Brazil from Austria	77 railroad-building machines.	Order signed.
<b>UPDATE</b>			
	Iran from Japan	Mitsui & Co. president Yahiro told <i>Nihon Keizai Shim-bun</i> Mitsui would cancel suspended Iranian petrochemical complex unless Iranians agree at late August meeting to pay entire cost and take on burdens of an unprofitable plant. If not, Mitsui will try to collect \$800 mn. losses from government export and investment insurance and sue Iran for breaking contract. Mitsui & Co. hopes to survive losses without having to sell off its assets.	Mitsui had tried to keep project going after Khomeini, but got bombed out in war with Iraq.
	Brazil from Japan	The aluminum smelting units from Mitsubishi's moth-balled Sakaide smelter will be shipped from Japan for use in the new aluminum complex Japan is building with the Brazilian government in the Amazon. The used units with a 60,000 tpy total capacity are fairly new and use same French Pechiney technology agreed on for whole 320,000 tpy smelter. Sales terms being negotiated by Mitsubishi Light Metal and Mitsui Aluminum, which are partners with Brazilian state Vale do Rio Doce and Nippon Light Metal in \$2.3 bn. project. Project also includes 800,000 tpy alumina plant.	Japanese gave okay for added investment ( <i>EIR</i> , Aug. 11) in return for Brazilian okay on taking the Sakaide equipment, which violates Brazilian rules against importing used machinery. Likely conflict on this from Brazilian machine-builders.
	Mexico from Japan	MITI has agreement with Pemex chief Moctezuma Cid for Japan to provide its new technology for converting heavier crudes, which are very common in Mexico, into lighter quality crude oil. This would permit Japan to raise volume of oil imports from Mexico. Reported by <i>Japan Economic Journal</i> .	Japanese mission to go to Mexico in September for concrete negotiations.
<b>CANCELED DEALS</b>			
\$1.1 bn.	Australia from U.S.A.	Alcoa threatened to abandon its Portland aluminum smelter in response to 33% electrical rate increases. Alcoa has already spent about \$80 mn. on the 528,000 tpy capacity smelter. Alcan dropped plans for 300,000 tpy Bundaberg smelter last week. Both producers found Australia's austerity budget would make their operations highly unprofitable. The electricity they had counted on from Australia's cheaply mined coal has become expensive due to elimination of federal subsidies for state infrastructure projects, which has forced state utilities to put the squeeze on customers.	"The Australian budget is a conservative affair, and as such will give fresh heart to foreign investors," reads Lex Column in <i>Financial Times</i> . Sure, Lex!

# Business Briefs

## Transportation

### U.S. airlines announce heavy cutbacks

In addition to the 5,000 airline employees laid off before and after the PATCO strike began, the airlines have announced another round of layoffs, demands for wage givebacks and cancellations of new aircraft orders, and route cutbacks. The two largest of the new round of layoffs were 1,000 of Pan Am's 6,000 flight attendants and 1,030 machinists at TWA's main repair depot in Kansas City. The latter cut is one-half of TWA's machinists, indicating that the airline expects to announce a massive reduction in its service within the next two months.

Thus far, Pan Am, Republic, World, Continental, TWA, and Western have demanded either a wage freeze or wage reduction from their employees. World Airways President Edward J. Daly has announced that unless the workers accept a pay slash or the banks a postponement of loan repayments, he will be forced to liquidate the line. Citibank, the head of the bank consortium that had floated a \$200 million revolving credit to Pan Am, has called that credit in unless Pan American forces four of its five major unions to accept a 10 percent reduction in an already negotiated salary increase. Interest alone on this credit, which carries a 21 $\frac{1}{8}$  percent rate, will cost Pan Am \$41 million over the next year.

The chances are, however, that Citibank will completely withdraw its line of credit. Pan Am has announced that it will sell its international hotel division to Grand Metropolitan Ltd., a British luxury hotel, foods, and liquor company with 1980 earnings of \$456 million. At the same time, Pan Am will cut its service to Australia, the Far East, India and halt its service to Africa. Singapore Airlines, which has just established service to Los Angeles, and Cathay Pacific, two Dope, Inc.-linked airlines, are expected to absorb the Pan Am routes.

According to a military source, the heavy layoffs in the airline industry have sent skilled personnel like pilots and me-

chanics flocking to the National Guard and Air Reserve looking for weekend pay. "We expect to have a steady supply of skilled personnel for the next two to three years," he claimed.

## Steel Industry

### U.S. steel-making capacity is disappearing

The Brookings Institution sees the American steel industry as a thing of the past. In a recently released book, entitled *The U.S. Steel Industry in Recurrent Crisis*, by Robert Crandall, the Brookings Institution states that American steel-making capacity had reached a peak in 1977 and will continue to fall from that peak. In 1977, the U.S. could produce 160 million tons of raw steel. Through plant closings, that figure was down to 153 million tons by 1979.

Brookings' Crandall predicts that perhaps as much as another 10 percent of U.S. steel-making capacity will be lost over the next five years, and the U.S. will have a shrunken steel industry concentrated largely in the states bordering the Great Lakes.

## International Credit

### Haig endorses IMF population control

Secretary of State Alexander Haig has endorsed the proposal by IMF Executive Director Jacques de Larosière to base all future IMF international lending on the condition that Third World nations agree to stringent population control measures, highly placed State Department officials told *EIR* this week.

Haig and Undersecretary of State for Economics Meyer Rashish agree with the IMF's formulation that henceforth the IMF will act to flatly cut international credits to the Third World, in order to force these countries to reduce food, energy, and other vital goods' consump-

tion, the source stated. "For years, the international banking system was too ready to finance anything. Now we must insist on adjustment," the source stated. "The huge debts piled up in the 1970s must now be run down, at a price. The IMF is moving in the right direction: tougher conditionality with a broader view paid to the whole economic process."

The Haig State Department specifically endorses the idea of population control as a prime IMF conditionality, the source said. Haig "made the decision at Ottawa to push hard on the population issue, and won," the source said. The secretary intends to push the IMF plan for population conditionality at the Oct. 22 North-South summit in Cancún, Mexico, the source confirmed.

## Domestic Credit

### New York Fed plans Kissinger defense budget

James R. Capra, an economist with the New York Federal Reserve Board, writes in the board's *Quarterly Review* that the Department of Defense should measure its requirements not by actual defense needs, but by defense-program implications for the reorganization of the economy and for domestic policy.

This policy, which Capra claims was initiated by Henry Kissinger's 1970 National Strategic Study Memorandum 3 (NSSM-3), charges the DOD with responsibility for watching the inflationary impact of defense spending on the economy. Capra argues that a depressed civilian sector will lower defense sector inflation.

Capra notes that the current administration policy is to keep the money supply tight by not monetizing the defense debt, thereby keeping interest high. This depresses civilian business, permitting both business and labor to be recycled into the defense sectors at "noninflationary" bankruptcy prices.

"It is very important to formulate and choose an affordable defense strate-



gy through a process that explicitly weighs the costs and risks of different strategies against the benefits of tax relief and alternative nondefense domestic budgets," Capra continues. "Inflationary pressures may be mitigated in 1982 by the existence of underutilized industrial capacity."

### **Stock Brokerage**

## **Muir liquidation: unanswered questions**

The liquidation of the assets and accounts of the old New York investment house John Muir, which became identified with the large-scale bringing out of new companies' stock issues, raises several questions.

Largely unanswered is how an investment firm with only \$1 million in revenues in 1976 was able to zoom to \$40 million in revenues by 1980, by capturing one-third of the new stock issue market. The explanation that Ray Dirks, who took over John Muir around 1976, was a "genius" begs the question, especially among those acquainted with the unable-to-concentrate Mr. Dirks.

What sort of firm would hire Jerry Rubin as its communications officer? How did Muir get involved with Cayman Islands Reinsurance, with which it is accused of having conducted a dirty deal? A little bit of investigation would establish that Cayman Islands Reinsurance is a property of Lloyds of London. If Muir's dealings were so shaky—and, as *EIR* has noted, all of Wall Street knew they were—why did the SEC allow Muir to operate for so long?

Still another question concerns Carl Lindner, the head of American Financial Corporation who gave Muir its critical margin of liquidity by buying \$4 million of Muir's subordinated debt. There is evidence that Lindner, who sits with Max Fisher on the board of United Brands, is linked to controllers of the \$200 billion a year illicit narcotics trade.

It appears that Muir was simply an intelligence and money-laundering con-

duit for some person or agency. The identity of this agency, and why it chose to shut Muir down now, is the most intriguing question of all.

### **Banking**

## **Citibank begins sell-out to Canadians**

Citicorp Chairman Walter Wriston announced early this month that he is contemplating selling off the bank holding company's major asset, Citibank, which hasn't been faring well profit-wise due to Paul Volcker's high interest rates. As *EIR* reported, Wriston told financial journalists that he was thinking of "stripping down" Citibank, which currently represents almost \$100 billion of Citicorp's \$120 billion in assets, to a "bare-bones" operation, and sell it. This would leave only consumer loans at the bank, about \$20 billion worth, to be dumped to a foreign bank or other indiscriminating buyer.

Wriston claimed he was only "fantasizing" about this stupendous move, but in fact, Citicorp's sell-off to foreign buyers has already begun. Citicorp announced Aug. 17 that it is selling one of its most "prime" real estate investments, a plot covering two-thirds of the east side of Lexington Avenue between 52nd and 53rd streets in Manhattan, to the Canadian developer Cadillac Fairview, whose major stockholders are Edgar and Charles Bronfman, the owners of Seagram Liquors, and two of the most notorious drug-linked operatives on the North American continent. Cadillac Fairview holds \$2 billion in real estate.

Sale of the property represents an open admission by Citicorp that its days of profitable expansion are over, and the time to retrench has come. Citicorp had planned a new office tower to expand Citicorp Center on the site. Real estate analysts estimate the value of the property at almost \$100 million.

Citicorp sold a related site across Third Avenue from Citicorp Center to the Houston-based developer Gerald Hines earlier this year.

## **Briefly**

● **TIM MCNAMAR**, the Deputy Treasury Secretary, announced Aug. 18 that the U.S. is now demanding Third World countries raise domestic food and energy prices in return for international loans. On behalf of the Treasury, McNamar vetoed a \$20 million loan to Guyana by the Inter-American Development Bank for rice production on the grounds that Guyanese food prices are too low.

● **THE U.N. World Nutrition Council** is demanding that all Third World countries remove domestic price subsidies for food, allowing food prices to rise to world levels. The council cites as its model Zimbabwe, where food prices rose by 30 percent when the government removed controls.

● **U.S. BANK** borrowing in the Eurodollar market rose by a stupendous \$36 billion in the month of July alone, Morgan Guaranty bank reports, compared with \$6.7 billion for all of 1980. Most of the borrowing was occasioned by the wave of corporate takeovers, starting with the recent Conoco sale, for which corporations established a total of \$49 billion in credit lines, much of it in London.

● **THE FEDERAL RESERVE** announced Aug. 20 the opening of the Fed discount window for beleaguered savings and loan associations in need of ready cash to stay solvent. This won't provide any major help for the S&Ls, however, says the Federal Home Loan Bank Board. "The Fed isn't an open-fisted lender," said a Bank Board source.

● **PRUDENTIAL Insurance Co.** is trying to bail out the threatened U.S. real estate market bubble. The Pru announced this week a campaign to raise \$1 billion from 450 of the pension funds it advises to buy official buildings and industrial properties which developers can no longer afford to hold.

## Schmidt rejects a Brüning policy

by David Goldman, Economics Editor

No one is more acutely aware of what catastrophic consequences followed the rule of German Chancellor Hermann Brüning, which terminated exactly 50 years ago in favor of the dictatorship of Hjalmar Schacht and, after him, Adolf Hitler, than West German Chancellor Helmut Schmidt. When Schmidt insists that his nation will never again adopt "Brüning measures," he bears in mind a depth of understanding that is entirely lost on Americans, specifically, that the brutal austerity associated with Brüning was not a "German policy," but was imposed upon Germany from the outside, by the same irresponsible maniacs who devised the Versailles reparations disaster.

Indeed, the Bank for International Settlements, the "central bank for central banks" that has arrogated for itself the role of enforcer for the Thatcher-Volcker brand of monetarism, put itself on the strategic map in 1931, months after its founding, by forcing Germany into receivership and installing Hjalmar Schacht as its vice-regent. Now that the Reagan administration has shut its eyes and pointed its nose into a monetary disaster comparable to 1931, the similarities are too striking to be missed. One of the great differences, and possibly the most important for future generations, is that West Germany has thus far refused to take a second turn as victim.

As of the July 21 Ottawa summit conference of leading Western heads of government, Helmut Schmidt emerged by default as the only leader qualified in the remotest sense to speak for the fundamental interest of the West, a role he regards with profound consternation. Apart from non-NATO member Japan, the West German government is alone in the West to represent a competent alternative to monetary overkill and the "aura of power" substitute for Western military strategy.

Schmidt's government took the lead last March in proposing "interest-rate disarmament" among the major powers, with French support; the initiative continued through the Ottawa summit, where Schmidt characterized the Federal Reserve's interest-rate program as "intolerable."



*The Führer with his sponsor and economics minister, Hjalmar Schacht.*

The week after Ottawa, Schmidt took decisive action on his own, to the utter hysteria of the Departments of State and Treasury, provoking a cranky outburst from a mis-briefed President Reagan that the Germans appeared to be "soft on the Russians." What might be termed the "Volcker faction" in West Germany, the five economic research institutes, demanded that the federal government adopt a budget-cutting policy similar to that of U.S. budget chief David Stockman, targeting social expenditures and living standards generally, as well as eliminating the government subsidies that are currently fending off collapse among the Ruhr steel producers.

Schmidt, instead, proposed only nominal cuts in German social programs—whose elimination would have called the existence of his government into immediate question among his trade-union political base—and instead allowed defense spending to fall in after-inflation terms, as well as appropriating the extraordinary profits of the Bundesbank (which derived from the devaluation of the German mark on foreign exchange markets). With strong support from trade unionists like Ruhr trade-union federation chief Siegfried Bleicher, who blasted the Bundesbank's "independence" and demanded that it be called to account in parliament, Schmidt managed to simultaneously cover his left flank, i.e., the Willy Brandt wing of the Social Democratic Party, and put the Bundesbank in its place.

When the U.S. administration announced produc-

tion of the so-called neutron bomb in mid-August, German reaction was so pronounced that the rumored plan to replace Schmidt with a conservative Free Democratic/Christian Democratic coalition removed itself to the back burner.

Every informed circle in West Germany is aware that the weapon is only usable under the Defense Department's fantasy-scenario of limited tactical nuclear exchange.

For the Germans this is doubly insane; even if the presumption of the Defense Department that such an exchange would not immediately lead to full-scale nuclear exchange were true, which it is not, the mooted tactical exchange would principally hit West Germany and exterminate virtually the entire German population. Schmidt's blunt statement that Bonn would not permit the deployment of the neutron weapon on its soil was the only slap in the face that the tactical nuclear war policy has received from any of America's allies, for which future generations of Americans, if there are any, may well be grateful.

The fail-safe measure of America's capacity to reorient its policy course in time, therefore, is how well Schmidt's voice is heard here. Present readings are dismal. After some weeks' tour of the United States, a leading West German trade unionist complained to a reporter that he could find virtually no one in the United States, either in the leadership of the political parties or among his trade-union colleagues, with the

breadth of attention to come to terms with West Germany's message.

### **What Schmidt knows**

Schmidt took office by using the scandalous discovery of an East German spy in former Chancellor Willy Brandt's office to stage a coup against Brandt, today his still most hated political opponent. He acceded to the chancellery in April 1974, during the same week in which the European finance ministers proposed for the first time since the U.S. Treasury demonetized gold in August 1971 to re-introduce the metal into exchange transactions among European central banks: the emergence of the plan that later became the European Monetary System, and was to have become the European Monetary Fund.

As Schmidt's spokesman Manfred Lahnstein emphasized in an Aug. 17 declaration, Germany proceeds from a unified economic and strategic conception: the basis of the EMS plan was to create the type of economic stability through long-term gold-backed productive investment in the West and in the West's trading partners in the developing world which would, in turn, make negotiations possible with the Soviet Union on real criteria of self-interest.

View the world, for a moment, from the vantage point of the German chancellery.

The American Defense Department has denounced the German cabinet's most recent budget proposals, which include a reduction in the inflation-adjusted rate of defense spending, even though the darling of the Reagan administration, British Prime Minister Thatcher, has cut several times deeper, and the Reagan administration may scale back its own defense expenditures in view of the out-of-control federal budget deficit.

Additionally, the administration sought before and during the Ottawa summit to pressure the West Germans to cancel the in-progress natural gas pipeline project with the Soviet Union, on the grounds that it might lead to German dependency on Soviet energy supplies, at the same time that the United States is sending F-16 fighter jets to Israel that might be used to destroy West Germany's Persian Gulf sources of petroleum.

Yet, according to the American media, West Germany, under pressure from the leftist Brandt wing of Helmut Schmidt's Social Democratic Party, is moving toward appeasement, weaseling out of its commitments to the Atlantic Alliance.

Chancellor Schmidt knows perfectly well, however, that Secretary of State Alexander Haig is collaborating in a barely concealed fashion with Brandt and the Socialist International generally. This does not conflict with Haig's other aims; on the contrary, it purports to solve the basic contradiction in NATO policy, namely,

how to contain a militarily superior Soviet Union while eroding the basic economic infrastructure on which NATO economic strength ultimately depends. This explains the strange remarks of the U.S. ambassador to Bonn, former Federal Reserve Chairman Arthur F. Burns, last month to the effect that the issue of German reunification should be put back on the agenda. For that matter, the Joint Chiefs of Staff long-term forecasting arm, the Long Range Planning Group J-5, is circulating a scenario in which West Germany becomes neutralized, possibly re-united with East Germany, and leaves NATO; according to J-5 consultant Dr. Marvin Cetron, the desirability of such a development lies in the fact that the NATO central front is ultimately indefensible against Soviet tank assault in any event. Apart from the Bonn embassy and the Joint Chiefs, top civilian planners have mooted a benign breakup of NATO, in which an economically ruined and politically enervated West Germany is abandoned to the embrace of the Russians.

The State Department has two alternative scenarios in mind for Schmidt's early departure from the chancellery, both premised on weakening the Chancellor through combined interest-rate pressure and "psychological warfare" aimed at German sensitivity to charges concerning softness on Communism. By insisting on a strategic position that is deadly to American interests and utterly insane from a German vantage point, the State Department hopes either to force Schmidt's resignation in favor of his more pliable foreign minister, Hans-Dietrich Genscher, who would then join the American policy of strategic bluff; or to provoke such a reaction that the supposed "peace faction" of Willy Brandt undermines Schmidt from the left, and offers itself to the Warsaw Pact. In either case, Germany becomes a writeoff for NATO, either in a tactical nuclear exchange, or in a black comedy of global negotiations with the Soviets. Whether such a farfetched scenario is even possible, Schmidt's continued presence in the ranks of Western leaders makes it inoperable.

### **What Bonn could do**

No such scenario is likely to transpire, because the Schmidt government has determined to defend the basic interests of the West against Haig and Volcker, not to mention Thatcher and Carrington, even if this means playing really dirty on behalf of Germany's own national interests. That much was announced unambiguously by Schmidt's spokesman Manfred Lahnstein in an interview in the Aug. 17 edition of *Der Spiegel*, the most public available slot for such declarations.

"Germany will remain sovereign in both economic and military affairs," Lahnstein said, referring to the differences over interest-rate policy of the Ottawa summit. He added that the Germans would seek to sharpen



Paul A. Volcker

rather than bury such differences, "because West Germany must represent its own fundamental interests." He also added that the United States could produce all the neutron bombs it wished, but deploy none of them on West German soil.

Suddenly, the same ultrasophisticated crisis-managers who envisioned quieting the appetite of the Russian bear by handing it either the enervated or nuclear-blasted hulk of West Germany are in a wild, staring panic over Bonn's intransigence.

To start with, West Germany is about to torpedo the structure of European monetary affairs it built, letting France's Mitterrand and Italy's Spadolini twist slowly in the wind. An economic disaster in France might well shoo the French social democrats out of office well before Mitterrand's statutory seven-year term is up, and Schmidt has no motive to delay such a process, particularly not at the expense of the strong mark. As Bundesbank President Karl-Otto Poehl explained in a lengthy interview Aug. 17 with the leading business daily *Handelsblatt*, were the mark not linked to inflation-ridden currencies like the French franc (which carries the burden of 13 percent inflation, or double the West German level), the mark would have held firmer

against the dollar than it had, following a pattern more like that of the Swiss franc or Japanese yen.

Since both the Bundesbank, as the local arm of the Bank for International Settlements, and the trade unions, who reacted to the Bundesbank's claim that the EMS could only be defended through a brutal interest-rate policy at home, had mooted the end of the EMS for some months prior to the May electoral defeat of French President Giscard, the German chancellor is in the catbird seat where the EMS is concerned; he could merely let his domestic political opponents, principally the "independent" Bundesbank, take the blame for wrecking the EMS, probably by ceasing to intervene on behalf of the French franc, while at the same time basking in the gratitude of his trade-union political base.

Paul Volcker's Federal Reserve is, correspondingly, so taken aback by this turn of events that the Fed's foreign exchange desk in New York is now conducting more intervention on behalf of the weakening French currency than the Bundesbank itself (see Foreign Exchange).

West Germany's likely course of action is to remonetize the Bundesbank's immense gold hoard and cut loose from European Monetary System members who decline to do the same, turning the longstanding Anglo-Belgian proposal for a European currency bloc into a real form of monetary power, perhaps in cooperation with the Japanese.

All that is clear is that West Germany has decided to become a wild card *against* the sort of world political devolution to which it contributed so much 50 years ago. In the absence of the least glimmer of a positive American response, Schmidt will adopt a course of maneuver and intrigue to maintain his own ship afloat. When the German chancellor says he will avoid the path of Brüning, one is tempted to ask him what he thinks of the 1932 Chancellor von Schleicher, the army man who wanted to take Germany out of the depression through a fundamental economic deal with the Soviet Union, and who was brutally murdered along with his wife during the Nazis' 1934 Night of the Long Knives.

Germany's great weakness, since Scharnhorst's officer corps let Wellington and the Holy Alliance rob them of the republican fruits of their victory against Napoleon, has been to fall between two warring sides, neither of which represents Germany's interests, or their own fundamental interests, for that matter. That historical burden must weigh heavily on the German chancellor as he considers how his own low-keyed efforts of the past seven years on behalf of world economic and military stability have been frustrated. His "seed crystal" of rational policy must grow in the United States if this generation is to be spared the consequences of his own predecessors' failure.

## Bonn spokesman: 'no' to zero growth

*Manfred Lahnstein, the head of the Bonn Chancellor's Office, insisted on German sovereignty in economic and foreign policy decisions in an interview in Der Spiegel magazine published Aug. 17. Lahnstein was state secretary in the finance ministry from 1977 to 1980, where he served as one of the architects of the European Monetary System (EMS). Excerpts from Lahnstein's interview follow:*

**Spiegel:** Do you mean that there is a silent majority in the SPD [Social Democratic Party] that stands behind the chancellor?

**Lahnstein:** I see with joy that what you have termed the silent majority has become more articulate during recent months. Take for example the whole discussion in the Ruhr region, a very fruitful discussion between the government and an important part of the party, with clearcut agendas and concrete results.

**Spiegel:** The SPD in the Ruhr region wants billions for the steel industry from Bonn.

**Lahnstein:** In Germany concrete results mostly have to do with money. . . .

It is not the task of a federal government to accommodate to zero growth, but rather to overcome zero growth. It cannot be our government's task to distribute the poverty, but rather to get rid of it. Poverty can only be eliminated by means of growth. . . .

**Spiegel:** The neutron weapon only makes sense if it is stationed in the Federal Republic and other European countries.

**Lahnstein:** Unfortunately all of these developments are particularly explosive for us in the Federal Republic. But this is nothing new. For decades we have had to live with the fact that we are the battlefield in many, many scenarios. That is why our government insists on an arms control policy. . . .

The decision on production of the neutron weapons lies exclusively within American competence; they do not have to consult with us for that. The chancellor emphasized that back on April 13, 1979. They have to consult with us if they want to station the neutron weapon on our territory. . . .

If I remember correctly the world economic summit in Ottawa, the areas of dispute between Europeans—and particularly Germans—and their biggest ally became quite apparent.

**Spiegel:** Do you mean the German criticism of the American interest rates and Schmidt's insistence on the natural gas deal with the U.S.S.R.?

**Lahnstein:** We [Bonn and Washington] are certainly not a seamless cloak on all points. What can we do? The Federal Republic has to uphold its own interests.

## 'Intolerable interference'

*The executive committee of the West German Social Democratic Party in the state of Hesse issued the following declaration in response to the U.S. decision to produce the "neutron bomb" without prior consultation with the European allies. The party is headed by state governor Holger Börner, one of Chancellor Helmut Schmidt's closest allies. Börner's personal reaction, reported in Der Spiegel magazine Aug. 17, was less diplomatic. "Both my sons are reserve officers," he said. "They have served for two years. That cannot be said about Reagan's and Weinberger's sons." On West Germany's status in the alliance, he added: "We are not Nicaragua."*

The decision of U.S. President Reagan and Defense Secretary Weinberger to produce the neutron bomb shows a notable lack of regard for the interests of the allies in Europe.

The Hesse Social Democrats, who since they first took over the state government have actively promoted German-American friendship, feel obliged to warn against a wrong decision in the alliance. The fact that a large proportion of U.S. troops has been stationed on Hesse's soil since the Second World War gives this state and its leading political forces a special responsibility. It must be recalled that NATO, unlike other military pacts, was founded as a political alliance, proceeding from the fundamental political accord of equal partners.

We view with alarm the fact that a unilateral decision could be made to produce the neutron bomb, without prior consultations, yet affecting the foundations of the alliance.

The Hesse Social Democrats support, therefore, the policy of the federal government under federal Chancellor Helmut Schmidt, of decreasing the risk of a nuclear war through persistent disarmament negotiations. The unilateral U.S. decision in favor of the neutron weapon impedes the work of all those striving to realize the vital interest of European states in less armaments in both East and West.

The Hesse Social Democrats appeal to the other democratic parties to support these European and national interests in the discussion of disarmament. Interference in the internal political affairs of the Federal Republic of Germany, such as that of American Defense Secretary Weinberger with regard to the 1982 state consultations, should not be tolerated by any party.

## 'A paper American army'

*From a Frankfurter Allgemeine Zeitung commentary on Aug. 18 by military analyst Adalbert Weinstein:*

There is no military equilibrium, however, in conventional armaments [between the United States and Soviet Union]. The Soviets could not only reinforce the Central European front in a short time from dozens of nearby divisions. They also have the capability to send fully equipped units into the oil region by both air and land. The Americans are not in a position to do that. Their "Rapid Deployment Force" [RDF] is a paper army. The Pentagon has no real concept of the mission of these troops. The command structure is unclear. But what the RDF particularly lacks is soldiers. Without the universal draft, this instrument remains mere wishful thinking. . . .

The American navy needs reorganization besides. More than 20,000 specialists are lacking. The deficit will be even greater once the shipbuilding program gets underway. The empty places can only be filled by the universal draft. Those responsible for an American strategic "comeback" cannot just orient themselves to technical details. The Americans must submit to their allies a credible strategic concept for the future.

## 'Irreconcilable conflicts'

*From a Süddeutsche Zeitung article on Aug. 18 by Herbert von Borch:*

President Reagan's confidence in the revitalization of American capitalism through his economic program, newly triumphant in the parliamentary arena, is so strong that he simply ignores the greatest danger to the success of his supply-side economics policy for America. Washington wants an incredibly expensive arms program, which amounts to self-sabotage of the plans for a regeneration of economic performance. . . .

Ronald Reagan wants to spend for defense in peacetime many times more than the overall cost of [the Vietnam war], while massively lowering taxes. One

hundred and fifty billion dollars in budget cuts over three years, mostly out of programs for the poor, will provide for only a fraction of the total. The only conclusion to be drawn is that the circle of economic advisers around Reagan believes in the outright magical power of supply-side economics, a growth of the social product on the scale required to conjure up the miracle that the increasing arms costs could be borne without greatly increasing inflation. . . .

Thus, unavoidably, the Reagan administration finds itself in a deep contradiction: a laissez-faire economy and permanent rearmament by a centralized state power are irreconcilable.

## 'The skilled labor gap'

*From an Aug. 18 article by Jens Eckhardt in the business daily Handelsblatt titled "A Lot of Sand in the Defense Industry's Gears."*

American arms producers . . . faded away since the end of the Vietnam War, as sentiment in Washington turned more toward butter than guns, and Congress, under the influence of détente signals, conducted a stop-and-go armaments policy. The consequences: only the largest arms manufacturers were able to keep themselves above water with civilian orders, and were still unable to modernize their production facilities. Prime contractors and subcontractors went bankrupt, skilled labor left, new talent stayed away.

Today the defense sector is lacking in every respect. Specialists estimate that an increment of 30,000 engineers and 250,000 skilled workers is needed in order to carry out the Reagan program. The air force, which tries especially hard to train its own technicians, already has 1,300 engineering jobs vacant. . . .

[In shipbuilding] a fourth of the prime contractors with military competence have closed their doors in recent years for lack of orders. The situation is similar in the highly sought-after aircraft sector. Since 1967, the number of defense contractors has dropped by roughly 6,000 to only 3,500. . . . Currently about 60 percent of the metalworking machines in the aircraft industry are 20 years old or more.

An additional problem: the production experts and Pentagon generals like to make things with the motto: "The Russians have the mass, we have the finesse." Highly complicated weapons systems . . . have proven useless under battle conditions; currently produced systems are constantly undergoing innovations and thus higher costs. . . . Weinberger wants to build simpler but more effective and reliable weapons. Despite good intentions, businessmen nevertheless see no shortcut to modernizing the defense industry.

# Hjalmar Schacht and Brüning paved the way for Hitler's takeover of Germany

by Laurent Murawiec, European Economics Editor

To go to the roots of Germany's transition to Hitler under the Heinrich Brüning chancellery, one must return to the immediate aftermath of World War I. What emerged from the 1919-21 Versailles conference was nothing less than a *new world order*, as the dominant power in the negotiations, Britain, imposed its own political and financial designs, to be consummated by Mussolini in Italy, and Hjalmar Schacht and Adolf Hitler in Germany, and the Bank for International Settlements.

The countries newly created at Versailles as well as the vanquished nations were placed under "surveillance" by the Bank of England-controlled Financial Commission of the League of Nations. The immense amount of debts loaded onto them could only be managed by resort to British or American loans. The pound sterling (and to a lesser extent the dollar) were deemed "as good as gold"; national central banks held their reserves in pounds, and had to accept the advent of British "experts" to run their business from inside.

Based on the fraud of Germany's sole guilt for the outbreak of the war, the Allies confiscated the Central Powers' (and especially Germany's) foreign assets, merchant fleet and navy, and colonies, and imposed the immense burden of reparations: a large part of coal and iron production was to be shipped free of cost to the Allies, industrial capacity exported and several hundred billion gold Reichsmarks paid out in annuities, payments reaching well into the 1960s!

The intent of the British was summarized in the famous statement by one of Lloyd George's aides: "We will squeeze [Germany] until the pips squeak." John Maynard Keynes added, as an ostensible criticism, "We have not yet seen the effects of slavery on the white race." Germany as a major industrial power was to be destroyed once and for all; Eastern, Central and Southeastern Europe would not be permitted to industrialize under German guidance. The wealth of continental Europe was instead to be sold off.

From a British standpoint, however, there remained built-in instabilities beneath the Versailles system: there was the rising industrial might of the United States, which London did not control; American industrialists wanted to industrialize the world, including the U.S.S.R.

France was pursuing grandiose "Imperial" designs toward Central, Eastern, and Southeastern Europe.

And London had to contend with the strong German nationalism represented by industrialist Hugo Stinnes and the Reichswehr [armed forces]. When the Rapallo Treaty was signed in 1922 between that faction and the Soviets, the threat had to be demolished.

First, the British, acting through the Reparations Agency, their watchdog on the German economy, placed their pawn Hjalmar Schacht—a protégé and intimate friend of Bank of England Governor Montagu Norman—at the head of the Reichsbank as the dictator of German credit. His assignment was to smash Stinnes and the industrial faction, and to ensure that whatever surplus was produced in the German economy was faithfully shipped to the victors. Second, in 1925, Winston Churchill returned the pound to the gold standard [which it had left in 1914], a policy not unlike that of Margaret Thatcher: the pound was enormously overvalued, at the sacrifice of the British economy, so that it could continue to dominate world finance.

The third precondition was to smash the U.S. republican, industrial spirit of independence. That was the aim of the 1929 Wall Street stock market collapse.

## The 1929 conjuncture

Anyone who claims that the 1929 crash was the inevitable outcome of a speculative frenzy is incompetent; and anyone who pretends that the crash resulted from "overinvestment and overproduction" is a dangerous criminal. The 1929 crash was produced, gradually and deliberately, by the Bank of England and its governor, Montagu Norman.

As a result of Britain's Thatcher-like policy, the pound had, by 1929, fallen into severe trouble. International capital was flowing toward the only fast-growing economy, America. By early 1929, Montagu Norman was clamoring for U.S. authorities to contract credit "with a view to breaking the spirit of speculation . . . provoke liquidation . . . prostrating the stock market . . . cutting at the root of the present situation."

How could a half-ruined British economy dictate terms to the United States? As one later governor of the



U.S. Federal Reserve, George Roy, said of the man who then ran U.S. financial and monetary policy, New York Federal Reserve chief George Harrison, "He lived and breathed for Norman." The Federal Reserve System itself had been created by the anglophile Warburg family, and continued to be run by them and their close allies, the Meyers of Lazard Frères.

Before Black Thursday, Oct. 24, 1929, masses of British capital had started leaving Wall Street and the dollar, to the point that sterling effected a spectacular recovery in the course of October, in preparation for the crash. One knowledgeable witness, London *Economist* editor Josiah Hirst, testified:

I recollect at a London gathering of economists early in 1929 a discussion of the stock exchange boom in New York. . . . We all agreed . . . that a slump or crash was then probable. . . . The rise of the London Bank [of England] rate to 6.5 percent on Sept. 26 precipitated the stock exchange crisis and slump of October. Whether the action by the Bank in raising its rate was right or wrong need not be discussed here. . . . The mob of small speculators held on till the last moment, whereas many of the big speculators, being better informed and impressed by the selling movement from London and the continent, began to liquidate in September.

Hours *before* the panic that erupted on Wall Street and throughout America, Norman cabled to Harrison: "Recent liquidations in your stock market . . . have been satisfactory and *have helped to re-establish international position.*" Whose position was clear. As Stephen V. O. Clarke recently wrote in *Central Bank Cooperation*, published by the New York Federal Reserve, "The New York stock exchange crash came as a great relief and Norman expressed surprise that [the pound] had not been forced off gold."

In the next four years, U.S. GNP was to drop nearly 40 percent, and unemployment rose to 25 percent of the labor force. As the value of stocks collapsed, deposits were massively withdrawn from the banks; all outlays were channeled into debt payments and purchases of goods stopped. Production ground to a halt. U.S. imports collapsed from \$4.4 billion in 1929 to \$1.4 billion in 1933, with disastrous consequences for exporting nations. U.S. capital exports, which had been irrigating the world economy, stopped entirely, and U.S. banks started repatriating money. American lending to Europe decreased by 76 percent. World deflation was on.

Germany was worst hit of all. Between 1928 and 1930, industrial production slumped by 11.5 percent, capital formation plummeted by 59 percent, and unemployment soared from 8.4 percent to 15.2 percent of the

work force.

Until then, Germany had steered an uneasy but not fatal course. Not only was the physical economy bled by reparation payments, but the Reichsmark (RM), a perennially fragile currency, was kept on a short leash by London, as 2 billion marks were paid out each year as reparations, and 1 billion in debt service. In order to conduct investment at all, Germany took up huge amounts of external debts, which the City of London ensured were mostly short-term. Up to half of the major banks' deposits were in foreign money which could be called in on a one-day delay, and half of Germany's foreign liabilities, RM 15 billion, was short-term external commitments.

### **Schacht pulls the plug on the Weimar Republic**

Social Democrat Hermann Müller became chancellor in 1929. At that time, Hitler's National Socialist German Workers Party, the NSDAP, was, so far as the population was concerned, a fringe party garnering 4 to 5 percent of the vote in regional elections. The real political game was being played elsewhere—particularly by Reichsbank President Hjalmar Schacht, who, since 1924, had undertaken guerrilla warfare against government economic policy, demanding budget cuts and a stop to foreign indebtedness, and using the vast powers of the independent central bank to influence things in this way; as Montagu Norman pushed the button on the New York market, he had also activated his intimate friend Schacht.

While extreme right-wing magnate and Deutsche Nationale Volkspartei (German National People's Party—DNVP) head Alfred Hugenberg, who controlled much of the German press, agitated against the reparations (with Schacht's covert support), the Reichsbank president published a memorandum in December 1929 which lambasted the economic and budget policy, shattering government authority and confidence in the Reichsmark. When the finance minister, Social Democrat Rudolf Hilferding, sought a large loan from New York Credit markets, Schacht blackmailed the authorities, saying that his decisive influence would not be brought to bear in New York unless the budget were massively cut, taxes increased, and a greater part of expenses devoted to pay off the debt.

Hilferding resigned—but most parties were demanding a change in the Reparations Agency-dictated Reichsbank Law. The Social Democratic Party (SPD) Reichstag Executive published a resolution on Jan. 16, 1930: "They unanimously decided that parallel government by the Reichsbank as practiced by Dr. Schacht through the misuse of the independent position of this institution cannot be tolerated. . . . [The Reichstag must] decide how, by alteration of the Reichsbank law,



*Hjalmar Schacht (l) with  
Bank of England  
Governor Montagu  
Norman.*

the freedom of the legislature in regard to the Reichsbank can be adequately ensured.”

These words, however impotent, were wholly justified. Schacht was set to put into motion the machinery that would terminate the rule of law in Germany. A decision had been taken to replace the Weimar Republic with fascism.

Schacht tendered his resignation to President Marshal von Hindenburg on March 7, 1930. The next day in Paris, *Le Figaro* commented that Schacht wanted “to become the uncrowned king of Germany.” As a result of his departure, the Weimar Republic entered into a chronic crisis of instability. On March 27, the Müller cabinet resigned.

The *Ersatzkaiser* Hindenburg called in a figure more to his monarchical liking, Center Party politician Heinrich Brüning, who himself dreamt of a monarchical restoration. Brüning purged his party of its moderate wing, and entered office with the threat of using Article 48 of the Constitution, the article which would enable him to rule by decree and entirely bypass the Reichstag and its proceedings. And as soon as the parliament manifested some reluctance to comply with Brüning’s whim—on the subject of a bill slapping a tax on civil servants’ salaries—the chancellor made good on his promise, imposed Article 48, and issued the first of the now-enabled emergency decrees which sealed the fate of parliamentary democracy. The Republic was dead.

### **Brüning’s savage deflation policy**

The new Chancellor was to receive from Hitler the epithet of *Hungerkanzler*—the chancellor of hunger. His

decrees—a total of 43 in 1931 alone—imposed taxes on income, on business turnover, on sugar and beer, on any form of economic activity; civil-service incomes were cut by nearly one-quarter; state investment was halved as compared to 1929. Public spending, which had totaled 21 billion marks in 1929, was reduced to RM 17 billion in 1931, and RM 14.5 billion in 1932. Overall, wages were forcibly cut by 20 percent, all to “restore confidence.”

When the Reichstag attempted to abrogate the decrees and stop this quasi-dictatorship, Brüning dissolved the parliament and called for new elections. On Sept. 14, 1930, the NSDAP gained 6.4 million votes (18.3 percent) and 107 seats, drawing much of its advance from agrarian-Protestant regions: the Junker aristocracy had ordered its political machines to shift votes to the Nazis, which were to be used as a scarecrow to compel the largest single party, the SPD, to tolerate Brüning out of fear that worse might be in store. The Social Democrats lost quite a great deal of the unemployed vote to the Nazi party, which also drew large forces from the right-wing and monarchist parties. *The Nazis had emerged as an option.*

On election day, Hjalmar Schacht sailed to London and New York. While his own (not necessarily truthful) account states that only then did he read *Mein Kampf* and take an “interest in the movement,” an official Nazi Party publication of 1935, *Unsere Reichsregierung (Our Reich’s Government)* by Sadila-Montau, reports that Schacht “traveled to the United States to win friends for Hitler.” In the United States, Schacht gave speeches and lectures in no fewer than 50 cities, and at the

prestigious Columbia and Yale universities, with Germany's weakness as the leitmotiv, helping to erode whatever "confidence" existed in the German currency. Schacht, in more discreet discussions with financier friends, was in fact reviewing the options available for a Germany purged of Communists, Social Democrats, labor unions, nationalist industrialists, and patriotic officers, within a new economic order Montagu Norman et al. were planning, based on the just-created Bank for International Settlements in Basel.

What the new order prescribed for Germany was that Brüning's rule by emergency decree could only be a transition. Brüning's deflation was "adjusting" the German economy to the world depression; it brought industry to its political knees, destabilized the republican parties, and shifted the minds of the unemployed masses toward a radicalism which was Hitler's for the picking. Upon Schacht's return to Germany, his speech to the Bremen Chamber of Trade on Dec. 3, 1930 set the new tone: "Nicht reden, handeln! Deutschland, nimm dein Schicksal selbst in die Hände!" ("Do not debate, act! Germany, take thy fate into thine own hands!")

### The July 1931 bank crisis

Brüning went on piling up new emergency decrees. Unemployment was relentlessly soaring, topping the 4 million mark. Anglo-American financiers publicly applauded Brüning's methods; Harvard University held seminars to study them.

Before the next phase would be allowed to unfold, Schacht went on organizing the political backup. In early 1931, through the mediation of Deutsche Bank board member von Strauss and Hermann Göring, Schacht quietly became an economic policy adviser to Hitler. In February, he proposed to Brüning that Hitler and the NSDAP should be taken in the majority and the government. And when that did not occur, Schacht went on a public rampage internationally, making speech upon speech from Switzerland to Sweden to the effect that Germany would soon stop paying reparations, and the mark was a suspect currency—which successfully invited massive outflows of foreign investments.

After two years of depression, the international financial system received a fatal push, as everyone knows, at one of its weakest links, Austria. The minute foreign deposits started to abandon the Austrian Kreditanstalt, on rumors that it had gone into trouble, the whole pack of financial cards started to topple. Norman and Harrison had insisted that they alone were capable of ruling the world economy; they proceeded to demonstrate their absolute irresponsibility, and their criminal designs. Austria had to wait almost three weeks for a small short-term loan to be extended by the BIS and the central banks.

Meanwhile, between May 17 (the day the Austrian panic broke out) and June 17, the Reichsbank lost half of its gold reserves to investors switching out of marks. German banks' deposits were bled. By mid-June, Reichsbank President Hans Luther had to approach Norman for a loan aimed at strengthening German foreign-exchange reserves. A few days later, U.S. President Hoover abruptly announced that he had extended a one-year moratorium on Germany's reparations payments. Were the Anglo-American central bankers ready to play fair with Germany, fairer at least than they had with Austria?

When rumors flooded the German markets early in the month of July that a major concern, the large textile firm Nordwolle, was suffering gigantic trading losses, conversations between Montagu Norman and the Federal Reserve's Harrison indicated that other plans were in store. Harrison told Norman that he was "very skeptical about the idea of a credit [to Germany]. . . . [He] felt the chief difficulty was a flight from the Reichsmark by German nationals, and the Reichsbank should resort to much more drastic credit controls." Norman replied that he thought that "the difficulty is that the Germans need Dr. Schacht there. . . . Luther does not seem to have the force necessary to turn the trick." To Norman and the City of London Germany under Brüning had been sufficiently weakened for the next phase to start.

The details of the banking crisis itself are public knowledge, in painstaking detail. Until the second largest bank, Darmstädter- und Nationalbank (Danat-Bank) officially announced that it stopped its payments on July 13, 1931, a tragic farce went on in a frenzy of Berlin meetings held at the chancellery, the Reichsbank, and the private banks. The chairman of the Deutsche Bank deliberately leaked to the press that Danat-Bank was in severe trouble, a leak the *Nationalzeitung* of Basel published in big headlines on July 6. The foolish Deutsche Bank official expected to get rid of a major competitor; he succeeded, he and his bank started rumors that Dresdner Bank too might go under.

Luther of the Reichsbank refused, throughout the crisis, to make any liquidity available to Danat or the banking system as a whole. He would stick, as an observer put it, to the Reichsbank's "textbook imposition of its restrictive policy," what today's Bundesbank would call *Stabilitätspolitik*. Not as an excuse, but as an explanation, it must be added that Luther's defense of central bank independence at the expense of German democracy was dictated by his international friends. Adviser Marcus Wallenberg, the famous Swedish banker, as well as Harvard's Oliver Sprague, Norman, and Harrison, led Luther to believe that there would be "unlimited common central bank action" as soon as the BIS could review the matter, if only Luther and the



Dr. Erich Solomon

Brüning introduces his austerity budget in February 1931.

German government “maintained and restored confidence”! That meant, let German banks go under.

When Luther’s deputy, Dreyse, desperately called the Federal Reserve for immediate help the day before the crisis broke out, Harrison repeated: “You are not doing anything against capital flight. Apply a tough restrictive policy, squeeze the system, and apply exchange controls.” Dreyse objected weakly that this would “finish off the banks.” Harrison replied: “No matter what—squeeze!” Paul Warburg, chairman of the International Acceptance Bank (today part of Chase Manhattan Bank), heading the international consor-

tium that usually lent money to Germany, vetoed any loan.

Only those not privy to Anglo-American strategies were surprised to see Hjalmar Schacht sitting next to Brüning at the decisive crisis meeting at the chancellery on July 12. The predictable result of that meeting was acted out the next day: throughout Germany, depositors and savers scrambled to cash in their money. All banks shut their teller windows by midday. The stock exchange was closed. Terror spread from Germany outward. In Warsaw, Riga, and Budapest, the stock markets also shut down. On the same day, the much-expected BIS meeting took place—and decided to lend nothing to Germany. It took days before a key prop to the future autarchy of the Nazi regime, exchange controls, was decreed by Brüning. The World Economic Conference held in London on July 20 simply made the situation official.

Brüning meanwhile played out his role with further austerity as local and state governments were stripped of their constitutional powers, all through *Notverordnungen*—the emergency decrees. As one of the most profound analysts of the Schachtian-Nazi economy, de Gaulle’s economic adviser Jacques Rueff, wrote in his *Age of Inflation*, “When Hitler assumed power, he found already established the system that would enable his regime to function and endure.”

### The Depression paves the way

In the aftermath of July 1931, over 23 percent of German labor was unemployed, on its way to 30 percent—over 5.5 million. Compared to 1928, the index of industrial output was down 28 percent, basic chemicals output down 29 percent, car production down 43 percent. Exports sank 20 percent, crude steel output 17 percent, railway freight 32 percent; income tax revenue dropped 34 percent. Capital formation, which had stood at RM 7 billion in 1928, now was *negative by almost RM 1.5 billion*. The “autocannibalization” of accumulated wealth, the essence of Schachtian economics, had begun. Living standards and existing industry and infrastructure were to be used to the marrow of their potential yield, without expending “maintenance costs,” be they food, education, or capital repairs and improvements.

With millions of unemployed in increasingly tense and bloody political confrontations, on Oct. 11, 1931, the highly respectable Schacht appeared with Adolf Hitler, Hugenberg, the Stahlhelm and kindred fascist thugs at the rostrum of the Bad Harzburg “nationalist” meeting. There, Hugenberg called for Brüning to resign in favor of a national-unity government, and Schacht launched once more a resounding tirade against government policies which were essentially of his making, declaiming that the currency was being misused to

cover up the bankruptcy of the state, the banks, and the currency.

Having made Hitler *salonfähig* (acceptable in the drawing room), Schacht called for a “resolute Führer.” In the same vein, he set up the Keppler Circle of bankers to organize support for Hitler among business leaders. With him were in particular Kurt Freiherr von Schröder, of the multinational private bank of the same name, head of the Anglo-German Fellowship, a director of Montagu Norman’s BIS, and a future SS general; Fritz Thyssen, the only industrialist of the lot; Gottfried von Bismarck-Schönning; and representatives of Commerzbank, Dresdner Bank, Westfalen-Bank, and others. By January 1932, Hitler was able to address the extremely exclusive Düsseldorf Industrie-Club, the Ruhr’s top 300 businessmen.

Schacht’s and the Keppler Circle’s program was presented a few weeks later by Schacht. It included the remarkable following points:

- Education toward religious and patriotic sentiments, placing the welfare of the whole over the needs of individuals;
- An end to the eight-hour day and “any restrictions on work”;
- Replacement of governmental social benefits by individual charity;
- Job-creation programs;
- Development of a strong defense preparedness;
- Autarchic measures as a lesson to trade partners;
- Pursuit of production and resettlement in colonial territories.

### Schacht saves Hitler

On May 18, 1932, Hitler again addressed the Keppler Circle at the prestigious Berlin Kaiserhof Hotel. On May 30, Hindenburg dismissed Brüning. Franz von Papen, a creature of the Junkers and monarchist Bavarian forces, replaced him; new elections were called.

The backbone had not yet been destroyed in the German population: in the elections of June 1932, only 196 of the 230 Nazi members of the Reichstag returned. As is well known, the NSDAP as a party was on the verge of financial disintegration. Goebbels noted in his diary: “Schacht absolutely supports our standpoint. He is one of the few who quite steadily side with the Führer.” Schacht himself told the Nazi newspaper *Völkischer Beobachter* on Nov. 24 that “there is only one man who can now become chancellor, and that is Adolf Hitler.” Self-styled as Hitler’s “indispensable collaborator,” Schacht wrote to a desperate Führer: “I reserve no doubt that the course of events can have but one outcome, and that is your chancellorship. It appears that our effort to gain an array of support from business circles has not been in vain, while I believe as well that heavy industry will scarcely join the cause: they are well

named ‘heavy industry,’ owing to their clumsy slowness of motion.”

Why did heavy industry refuse to go along with Hitler—contrary to the accounts by Marxist propagandists and Anglo-American historians?

Reichswehr General von Schleicher was made chancellor in November 1932. What he represented was a tough group of nationalist—and anti-Nazi—industrialists and officers, including industrialist Otto Wolff, who was later jailed by Hitler; Krupp official Tilo von Wilmowski; Klöckerwerke’s Kraemer; General von Hammerstein-Equardt, chief of staff of the army; and Reichswehr intelligence official von Bülow. Schleicher, who was closely cooperating with Soviet Marshal Tukachevsky at that time in Berlin, based much of his economic program on a massive push given to East-West trade, with Germany gearing its industrial production to industrialize Soviet Russia; a rebirth of the Rapallo policy was intended.

Schacht and the bankers perceived that these German patriots were threatening to undercut over 10 years of planning. On Nov. 10, Papen asked von Schröder to arrange a meeting with Hitler, to deal with the “Bolshevik” Schleicher cabinet. On Jan. 4, the meeting took place at Schröder’s home in Cologne.

The senile Hindenburg, ever committed to Junker monarchist interests, rendered a last service before sliding into his coffin. On Jan. 30, Hitler was Germany’s chancellor. Schacht asserted in Nuremberg 12 years later that “there was only one other possibility, one alternative, and that was military rule.” In 1945, Sir Winston Churchill was asked by a member of Parliament why Britain had refused to support German generals plotting putsches against Hitler, both in 1938 and 1944. Churchill said: “Because His Majesty’s Government thought that what government would have replaced Hitler was even worse for His Majesty’s interests.”

On March 16, 1933 Hitler appointed Hjalmar Schacht to succeed Hans Luther at the Reichsbank.

Under Hitler, the police state was now free to finally destroy the labor unions and the nationalists, whether military men or industrialists, in order to monopolize and hellishly misuse the patriotism of the German population.

Schacht’s economic program had been written in 1926 by his friend J. M. Keynes (the 1936 German edition of Keynes’s *General Theory* specified in its foreword that Hitler’s policies were ideal for Germany); Schacht, the leading member of Graf Coudenhove-Kalergi’s Pan-European Union, was now able to set up the Nazi war machine which his London controllers intended for use against the Soviet Union and France, as the prime tool of the new world order, the culmination of their Versailles system.

## Maneuvers to trigger shooting wars?

by Nancy Spannaus, Contributing Editor

While it has become commonplace for the two superpowers to hold virtually continuous military maneuvers over the past years, signs are increasing that the current strategic and military deployments are leading the world rapidly toward World War III. The devolution of U.S. Mediterranean maneuvers into a shooting conflict with Soviet-supplied Libya, and the inclusion of an invasion of Cuba in U.S. Caribbean maneuvers, provide the most striking indications of this threat. Combined with other operational commitments of the NATO and Warsaw Pact blocs—militarily, politically, and economically—these incidents raise the serious question of whether we have now entered the countdown stage toward full-scale war.

We choose as our point of comparison the Hilex 75 war games, during which the command-and-control for an actual strategic confrontation was put into place. The characteristics of Hilex, which were discovered and destabilized by Lyndon LaRouche's organizations in December of 1975, have been virtually duplicated in the actions of Washington and NATO, and the Soviet Union in response.

First, there is the military deployment itself, now encompassing an undetermined number of Soviet troops—some under the command of Defense Minister Ustinov himself—and, in August and September, 137,000 American and allied troops in the Ocean Voyager '81, Autumn Reforger, and Crested Cap exercises. Second, there is the return to an undiluted version of the Kissinger-Schlesinger policy of trying to provoke the Soviet Union into a limited nuclear war, a policy based

on a *calculatedly insane* ignoring of the Soviet refusal to play such deadly game.

Third, the Reagan administration and its British controllers in NATO have determined to force through this limited nuclear war strategy on Western Europe, and to militarize the economies of both Europe and the United States in preparation for what they see as a long period of sustained conflict (see National). Fourth, Washington and the British have fully committed themselves to crushing the Third World, with the included feature of ensuring control over what they see as strategic raw materials and military access routes for prolonged conflict, including theater nuclear conflict.

The re-emergence of Henry Kissinger, once President Reagan's greatest enemy and now an honored mentor of both the President and his chief adviser Edward Meese, underscores the similarity of the U.S. strategic posture to that of the fall of 1975. Kissinger was virtually running the U.S. government in 1975, and using his full weight to crush German and French resistance to a policy of militarizing the world economy around control of raw materials, and directing economic and political provocations against the Soviet Union. His theory actually called for maximum insanity by the United States, the so-called "mad dog" doctrine of diplomacy that was brought to what appeared to be its height under the insane Jimmy Carter.

Economic warfare against the Soviets, an alliance with China, and the preparations for limited nuclear exchanges were all part of implementing this doctrine. Such actions were intended to convince the Soviets that

the U.S. command was so insane that it would have to be respected—just as the sane person would do if confronted with a maniac coming at him in a game of “chicken.”

The fundamental miscalculation in this global game by Metternich aficionado Kissinger is the Soviet strategic commitment. Soviet disavowals of the limited nuclear war doctrine in their own press and by their own most prominent military spokesmen are in fact preparing their own population for imminent military confrontation with the United States. *Pravda* describes the course of U.S.-Soviet relations as verging on “the greatest catastrophe of [mankind’s] history,” due to the “logic of nuclear insanity” which has led the U.S. to enter massive preparations for “limited nuclear war.”

Traditional Soviet “softliners” now reflect the fact that the military is running the Soviet government and committing all its economic surplus to military preparedness. Georgii Arbatov, for example, a longtime David Rockefeller and Henry Kissinger associate, declared on U.S. television Aug. 16 that U.S. actions are the very opposite of a signal for fruitful negotiations. We would welcome a signal, the chief of Moscow’s U.S.A.-Canada Institute said, “if you have come to your senses and decided you want to live on this planet. But we are not going to beg for a signal.”

In fact, the only signals that Kissinger protégé Haig and the rest of the administration have given is that they are eager to start a plethora of wars throughout the Third World, under the insane conviction that such wars will pin down the Soviets, but never lead to a full confrontation that will wipe out U.S. cities. President Reagan himself demonstrated his subscription to this lunacy when he declared at his press conference on Aug. 17 that he “was not afraid of a shooting war.” A look at U.S. deployments internationally shows that these shooting wars have already begun.

### **Cuban roulette**

On Aug. 17 the U.S. Navy landed 400 Marines at the U.S. base of Guantanamo on the island of Soviet ally Cuba in the course of a practice invasion of the island. These exercises, which included evacuation of civilian personnel from the base, were accompanied by reports of a several-hundred-strong Cuban government-in-exile landing on the base as well.

The maneuvers, part of an overall exercise called Ocean Venture '81, have led Cuba, Nicaragua, and the tiny Socialist International-controlled island of Grenada to put their armies on alert in case of an invasion. The landing against Cuba had been canceled during Atlantic maneuvers last year because of an international outcry about its provocative nature, but this year the Reagan administration paid no heed.

The mock invasion of Cuba will directly affect the state of war ongoing in the Central American isthmus,

where Socialist International-backed guerrillas are joined in battle with Haig-supported right-wingers in the hope of not only depopulating the area through continuous bloodshed, but militarizing the entire continent. U.S. United Nations ambassador Jeane Kirkpatrick this month brought both Chile (also a military supplier of Communist China) and Venezuela into a military pact for the “defense” of Central America. To make the plan work, however, Haig must accelerate the Cuban involvement in the area, and thereby hopefully the Soviet indirect involvement. Top intelligence sources indicate the Soviets are doing everything they can currently to cool Cuba’s response to these provocations, but that the Socialist International and their Haig allies are making it difficult to control the Cubans’ *machismo*.

### **Libyan dogfight**

Full details have not yet emerged on the dogfight that occurred between planes from the U.S. Sixth Fleet and naval air force, and the Libyan armed forces. What is clear is that the U.S. maneuvers were preplanned to cause a confrontation in the interest of showing the Soviets that American F-14s are better than Soviet MIGs, and that they can be hit without fighting back.

Unlike Cuba, Libya is not a member of the Warsaw Pact, but Qaddafi has been attempting to strengthen his ties with Moscow, which has its largest external military base in Libya. Qaddafi is currently working overtime to pull together the radical opposition to Israeli expansionism in the Middle East. He is reported to plan a visit to Moscow soon. Most importantly, the United States is setting a wild precedent for maneuvers to turn immediately into shooting wars.

James Buckley of the State Department and Jeane Kirkpatrick are now touring Southeast Asia in a coordinated effort to inflame the area. In Thailand, Buckley announced that “the U.S. would not mind seeing the Vietnamese troops [in Kampuchea] tied down in a new war,” and uttered further praises of the Afghanistan “freedom fighters” whom the U.S. is openly bankrolling. He also declared that the F-16s should be hurried to Pakistan even if it meant depriving other nations of them. These by-no-means-covert encouragements of foreign invasions into Kampuchea and Afghanistan are just as calculated as they are insane.

No survey of U.S.-NATO provocation would be complete without looking at Europe. Top Reagan advisers are known to have swallowed the Carrington line that continuous destabilization of Poland, and perhaps even the imposition of International Monetary Fund controls on that economic-crisis-wracked country, will “pin the Soviets down” and aid the U.S. Similar lines are being fed about the decision for the neutron bomb deployment, destined unequivocally for Europe if the West German government can be forced to accept its

role as NATO's chief nuclear battlefield.

In fact, the same delusion possessed Kissinger in 1975—the delusion that the Soviets would accept a limited nuclear war in Europe and the U.S. would once more come through a major war without having to fight on its own soil. Will the Soviets have to preempt total war, starting with massive bombardment of U.S. cities, in order to prove Kissinger wrong?

Kissinger, Carrington, Rockefeller and NATO as a whole are miscalculating badly. But if the next stop in their global war games—militarizing the Western economies—succeeds, there will be little opportunity to stop them politically in the West. It will be up to the Soviets; but most of us will not be around to notice.

## Current U.S. military policy lunacy

by Lyndon H. LaRouche, Jr.

*Excerpts from an Aug. 16 statement by Lyndon H. LaRouche, Jr.:*

The Achilles-heel of the Anglo-American geopolitical encirclement of Moscow is the "China Card" and the Pakistan branch of the "China Card." Looking at Moscow's strategic problem through the eyes of the old Prussian General Staff's Schlieffen, this is key to the point at which Moscow can act to the greatest advantage with the least opposition and strategic risk.

Turn to the relevant map. Look at a very relevant little strip of Afghanistan abutting the Soviet Union, Peking China, and Pakistan. This little piece of real estate, unknown to most people today, could become the crucial pivot. This little strip of land—contested by Peking China—is the most singular element in the strategic geography of the world at this moment.

Now, look south from that strip, along the Afghanistan-Pakistan border. If your map is politically accurate, it notes a section of this border area as Afghan, but claimed by Pakistan and under de facto Pakistan administration. . . . This contested area is integral to the staging of forces being launched by China and the United States under Pakistani surrogate cover, into Afghanistan.

Imagine that Gen. Douglas MacArthur were a Soviet general. How would he judge the significance of these elements of the real-estate offerings?

Now, turn your attention to a road leading from Peking China-occupied territory into Pakistan, the principal land-supply route from China into Pakistan, along

which a significant portion of Peking materiel flows into the Pakistan-based staging areas.

Any U.S. general officer of the old, "traditionalist" school of war-fighting, sitting in the Pentagon and imagining, as a modern Schlieffen might, what he would do were he in Moscow's shoes, comes to the very obvious conclusions. The relevant concluding point this general officer would include in his proposal is: "There's really not a damned thing we could do to counter this. It is potentially devastating for the entire geopolitical position in Asia."

Would Moscow pass up such a golden opportunity?

No Soviet military planner would wish to engage the Soviet forces in Pakistan as a whole. It is almost certain that no such superfluous undertaking would be considered by Moscow. It would be sufficient to massively discredit both Peking and Zia ul-Haq, by limited military action taken under the cover of the Afghan flag, neutralizing the rear bases of the forces deployed against Afghanistan, and cutting the land route into Pakistan from China.

During the recent weeks, since this writer first drew the conclusions just summarized here concerning the Pakistan option, it is clear that Moscow has reached analogous conclusions. *Any competent military analyst would reach exactly the same conclusions.*

An action neutralizing the geopolitical buildup of Pakistan and China has been repeatedly defined as current Soviet strategic policy in the Soviet press. The nature of the action has not been specified, but the fact of imminent action against precisely the Pakistan-Peking element of the geopolitical complex has been published as official policy of the highest bodies of the Soviet Union.

Some big-mouth idiots around Washington brush all this off, arguing in effect that the Soviets are publishing disinformation aimed at throwing us off track. On the contrary . . . it is the Soviet population which is being conditioned to acceptance of some action.

Add to this the fact that Soviet consumer-goods investment has been cut for increasing military expenditures, and that one in ten of the persons seen on the main streets of central Leningrad or Moscow are in military uniforms, and one has a picture of the state of mind emerging in the Soviet population generally today. It is estimated that Soviet military expenditures are rising rapidly toward 20 percent of the GNP, and are already at approximately 17 percent.

How can Moscow: 1) weaken Pakistan, 2) humiliate Peking to the degree of aggravating internal political instabilities there, 3) weaken the entire Asia buildup of the geopolitical combination, 4) reduce pressures on the Afghan involvement? What choices of action match the Moscow commitment to action?

If you were in Moscow, what would your choice be?



# 'Free enterprise' doesn't work: the Chilean model

by Mark Sonnenblick

The Reagan administration has been infiltrated by the claims that something called free enterprise is an unprecedented cure for the economies of the developing countries. J. William Middendorf, who took the post of U.S. ambassador to the Organization of American States after losing his campaign for the presidency of the Export-Import Bank, is the official personally touring the Americas to impose the new model of "laissez-faire liberalism."

In his policy speeches, Middendorf lauds those countries which "are turning away from the state-intervention models of development that were the fashion hardly a decade ago. . . . I cite Chile merely as an example of how market-oriented policies can turn a country's economy around. Other countries, such as Peru and Jamaica, are reducing government intervention in order to free the productive forces of their societies to most effectively allocate their scarce resources."

The idea that countries should "deregulate" their economies to allow untrammelled intercourse with international goods and capital markets sounds so attractive to many conservatives that Ronald Reagan himself declared it to be U.S. policy at the Ottawa summit. David Rockefeller is shepherding groups of "born-again" classical liberal corporate executives into well-publicized sessions of his Business Committee for Jamaica and Council of the Americas Chile seminars, and has now restructured his Latin American fronts into the "Americas Society" under his personal management to promote this line.

Real live people who manage investments, on the other hand, are not so ingenuous. Chile has approved \$4.3 billion in foreign investments since the free-market technocrats began revolutionizing the Chilean economy under the protection of Gen. Augusto Pinochet eight years ago. Yet, the Chilean government Foreign Investments Committee itself admits that barely 25 percent of this widely reported investment had actually materialized in Chile by the end of April 1981.

Jamaica's Edward Seaga, likewise, admits he has concretized only \$72 million of the several billion dollars in foreign investments he has announced. The public relations hype has attracted considerable investor interest in Chile and Jamaica, as shown by the high figures of government authorizations, but real investors are skeptical about profitability and risks. After all, what are the solid investment opportunities in a country whose shrunken internal market is being swamped with cheap imports? And how long can a government repress and deceive its population before being toppled, leaving its multinational benefactors beached at ebb tide?

Actually, the "free-enterprise model" in Chile and Jamaica—and whatever real investment may contribute to its credibility—is a cover for some of the most vicious monopolistic behavior by international dirty money mafias. In the Chilean case, what is involved is the grabbing and hoarding of the country's copper reserves by the oil multinationals. In Jamaica, it is Dope, Inc.'s using "fantasy island" to inject narcotics into the U.S.

Flap-tongued social democrat U.N. Ambassador Jeane Kirkpatrick and other Reagan administration promoters of Chile's fascist economics pretend it can be separated from the unpleasant political brutality that accompanies it. Dr. Robert Wesson, Milton Friedman's colleague at his new Hoover Institution stomping grounds, is more candid: "Obviously, although the economic program of the military regime taking power from a populist movement meets the approval of the International Monetary Fund, it could not possibly be carried out in the context of democratic politics."

It is hard to imagine a free government reducing the well-educated Chilean population to subsistence wages, massive unemployment, elimination of government services, and all the other deprivations which have been suffered under what the London *Times* praises as Pinochet's "seven reforms." Yet it is commonplace for boosters of the Chilean model to present it as the economic miracle of the century. Middendorf, in his

June 30 Miami speech on "The Reagan Administration and Economic Development in the Third World," uttered the following encomium for it:

Thanks in large measure to its liberalized trade policies, open market conditions, and encouragement of free enterprise, the Chilean economy has experienced, since the mid-1970s, solid growth with reduced inflation together with significant increases in real income. . . . [This may be attributed to] the deregulation of the domestic market, the elimination of subsidies and other non-price incentives, and an end to the policy of import substitution industrialization.

Recently, the Chilean economy has been stimulated by renewed growth in private consumption while public expenditures remain in check. Despite the government's tight fiscal policy, fixed investment has increased dramatically.

Reality is quite different. The tremors caused by the chain-letter bankruptcies of banks a few years back and the collapse of the heavily indebted CRAV sugar company now are just symptoms of a pervasive rot. The Friedmanite reforms have markedly *reduced* the productive efficiency of the economy; resource allocation is increasingly irrational.

University of Chile surveys found a remarkable shift in the deployment of the labor force between 1973 and 1977. Productive workers in industry, agriculture, and mining fell from 30.4 to 26.9 percent of the employed population; those in useful services such as transport, construction, and education fell comparably. In contrast, the percentage of those paid for totally nonproductive jobs, paper-pushing in the burgeoning banking area and other such services, rose from 34.4 to 53.7 percent.

The shift of the labor force out of production has been accompanied by trade deficits which have expanded exponentially since 1977. This year, Chile will export fully \$2 billion less than its \$6.8 billion imports. Only 10 to 15 percent of these imports are capital goods needed to rebuild the country. Most are luxury items for the rich. Industrial and agricultural sectors producing goods for domestic consumption have been eliminated. Over \$500 million are now spent annually importing foodstuffs that Chile used to export. Since 1975, 575,000 acres have been downgraded from farmland to pastureland with the evicted families transformed into migrant fruit-pickers and lumberjacks.

At some point, the government will respond to the trade imbalance by devaluing the peso which it has kept overvalued for the last two years in order to artificially repress the inflation figures. Were a more orthodox exchange rate adopted, inflation would soar and the only dramatic achievement of Pinochet's "economic

reforms" would be wiped out.

The Chilean model has been propped up only by massive infusions of foreign loans from the bankers most interested in promoting it. When "spendthrift" Allende was killed on Sept. 13, 1973, he left a total foreign debt of just over \$3 billion, only about \$600 million more than what he had started with three years earlier. With Pinochet's "miracle," the debt went up by \$3 billion last year and will 'be the same this year, for a total of about \$14 billion.

### Monopolies and speculators

The entry point of the Chilean experiment, which makes it a model for free-enterprise ideologues, is the denationalization of the economy. As the government has taken a hands-off attitude toward everything other than politics and censorship, the gap has been filled by powerful oligarchic economic groups, known locally as "pirañas" and "crocodiles." These monopolistic banking groups, increasingly freed of regulation and consistently in control of the economic ministries themselves, have been voracious in asset-stripping medium-sized manufacturers, farmers, and state enterprises built up during decades of public investment.

They have found "foreign investors" willing partners in this process. The Chilean government has been giving away the country's resources for pennies as part of its "de-statization" program. Last year, the government earned a grand total of \$5.3 million from its sale of assets. It is now considering selling 30 million tons of coal to a British consortium for \$3.5 million. In 1979, the Anaconda subsidiary of Arco Oil was given the Pelambres minerals pit with an estimated 428 million tons of 0.78 percent copper with molybdenum and rhenium for a nominal \$20 million. The Arco investment contract was publicized as \$1.5 billion! Rockefeller's Exxon Minerals and the Canadian Falconbridge Nickel hold similar mineral resources giveaways for which investments of another \$1.7 billion are booked.

Although copper may eventually flow out of some of these mines, their owners can do just as well sitting pretty on them for speculation or for putting themselves in a privileged position in the event of a dollar crisis.

The strategy of monopolizing the Third World minerals is congenial to the families which ran the British Empire. It is also embraced by Arco's prestigious Aspen Institute and Rockefeller's multifarious business fronts. It probably can't be done without breaking down the barriers of national sovereignty through which nation-states protect their resources from such pirates.

American entrepreneurs should look beyond the seductive free-enterprise rhetoric to examine cautiously what could be as threatening to them as it has been to Chile's bankrupt producers and mangled workforce.

## How much private investment has been flowing into Seaga's Jamaica?

by Carlos Wesley

There hasn't been an advertising campaign on American television quite like Jamaica's current effort to woo the tourists, at least not since the days of Jim Crow, when dyed-in-the-wool segregationists were proclaiming the "darkies" to be quite happy with the state of affairs under the shades of the magnolia trees, thank you.

In Jamaica's tropical version of Stepin Fetchit, smiling native after smiling native beckons "Come Back to Jamaica" with promises of everything, from "gentility" to the island's (nonexistent) "bounty," concluding with a plea that should warm the hearts of the Colonial Office's old hands: "Make Jamaica your own again."

Alas, it is not working; tourism is down by 10 percent from last year's abysmally low levels. Nor is much else working in Jamaica these days. Everyone from the International Monetary Fund to the Reagan administration to the David Rockefeller-led Business Committee on Jamaica has promised massive support to the efforts of Jamaican Prime Minister Edward Seaga to transform his island-nation into a model free-enterprise economy, the Hong Kong of the Western Hemisphere.

But very little concrete assistance has materialized so far, and in fact it was never intended to. All the ballyhoo about the "Jamaica model" has nothing to do with a model of industrial development. It is, instead, a cover for rearranging the island economy on a model of a different sort—an unregulated, offshore banking paradise for laundering drug monies. It is already a major producer of marijuana for export.

Jamaica, like Hong Kong, has been run for centuries on the British colonial model—Prime Minister Seaga was recently appointed a member of the Queen's Privy Council. Like Hong Kong, it will now be transformed into a center for drug money banking.

In terms of real production, things have—if anything—only gotten *worse* since Seaga took over from Social Democrat Michael Manley last October. Just two weeks ago, Alpart, an alumina-producing consortium owned by some of the largest U.S.-owned bauxite-mining companies operating in Jamaica, announced a sub-

stantial cutback in production, the third company to do so in recent weeks. Bauxite is Jamaica's biggest earner of foreign exchange.

Exports of bananas and sugar, which follow bauxite and tourism as sources of foreign exchange, are also off. Sugar production fell by 29,000 tons this year, while banana exports have dwindled to virtually nothing as a result of a hurricane last year.

The country continues to be plagued by frequent power blackouts due to a lack of spare parts for its generating plants. Some consumer goods have returned to the stores, where they remain unsold; the purchasing power of Jamaicans has been destroyed by inflation and unemployment, which officially is close to 30 percent, but in reality closer to 40 percent.

Even Seaga's staunchest supporters, the business sector, are grumbling that his deregulation policies threaten to destroy the economy. "People expected money to flow like milk and honey," said Avis Henriquez, the head of the Private Sector Organization of Jamaica.

During a speech in Parliament last week, Seaga said that his economic program was working, despite the fact that local industries are unable to obtain the raw materials and spare parts they need to operate. Though he acknowledged that the economy was likely to exhibit zero growth this year, or at best a 2 percent increase, he claimed this to be a great improvement over last year's negative growth rates. The Jamaican Prime Minister asked the business community to be patient: "We are not involved in giving birth to a new child, but we are involved in the process of reviving the dead," said Seaga, who is a serious student of the Caribbean's obeah and voodoo cults.

### Rocky comes empty-handed

David Rockefeller, who heads the U.S. Business Committee on Jamaica, the group entrusted by the Reagan administration to develop and implement American economic policy toward Jamaica has admit-

ted that little will come in the way of U.S. help. During a visit to Kingston last July, Rockefeller warned Jamaicans not to expect too much in the way of economic assistance or foreign investments.

"I personally do not think that things are that easy," said Rockefeller. The enthusiasm that has developed in connection with the work of the committee, he added, "could be dangerous if it becomes excessive and if it's not tempered with a sense of reality," according to the Jamaican *Gleaner*.

While no money is coming in—none is really expected—everyone in Kingston last week had a copy of a complimentary report extolling the merits of Hong Kong put out by the Washington-based National Planning Association. As Winston Mahfood, the prime minister's cousin and principal economic adviser, explains it, Jamaica's future lies in adopting a wide-open economic system, such as Hong Kong's.

Jamaica is well on its way to becoming like Hong Kong, which, as everyone knows, has an economy based on the drug traffic, money laundering, unregulated banking operations, and cheap labor from mainland China.

### **Hong Kong West**

About the only sector of Jamaica's economy that is exhibiting any growth is the illicit marijuana trade, which earned between \$1 billion to \$1.5 billion in foreign exchange this past year. Not surprisingly, *The Economist* of Aug. 8, applauded Seaga, an advocate of marijuana legalization, for paying lip service to the need for curbing the smuggling of the drug to the United States, while in fact doing nothing to stop it.

Similarly, Morris Cargill, scion of one of Jamaica's most prominent families, complained last week that U.S. efforts to stop the flow of drugs violated Jamaica's sovereignty. "The United States is entirely entitled to make decisions about its own nationals. But it has no right, and in fact at the time of Prohibition did not try . . . to put pressure on Scotland to prevent the manufacture or export of whisky, nor did it try to police the internal affairs of the Bahamas," writes Cargill.

The Seaga government is also taking up the ancient Chinese tradition of slave labor, employing women as stone breakers in a program designed to reduce unemployment. The women who break the stones are paid on a piecework basis. Reacting to widespread criticism that the program is no better than slave labor, government officials have said it is better than no work at all.

The government is also borrowing another page from the Chinese: a campaign was started recently to curb population growth as a solution to Jamaica's economic ills. Among the proposals being given serious consideration is one that would make large families illegal.

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A special highlight of the seminar will be presentations of the General Accounting Office and *EIR* econometric studies of the ability—or inability—of the U.S. economy to sustain a defense buildup.

### **Speakers:**

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

**David Goldman**, *EIR* Economics Editor

**U.S. Naval War College** representative

**U.S. General Accounting Office** representative

For further information, call Laura Chasen  
(202) 223-8300

# The 'strategic consensus' attempt

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*A revamped Camp David accord is intended to form an aggressively anti-Soviet bloc in the Middle East, writes Judith Wyer.*

Following the visit of Egyptian President Anwar Sadat to Washington this month, the Reagan administration's Middle East policy is settling into the impossible blueprint set down by Jimmy Carter's Camp David accords. The adoption of this step-by-step approach to the Middle East has nothing to do with negotiating peace; it is aimed at realizing Secretary of State Alexander Haig's cold-war policy of building a military "strategic consensus" in the region to confront the U.S.S.R.

The aggressiveness with which Washington is waving its confrontationist stance against the Soviets was demonstrated by the dogfight between American and Libyan fighter jets Aug. 19 over the Mediterranean in which two Libyan planes were downed. Prior to the incident, *Newsweek* magazine leaked that the Reagan administration had calculated that conducting major naval exercises in waters Libya claims to be territorial would constitute "Reagan's first direct challenge to Libyan strongman Muammar Qaddafi . . . and his allies in Moscow."

Following his meetings with Reagan, Sadat affirmed his desire to be a "protector of the Middle East" against the U.S.S.R. In an interview with the London *Sunday Times* Aug. 16, Sadat offered Egypt as "an advance launching platform from which the U.S. could deal with any troubled area . . . as the linchpin of American strategy in the Mediterranean and the Gulf."

Egypt is conducting extensive military exercises on the Libyan border simultaneous with U.S. naval exercises. Radio Moscow has responded, warning that the Egyptian military buildup on the Libyan border is threatening the Soviet ally Qaddafi, who is rumored to be planning a trip soon to confer with Kremlin leaders.

Sadat's private discussions with President Reagan are reported to have been decisive in swinging the White House behind the controversial Camp David framework. Syndicated columnists Evans and Novak on Aug. 18 reported that Sadat conferred with the President on the prospects that the Camp David signatories, Egypt and Israel, would become the key to forging a "strategic consensus" in the Middle East and that the United States was the "top card" in fostering a broader consensus with other Arab states to join the anti-Soviet axis via Camp David.

An Egyptian diplomat confirmed Aug. 18 that Sadat urged Reagan to open a dialogue with the Palestinians, beginning with prominent American-based Palestinians in order to draw them into phase two of the Camp David accords, the autonomy talks for Palestinian self-determination. But the motivation for bringing the Palestinians into the autonomy talks, which the Palestine Liberation Organization and its allies within the Palestinian community have refused to join, is chiefly aimed at Saudi Arabia and Jordan. Both countries have strongly opposed the Camp David accords on the grounds that up till now it has sidestepped the crucial Palestinian issue and has seriously divided the Arab world. But if Camp David can be shown to be a framework for beginning an unprecedented U.S.-Palestinian dialogue then Sadat and his ally, Secretary of State Haig, calculate that Saudi Arabia in particular might reverse its opposition. This, according to the Egyptian source, would open the way for integrating Saudi Arabia into the "anti-Soviet military bloc" which would extend to the Persian Gulf.

A well-informed Israeli source reports that, despite Israeli Premier Menachem Begin's ideological opposition to Israel's negotiating with the Palestinians, Begin is now prepared for such a dialogue via the autonomy talks. The source emphasized that the July 24 Lebanese ceasefire set a precedent for Israeli-PLO negotiations "though indirect." He stressed that "now Begin can do the same thing on the West Bank. . . . The idea is to have the mayors and the other pro-PLO officials there join in the talks with the blessing of the PLO, and in which the PLO and the Saudis behind them will watch over the agreements reached, but not participate directly."

Last week, Israeli Defense Minister General Ariel Sharon suddenly softened Israel's repressive policies toward West Bank Arabs, a policy Sharon himself has been architect of since Begin came to power in 1977.

## **The Lebanese powderkeg**

But bringing both the Palestinians and the Saudis into the hated Camp David negotiations will not be a smooth process, and both Arab and Israeli sources expect a new series of explosions in both the West Bank and Lebanon. Just last week, Saudi Crown Prince Fahd

issued a call for scrapping Camp David in favor of an overall peace dialogue between the Arab frontline states and Israel.

The announcement by Haig this week that he will release three shipments of embargoed F-15s and F-16s to Israel is a boon to Begin to renew his blitzkrieg into Lebanon, which last month left over 500 civilians dead following air raids against Beirut, forcing Reagan to embargo shipment of the jets.

Less than 24 hours before the Haig announcement, Begin issued a scathing denunciation of Washington for withholding the jets. In the same speech Begin warned that he was prepared to renew attacks on "terrorists" in Lebanon. Last week, Israel conducted Air Force exercises in northern Israel near the Lebanese border. At the same time, Israel deployed two brigades into southern Lebanon in preparation for a new military offensive.

A crucial motivation for rekindling the Lebanon powderkeg is to blackmail Saudi Arabia into the Israel-Egypt alliance. An aide to Rep. Millicent Fenwick (R-N.J.), in a discussion of a recent meeting with Begin, stressed, "The key focus from here on will be to get the Saudis into our framework for future talks. The Saudis made a great contribution in working out the July 24 ceasefire in Lebanon, and we think Lebanon is the vehicle for breaking down the Saudis' resistance to Camp David and getting them into talks with Israel."

Begin, this week, sent a message to Haig, urging him to deploy special envoy to Lebanon Philip Habib to the Middle East to resume "peacekeeping efforts" for Lebanon. A protégé of Henry Kissinger, the instigator of the Lebanese civil war in 1976, Habib is working closely with Haig and is known to have convinced the Saudis to cooperate with the United States in the crisis management of the Lebanon situation.

According to a Washington journalist, Haig's press conference stunned both press and diplomatic communities. Despite repeated queries, he refused to give any indication that the United States would press Israel to adhere to the unilateral terms of all U.S. arms sales to Israel as established by the 1952 Military Arms Assistance Act. This law stipulates that Israel can only use U.S.-made arms for defensive purposes, and any offensive use must be cleared with Washington in advance.

The extremist Qaddafi is himself giving Begin a pretext for renewed military action against Lebanon. Last week, Libya finalized an agreement in principle with Lebanon to install a \$2 billion anti-aircraft missile system in Lebanon. Israel's bloody surge into Lebanon last month was justified by Israel's claims that Libya was arming and supplying fighters for Palestinians in Lebanon.

An Israeli source predicts that Begin is now prepared to bomb Syrian anti-aircraft missile installations in Lebanon's Bekaa Valley that were emplaced in May. This, says the source, is part of Israel's "increasing military

pressure on Syria," which earlier this year, had signed a military treaty with Moscow.

## Bringing the region under NATO

As *EIR* stated during the signing of the Camp David accord, its principal function was not to bring peace to but to pave the way for extending NATO into the Middle East. Such a scheme, particularly in light of current ice cold U.S.-Soviet relations significantly ups the prospects for a global crisis in the Middle East.

It is no secret in Washington that the White House links the release of the Israeli fighter jets with the upcoming proposal to the Congress to approve the sale of AWACS radar planes and other arms to Saudi Arabia, and has already informed Begin that Israel should soften its opposition to the sale.

But a congressional aide revealed that "there is no question but what the sale will be approved by the Congress despite the strong pro-Israel sentiment." She stressed the issue is what the "terms" of the sale will be, which are being hammered out in a compromise between the White House and pro-Israel senators like Henry Jackson. She predicts that the U.S. military will have total control over the AWACS movement and the intelligence they gather. Jackson is known to be demanding that the intelligence of the AWACS be turned over to Israel!

Hence the terms of the AWACS sale are being crafted to ally Saudi Arabia both with NATO via the United States and with Israel and Egypt. Recently when Sadat flew to Sudan to meet Sudanese President Numeiry, AWACS already stationed in Saudi Arabia—which are operated by the American military—were used to survey the airspace of Sadat's flight pattern.

The White House is now "floating" a plan for Lebanon through diplomatic channels to expand the United Nations peacekeeping forces (UNIFIL) in southern Lebanon from the current 6,000 level to 14,000. Begin strongly advocates such a plan.

The Camp David accords' major achievement is the placement of a similar multinational force, half of it American, in the Sinai following the Israeli withdrawal next year.

According to a U.N. source, the expansion of UNIFIL in Lebanon will be vetoed by the Soviets at the U.N. Security Council. But an Israeli source close to Begin's government insists that Begin is determined to "neutralize" southern Lebanon by expanding. "Begin sees the terrorists in Lebanon as Soviet-backed and I can guarantee you that he won't stop until they are out of the way."

Begin may well be preparing to extend his blitzkrieg beyond Lebanon directly into Syria. A Middle East diplomat warned that if the Soviet Union opposes the strategic consensus by pushing its allies in the Middle East like Syria "too far, Israel would just bomb Syria."

# Pakistan to retake Bangladesh?

*Ramtanu Maitra and Paul Zykofsky report on Zia's intrigues and the potential for a new civil-war upheaval.*

The Pakistani government of General Zia ul-Haq is attempting to re-establish control over Bangladesh, formerly East Pakistan, which gained its independence after a bitter struggle supported by India in 1971. A successful resumption of Pakistani control over Bangladesh was never considered a possibility until last May's assassination of Bangladesh President Ziaur Rahman. Since then, the effort has featured the secret visit of five Pakistani cabinet ministers to Bangladesh last month to discuss the possibility of turning it into a "confederate" of Pakistan.

That delegation also asked the Bangladesh regime to build up its military forces. There are reports that Bangladesh is sending army officers to Pakistan and China for special training.

Indian press report that Pakistani President Zia ul-Haq is now planning a personal trip to Bangladesh, the first such visit by a Pakistani head of state since the 1971 independence struggle. Zia would reportedly press for a joint defense policy.

Behind the Pakistani intervention into Bangladesh is a conspicuous commitment by U.S. Secretary of State Alexander Haig to destabilize India, possibly including a Pakistani-launched proxy war against the subcontinent's leading nation. The State Department's arms aid to Pakistan includes F-16s, giving them an edge over India militarily, and also an augmented delivery capability for the nuclear weapon Pakistan is known to be building.

The effort to establish a Pakistan-Bangladesh axis tends to confirm that Haig's real intention in providing \$3 billion in military equipment to Pakistan is less to counter Soviet forces in Afghanistan than to create tension on the Indian subcontinent. Of itself, Pakistani control of Bangladesh would be unstable to the point of a renewed civil war. In addition, it would confront India with virtual military encirclement by Pakistan, Bangladesh, and China.

Indian Prime Minister Indira Gandhi warned in a recent speech that the supply of F-16s to Pakistan "represents the introduction into this region of a class of aircraft a generation ahead of anything operating with other air forces in the area. The subcontinent is being pushed, willy-nilly, into an arms race."

Zia's designs on Bangladesh began with the assassination of Ziaur Rahman in a coup carried out by pro-Pakistani military elements, Islamic fundamentalists, and pro-Chinese groups. Since the coup took place, a systematic campaign has been conducted to remove all military leaders who fought for Bangladesh's independence from Pakistan in 1971.

## **Bangladesh coup**

According to the Bangladesh news daily *Natun Bangla*, a few days before President Ziaur Rahman was assassinated, a secret meeting was held to unify the extreme-right Islamic fundamentalists and the extreme-left Moists. Then, on May 31, Ziaur Rahman was gunned down at a rest-home in the coastal town of Chittagong. The ensuing confusion allowed the pro-Chinese and pro-Pakistani elements who had opposed liberation to gain the upper hand in the government.

A liberation war hero, Major General Manzoor, who had close ties to pro-Chinese elements, led the killing. Manzoor and his two associates were eliminated quickly, prior to any public hearing. Since then, Pakistan has strengthened its hold on Bangladesh with the emergence of a triumvirate comprised of the acting president, Abdus Sattar, the Chief of Staff of the Army H. M. Ershad and the Premier Shah Azizur Rahman. These three, with the help of other Pakistani agents, have clamped down on Bangladesh nationalists with apparent ease.

Acting President Abdus Sattar was the former Chief Justice of Pakistan and was Pakistan's Chief Election Commissioner when the liberation war was fought in 1971. He returned to his native Bangladesh only in 1973—two years after independence. He quickly earned the trust of President Ziaur Rahman and rose to become his vice-president in 1977.

Chief of Army Staff Lieutenant General Ershad, now considered the de facto leader of Bangladesh, is also a repatriated Pakistani general and was instrumental in the purges that took place after President Ziaur's death. Ershad has installed repatriated Pakistani army officers as heads of four out of five divisions. Ershad, as reported by the press, is quite happy with Sattar because

of the acting president's "pious Muslim outlook."

The third individual in the triumvirate is the Premier Shah Azizur Rahman, who is well known for his strong ties with the Islamic fundamentalists. Premier Rahman was selected by the then Pakistani President Yahya Khan to plead the case against Bangladesh in the U.N. during the liberation war. Premier Rahman also raised the army of Razakars—a Pakistan government-financed organization meant to destroy the nationalist Awami League and Mukti Bahini (Freedom Fighters) during the liberation war in 1971. Rahman was also identified by author V. K. Sarin in his book *India's Northeast in Flames*, as a close friend of the CIA agent Nolton who was declared persona non grata by the Indian government for his association with various anti-India forces.

The Islamic fundamentalist group Al Badr, which was involved in mass genocide in collaboration with the Pakistani Army in 1971 has been re-established in Bangladesh with the help of financial and political support from the Persian Gulf region. Another key person among the fundamentalists is Khondakar Mush-taque Ahmed, who was directly involved in the assassination of the founder of Bangladesh, its first President Sheikh Mujibur Rahman in 1975. Recent press reports indicate that Khondakar is meeting with the Acting President Sattar frequently.

In spite of this apparent control, the oppositionists' voices can be heard. Recently, when two cabinet ministers and former freedom fighters Nurul Islam Shishu and Akbar Hossain were summarily dismissed by Sattar, the press reported a split within the ruling party. The *Times of India* reported in June that Shishu and Hossain had a "wordy altercation with the prime minister in the Parliament, each holding out threats against the other."

Moreover, Pakistan's efforts to establish control over Bangladesh will depend on removal of the nationalist political opposition centered around the Awami League Party founded by Sheikh Mujibur Rahman and headed by his daughter Hasina Wazed.

The Awami League has called for boycotting the presidential elections scheduled for October because of growing indications that the elections will be rigged by the ruling Bangladesh Nationalist Party under Acting President Sattar.

In a recent mass rally at Dacca, the capital of Bangladesh, thousands of Awami League members threatened to launch a "massive and relentless movement" against the Sattar government. The protest featured League demands to withdraw the state of emergency imposed after President Ziaur's death, to guarantee free and fair elections, and to shift the election date to the end of November so that Hasina Wazed will be eligible to run as the Awami League's candidate.

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## Book Review

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# The old Colonial Office mentality

by Ramtanu Maitra and Susan B. Cohen

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### *Small Is Possible*

by George McRobie

with a foreword by Verena Schumacher

Harper & Row Publishers, Inc.

New York, 1981 \$5.95, 351 pages

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There can hardly be a more painful reflection on the state of humankind in 1981 than the spectacle of a grouping of leaders of nations, some among the poorest in the world, deliberating on how to build windmills. But that's what happened in Nairobi this month at the U.N.-sponsored conference on New and Renewable Sources of Energy. At the "North-South" summit meeting in Cancún, Mexico in October, heads of state of North and South will be given a dose of the Brandt Commission's particular version of the "appropriate technologies" doctrine.

This book presents a kind of international directory of "appropriate technology" projects and think tanks, written by an associate of the late E. F. Schumacher, author of that benchmark manifesto of zero-growth environmentalism, *Small is Beautiful*.

With a foreword by Schumacher's wife giving a personal touch—"Fritz would have valued this book"—McRobie proceeds to outline the development of the "appropriate technologies" movement before getting into the directory proper.

There is little new here, except the reminder that when Schumacher proposed the "appropriate technology" package of low-technology, employment-creating economic programs to the Indian Planning Commission in 1961 he was turned away out of hand. How Mr. Schumacher secured the invitation to regale Nehru's planners in the first place is not mentioned, but one senses the hand of Lord Mountbatten, the Earl of Burma, in the wings.

In any case, it took the British Foreign Office, that repository of old colonial hands for whom the sun has yet to set, to recognize the merits of Schumacher's approach. In 1963 Schumacher was given the go-ahead by Britain's Overseas Development Institute (ODI). The ODI hosted establishment of Schumacher's Intermediate Technology Development Group in 1965—what McRobie describes as "an action group" to promote appro-



priate technology—simultaneous with the London *Observer's* August 1965 publication of a major popular tract by Schumacher, titled "How to Help Them Help Themselves."

Smallness was off and running, and hardly by dint of its own bootstraps, McRobie's insistent disclaimers about financial support notwithstanding. Five years later the Club of Rome and its *Limits to Growth* publicly took up the mission.

McRobie faithfully restates the original doctrine to prevent development of the Third World and turn back the clock on advanced industrial civilization in the developed countries, citing Schumacher's speeches and writings. Technology must meet four criteria: 1) smallness; 2) simplicity; 3) capital cheapness; and 4) "nonviolence." As McRobie paraphrased Schumacher:

The support being given to concentrations of large-scale industry could only exacerbate the twin problems looming over virtually every developing country; mass rural unemployment and underemployment, and mass migration to the cities. Moreover economic growth, a purely quantitative concept without any qualitative determination, cannot be accepted as a rational objective of policy.

Exhibiting a perverse fascination with primitivism. Schumacher repeatedly described Third World, and especially rural, tribal peoples as "survival artists" who—unlike urban populations—could certainly endure any ecological or other world calamity.

This is nothing but the old "happy native" routine drummed up by British colonialists, that is at the root of all philosophies, most prominently environmentalism, based on a hatred of man.

Schumacher's perverted view of man becomes shrill when McRobie reviews for us his views on the subject of violence:

Modern technology has become increasingly violent. Violence is not just a matter of one person hitting another person over the head, it is employing violent means. We have this in agriculture, where we scatter around very violent chemicals, we call them pesticides, which means killer substances. . . . Of course the greatest readiness to resort to violence we are now experiencing is in our attempts to cope with the energy problem, where we are prepared to put into the world large amounts of plutonium, a substance of a really unbelievable ghastliness, which the good Lord never made. He knew where to stop. It is a man-made thing.

Schumacher and McRobie are apparently oblivious to the violence of famine and widespread depopulation that will follow from their prescription. Or not precisely

oblivious: Schumacher explains that in the natural order of primitive tribal ritual culture such periodic scourges are both expected and accepted as part of "life." It is this cultism that allows Schumacher et al. to degrade the notion of employment to "keeping people busy," and then to elevate that principle above all others in so-called development policy-making.

In a several-page section on the myriad contributions of appropriate technology to developing-sector farming—the discovery and carving of primitive hand tools—there is not a word about the effect of such utensils on production of food, or *productivity*.

The greatest resource in the world, the capacity for human self-development, does not exist in the Schumacherian universe. In that universe human beings are social *animals*, a variety of talking beast for whom large and complex technologies are an oppression and not a means for improvement. As McRobie puts it: "For a developing country, generally speaking, the larger and more complex the technologies it gets, the greater becomes its dependence, economic and cultural, upon the rich industrialized nations."

Schumacher and his cothinkers' "development" doctrine—to opt for an ox instead of a tractor to till the land—is now backed up by volumes of mathematical and theoretical justification churned out by kept economists and "development theorists" at Oxford, Sussex, and the London School of Economics. Buried under the heap of evil rationales concerning the "cost-effective" merit of such an investment program is the fact that the ox driver is forced to live at approximately the same standard of living as his ox.

What does become apparent in the book is that McRobie and Schumacher have quite a few friends in the Third World—who are dedicated to ensuring that it remains the "Third World"! There is a detailed directory of the spook networks in the Indian subcontinent, Africa (especially Ghana, Kenya, Nigeria, and Tanzania), and Latin America. The proliferation of backwardness projects in the advanced sector is also noteworthy, not so much for their direct impact but for what their existence says about a process of decay of civilization right under our noses. Britain and the United States are featured.

McRobie would like people to believe that small is possible. It is not; and the human race need not prove that once again by deliberately fostering a process of devolution in the name of "small is beautiful."

To cult members this book is nothing new. We recommend it highly for the directory of operatives within the government of former colonial nations for purposes of identifying foreign subversion of national sovereignty—the United States included.

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*A briefer version of this review appeared in the Indian newspaper New Wave.*

## Craxi builds up his 'new Duce' image

by Lyndon H. LaRouche, Jr.

High-level Christian-Democratic Party sources here in Rome, now corroborate the report that Henry A. Kissinger and U.S. Secretary of State Alexander Haig have pressured leading strata of the Christian-Democracy to cooperate in making the candidate of Libya's Qaddafi, Bettino Craxi, the new fascist dictator of Italy. The legal coup d'état bringing Craxi to power, is scheduled by Haig to occur during September or October of this year.

Despite Haig's misleading public-relations image as a "conservative military figure," the Secretary is in fact a raving, left-wing kook, intimately allied with the Socialist International of Willy Brandt, Olof Palme, François Mitterrand and Bettino Craxi. It is the Socialist International, in cooperation with the U.S. State Department, which is orchestrating the left-wing insurrections in Central America, funding these insurrections with millions of deutschmarks from German churches, with full backing of Brandt's Socialist International, and heavy financing by Libya's Qaddafi.

Any high-level official in Washington who denies these facts is either a fool or an outright liar. Haig sealed the alliance between the Reagan administration and Socialist Mitterrand at the July Ottawa conference.

As part of the deal, the Reagan administration—which booted Libya's diplomats out of the U.S.A. earlier this year—is now fully supporting Qaddafi, and also fully backing Qaddafi's fascist candidate in Italy, Craxi.

President Reagan has really capitulated to the gang around David Rockefeller and Willy Brandt. Brandt now has President Reagan exactly where Brandt announced he was going to place Reagan in a setup for the proverbial political "short drop," in the announcements delivered during the Dec. 5-7 Socialist International conference held in Washington, D.C.

According to high-level sources in Italy, Kissinger's and Haig's pressure in support of the Fall fascist coup in Italy was relayed through Haig's proterrorist special adviser on Italy, Madison University-trained, left-wing radical Michael Ledeen. Italians initially rejected orders relayed from such an obvious young punk as Ledeen,

forcing Kissinger and Haig to confirm Ledeen's message through more credible channels.

In any case, as of now, the deal is fixed. There is to be a fascist legal coup d'état in Italy during September-October 1981, and Socialist Party strong-man Bettino Craxi is "fixed" to become the new Mussolini. Craxi's policy is to be (1) outwardly strongly anti-Soviet, (2) politically the kind of fascist regime Mussolini represented during the 1920s and pre-1938 1930s, and (3) economically modeled on the 1930s policies of Nazi Finance Minister Hjalmar Schacht.

Despite the Reagan administration's backing for the fascist coup d'état, there is strong behind-the-scenes resistance, especially from friends of the Vatican who know that Craxi's backers were behind the attempted assassination of Pope John Paul II.

These circles also know that Haig, although a nominal Catholic, is actually allied with forces such as British Archbishop of Canterbury Robert Runcie and the British Royal Family, forces which are presently committed to split the Catholic Church in the United States away from the Papacy, in order to bring the genocidal doctrine of the Club of Rome, into the U.S. Catholic dioceses.

Perhaps the "fix" can be "un-fixed." "Fixed" deals have been "un-fixed" before, and can again. For the moment, however, Craxi's appointment as Haig-backed fascist dictator is fixed.

### Craxi legends surface

Even before Craxi is made the new fascist dictator, stories are circulating which remind old-timers of those which used to circulate under the Mussolini regime. In fact, one might judge that the current stories circulating about Craxi are modeled upon old Mussolini legends.

We report two of those stories which certainly do not originate with Craxi's admirers.

The first of the two focuses on the theme, will Craxi imitate Mussolini in "making the trains run on time"?

The story has it that Craxi has two options available to him. The first option is to print the monthly train schedules at least 90 days after the close of the month for which the schedule is published. The second option is to eliminate all late-running trains by the simple means of closing down the entire rail system.

The second story addresses itself to the effort to create the image of a hero around Craxi.

According to the story, Craxi's grandfather died a heroic death at the hands of South Sea Island cannibals. The grandfather was a member of a shipwrecked party of Italians, hopelessly surrounded by a pack of hungry cannibals. The grandfather, in a magnificent *beau geste*, offered to sacrifice himself first. After eating the grandfather, the cannibals began vomiting and rolling around on the sand, and the rest of the shipwrecked party escaped.

## Turbay caves in to Haig's gameplans

by Valerie Rush and Dennis Small

The Turbay government of Colombia has struck a deal with the Haig State Department to play the role of Washington's anticommunist gendarme in the Central American and Caribbean region. Colombia's new role began to emerge last March, when the Turbay government broke relations with the Castro regime following a major "M-19" guerrilla assault on Colombia, an attack President Turbay blamed on the Cubans. Since then, stepped up M-19 activity inside Colombia has strengthened Turbay's commitment, and has led to a strategic alliance with the southern cone dictatorships, led by Chile, who are also "combatting communism" at Haig's behest.

President Turbay summarized his country's current stance in a mid-July statement, in which he characterized Caribbean Basin security as "our number-one priority."

All indications are that the deal with Haig was struck earlier this spring, when Colombia's Defense Minister Luis Carlos Camacho Leyva, flew to Washington to confer with Secretaries Haig and Weinberger, among others, regarding "hemispheric security." Rumors of a joint U.S.-Colombian "white paper" on the threat of Cuban subversion in Central America and the Caribbean began to circulate.

Following Camacho Leyva's trip, the U.S. State Department announced that it had finally resolved to ask congressional approval for a decades-old treaty granting Colombia sovereignty over three disputed keys in the Caribbean. Nicaragua also claims these tiny islands, and Colombian-Nicaraguan relations have reached the breaking point over the issue. In return, Colombia has adopted an increasingly active anti-Cuban posture in the region.

A visit to Colombia on June 18 by State Department Latin American chief Thomas Enders coincided with an official three-day visit to Colombia by Chilean Foreign Minister René Rojas, himself just returning from consultations in Washington. Both Enders and Rojas held meetings with President Turbay and his foreign relations minister, Lemos Simmonds. The subject of conversations with both men, according to official government releases, was "Cuban subversion." According to the *New York Times* of Aug. 13, Colombia "signed an agreement 'to



combat Cuban subversion' with Chile, a military dictatorship." Colombia, which prides itself on its constitutional government, has always kept the Pinochet dictatorship at a diplomatic arm's length.

A summit meeting of Colombia's Central American and Caribbean ambassadors last month in Bogotá was ostensibly held to elaborate an extensive commercial and cultural intervention into the poverty-ridden region, but the Colombian government's concern for "hemispheric security" reportedly dominated the proceedings. A tour of the region by Lemos Simmonds was subsequently launched.

Turbay's pact with Haig has even led Colombia to issue a \$10 million loan to Jamaica, the U.S.'s chosen model of anticommunist "free enterprise" in the region—despite that country's open embrace of drug trafficking. The Turbay administration has in the past been resolute in its opposition to legalized drug running, a problem which greatly afflicts Colombia as well.

Although Colombia has not yet committed troops to battle Castro frontally, an important precedent in this direction was set last week when Colombia announced that it had agreed to supply troops for a U.S.-sponsored "multinational peacekeeping force" in the Sinai.

Colombia's M-19 terrorists, run by the Socialist International, have been Haig's best ally in inducing Turbay's cooperation. This is not surprising, given Haig's own close connection to the social democracy. On July 20, the day the Colombian Congress convened in Bogotá, the M-19 bombed the National Palace with mortars to register their contempt for the government's offers of political amnesty.

Several bloody M-19 assaults on police stations and even a truck convoy, and the kidnapping of two popular media personalities, subsequently prompted Army Commander Landazábal Reyes, a notorious Chile-admirer, to warn that Colombia was rapidly approaching "the point of no return." The M-19 responded by promising to sabotage next year's presidential elections, and even assassinate the president and his ministers, if the terrorists are not welcomed into the electoral race.

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*Defense Minister Camacho Leyva (l) with President Turbay.*

# François Mitterrand: an agent of the House of Orléans

by Laurent Murawiec, European Economics Editor

“Since the beginning, I had considered social affairs from a corporatist angle, which I held for a higher mode of [social] organization. One had to specify that the point was to defend the French crafts, not to desire a return to a retrogressive conception of the corporations. . . . Of course, Mussolini had established a new dialogue among the social partners and defined a modern organization of labor; but the dialogue only served to conceal the predominance that the Fascist state intend to exert. . . . I, to the contrary, was campaigning for decentralization, which, alone, would have been able to encompass specific or local problems and bring them remedies.”

The curious criticism of Mussolini's fascism cited above, which blames Il Duce for his overly centralizing and statist proclivities, but defines a program in broad agreement with Italian fascism, was written by an aging individual who attempted, three times in modern French history, to launch a coup d'état and recover for his family the power and the throne they claim as their birthright. This program for a fascism with a decentralized face is that of Henri, Count of Paris, scion of the Orléans family which controlled and unleashed the Jacobin mob that stormed the Bastille and sent the cream of French scientists to the guillotine; it is the same family that ruled the nation from 1830 to 1848 under King Louis-Philippe, and later in the century, controlled the racist, xenophobic mobs of the Action Française of crazed race-doctrinaire Charles Maurras.

Henri d'Orléans, who calls himself “Count of Paris,” tried to topple the Republic in 1934, and succeeded in instigating a bloodbath in the streets of Paris; he tried to convince Nazi collaborator Marshal Pétain to restore the monarchy and, that having failed, turned to British and American intelligence services to the same end; and when the Fourth Republic collapsed in 1958, largely at the behest of some of his political and military collaborators, the Count was waiting for the crown of France to descend upon his august head.

During the war, and again 20 years ago, his designs were frustrated by Charles de Gaulle. The self-defined “social Christian” king in the wings, who relishes calling for a “social monarchy,” is still waiting for the crown. But with the election of Socialist François Mitterrand as president of France, he is more confident that his children will return to the throne.

## **The Hooded Ones**

It is an unfortunate fact that it does not suffice to cut off the head of a few oligarchs once, or even once in a while, to get rid of the oligarchic principle of government. Even though France has been a republic in form for over a century, the accumulated wealth in land and money, and in networks of loyalty and feodality that centuries have woven, do not unravel peacefully. Their perennity is precisely what accounts for this paradoxical assertion: François Mitterrand is and has been for more than 40 years a political asset of the French royalist faction.

To prove this assertion, we will be returning to pre-World War II France and the milieu in which Mitterrand started his political life; we will follow their deployments through the period of the war and the Fourth Republic, and will then witness the conversion of right-wing oligarchical political figures into left-wing socialists, bringing us up to the recent French presidential election.

We must first return to France between the two world wars; French republicans, who had ruled the nation from 1875 onwards, had set up an advanced educational system and presided over much industrial development and some positive colonial expansion and had been hounded from power in a literal cold coup d'état in 1914. They would not return to power until General de Gaulle entered Paris in 1944.

France after World War I was dominated by a policy very much like that of Mrs. Thatcher, with an outrageously overvalued franc allowing Paris to rise as

a major international financial power center, but which stymied the domestic industrial economy. Unbridled Malthusianism spilled from economic management into population affairs; France's population, net of external migrations, decreased between 1918 and 1939, by a large margin.

French oligarchs, who ruled through a kaleidoscopic succession of short-lived parliamentary governments, had grandiose foreign designs. Their figureheads were the war marshals, such as the "Jackbooted Jesuit" Marshal Foch, who prepared an invasion of the Soviet Union and geared the French armed forces in this direction; or Gen. Maxime Weygand, who led the French army in Poland against Tukachevsky's. A "national" doctrine of geopolitics dictated that France should take control of much of Eastern and Balkan Europe, and fiercely oppose Britain as well as Germany. The infamous motto "Germany will pay" aptly symbolizes the fundamental outlook of those who were intent on reviving the French Empire: consume existing wealth, parasitize the world as it is, and turn your back on production of new wealth.

France internally was slated to return to the monarchy, although the pretenders to the throne were constrained by law to live in exile; the population was not ready to accept such a restoration.

In July 1936, in a castle near Paris, a group of collaborators of the Count of Paris and his father, the Duke of Guise, were convening in great secrecy to found a clandestine terrorist organization that became known as the Cagoule (the Hood). Benito Mussolini's secret intelligence services bankrolled it generously, and provided very large amounts of weapons and military equipment to a group set to exacerbate civil strife by means of a terrorist strategy of tension, and create the conditions of a civil war.

The founders of the Cagoule were not aristocrats; noble families generally delegate such mundane tasks as murder and bombings to individuals much lower on the pecking order. Industrialist Eugène Schueller, a Rothschild business associate who devoted much of his fortune to plotting and scheming, and ideologue Eugène Deloncle, ran the Hooded Ones. They took "contracts" for murdering opponents of the Duce, planted bombs at the homes and offices of right-wing individuals and organizations in the hopes of pinning the blame on the left, and trained a large membership in the crafts and skills of civil war.

The Hooded Ones very often had noble names in their membership. Dukes and counts and marquesses abounded, who clearly had received the word that the Cagoule was bona fide in the eyes of the pretenders. They had been drawn from the large pool of antirepublican ferment organized by monarchist ideologue Charles Maurras, the Action Française, which numbered its

sympathizers by the millions. No priest in a village would fail to read the Action Française newspaper every day.

Not only aristocrats representing some of the oldest and wealthiest noble families joined the Hooded Ones; top officers of the armed forces and military intelligence did too, bringing along their subordinates.

François Mitterrand, then a young man, was an intimate of Cagoule founder Deloncle, and of the whole family, which was no less fanatically devoted to the cause of civil war against the republic than the chief of the Cagoule himself. In fact, one Mitterrand brother married into the Deloncles, and Mitterrand himself, a few years later, was to become a professional employee of the Schueller business concern.

By the mid-1930s, the Orléans family had determined that they should start to organize for their return to the throne; by 1939, they had determined that the republic would be done away with, even at the price of military defeat, foreign invasion and occupation, and a junior-partner role in Adolf Hitler's New European Order. The defeat, as the pretender said, was "the result of 60 years of Republic. . . . French people! It is time to rally around the monarchical principle! Alone it will secure peace, order, justice, the continuity of actions and designs!"

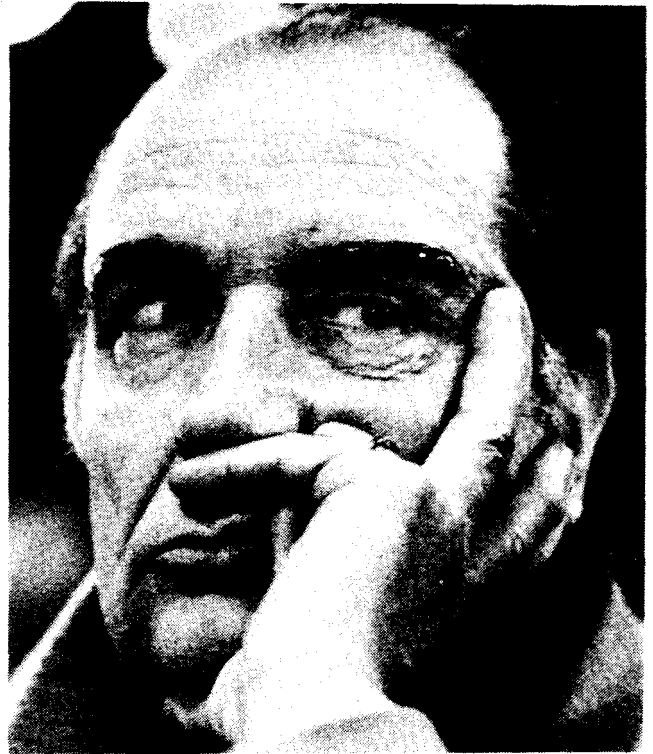
Royalist fanatic General Weygand, himself the illegitimate son of a Hapsburg and the deputy commander-in-chief of the armed forces, made sure that 1940 could be nothing but a defeat. He opened Paris to the Nazis by convincing a stunned government that had fled the capital that a communist insurrection had taken over! As Guderian's tanks rolled down the Champs-Élysées, Charles Maurras dubbed the tragedy of the collapse of France "a divine surprise." Senile Marshal Pétain was granted dictatorial powers. The Orléans family was on its way back. The government in Vichy was populated with outright monarchist agents, or associated forces, such as the "synarchist" Banque Worms.

Returning to France after his escape from a German POW camp, Mitterrand moved to take a job in Vichy as junior official in the veterans' administration. His efforts in that job found reward when Vichy awarded him with its highest medal, the Francisque, which he obtained through the personal guarantee of top Vichy official Jeantet, Cagoule founder Deloncle's right-hand man.

The Vichy regime faithfully collaborated with the Nazis; at the same time, it kept channels of communication open with London and with Washington, whose ambassador, Admiral Leahy, spared no words of contempt for General de Gaulle in his dispatches. And while the Vichy cabinet in the south (whose economics, agriculture, justice, and industry ministers in particular, were intimates of the Orléans monarchists) went on



*Henri d'Orleans, the self-designated Comte de Paris, and*



*François Mitterrand.*

preparing the preconditions for a monarchical restoration, with its brutally anti-urban, anti-industrial, "return to Nature" policy, and while the Nazis laid waste to the northern part of France, the Count of Paris's friends were busy founding the Milice, a military and paramilitary organization whose crimes against the resistance fighters and the population still provoke shudders of fear 40 years later. The promonarchist Vichy military intelligence corps Deuxième Bureau was also relaunching its colonial and East European intelligence networks.

Vichy military intelligence included, for example, a sizable network operation along the path of the Orient Express railroad up to Istanbul, which was entirely made of Marseilles mobsters whose principal activity, aside from espionage, was drug smuggling. The Marseilles mobsters worked very hard with the Gestapo to hunt down French patriots; some of their most skillful torturers, such as Auguste Ricord, showed up not accidentally some time later as top figures in the "French Connection" of dope in Latin America. Some others showed more "patriotic" sentiments, especially when the battle of Stalingrad tolled the bell of defeat for the Nazis. Such were the Guerini brothers, later the kings of gangland Marseilles. And all were assets of the Deuxième Bureau.

To be fair, they were not the only ones to turn to British intelligence. François Mitterrand, it is well

known, did the same.

And so did the Count of Paris, an old acquaintance of Churchill's (to this day, it is the British royal family's bank, Coutts, which manages one-half of the Orléans family fortune). In August 1942, the Count, quite incredibly in the middle of a shooting war, flew from Algiers to Vichy to meet Pétain and demand that restoration of the crown be accelerated. Pétain's rebuke sealed the fate of the Vichy gambit of Orléans and his coworkers, including U.S. diplomat Robert Murphy, and two other "Allied" case officers, Jean Monnet and Harold Macmillan.

But the shift from Vichy to London had been greatly facilitated by the fact that while one part of the Hooded Ones had rushed to Vichy, another part had been directly assimilated into Churchill's Special Operations Executive (SOE) as early as 1940. Interestingly, one of the leaders of the French division of SOE was young Michael Foot, now head of the British Labour Party. By the end of 1942 and throughout 1943, the Deuxième Bureau decorated its agents' hoods with the tricolor Union Jack. The Cagoule was then able to reunify its forces, which it did in Algiers when the Allies stormed Northern Africa.

Henri of Orléans was ready to launch the coup that would bring him to the helm. The Pétain fiasco could be repaired, and de Gaulle thrown out of the way. King Henri VI was on his way to Versailles Palace.

## Labor takes on the Bundesbank

*The national union leadership has been prodded by the unemployment numbers, and by pressure from below.*

In an interview on West German TV, Heinz-Oskar Vetter, chairman of the German Trade-Union Federation (DGB), strongly denounced high interest rates as part of a monetarist policy which must be rejected because of its catastrophic effects on the economy, and on democracy and social stability.

Vetter, whose statement reflects the strong ferment that has been building up among West German labor against the Bundesbank, pointed to Britain's monetarist policy, the result of which are the present riots in every major British city. Vetter predicted the fall of the Bonn coalition government if all efforts to fight unemployment, especially among the youth, fail. "The coalition government in Bonn stands or falls over the question of securing jobs!" he said.

A leading official of the textile workers union commented, "The statement was long overdue, but it makes clear now for everyone that the DGB has finally given up its previous reservations against attacking the Bundesbank publicly and raises alarm over the [issue of] economic development."

The textile workers, whose industry, together with construction, suffers most from the high interest-rate policy of Bundesbank chairman Karl-Otto Poehl, have been mobilizing against the Bundesbank course since November 1979, when both the discount and Lombard rates were raised in accordance with

Paul Volcker's U.S. measures.

The textile workers were the first trade union to send a delegation into Poehl's Frankfurt office to protest against this monetarist policy in May 1980, and the document they had prepared for this session contained a harsh rebuttal to high interest rates: "We consider it intolerable that, through such a misleading Bundesbank policy, there occur severe losses in production and growth, and an increase in unemployment."

The document accused Poehl and his advisers of ruining the weaker and favoring the "wealthier" branches of German industry by cutting the credit lines to the former. The union was thus correctly addressing the selection process this monetarist policy would bring over Germany.

This was in May 1980—the situation meanwhile has deteriorated even more, with unemployment going up drastically in July from 5.8 to 6.3 percent. In view of new layoffs, totaling 120,000 workers, and of the dangerous trend in Bonn's present austerity debate over the budget cuts, West German trade unionists have come out with demands for low-interest industrial credits through a split capital market. They have hinted that "if the economic situation keeps worsening, parliamentary action against the Bundesbank will become unavoidable, though this has always been a rather sensitive issue in this

country," as aides to Ruhr DGB Chairman Bleicher and to the DGB-affiliated WSI economic research institute explained to *EIR*.

Especially in the Ruhr region, workers have shown interest in the U.S. fight against Paul Volcker, because they believe they will have to launch the same mobilization in Germany against Poehl, who has not indicated that he might change his course at all.

The chairman of the influential Ruhr DGB, Siegfried Bleicher, who denounced the "independence of the Bundesbank" in a widely publicized statement prior to the July 19-20 Ottawa summit, has been touring the United States over the month of August in order to get a personal impression of the American trade-union mobilization for the survival of U.S. industries against Volcker's interest-rate regime. Called on the phone, an aide to Bleicher explained that "politicians tend to go for austerity and for social plans, but we here in the Ruhr want industrial policy, we want our workers to keep their jobs in production!"

The Ruhr workers, who have successfully fought against the full deindustrialization of the Dortmund steel-producing region, intimate that they will launch a political mobilization for industrial investment at cheap credit, and that they are in full agreement with West German Chancellor Helmut Schmidt on this point. Schmidt himself has repeatedly stressed in recent interviews that his government considers growth policies essential, and that he is conscious of the fact that "most of our population rejects high interest rates like we have them in America and in France."

## Iranian exiles miss the boat

*An investigation into the gunboat hijacking has revealed some strange goings-on and stranger collaborators.*

One of three French-built gunboats sold to the Khomeini regime and en route to Iran is stormed and hijacked by anti-Khomeini Iranians on the high seas off the coast of Spain. Iranian exiles around the world cheer. It is heady stuff, this hijacking: the first action ever by the opposition abroad to challenge the Khomeini dictatorship.

What the Iranian community fails to realize is that it was taken for a ride. Not only that: it was taken for a ride by the very same political figures who installed Khomeini into power in the first place.

According to intelligence insiders, the main purpose of the gunboat hijacking was to boost the image in Iranian opposition circles of Adm. Ahmad Madani, who was played up prominently as one of the masterminds of the operation.

In reality, the masterminds behind the operation were Secretary of State Alexander Haig, his British oligarchical string-pullers led by Lord Carrington, and Haig's house social democrats such as Michael Ledeen who backed the overthrow of the Shah in 1979. Now Haig and company are plotting the shape of post-mullah Iran. According to reports, they intend to install Madani in power as a fascist leader à la Zia ul-Haq in Pakistan and then use Iran as a battering ram and staging ground for operations against the Soviet Union in accordance with his insane strategy for a regional anti-Soviet "strategic consensus."

Madani is the perfect choice for such an operation. Known for his extreme opportunism, Madani cooperated fully with the Khomeini regime, serving the Ayatollah as defense minister and governor of Khuzestan province. Soon after he was tapped by Bani-Sadr to assume the post of prime minister, Madani quit Iran. Although he is now masquerading as an opposition leader, to this day he has not broken with the Islamic constitution of the mullahs' Islamic "republic."

Intelligence sources say the gunboat operation was run out of the United States, with French intelligence cooperation, through the offices of two admirals, Kamal Habibollahi and Mowaghary. Habibollahi, former commander of the Iranian navy, is notorious for having cooperated with U.S.'s Gen. Robert Huyser in Iran to neutralize the Shah's army just prior to the Khomeini takeover. Mowaghary is the former naval attaché in Washington.

About three weeks ago, Habibollahi and Mowaghary left Washington for Paris, where they reportedly sold the bizarre hijacking plan to another opposition figure, Gen. Bahram Aryana and his followers. They also sold Aryana on backing the Khomeini-tainted Madani, who is also an asset of British Petroleum and the British Admiralty.

Facilitating Habibollahi's and Mowaghary's shuttle across the Atlantic was none other than Haig

confidant Michael Ledeen at the State Department.

The Turkish government was also said to be involved in the hijacking operation, in particular that country's naval intelligence networks. According to Iranian sources, Madani, Habibollahi, and Aryana were all in Turkey in recent weeks meeting with officials and Iranian exiles there. Several sources linked the arrival in Washington last week of Adm. Nejat Tumer, commander of the Turkish navy, to the Iranian hijacking operation.

Despite the decision by the widely respected Aryana to cooperate with Madani, and despite the euphoria in the Iranian exile community following the gunboat's capture, a number of Iranian military men are expressing suspicion about who is behind the moves that are being taken to overthrow Khomeini. Their fear is that they may be used to install a regime far worse than that of Khomeini. Their fear is not unfounded.

As George Ball revealed in the *Washington Post* Aug. 19, the Haig-Carrington faction view a Mujaheddin "nationalist socialist" government as the likely—and actually desired—outcome of the chaos currently overtaking Iran. In the eyes of the oligarchs, a Mujaheddin government with Madani at the helm is the perfect combination for provoking the Soviets. It would result in "a protracted struggle between the regime in power and the Soviet-directed Tudeh Party," writes Ball. This would "seriously menace Soviet solidarity by providing an Islamic Titoist model to inspire Muslim minorities within the Soviet Union and elsewhere that are already restless under Soviet rule."



## Pressure is turned up on Hank

*The powers behind the main presidential candidates are squaring off; Mexico City's mayor is not ahead.*

**T**he fight for the presidential succession has shifted its ground, and whereas in June and July the contenders to replace López Portillo were moving relatively openly in their own names, now it is the behind-the-scenes powers who are squaring off. There are no bigger such powers—or more mutually antagonistic ones—than the mayor of Mexico City, Carlos Hank González, and PRI labor leader Fidel Velásquez.

Velásquez took after Carlos Hank in an Aug. 12 speech which upset apple carts in political circles across the country. Speaking in the State of Mexico, Hank's home turf since his stint as governor there in the early 1970s, Velásquez charged that the state labor authorities were "worse than Monterrey" in terms of abetting the establishment of company unions. This was saying a lot for anyone who knows the Mexican labor situation; Monterrey has black fame indeed in the labor movement for its tame "sindicatos blancos."

Don Fidel then blasted the Hank-controlled police forces of the state. These forces "assault workers on the weekends and take away their pay," he charged.

Hank's enemies are attacking him in other areas as well. One of the biggest subterranean topics of conversation here in years is the novel by Mauricio González de la Garza, *Last Call*, which defames President López Portillo and bra-

zenly ridicules the institution of the presidency itself. González de la Garza happens to be one of Hank González's most widely known press whores, and it is universally recognized that González de la Garza wrote the book in the service of Hank's political ambitions.

González de la Garza rapidly found it too hot to stay in the country, and has recently made his home in Texas. My sources tell me the case is hardly one of "forgive and forget," however. Police are questioning a congressman from the state of Chihuahua, Miguel Lerma Candelaria, for his involvement in arranging González de la Garza's escape, and authorities have suddenly discovered apparent irregularities in Lerma's dealing with the state agricultural bank, Banrural. No one is saying whether the case will lead up the ladder to Hank González himself.

Perhaps the most publicly embarrassing moments for Hank have been inflicted by the Mexican Labor Party (PLM). The PLM recently issued a devastating pamphlet for broad circulation entitled, "Hank González: Psychopathology of a Myth." My sources tell me that a PLM squad a few weeks back hand-delivered copies of their pamphlet to the entire Mexican cabinet, including President López Portillo, as they were boarding an official bus in Puebla, Mexico, after a public gathering there. Hank did not fail to notice that his colleagues all

opened their personal copies for perusal on the ride back to Mexico City.

To make matters worse for the mayor, one of Mexico's most notorious, self-avowed fascists, José Luis Ontiveros, came to his defense against the PLM. In an article for the daily *El Sol* on Aug. 14, Ontiveros proclaimed that it was true, as the PLM charged, that Hank hates machines. "The fact that Hank González is conscious of the sickness of machines," Ontiveros wrote, "which have uniformed men and made them a mere reflection of levers and buttons, is a meritorious act. Nobody in his right mind can look without suspicion at those cold monsters."

Hank, Ontiveros continued, is indeed a "Dionysian politician," as the PLM claimed, because "he is a festive politician," as the PLM claimed, because "he is a festive power, who rejoices in life, vital and healthy, as do all things which are not languid, prostrate and decadent." In the Nietzschean sense, Hank is a "superior man," trumpeted Ontiveros for his finale.

Ontiveros is reported to be the head of the Mexico City chapter of "Los Tecos," one of Mexico's best known corps of paramilitary shocktroops. His fascist proclivities were recently exposed in *El Periódico*, a Mexico City daily. In a letter to the editor, Ontiveros, far from denying those accusations, asserted that he sees "fascism . . . as one of the purest movements that has fought materialist subversion in contemporary history." He then proclaimed himself a follower of Luis Evola, Mussolini's personal philosopher-mentor. Did some enemy of Hank's secretly persuade Ontiveros to deliver this blow?

# International Intelligence

## ***Israel to resell American arms?***

Israel's new economics czar, Ya'acov Meridor of Maritime Fruits, told a business conference of Israel Bonds in Jerusalem in mid-August that Israel is seeking Washington's agreement for Israel to sell U.S.-made arms to countries the United States cannot sell directly to, such as Taiwan and South Africa.

"You will sell ammunition and equipment by proxy," Meridor stated. "Israel will be your proxy."

The resale of U.S. arms by a second party—in this case Israel—is currently a violation of the terms of agreement of sale between the United States and the recipient country. For Israel to resell arms, the congressionally approved agreement clause will have to be changed.

Meridor, who is known to be involved in international drug trafficking through his Maritime Fruits, says that arms resales will be an important source of revenue for Israel's troubled economy. Within four years, says Meridor, annual revenues from arms exports will jump from the current \$1.25 billion to \$3.25 billion.

Meridor's approach is endorsed by Defense Minister Ariel Sharon, who recently stated that to protect its "economic independence," Israel would begin a big campaign to increase arms sales.

## ***West Germans demand national sovereignty***

The unilateral American decision to produce the neutron bomb, without prior consultation with NATO allies, encroaches on the national sovereignty of the Federal Republic of Germany, on whose territory the weapon would eventually be deployed. This is the view stated publicly by a broad spectrum of West German politicians, exemplified by Bonn government spokesman Lothar Ruelh, a

moderate, and Social Democratic Party leftist Egon Bahr.

In a radio interview Aug. 16, Ruelh said that under present conditions Bonn could not approve of any plan to station the weapon in Germany. The West German government only agreed to the Carter administration's plan to deploy the N-bomb in Europe three years ago on the condition that there would be an "overall reform" of NATO's military and technological structure, he said. But this did not occur, and Bonn does not see any preconditions now that would make it possible or necessary to station the weapon on German soil, Ruelh concluded.

Willy Brandt ally Egon Bahr defended the Federal Republic's right to participate in decisions which "affect our sovereignty and future," such as the deployment of nuclear weapons that can determine a nation's survival or extinction. If the superpowers continue the "arms race" without consulting West Germany, he said, they effectively turn back the wheel of history to the days when West Germany was still an occupied country.

## ***Genscher boosts the IMF option for Poland***

In flagrant contradistinction to recent statements made by West German Chancellor Helmut Schmidt and by other government spokesmen supporting national sovereignty, Foreign Minister Hans-Dietrich Genscher is publicly adopting the British line of toppling national sovereignty in Europe.

In confirmation that Poland is to be the model for Europe, Genscher openly stated, after a meeting with Polish Foreign Minister Czyrek, that he would like to see Poland enter the International Monetary Fund, "which would make many things much easier for this country." He added that the Soviets, in his estimation, would not disapprove. Genscher's statement echoed an Aug. 18 editorial in the London *Financial Times* urging Poland "to submit itself to the

disciplines of membership of the International Monetary Fund."

Second, Genscher has issued a document aimed at undercutting European nationhood. The document, put out under the auspices of Genscher's party, the Free Democrats, calls for a three-point program for Europe: 1) upgrading the European Parliament above the status of other European Community institutions; 2) drawing up of a European constitution; and 3) establishing a European defense council, all in accordance with Great Britain's long-term plan for a federation of balkanized continental European states.

## ***Piu Manzu slides into Cancún preparations***

The Piu Manzu Research Center, created as a consultation body of the United Nations International Development Organization (UNIDO), will hold a conference in Rimini, Italy, in October, just before the North-South summit scheduled for Cancún, Mexico, in an effort to influence the proceedings of that summit.

The Piu Manzu group, first investigated by *EIR* as one of the conduits for the "Billygate" networks into Libya, is part of the Global 2000 depopulation apparatus. Created in 1969 to focus on Euro-Arab relations, the institute will hold three panels on "The Global Challenge," the slogan of French postindustrialist Jean-Jacques Servan-Schreiber. The panels will discuss 1) "the necessity to move from an industrial society to a computerized society"; 2) energy, on which the session is expected to take a Delphic "we need coal and nuclear power in the framework of the postindustrial society" approach; and 3) Euro-Arab cooperation.

The conference will be cosponsored by the Club of Rome, the Italian Foreign Ministry, Fiat, Olivetti, the United Nations, the European Community, the Arab League, and others. Speakers included Aurelio Peccei; Kurt Waldheim; systems analyst Erwin Lazlo of Unitar

and the Club of Rome; Rokusuke Tanaka, an international trade official from Japan; Guido Carli, the Propaganda 2-linked ex-central banker and current financial adviser to the Italian government; former Italian Agricultural Minister Giovanni Marcora; Samuel Brittan of the London *Financial Times*; former Mexican President Luis Echeverría, and former Italian Prime Minister Amintore Fanfani.

### ***Qaddafi forges 'anti-West' military axis***

Libyan strongman Muammar Qaddafi has drummed up a military alliance with Libya's Marxist-Leninist allies South Yemen and Ethiopia to challenge "action centers and aggressive imperialist bases located not only in Israel but also in Egypt, Somalia, and the Indian Ocean." Despite Libya's close relations with Moscow, the move, which intensifies polarization between the superpowers in the Middle East, is the work of Qaddafi's longtime controllers, the Venetian oligarchy and the Propaganda 2 Freemasons in Italy.

In fact the treaty was signed the same day as the dogfight off the Libyan coast in which U.S. F-14s shot down two Soviet-made Libyan jets.

An Arab source reports that a prime target of Libya and its radical allies is Saudi Arabia. The source reports that Libya is cooperating with South Yemen, a historic puppet of Great Britain, to begin new pressure on North Yemen, an ally of Saudi Arabia, for reunification.

The Saudis are extremely sensitive to any such effort for fear that South Yemen will transform North Yemen into a Marxist state and trigger a radicalization of the entire Red Sea-Persian Gulf region. The South Yemen-based PFLO was recently in North Yemen proposing reunification, a plan which might well have a terrorist threat backing it up, given the PFLO's long record of extremism in the Middle East. Earlier this year, Libya and South Yemen jointly

pledged to back liberation movements throughout the Persian Gulf-Red Sea area.

### ***Fall confrontation over French economic policy?***

As the French economy rapidly crumbles, the current Keynesian patchwork measures by the Socialist government now could produce a "hot autumn" in France. The Communist-linked trade union confederation, the CGT, is preparing for a fall offensive against the government's economic policies, despite the presence of four Communist ministers in that government.

France's unemployment is at an all-time high, and the just-announced balance of trade deficit for July has reached 6.1 billion francs. This deficit is threatening to increase, because the sectors that still show a surplus (equipment goods, foodstuffs, and metallurgical products) are extremely vulnerable as a result of Third World economic collapse and the general decrease in consumption levels. In addition, according to the latest government statistics, productive investment by the top 2,000 French firms is about to drop by 12 percent in the coming months.

In mid-August, the Mitterrand government adopted a series of remedial measures oriented toward keeping small and medium-sized firms afloat, developing public works and low-income housing, and promoting new labor-intensive industries. These measures are to be implemented before Sept. 15.

The general secretary of the CGT, Georges Seguy, has already issued a preemptive statement. Seguy warned that while the present economic situation might be blamed on the previous administration, that will no longer be the case this fall, and that this could cause serious "disappointment" among the working people who voted for Mitterrand. The CGT has rejected low-wage apprenticeship programs, calling instead for "training on the level of the Polytechnique."

## ***Briefly***

● **FRANCOIS Mitterrand's** government is split over which opposition faction to back in Iran, according to European intelligence sources. High-level officials in the French foreign ministry favor restoration of Shahpour Bakhtiar and the Pahlavi dynasty, while the president and the Socialist Party are said to back the Bani-Sadr option. Meanwhile, the British-dominated Kuwaiti government has taken an anti-Khomeini turn, citing evidence of growing cooperation between Iran and Israel as the reason.

● **SAN SALVADOR** lost over \$10 million when guerrillas dynamited seven electrical stations Aug. 18 and cut off all power to the city for over 40 hours. For an economy as small as El Salvador's, this is a disaster: deurbanization will be encouraged, and refugees driven to join paramilitary bands.

● **ARNAUD de Borchgrave** says that in the wake of the U.S. Air Force clash with Libya, Qaddafi will plunge into a destabilization of Africa. The *Spike* co-author predicted in an Aug. 19 interview that Zaire will be hit by a Libyan-sponsored civil war in three separate provinces.

● **JAMES BEGGS**, NASA Administrator, and Dr. R. Sunaryo, chairman of Indonesia's National Institute of Aeronautics and Space (LAPAN), have signed a memorandum of understanding to establish a ground station for Landsat at Pekayon, near Djakarta.

● **SIRIMAVO Bandaranaike**, former prime minister of Sri Lanka, was nearly assassinated by a bomb this month. President Jayawardene has reportedly become wary of a comeback by Mrs. Bandaranaike, who is politically close to Indira Gandhi. Jayawardene, an admirer of Milton Friedman, has by contrast carried out the World Bank's "free trade zone" policy.

## A Volcker-controlled President and a secret memorandum

by Richard Cohen, Washington Bureau Chief

President Ronald Reagan is now moving recklessly on a course that will lead to a crisis of global proportions before the end of the year. While little has leaked out of the Aug. 17 National Security Council meeting and the Aug. 18 "economic summit" held in Los Angeles with presidential participation, the parameters of presidential concern have emerged clearly. The *aching* vulnerability of Reagan's just-passed "economic recovery program," a vulnerability successfully manipulated by Volcker, the central bankers, and the supranational banking community on numerous occasions over the past six months, has now dramatically spilled over into the area of national security. The ostentatious appearances of Secretary of Defense Caspar Weinberger and Secretary of State Alexander Haig at the Aug. 18 economic meeting signaled that the President's devotion to a high interest-rate policy has so unbalanced the federal budget that serious cuts even in defense are now under discussion.

Knowing that this politically deadly presidential predicament will only get worse, well-placed forces inside and outside the administration have begun a sometimes public lobbying effort aimed at enlisting the President behind a number of dramatic and hair-raising schemes that would simultaneously "bail out" the President and swiftly "militarize" the national economy. But the "high-risk" scenarios now being peddled to the White House all require a serious crisis, possibly economic but most probably military, to justify their activation. Further, sources insist that both probable harsh Soviet reaction and the potentially uncontrollable economic collapse have been blindly discounted by all involved. Reports

from the White House further indicate that in addition to having a political justification for considering such a high-risk move, President Reagan now believes that he has obtained through his victory in Congress an FDR level of political invincibility which allows him far greater political latitude.

### The predicament

Washington analysts are convinced that White House failure to act on the explosive combination of factors surrounding the budget deficit could be politically fatal to the President. Despite public denials by Reagan, the federal deficit for fiscal 1982 is reported to now range between \$60 billion and \$80 billion, not the \$42.5 billion indicated by the White House. Holding to that \$42.5 billion figure has always been the administration's gauge of success. White House political advisers believe any presidential attempt at temporizing on the deficit size would be politically catastrophic.

On the other hand, further large-scale cuts in social services, already prepared as contingencies by Stockman's OMB, are judged by many of Reagan's political intimates to be so large and politically sensitive that they would be injurious to the President. Finally, a serious move on the defense budget in tandem with social service cuts, reportedly proposed by Stockman at the Aug. 18 meeting, opens the door to an endless assault on U.S. defense expenditures, already deficient in critical areas of advanced research and development. In recent public accounts, Stockman, while meeting with Weinberger Aug. 7, unveiled a proposal that called

for \$100 billion in defense cuts through fiscal 1983, 1984, and 1985.

Deficit projections for fiscal 1983 and 1984 have been officially raised, reportedly now requiring an additional \$75 billion in further budget cuts over the two-year span. Most budget followers agree, however, that the administration's deficit projections are muffled and the actual deficits are significantly higher. Finally, and most important, there is no guarantee that the primary cause of the increasing deficit, namely, high interest rates, is going to go away in the immediate future; this leaves a ticking, self-escalating factor built into the budget deficit.

### **The profile**

The Ronald Reagan who sat down with his cabinet to address the critical implications of the budget problem is not the same person he was a month ago, according to my sources. They attribute extreme importance to a distinct personality change in the President. Mr. Reagan is now reported to have sharpened the distance between himself and state and regional officials, including some of his closest political allies, such as Gov. William Clements of Texas and Gov. James Rhodes of Ohio. The President is also reported to believe that his overwhelming congressional victories, culminating in the tax bill sweep last month, now provide him with new political leeway. The internal White House hype made public Aug. 1 at an administration press conference dubbing Reagan "the new FDR" is said to have generated a sense of euphoria among the White House entourage which has left Reagan with serious illusions as to the extent of his political powers. Observers point to the recently announced White House decision to return this fall to those issues which nearly devastated his campaign in the early stages, such as school prayer, nonextension of the Voting Rights Act, and abortion, to indicate how deep White House self-delusions are.

Importantly, Reagan's "new sense of power," which was contrived over the past month, has coincided with the President's deepening trust in and obedience to the central bankers and the Trilateral Commission. Reagan's great tax bill victory was won two months ago when Reagan intensified his deal with Federal Reserve Board Chairman Paul Volcker in order to gain central bank support for his watered-down tax proposal. At that time, Reagan not only pledged not to attack Volcker and the policy of high interest rates, but to the delight of those same central bankers, defended the policy at the Ottawa summit a week prior to his tax victory. Many close to the White House were shocked to learn that while at Ottawa, Reagan agreed to unprecedented intelligence arrangements with Trilateral-backed French President Mitterrand. The Mitterrand

arrangement paved the way for the even more shocking Reagan-Socialist International relationship when Reagan allowed his offices to be used to pressure for the installation of Socialist Bettino Craxi as Italian prime minister. Finally, the President moved swiftly to carry out one of the primary tasks set forth for heads of government by central bankers at the Ottawa summit. One week following his tax victory Reagan responded to the Socialist International set up PATCO strike with a brutal elimination of the union. The Reagan response has all but guaranteed sharp confrontations with Socialist International-directed government worker strikes this year, setting the pace for a full-scale confrontation with organized labor around major contracts next year.

Reagan thus faces his new dilemmas as a puppet of the central bankers and the Trilateral Commission, a puppet deluded by the appearance of success to the extent that he has cut himself off from his base, believing that his powers of leadership extend beyond the normal boundaries of political and economic toleration.

### **The proposed solution**

Sources within the Reagan administration have told *EIR* that immediately following the Aug. 17-18 cabinet meetings, a secret presidential memorandum was circulated to all relevant sections of the executive branch. Defense Department officials who confirmed the existence of the memorandum report that it had been sponsored by the Pentagon and the Federal Emergency Management Agency (FEMA). The memorandum requires that subdepartments from virtually every executive department will report to a new "mobilization policy board" organized by FEMA and placed under the direction of National Security Adviser Richard Allen. The "board" will, according to administration sources, move rapidly to assess the ability of the national economy to sustain massive increases in defense production. The "board" will also look at governmental and private-sector logistical capabilities to handle all levels of "emergency," and this will include a review of legal and constitutional roadblocks to emergency mobilization.

The Pentagon/FEMA-authored "emergency" planning program sponsored by the President indicates, according to State Department sources, preparations encouraged at the highest levels for a rapid shift toward "militarization of the economy." Leading elements in the Defense Department and the Arms Control and Disarmament Agency are actively considering the elimination of strategic arms limitation controls when the current understanding of mutual adherence to the protocol of SALT II runs out in December, and many in the administration also seek abandonment of the 1972 Anti-Ballistic Missile Treaty with the Soviet Union when it comes up for review early next year. These



*At the Federal Emergency Management Agency.*

actions, advocated by Weinberger intimates Undersecretary for Policy Fred Iklé, Secretary of the Navy Lehman, and Assistant Secretary for International Security Policy Richard Pearle, and supported by ACDA Directors Eugene Rostow and General Rowny, would immediately lead to an arms race that would not only preclude cuts in the current defense budget, but overwhelm it.

The Pentagon plan essentially demands a national emergency in order to activate the Weinberger plan for incorporating 50 percent of the nation's GNP under direct DOD control in the event of an emergency. And the secret presidential memorandum indicates that the White House has taken a big bite of this approach.

For Reagan's purposes, the Pentagon plan would immediately eradicate the budgetary dilemma. Through mandatory wage-price controls and top-down resource allocation, Pentagon planners are convinced interest rates would drop, removing the biggest immediate cause of increased budget deficits.

This scheme, which has obtained a fairly broad consensus in the administration, ignores completely the likely brutal Soviet response, combined with the inability of the civilian economy to sustain military requirements. In addition, the domestic acquiescence to such a move could only be bought at the expense of a dangerous international crisis used to justify "emergency." It is doubtful that the United States would emerge unscathed from such a crisis.

In addition to the "high risk" Pentagon proposals, columnists Evans and Novak reported this week that elements in the administration close to "gold advocate" Jack Kemp, including OMB Director Stockman, are beginning to lobby Reagan to take steps to put the dollar on the gold standard." The "gold standard" approach, according to its administration advocates, would immediately relieve the President of his budgetary problem by stopping price increases and thereby reducing interest rates. Under these circumstances, ac-

ording to those familiar with the Kemp-Stockman proposal, the defense budget could be cut as Stockman suggests without losing real dollar Pentagon purchasing power. If implemented, the approach would lead to a dramatic depression in the economy, yet sources close to the White House say that the President may be interested—while some analysts already recognize that the two options boil down to the same approach.

On Saturday, nationally syndicated columnist and Trilateral Commission executive board member Joseph Kraft, appearing on national television, went so far as to suggest that the road out of Reagan's current budgetary dilemma would take the President to Moscow for a summit with Soviet President Leonid Brezhnev. There, according to Kraft, Reagan could bargain strategic arms control with the Soviets and wind up with a sizable savings in the defense budget. While the Kraft suggestion has little chance of immediate success, it represents an option when the others fail. Kraft, an intimate of the leading circles of the New York Council on Foreign Relations close to British Foreign Secretary Lord Carrington, has been attempting to bolster the position of Carrington favorite Alexander Haig. Carrington has already involved himself in extensive operations to set the conditions for eventual regional agreements with the Soviets. A combination of such agreements would cut costs and buy time, while simultaneously providing the British with maneuvering room for strengthening their hand in Europe, Washington, and Moscow. Sources in Washington with access to Carrington report that Carrington's policy requires a series of crises which would bring the U.S. and U.S.S.R. to the brink of war.

As the White House begins to entertain these alternatives, clearly favoring the Weinberger plan, we are all taking giant steps toward crisis.

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**Correction:** In our Aug. 18 issue, due to a mechanical error, two paragraphs of Lyndon LaRouche's article, "The Function of Teaching Grammar as a Crucial Element of Military Policy," were unclear. The two paragraphs, on pp. 38-39, should have read: "Any language developed as a literate language has neither more nor less than 7 grammatical cases, combined 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 1000,000 terms.

"Any form of language lacking those rigorously defined degrees of freedom and vocabulary is an inferior, defective form of language. Any person lacking command of the powers of a literate language is to a corresponding degree functionally illiterate, and incompetent-ly educated."

# Reagan's Mexican immigration plan runs into political difficulties

by Timothy Rush

On July 30, the Reagan administration announced a long-awaited package of proposals for reform of immigration and refugee policy. Its most important recommendations were:

1) sanctions on employers who hire undocumented workers;

2) an "experimental temporary worker program," under which 50,000 Mexican workers would be admitted to the U.S. labor market yearly for the next two years;

3) an amnesty program for illegals currently in the country. Current illegals would be given "renewable-term temporary resident" status for a 10-year period, and then be eligible for permanent resident alien status.

But the politically most significant aspect of Reagan's new immigration proposal is what was *not* included in it. Lacking, for instance, is the "close the border" tone that the Global 2000 crowd of Malthusians had advocated; and absent is a key provision—that of a special national "identity card"—which these zero growthers viewed as essential to a crackdown and enforcement of the other provisions.

Instead of adopting the rhetoric of "scarce resources" and the need to "take care of those already in the United States first," as the Carter administration's "Hesburgh Commission" had urged, Reagan's policy declared; "We shall continue America's tradition as a land which welcomes peoples from other countries." The declared purpose of the program: "preserve our tradition of accepting foreigners to our shores, but to accept them in a controlled and orderly fashion."

On the controversial issue of what "identifier" to use to separate legal from illegal work applicants, the administration said that just about any two pieces of identification would do, to be checked by employers. The administration's stance was thus a step back from either the "improved Social Security card" formula approved by most on the Hesburgh Commission, or the even more drastic "data bank" idea of former Labor Secretary Ray Marshall which would set up the entire American labor force for blacklisting by computer.

A stronger ID is viewed by the Malthusians as essen-

tial to any program which moves toward their ultimate goal: full regimentation of the *domestic* labor force in a "postindustrial," zero-growth world. As George Ball, Lehman Brothers investment banker and Trilateral Commission influential, put it recently, "Control over our own population cannot be separated from control over immigrants. Overpopulation is a form of pollution. . . . We are going to have to establish a rigid worker identification card system for all Americans. This will mean what some people would call a totalitarian regime. Americans will have to accept new limitations on what they are used to regarding as their freedom."

## But not a positive program

While thus a show of rearguard resistance to the Malthusians, the Reagan program does not itself represent a competent or positive alternative.

In terms of specific features, the guest-worker program is grossly inadequate, as Texas Gov. William Clements has pointed out. Over 20 times the 50,000 Mexicans stipulated are the minimum number coming across the border each year looking for work. Either a guest-worker program helps "legalize" that flow, or it has little reason to exist.

The "amnesty" features are equally problematic. Not only does the administration propose that illegals who turn themselves in wait a full 10 years before gaining normal immigrant status, but also its program would forbid such workers to bring in their families, or receive any unemployment, health, or retirement benefits, despite paying all taxes and Social Security deductions during that decade. Some observers detect a Stockmanite smell to this, a scam to bolster flagging Social Security funding.

More fundamentally, the administration blundered by severing immigration policy from economic policy. In a climate of economic contraction—such as that created by Volcker's high interest-rate policy—virtually *any* immigration policy will quickly degenerate into a restrictive, policing apparatus. Under conditions of an economic revival in the United States and continued

growth in Mexico, however, a policy of accommodating a substantial flow of Mexican and other foreign workers becomes a national priority.

Some of the criticism that has hit the Reagan program is of a basically friendly nature, and seems aimed at improving the package as it heads into several months of congressional hearings. Governor William Clements of Texas, for instance, bitterly assailed the small size of the guest-worker program in comments to the G.I. Forum, a Hispanic veterans organization. Clements had worked closely with Reagan on immigration policy throughout the 1980 presidential campaign, and is a leading spokesman for the guest-worker idea.

A very different quality of criticism has emerged from the Malthusian camp, which is now adding immigration to the accumulating list of other anti-Reagan "causes" being programmed for mass social protest and urban riots.

The *New York Times* headed this adversary style of criticism in an Aug. 2 editorial. The *Times* fulminated: "The package is so disappointing one wonders what took so long. . . . Key features are seriously flawed, almost ludicrously in the matter of regulating immigrant labor. Congress will not find it helpful in drafting legislation. And it displays an administration so irresolute that it raises doubts about whether whatever Congress enacts will be fairly and vigorously enforced."

At the same time, a major influx of street-level opposition from Hispanic radicals and human rights organizations was sent into Washington in the form of special conferences, marches, and press briefings. As documented in the accompanying investigative report, former Attorney General Ramsey Clark is once again the "case officer" handling an effort to maneuver minorities into antigovernment rioting.

Overseeing the operation from the top is a new "Citizens' Committee for Immigration Reform," whose list of "co-chairpersons" reads like a who's who of Eastern Establishment zero-growthers. Most prominent are: Father Theodore Hesburgh, who fills out his income as president of Notre Dame by serving on the board of directors of Chase Manhattan bank, the Council on Foreign Relations, and the Rockefeller Foundation; Benjamin Civiletti; Elliott Richardson; and the *New York Times's* Cyrus Vance.

The Citizens' Committee has already mailed out a detailed summary of the differences between the Reagan program and the Hesburgh program (Hesburgh's commission, which finished up work in May of this year, called for a worker ID, shot down any guest-worker program, and oriented immigration criteria toward population control.) The committee urged re-instatement of the full Hesburgh agenda.

Though the gamut of "Global 2000" population control groups have been working intensively on Con-

gress through the media and direct lobbying efforts, it is widely recognized that the backbone of American constituency pressure for a restrictive immigration policy comes from organized labor.

For years the AFL-CIO has maintained that illegal immigrant labor is stealing jobs away from American workers, and increasingly, not just stoop labor or dishwashing jobs, but also skilled jobs. The AFL-CIO representative on the Hesburgh Commission, Jack Otero, was one of the strongest voices for an ID card system and against guest workers on the panel. In an Aug. 5 resolution of the AFL-CIO Executive Council meeting in Chicago, the labor confederation called the Reagan program "a basis for action" on the undocumented workers problem, but insisted upon ID cards, and the elimination of the guest-worker program, while offering that the amnesty program be liberalized.

### **The Mexican response**

Mexico-U.S. relations are inextricably involved in immigration policy, since the bulk of undocumented immigration comes from Mexico. It was lack of consultations with Mexico in 1977 which helped doom Carter's ill-fated immigration program of that year. The Reagan administration has sought to avoid that mistake. Attorney General William French Smith briefed Mexican President José López Portillo and his top ministers at the Reagan-López Portillo summit in early June, and the administration stressed in its July 30 announcement that immigration policy must reflect "a special relationship with our closest neighbors, Canada and Mexico."

However it does not look as if the administration's consultations are working. Though López Portillo himself has not said anything and is not likely to, to avoid the charge of interfering in U.S. domestic affairs and to maintain a friendly personal relationship with Reagan, Mexico's top labor leader is speaking out forcefully, and his word has the de facto weight of an official response.

Fidel Velásquez, head of the Confederación de Trabajadores Mexicanos (CTM), returned from meetings with the AFL-CIO the first week of August highly critical of the Reagan program. His unhappiness took form in a document released Aug. 17 by Mexico's largest labor umbrella group, the Congreso del Trabajo; Velásquez had taken over as president of the Congreso just three days before.

The Congreso document insists that the Reagan program is part of broader pressures to force Mexico away from "nationalist and sovereign" policies. It calls the Reagan program an effort to turn "millions of Mexicans into the largest strategic manpower reserve of modern history," subjected to intensified conditions of exploitation to "aid profits and revive the U.S. economy" at Mexican workers' expense.



# Urban riots planned over immigration

by Dolia E. Pettingell

Ramsey Clark, the ultraliberal American lawyer who helped put the Ayatollah Khomeini in power, flew to Mexico two weeks ago to charge that the Reagan administration's July 30 immigration recommendations were a flagrant denial of human rights and must be stopped. The Reagan program could become the "triggering factor" that would lead to a massive wave of racial riots, Clark told an interviewer upon his return. "Riots in the U.S. would be much more violent than the ones that swept England this summer."

Comparing the potential for riots with racial violence that hit American cities in the 1960s, Clark predicted that violence could be unleashed any time. "We would probably get by this summer. But you wouldn't really know until mid-September," stated Clark.

Contrary to what Clark says, riots in the U.S. are not the result of "police brutality" nor the expression of "rage" against a "racist system." In 1964 when he was assistant attorney general, Clark created the Community Relations Service (CRS), in order to gain direct control over the street-level riot apparatus. Clark and a group of collaborators inside the Justice Department which included former Attorney General Benjamin Civiletti were on the scene at every racial confrontation that took place during the period. More recently, Clark oversaw the looting riots during the massive blackout in New York City in the summer of 1977. Clark was directly controlling the black gangs which started the riots in New York black and Puerto Rican neighborhoods.

Currently, the person in charge of Hispanic Affairs at the CRS in Washington is Gilberto Pompa, a Mexican-American with family ties to the most radical groups in the Southwestern border states. With the help of Clark and other direct controllers like Peter Schey, a Los Angeles-based operative who heads the National Council on Immigration Rights, this network has been reactivated in the past three weeks and is being set in motion for unleashing riots against the Reagan administration.

## Planning sessions

It was three days after the Reagan administration announced its immigration policies that Clark flew to Mexico for a one-week conference on immigration in Guanajuato, Mexico. There he met with Mexican im-

migration "guru" Jorge Bustamante, director of the border studies program at El Colegio de Mexico, Mexico's most notorious liberal think tank. The first condemnations and calls for protests against Reagan's policies on immigration came out of the conference.

After having met with Clark, Bustamante visited Washington, D.C. to touch base with an array of proto-terrorist Chicano organizations. In a widely publicized press conference on Aug. 4, Bustamante charged that Reagan's policies would perpetuate a "subclass of workers" and would establish a "reserve army of labor." Portraying himself as an "unofficial" spokesman for the Mexican government, Bustamante called for an alliance between Mexican and U.S. "organized labor" for joint condemnations of Reagan's policies.

Bustamante also attended a semisecret Aug. 5-7 conference against Reagan's immigration policies sponsored at the Jesuit-run Trinity College in Washington, D.C. by the National Immigration and Refugee Network, a recently created front for the most radical Chicano and religious human rights fanatics. The mastermind of the Trinity College conference was Peter Schey, who is known to be the controller for proto-terrorist Lupe Sánchez and Jesús Romo, leaders of the Arizona Farmworkers Union. Sánchez and Romo, along with other regional leaders of the Arizona Farmworkers Union, were present at the planning session. Sánchez and his group are also known to maintain close ties with Hugo Spadafora, the Panamanian aristocrat who founded terrorist "brigades" to "help fight liberation struggles" in Central America and elsewhere.

The attendance at the conference comprised most flanks of the street-level rioting apparatus, from radical religious groups like the National Federation of Priests to Schey's National Council on Immigration Rights. People from Maldef, a Mexican-American "legal defense" group whose Californian operations are run by Jerry Brown's Health Secretary, were also present. On Aug. 6, one hundred and fifty people "representing 90 organizations" marched in front of the White House to protest Reagan's immigration policies.

According to inside sources, Bustamante, clearly trying to provoke a confrontation around immigration between López Portillo and Reagan before the Cancún North-South conference in October, told the conference that the Mexican government does not like Reagan's plan but that official opposition would largely depend on the level of protest inside the U.S. The Arizona Farmworkers Union maintains close ties with the Mexican Telephone Workers Union, led from behind the scenes by fascist-turned-socialist José María Alponete, and with certain people inside the Congreso del Trabajo, Mexico's largest umbrella labor organization. In the past days, these two groups have also escalated their campaign against Reagan's immigration plan.

# Liberals escalate regional water issue: are America's wells really running dry?

by Sylvia Barkley

The Eastern press has mounted a growing attack on the use of water in agriculture. In part, this attack is an attempt to counter a move to re-open the debate on a national water policy geared to abundance rather than scarcity, which has recently emerged.

The essential thesis of the articles, including a five-part, front-page series in the *New York Times* Aug. 8-12, is that water must be diverted from "uneconomical" uses, in particular irrigation, and conserved for municipal and industrial needs that would otherwise be unmet. The articles defend the High Plains Study, a five-year, \$6 million analysis conducted principally by Arthur D. Little, of the future of the great Ogallala aquifer, which now supplies water for 11 million acres or 20 percent of the irrigated land in the United States. Contrary to the intent of Congress in commissioning the study, it has become a vehicle for spreading the "doom and gloom"

message that there are no economically feasible methods to continue irrigated farming in the Southwest.

*U.S. News and World Report*, in a June 24 cover story, maintained that irrigation is "overtaking Mother Nature" and the only solution is conservation.

In opposition to this passivity, scientists and various political forces are beginning to revive the thinking that built the Erie Canal and the Hoover Dam. In an article in *Scientific American* this July, Dr. Arthur Pillsbury, former head of the Department of Agriculture and Soil Science at UCLA, called for large-scale water-transfer programs as the only realistic long-term solution to the problem of salt buildup in irrigated soils and in the aquifers beneath them.

Moves are now afoot in Congress to set up the coordinating mechanisms necessary for carrying out nationwide irrigation plans, such as that introduced by Sen.

## Ogallala aquifer: a case study

The Ogallala aquifer is one of the largest water-bearing formations in America, and one of those that has been most fully utilized. It underlies 117,000 square miles of the Western Great Plains from South Dakota to Texas, and contains at present more than 3 billion acre-feet of good-quality water. Since the 1940s use of the Ogallala has been intense, with a present usage at 30 million acre-feet a year, irrigating more than 16 million acres. On this level, sunny land grow crops worth an estimated \$8.6 billion.

The problem is that the Ogallala is being drained more rapidly than it is recharged. In many areas, the depth to which wells must be sunk is increasing, and in certain areas, there is no more water to be obtained. This depletion threatens the entire structure

of irrigated agriculture in the area—the huge sprinkler systems, the network of suppliers of agricultural equipment, the distributors of the corn and other farm products, and in particular the feed lots, where 40 percent of the nation's beef is nourished.

The concerns of the farmers, water planners, and public officials are well founded. But the outlook for the Ogallala is by no means hopeless. The prosperity fueled by the relatively accessible Ogallala water aquifer has provided a sound economic base for undertaking even larger projects to maintain and expand productive agriculture in the High Plains. In Texas, for example, voters are being given the opportunity to allocate half of the state's budget surplus to backing for local water-supply bond issues. In Wyoming, major diversion projects are being planned from the water-rich western part of the state to the east. On a long-term basis, however, the draining of the Ogallala will only be solved by massive projects for importation of water that is now unused, projects that are made economically viable by the extraordinary productivity of the irrigated High Plains agriculture that will be created by such projects.

James Abdnor (R-S.D.). Furthermore, the 1964 plan proposed by the Ralph M. Parsons Company of Pasadena, California to provide abundant water to the Great Plains and the Southwest by transfers from Alaska and Canada, is once again receiving serious attention. The National Democratic Policy Committee is circulating draft legislation calling for a study based on the same criteria that Parsons used, and the proposal has already received the endorsement of one member of the High Plains Study Council, Kansas State Sen. Keith Ferrar.

## NAWAPA

The 1964 Parsons plan, known as NAWAPA, the North American Water and Power Alliance, would use the currently untapped flows of water into the Pacific and Arctic Oceans, and in particular the "solar power" that moves most of this water to high elevations in the Canadian Rockies, where it is deposited as rain or snow. If this water can be captured at these high altitudes, the potential energy that it contains can be used to pay for both the movement of the water to the mid-elevation areas where it is needed, and to create excess power, on the order of 40 gigawatts each in the United States and Canada. Admittedly, the project would be expensive, costing some \$150 billion, but because of its large scale, it would be able to supply water at rates of \$7 to \$14 per acre-foot, cheaper than many current rates for farming.

In the face of the unlimited possibilities opened up by projects like NAWAPA, zero-growth forces are attempting to impose a backward move toward dry-land farming, which leaves farmers at the mercy of the weather and forces them to shift crop patterns from corn and other necessary foods to cotton. The 1980 drought, for instance, caused an economic loss of at least \$3 billion. Now the reservoirs are filling again, but urban populations are being told that the only alternative to water rationing for both consumers and industry is the shifting of water away from irrigation of arid lands. Federal assistance to water development projects is regularly branded "pork-barrel" legislation and subject to cost-benefit criteria that impose a *four-year* payback under current interest rates.

In order to weaken farmer opposition to nonirrigated, minimum-tillage techniques, zero-growth think tanks like Arthur D. Little and Resources for the Future have used the technique of "Hobson's choice." In the High Plains Study, for example, because the area from which water could be transferred was limited to the states *contiguous* to the six affected states, the price of importing water was estimated at \$400 to \$800 per acre-foot. Under these conditions, conservation and crop substitution became reasonable alternatives.

Similarly, in California the proposed Peripheral Canal has been put forward as an alternative to the nonirrigation of the southern section of the state, but the canal itself is an incompetent technology, allowing

only a minimum transfer of water from north to south, while wasting a large fraction on the maintenance of the Sacramento Delta. The real solution, again, is an old plan for making a freshwater lake out of the entire northern section of San Francisco Bay.

In general, economic pundits like Alan Kneese, a water expert with Resources for the Future, provide an apparently "hopeful" proposal within only predetermined choices. Kneese, who was cited by both the *New York Times* and *U.S. News and World Report*, suggests conservation, localizing the problem, and reallocation of existing water from farming to energy development.

But the effectiveness of this approach depends on the absence of credible choices. For this reason, the NDPC initiative to reopen and extend the Ogallala study into a nationwide analysis of ways to solve the water shortage that would otherwise occur with expanding population, industry, and agriculture, is receiving considerable interest. Dr. Pillsbury has also been getting the same kind of response to his fight for NAWAPA-style solutions to the long-term problems that will indeed affect high-technology agriculture.

## Draft legislation for water development

*The following is proposed legislation prepared by the National Democratic Policy Committee.*

In order to meet the immediate needs of our Nation for water, including the increases in supply required to maintain the productivity and increase the area of agriculture, to allow for the efficient transport of all commodities, and remove any barriers to the flourishing growth of industries, it is hereby declared that the Congress of the United States mandates the full development of a national plan for water development, based on the fundamental principle of the American System, the increase in apparently finite resources by full use of our human capabilities of scientific and technological achievement.

The necessity for this Act is based in part on recent studies which have demonstrated the essential incompatibility of regionally limited approaches with the fundamental task of "promoting economic vitality" and "increasing water supplies," as mandated in PL94-587 (the Ogallala aquifer-High Plains Study). Therefore, this Act is intended in part to supercede these previous studies, building upon the knowledge gained from them that the destruction of irrigated agriculture can only be avoided through plans that are national in scope and unlimited by any fears of scale or technological boldness.

In order to carry out this mandate, the Chief of the

Army Corps of Engineers, and in cooperation with the Secretaries of Agriculture and Interior, is authorized to complete a full and expeditious study of the potentials for water supply for the United States, and to draw up engineering plans and specifications for the solutions determined to meet the long-range water needs, both of the Southwest and Great Plains states for agriculture and other consumptive uses, and of the entire nation for water transport.

The solution adopted is to be assessed by the following criteria:

1) It must supply sufficient water to the region of the Ogallala aquifer that irrigation and the expansion of irrigated acreage can continue, with appropriate consideration of avoiding soil salinity by overlimiting water application, while ending the mining of water from the aquifer, and moving toward aquifer recharge in areas where significant deterioration in water availability has been experienced;

2) It must supply sufficient water to the Colorado River Basin and the areas now receiving water from the Colorado River that a) no user of Colorado River water shall be forced to decrease his use of water from the river, but instead normal and healthy growth in industrial and agricultural use can be met; b) the quality of the Colorado River is returned to an acceptable level for general consumptive use; and c) sufficient overirrigation is possible such that accumulated saline deposits can be flushed out of the soils which have been adversely affected;

3) It must provide, in association with existing and currently authorized projects, an integrated system of flood control for the Western Great Plains region, and of flow management for the Mississippi and Missouri rivers such that the navigational use of these waterways can be significantly upgraded by higher assured rates of flow;

4) It must provide for the eventual integration of the abundant water resources of the state of Alaska into our national system, with the associated economic benefits to Alaska and the recipient states;

5) It must be capable of supplying significant additional amounts of water to the Republic of Mexico, if such supply is requested by our ally, without detriment to U.S. users.

In drawing up this plan, consideration shall be given to the immediate necessity of reversing the loss of irrigated agricultural lands, both in the southern High Plains areas and in the valleys of California. However, this Act shall not be used to design projects having only the capability of ameliorating these situations, but only to determine which sequence of construction will most expeditiously address them.

In order to carry out the preliminary assessment and the engineering study of the solution deemed most appropriate to the criteria outlined above, the sum of \$10,000,000 is allocated.

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## Interview

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# CEQ's Hill discusses a new 'balance'

*The following interview with Alan Hill, the new chairman of the Council for Environmental Quality (CEQ), was conducted by EIR's Stanley Ezrol on Aug. 11.*

**Ezrol:** Is there a change in the philosophy of the CEQ?

**Hill:** No, I really don't think so. . . . The transition paper on the council listed a multitude of options—elimination, retention as is, reduction. The decision was to go with a council of reduced resources primarily because the council over the past few years has tended to become involved in matters that really should be performed by a line agency—areas of concern, areas of study, rather than being an agency which has the ability to look over the entire government and provide advice to the President. . . .

**Ezrol:** Are you saying that the differences are mainly administrative?

**Hill:** Well, we're relating to budget action. When you get into other areas, I have been told by a multitude of people that the last chairman of the council tended to pay attention to the environmental community almost exclusively. I feel that to arrive at a solid decision you talk to any interested parties. . . . I've consistently said to the environmental community, to the business community, "My door is open, you have my phone number. Let me hear from you if you have a problem, or something you want to discuss."

**Ezrol:** What do you see as the CEQ's major concerns?

**Hill:** I have had a concern initially with how the law is used. Very few people go back and take a look at the actual language of the law because aside from taking a preservationist stance, it also says some things about balance. People in this country are entitled to some economic growth, some economic development on a balanced basis, and we tend to ignore that when we get into a strict preservationist mode. . . .

You know we only do about 700 EIS's a year

throughout the federal government, but I was talking to a Forest Service man here the other day—they do more than 13,000. I said, “What the heck for?” He said, typically, they’re going to replace a culvert somewhere on an existing road system; they do an environmental assessment. I said, “Why?” There’s been an overreaction because in an existing road system, the replacement of a culvert generally doesn’t have a major environmental impact.

That’s the first major area. Secondly, we have found that there is a question about coordination of policy with regard to acid rain, or acid precipitation. A lot of agencies have had their fingers in the pie, but no one agency has assumed the leadership to-gather together the loose ends. . . .

**Ezrol:** Is there discussion of lifting the ban on DDT?

**Hill:** There hasn’t been as of yet. I have talked informally with people on the White House staff and certain other agencies on what basis has a federal policy with regard not just to DDT, but all sorts of chemicals, been formulated. Was it on a true, solid, scientific basis, or was it an emotional, get-the-good-headline, basis? It gets back into the whole question of a clear review of scientific work. To me that’s how you get at the truth: submit it to this very tough review.

**Ezrol:** The CEQ is now in the process of preparing a review of the state of the national environment.

**Hill:** It’s the annual report, it’s required by law. As a matter of fact we’ve got no way to avoid it. Now what we are doing is trying to keep the end report strictly to the statutorily required items—a review of air and water quality trends, those types of things.

**Ezrol:** Let me ask you about one specific published policy. During the last administration, the CEQ, in cooperation with the State Department and other federal agencies, prepared a report called *Global 2000* and a related document called *Global Futures*. Does this administration support the outlook expressed in those reports?

**Hill:** *Global Futures* is Gus Speth’s, Jimmy Carter’s and Edmund Muskie’s thoughts for the future. What do you think? [laughs] There’s a lot of controversy with the *Global 2000* report. I’ve divided my thoughts into two basic categories. One is more what I call mechanical and that is, “Are the government’s forecasting skills properly developed?” I think the answer to anyone is, “No. We don’t have very good forecasting skills at this point.” We need some effort in that area specifically, and I’m talking about working within specific dollars.

It’s very obvious on the issues side that anyone who accepts the concept “If present trends continue” doesn’t understand the nature of life, especially life in the United States. The history of our country has been one of

innovation, an individual’s being awarded for developing something new, or better, or whatever. I tend towards looking to our economic system to solve some of this. How can the United States be of assistance? That’s a question, within existing dollars. . . . The question of population is a very difficult one because it raises some basic moral questions. Individuals will differ on approaches. . . . I would hate personally for us to give over any of our sovereignty to another body to make decisions as far as what we should do.

**Ezrol:** The President signed a communiqué at the end of the Ottawa summit in which among other things he agreed to the proposition that there would have to be an adjustment in the expectations of workers regarding wages and living standards. He also endorsed the concept of global negotiations.

**Hill:** There are discussions going on about that issue at this point; because it is a matter of developing policy, I cannot discuss that.

**Ezrol:** Under the previous administration, the CEQ did play a role in what have come to be known as global issues. “Global issues” is a concept which the Club of Rome claims it developed. When the CEQ was called on to prepare the *Global 2000 Report*, it commissioned Gerald Barney, a member of the U.S. Association for the Club of Rome, to be the study director for that report. As a matter of fact, according to Club of Rome officials, the report was largely prepared at their offices a few blocks away from here in Washington.

**Hill:** I’m not aware of all that you’re telling me. I could probably dig that out of the files, the *Global 2000* files, the study group files. I don’t know.

**Ezrol:** The question I’m getting at concerns a neo-fascist organization, the Club of Rome, which has international arms in the United States and elsewhere. During the Carter administration, the CEQ turned over a large part of its responsibilities to members of that organization in this country.

**Hill:** That I don’t know, but I can tell you in *this* council it won’t happen.

**Ezrol:** As a general principle do you accept the view that the state of nature should be static and unchanging?

**Hill:** This goes back and back and back; should man be allowed to do *anything*? I don’t agree with that type of thing. But did you see Jim Buckley’s piece on the snail darter thing? This diversity issue, it’s a valid point. The question is, do we allow something to stop development? It has to depend on what that something is, and the fellow who found the first snail darter I hope was the fellow that found the others 80 miles away. . . . There’s got to be some balance.

# Benchmark fight over New York mayoralty

by Vin Berg

Mel Klenetsky is a mayoral candidate in New York City's Democratic primary this September. He is a Democrat, his parents have been Democrats for 50 years, he worked for a Democrat in last year's presidential primaries, and for the past year, he has directed national operations for a political action committee, the National Democratic Policy Committee (NDPC). He became a New York mayoral candidate by submitting over 25,000 registered Democrats' signatures (he only needed 10,000).

But another candidate, Frank Barbaro, has tried to invalidate Klenetsky's signatures, and that failing, asked a court to deny Klenetsky ballot status because he is "not a real Democrat." Barbaro's lawyers have spent roughly \$100,000 pursuing this manifestly frivolous effort, though his campaign has reported total contributions of only \$60,000, raising the question of whether a Koch dirty trick is being performed by proxy.

In fact, the future of the Democratic Party is at stake. Klenetsky is a "LaRouche Democrat"—Lyndon LaRouche, *EIR* founder and a 1980 Democratic presidential precandidate, is chairman of the NDPC's advisory council. Behind Frank Barbaro's attack on Klenetsky are forces well positioned in the Democratic Party's national leadership, but who fear LaRouche's growing influence over the labor, business, farmer, and minority constituencies that are the traditional backbone of the party. For these forces, the Klenetsky case is a "trial balloon" for a national campaign to drive LaRouche Democrats out of the party.

It is the proverbial strange assortment of bed-fellows, but all hate the very thing constituencies like about LaRouche: his program for scientific and industrial progress.

Barbaro personally represents the Socialist International, whose American arm, the Democratic Socialist Organizing Committee (DSOC), decided to run him at their May convention in Philadelphia. But direction for the anti-Klenetsky effort comes from the office of former Rep. Elizabeth Holtzman, now running for Brooklyn District Attorney; her campaign chairman, Paul Asofsky, is Barbaro's lawyer. Asofsky was given material for his Klenetsky case, however, by one Dennis King, a creature of Roy M. Cohn, the McCarthyite lawyer for the heroin-mob, and head of New York's "East Side Conservative Club." King has slandered LaRouche a

dozen times in city neighborhood-newspapers. King has recently moved his literary operation to the office of *High Times*, the national drug-and-pornography magazine.

Barbaro's profuse legal financing may relate to the fact that Elizabeth Holtzman's major campaign contributor is Xerox board chairman Max Palevsky, who like Roy Cohn is closely linked to "Dope, Inc." Palevsky is an adviser to the National Organization for the Reform of Marijuana Laws (NORML).

It is known that Holtzman, while in Congress, tried to use her influence to prompt baseless and harassing Justice Department investigations of LaRouche's 1980 presidential campaign. She is a product of the Paul, Weiss, Rifkind law firm, whose partners include an unsuccessful Carter nominee for CIA director, Ted Sorenson. Sorenson is chairman of a subcommittee of the Democratic National Committee, with oversight for political action committees. A source close to the body says that he plans to use his position to run a dirty tricks campaign against the NDPC.

The Socialist International, Roy Cohn's drug lobby, Elizabeth Holtzman, Ted Sorenson—all have a common objective. From the traditional form of constituency-based institution corresponding to the American form of government, they would like to transform the Democratic Party into a European-style social-democratic party, run by its leadership independent of constituency interests, as in the British parliamentary system. "LaRouche Democrats" like Klenetsky don't want it that way.

But Averell Harriman's wife, Pamela, for example, set up a political action committee, Democrats for the '80s, solely to work for a parliamentary system corresponding to a Socialist International takeover of the Democratic Party. Last December in Washington, the Socialist International met and decided that if Ronald Reagan could be Hooverized by cutting social programs while maintaining high interest rates, the Socialists could position themselves to take advantage of popular frustration, leading to urban race riots and disruptive labor strikes, and other forms of "class warfare"—in the process, taking over a splintered Democratic Party.

Klenetsky is in effect the only straight Democrat in the race. Koch is also running on the Republican line, has been endorsed by four out of five of the borough GOP organizations, and though the New York Conservative Party officially supports Queens Assemblyman John Esposito, the party's vice-chairman says that he and most of his associates will vote for Koch. For his part, Barbaro, while accusing Klenetsky of not being a "real Democrat," is preparing to run in November, after Koch wins the primary, on the Unity Party ticket; the Unity Party's formation was announced by Barbaro and anti-labor negotiator Ted Kheel on Aug. 20. The Barbaro front party will coalesce the forces of DSOC, the Communist Party and counterculture radicals.

# Challenge to Koch: Klenetsky's program

by Vin Berg

Because the Democratic primary is coming up in September, Mayor Edward I. Koch has increased the general frequency with which he claims to have "put New York City back on its feet financially again." Candidate Mel Klenetsky charges that "the only thing Koch has put back on its feet is David Rockefeller's Chase Manhattan Bank."

Mel Klenetsky is a New York native of Polish-Jewish descent who grew up in Brooklyn, went to school there and in Manhattan, has studied law and taught mathematics in both a city high school and the City College of New York. The maternal grandfather of his wife, Kathy Murphy Klenetsky, was Tom McGee, a powerful Brooklyn Democratic leader. Since 1979, he has been national operations director for the National Democratic Policy Committee, coordinating the NDPC's campaigns against Federal Reserve Chairman Paul Volcker's high interest rates.

Since 1975, the Municipal Assistance Corporation ("Big MAC") and the Financial Control Board (FCB) have been a power above the mayor's office, running all city finances on a budgetary pattern that each year diverts more funds away from city services into debt service to institutions like Chase Manhattan.

In the three and a half years he has been mayor, Koch has cut total spending on services by 21.4 percent; cut the budget for police by 36.2 percent; for fire protection by 34.4 percent; for sanitation by 30.1 percent; for health care by 38 percent; for education by 25.5 percent; and for transportation by 18.1 percent.

According to Klenetsky, service cutbacks erode the city's tax base. "The only thing austerity begets is more austerity, until the city collapses." His first priority would be restoration of services, to keep manufacturing and a stable workforce in the city. "In this way, the city becomes a good credit risk, because its future revenue-potential guarantees means of payment for any debt incurred." Were he mayor, Klenetsky would abolish "Big MAC" and the FCB—"Rockefeller holding companies."

## Klenetsky's program

Klenetsky has pledged a total revision of New York City's tax structure, heavily penalizing real-estate speculation while relieving the burden on homeowners and

wage-earners, and granting tax credits to manufacturing expansion. His "three-tier" property tax is designed to raise an additional \$3 billion for city services. It would do so by raising assessments on selected properties—downtown office buildings, luxury hotels and high-rises, entertainment palaces, etc., which are now assessed at only 15 percent of their true market value.

Klenetsky would also place a heavy "capital gains" tax on purely speculative real-estate operations, but he would grant selective tax credits and abatements for low- and middle-income housing construction, job-creating manufacturing, construction, and other productive investments.

The mayoral contender places manufacturing and warehouse properties on a "second tier" of taxation, applying existing rates. On the "third tier" is owner-occupied housing, on which he would sharply reduce assessments.

With these tax increments, Klenetsky proposes to:

- Reopen 53 schools closed down since 1975;
- Reopen 27 hospitals closed down by Koch;
- Restore the police from 27,000 to 35,000 officers, emphasizing patrolmen on the beat;
- Reduce subway and bus fares to increase ridership, while restoring service, maintenance, and personnel to much higher 1969 levels;
- Reopen dozens of firehouses closed down over the past decade;
- Launch a major crackdown on drug traffic, currently \$30 billion cash-flow annually, twice the city budget.

On the last point, Klenetsky is emphatic: experts estimate that 80 percent of all New York crime is drug-related. Mayor Koch pioneered in "decriminalizing" marijuana; Klenetsky would make it a crime again. He would deploy the police to handle "street pushing," and use federal and state laws to reach those "citizens above suspicion" and "respectable" corporations who are engaged in drug traffic or in "laundering" drug monies.

Education he has declared a special priority: "At present, about the only thing a student can be sure of learning in New York's public schools is how to use drugs." He has pledged to reopen all closed schools, to rehire 10,000 fired teachers, sharply reduce class size from near 40 to 22-28 students per class, and also, to restore 179 city libraries to a full seven-day week, mornings, afternoons, and evenings. (Under Mayor Koch, library hours are 40 percent below state standards and nearly the lowest in the nation.)

"I want our schools teaching science, engineering, mathematics, and reading and writing in literate English and literate foreign languages—the English of Shakespeare and Milton, the Spanish of Cervantes, not 'Black English,' 'New Math,' and other racist forms of watered-down miseducation."

## Administration to push 'free enterprise zones'

Peter Ferrara of the Department of Housing and Urban Development (HUD) says President Reagan's advisers "are placing the enterprise zone concept at the top of the legislative agenda for the fall. We hope to have something enacted by Christmas." Ferrara is close to Stuart Butler of the Heritage Foundation.

The administration has set up a working group on the enterprise zones, with representatives from the White House Office of Policy Development, OMB, HUD, Treasury, the Agriculture Department, and the Department of Labor, to come up with recommendations. The group is headed by Robert Carleson, who was Reagan's director of welfare in California and now serves as a special assistant to the President for policy development. Carleson recently revealed that the group has drawn up a list of federal regulations it deems ripe for modification or elimination in enterprise zones.

Ferrara said that the enterprise zones "will serve as an example for the rest of the economy . . . and of what the free-market economy can accomplish. We'd like to see the enterprise zone concept extended throughout the economy."

## Strategic folly dominates Aspen seminar

Reports leaking out of a closed-door meeting on defense policy held by the Aspen Institute, a leading zero-growth think tank, confirms the insanity now guiding U.S. strategic policy.

Richard Burt, the State Department's Policy Planner; David K. Jones, chairman of the Joint Chiefs of Staff; Walter Mondale; and Cyrus Vance's chief Soviet watcher Marshall Schulman were in attendance.

Brent Scowcroft, William Hyland, and Helmut Sonnenfeldt represented the

Kissinger group. Direct from London was Chris Bertram, head of the International Institute for Strategic Studies.

One of the main themes discussed at the meeting was that NATO must "show the willingness to use nuclear weapons first." One source specified, "The place where we would use nuclear weapons discriminatingly besides Europe is in the Persian Gulf."

While some policy-makers grudgingly admitted that the Soviets might go so far as to "preempt against our Pershings or even use some of their forces early so that we will not use our Pershings," there was little opposition to stationing the missiles. In fact, some of those warning that the Soviets could take preemptive action against the Pershings wanted to start deploying them in hopes that Moscow might then negotiate arms control agreements. All participants dismissed defensive beam weapons as "21st-century technology."

## Michigan's nuclear power faces economic warfare

Detroit Edison has been served with a court order blocking it from selling \$1.9 billion in bonds needed to continue construction on the Fermi nuclear plant near Monroe, Michigan and a second, coal-fired plant near St. Clair. The order from the Court of Appeals was jointly instigated by the State Assistant Attorney General's office in Lansing and the Michigan Citizens Lobby, a Naderite group.

The Michigan State Supreme Court upheld the lower court stay on Aug. 14, and the Court of Appeals is deciding whether to force the state Public Service Commission to hear evidence on whether the plant is "needed" or "economical"; the PSC could then force permanent cancellation of the bond sales. But Detroit Edison says that it will have to halt the construction projects within 30 days if it can't issue securities because of cash-flow problems.

Assistant Attorney General Pat Devlin told a journalist Aug. 19 that the massive \$1.9 billion case could set a na-

tional precedent. In most states utilities must get approval from their public service commission to float bonds, he noted, and more and more pressure groups are getting fed up with the skyrocketing costs of nuclear power. "Hopefully, we'll prevail in this case and shut down the Fermi plant," Devlin said.

## LaRouche warns Washington to wake up

In his capacity as National Democratic Policy Committee advisory board chairman, Lyndon H. LaRouche, Jr. issued a statement Aug. 21 that begins:

"In a time of food shortages, a farmer may increase his income by selling his seed-corn to millers and his entire herd to the slaughterhouse. What, then, will the nation—and the farmer himself—eat next year?"

"That describes the sheer idiocy of the British 'free enterprise' economic policy now misguiding the Reagan administration.

"My associates and I have warned constantly, since October 1979, that the usurious policies of Federal Reserve Chairman Paul A. Volcker and the Carter administration would increase the rate of inflation up to the point that the contraction of the economy brought the United States into a slide toward a new Hoover collapse.

"From the beginning of the Reagan administration, we have warned repeatedly that the Kemp-Roth tax bill was idiocy, and that the toleration of Volckerism meant an annual federal deficit increase in the order of between \$100 and \$150 billion.

"On both points, we have been correct, and all of those who opposed our warnings are now proven to have been totally wrong, disastrously wrong. The evidence of the proposed new, more savage round of budget cuts is irrefutable on this point.

"The test of wisdom of an administration and a Congress is its ability to learn quickly from evidence of its own major policy blunders. Have the admin-



istration and the Congress the courage, honesty and sanity to admit that the Reagan administration's continuation of the Carter-Volcker monetarist policies has led us to a disaster potentially greater than that caused by the Coolidge and Hoover administrations? . . .

"To those of us old enough to remember World War II, the present direction of Washington's military policy reminds us of the pattern of Nazi Propaganda Minister Josef Goebbels's trumpeting of Nazi 'miracle weapons,' trumpeting which increased to a point of frenzy during the years following the Nazi defeat at Stalingrad. . . .

"This nation must return immediately to those policies of American industrial-capitalist development which made us formerly great. . . . Some people argue that such an abrupt shift in policy is not 'practical.' Such people are behaving like fools. Whatever must be done is the only action which is practical."

## FBI stingers get stung in Bridgeport

"Now put your hands on the dashboard," said Bridgeport Police Superintendent Joseph Walsh to an FBI agent on Aug. 20; "you're under arrest for attempted bribery." A team of police swooped in to handcuff convicted car thief Thomas Marra who had just handed the chief \$5,000 in bribe money supplied by the FBI. Walsh then took the hidden microphone from under Marra's shirt and stated, "you can come in now."

On the other end of the wire was a panic-stricken team of FBI agents and other operatives of the Justice Department's so-called Organized Crime Task Force who had deployed Marra as an entrapment agent. When the hapless agents ran up and breathlessly demanded their \$5,000 would-be bribe and their agent, Walsh informed them that the tables had been turned on U.S. Attorney Richard Blumenthal of New Haven. The protesting FBI team was threatened with arrest for obstruction of justice.

Speaking to the press, Bridgeport

Mayor John C. Mandanici later said, "I'm sitting here watching this action. Why don't they [the FBI] go after the dope addicts?" Mandanici said that he was considering charging responsible FBI and Justice Department officials with conspiracy to commit bribery and infringement of civil rights.

Chief Walsh later said, "I still don't believe there's room in this country for members of the Justice Department, members of the FBI, to act like Gestapo." The \$5,000 bribe monies have been donated to an orphans' Christmas fund.

Thomas Marra, a petty car thief convicted in New Hampshire, had been picked up, like thousands of other criminals, as a paid agent of the FBI.

The bribes he offered were supposedly to gain return of the lucrative towing contract to his uncle.

## Homebuilders lobby against Paul Volcker

The National Association of Homebuilders (NAHB) has launched a nationwide mobilization among its members to lobby their congressmen, the President, and Chairman Volcker for an immediate reduction in interest rates. While the call for the mobilization—sent out as an Aug. 13 legislative flash—calls for fiscal austerity as a tradeoff on interest rates, the theme is, "We simply cannot wait any longer to get interest rates down."

In the call, NAHB President Herman Smith states: "It is critical that you contact both of your U.S. senators and your U.S. representative to stress the tremendous damage to the housing industry due to high interest rates and the need for Congress to work with the administration and the Federal Reserve Board to *reduce interest rates immediately*. Congress is in recess right now until Sept. 8, which means that you should be able to meet with your senators and representatives at home this month."

The homebuilders are asked to report to Bob Bannister at their governmental affairs office on the position the congressmen take.

## Briefly

● **FRITZ KRAEMER**, the mentor of Henry Kissinger and James Schlesinger, is quietly playing a major role in directing Reagan administration defense policy. Kraemer, an emissary of the continental European oligarchs, is now acting as a top adviser to Fred Iklé, Undersecretary of Defense for Policy.

● **ROBERT KOMER**, former head of DOD Policy Planning in the Carter administration, is urging the Reagan administration to forget any efforts to develop high-technology military equipment. "That's not a high-priority issue," says Komer, who is still in close contact with Pentagon officials; instead he is urging that the U.S. gear up its capabilities to intervene in the Indian Ocean and Persian Gulf areas.

● **THE HERITAGE** Foundation wants to phase out Social Security benefits for spouses and tax half of all benefits in the next round of budget cuts, staffers say. They also propose reducing benefits under the Longshoremen's Act, and eliminating the trade-adjustment assistance program and aid to black-lung victims, as well as reviewing U.S. military programs for major cuts. One foundation official commented that "We need an atmosphere where people say, 'I'll let you cut my program if I can cut yours.'"

● **LARRY PRESSLER**, Republican senator from South Dakota, warned Aug. 21 that in 1982, "We are going to be identified as the party of high interest unless the issue is addressed at a high level by the President. It is my strong feeling that the impact of high interest rates is being overlooked by the Reagan administration." This was the first major statement by a Republican on the political ramifications of high interest rates.

## The Reagan nuclear energy mandate

*A new presidential policy declaration represents a "right move," but an insufficient one in actual practice.*

**T**he preliminary steps have been encouraging to date: the President has named one of the nation's most respected nuclear experts, Dr. Nunzio Palladino, to become the chairman of the Nuclear Regulatory Commission. That five-man body, which had become a nightmare of bureaucratic obstructionism in the Carter years, now has a pronuclear tilt for the first time since Three Mile Island.

Sometime in September, the President will probably announce his long-awaited policy on the future of nuclear power. The initial draft, prepared by Dr. Lance Keyworth, chief White House Science Adviser, aims at reducing total regulatory and construction time from the present 12 to 14 years, "to perhaps 6 to 8 years as is typical in many other countries." Additionally, it calls for resumption of the Clinch River Breeder Reactor program and commercial spent-fuel reprocessing, which was the obvious solution to the so-called waste problem until it was banned by Carter strategists for partisan political reasons.

On July 16, the President issued his Nuclear Nonproliferation Policy. On paper, it was a clear reversal of Carter's disastrous and deliberate attempt to impose a "technology freeze" on development of peaceful nuclear energy internationally. In contrast to the Carter approach, President Reagan's policy correctly underscores that nuclear weapons nonproliferation suc-

cess depends above all on secure energy development and a "strong and dependable United States." The President declares, "We must re-establish this nation as a predictable and reliable partner for peaceful nuclear cooperation under adequate safeguards," otherwise, nations will go elsewhere to seek the most advanced and efficient energy base for industrialization.

In ordering relevant government agencies to pursue "expeditious action on [nuclear] export requests," and declaring that this administration "will not inhibit or set back civil reprocessing and breeder reactor development abroad in nations with advanced nuclear power programs," the President would seem to be undoing the worst damage of the Carter administration antinuclear policy.

I do wish reality were this simple. But, nowhere is the schizophrenia of the Reagan administration's compromise with the Haig State Department, David Rockefeller's Trilateral Commission, and Federal Reserve Chairman Volcker's monetary policies more evident than the nuclear policy field.

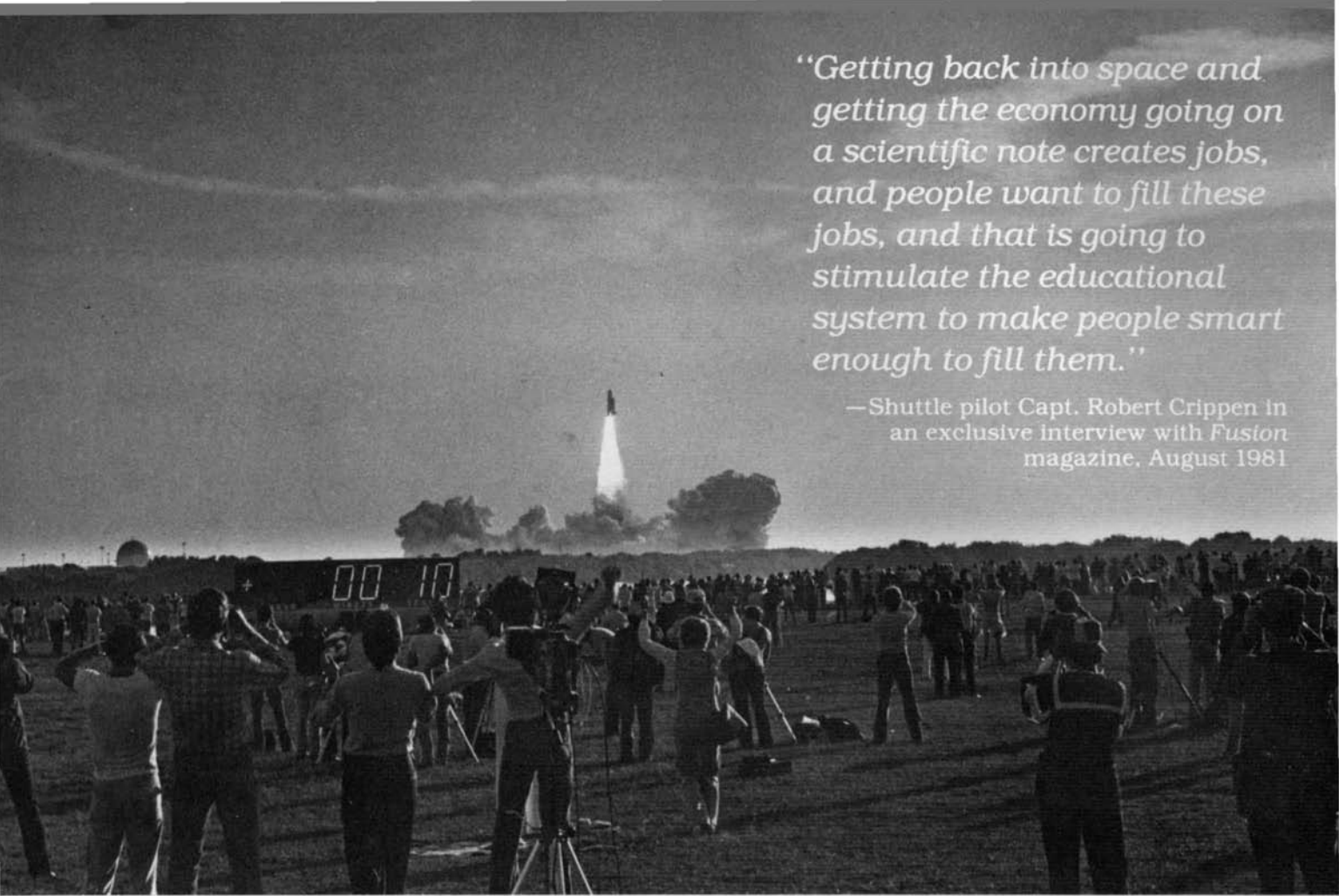
The administration's top international spokesman for nuclear policy, Jim Malone, has just returned from India. He did not negotiate a reversal of Carter's nuclear fuel embargo against that nation, nor did he establish new export agreements. Malone discussed ending the U.S. treaty commitment to supply enriched uranium fuel to

the reactor supplying the Bombay industrial belt. However, the talks ended in stalemate because Malone also demanded India maintain the safeguard obligations on the plant and spent fuel, even after the United States stops supplying uranium!

Only weeks earlier, the Haig State Department made a multibillion-dollar arms deal with the lunatic Zia regime in Pakistan which, according to highly reliable intelligence reports, includes provisions for allowing that country nuclear weapons, by "looking the other way" while China and certain others provide the means covertly!

Some further examples of this schizophrenia are relevant. Energy Deputy Secretary Ken Davis, who as head of Bechtel's nuclear construction was regarded as one of the most aggressive nuclear advocates, announced, properly so, that fuel reprocessing was the "cornerstone" of the administration's nuclear waste policy. Yet, when pressed, the administration, Davis included, insists that the private sector bear the cost of reprocessing, something industry has so far found unviable. The private sector argues with some persuasiveness that an advanced technology such as reprocessing ought to be borne by the government as planned in the early years of the Atoms for Peace program.

As if to underscore the emerging tragedy of government inaction, a West German utility group, DWK, sent a delegation to Washington last week to seek out prospective partners to share in underwriting the takeover of the Barnwell, South Carolina nuclear reprocessing facility that is under dispute. A reliable source says the delegation left discouraged.



"Getting back into space and getting the economy going on a scientific note creates jobs, and people want to fill these jobs, and that is going to stimulate the educational system to make people smart enough to fill them."

—Shuttle pilot Capt. Robert Crippen in an exclusive interview with *Fusion* magazine, August 1981

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