EIR
Executive Intelligence Review
September 15, 1981 $10.00

A hard landing onto gold?
Central America and the politics of tension
U.S. airline survey: back to the 1930s

Volcker's clamp on the U.S. economy: a LaRouche-Riemann model report

Executive Intelligence Review (ISSN 0273-6314) *is published weekly (50 issues) except for the second week of July and first week of January by New Solidarity International Press Service 304 W. 58th Street, New York, N.Y. 10019.*
In Europe: Executive Intelligence Review, Nachrichten Agentur GmbH,
Postfach 1966, D. 6200 Wiesbaden
Executive Directors: Anno Hellenbroich, Michael Liebig

Second-class postage paid at New York, New York and at additional mailing offices.
Subscription by mail for the U.S.:
3 months—$125, 6 months—$225,
1 year—$396, Single issue—$10
Academic library rate: $245 per year

EIR

From the Editor

Our LaRouche-Riemann econometric projection of a second-half 1981 downturn in the U.S. economy, a projection published in a September 1980-May 1981 *EIR* series, was very much on target, as the ordinary run of prognosticators has belatedly acknowledged. The most important aspects of the situation, writes Economics Editor David Goldman in this week's two-part Special Report on the latest LaRouche-Riemann results, are Federal Reserve Chairman Volcker's *determination* to impel a recession, and, on the level of the physical economy, the current allocation of industrial output to use by the "overhead," inherently *unproductive* sectors, draining industry's reproductive potential.

A special case of deindustrialization is examined in Leif Johnson's study of the U.S. air carriers' program of shrinkage under the rubric of "deregulation." The airline sector is distinguished by its rapid self-cannibalization, technological lag, and ease of employee recycling, and by its complete financial control at the hands of the banks who wrecked American railroads.

While the Reagan administration hastens its predecessor's sabotage of domestic investment and infrastructure, its strategic policies have become a caricature of the Kissinger-Brzezinski posture, conclude Jeffrey Steinberg and Graham Lowry in our International and National overviews; the rapid deterioration of the Central American situation, and the prospects of complete White House support for Socialist thug Bettino Craxi's installation as Italian prime minister, are among the most immediate danger points dissected here.

Robyn Quijano

EIR Contents

Departments

Economics

Volume 8 Number 36 September 15, 1981

Special Report

The President with the Federal Reserve Chairman Volcker (r) and Council of Economic Advisers chief Weidenbaum on Jan. 24.

International

National

A hard landing onto a gold monetary base?

by Laurent Murawiec, European Economics Editor

That the U.S. and international capital markets face a crisis in the weeks and months ahead has virtually ceased to be disputed. What were warnings a few weeks ago have now turned into a near debacle, whether one looks at the nosedive made by the Dow Jones index, which stands close to 200 points under its high of the early months of the year, or the beatings repeatedly taken by the bond markets.

Internationally, the anticipated debt crises are bursting out right on schedule; Romania joins Poland among the ranks of the financially ailing East bloc nations; Costa Rica declares a debt moratorium; Bolivia sends telexes informing its creditor banks that it will not honor its Oct. 31 commitments. Additionally, while the Reagan administration is bogged down in sorting out the fiasco of the budget deficit, the Federal Reserve and Paul Volcker are announcing further tightening of the monetary policy, with the stated intent of sending cities and states, as well as corporate borrowers, out of the market and into bankruptcy.

The fact that the Treasury will have to float an inordinately large $33 billion in debt in the fourth quarter of this year (while $18 billion in corporate bonds is trying to appear on the market at the first signal) will further erode whatever remained of what Europeans called "The Reagan Effect" before and after the Jan. 20 inauguration, the state of euphoric "confidence" that continued through the passage of the tax bill.

The Reagan administration is utterly unprepared for the kind of emergency it will shortly face. The timid protest against the Fed's astronomic interest rates which President Reagan made Aug. 28 during a rare instance in which he was not followed by doctrinal bodyguards, was quickly supplanted by an avalanche of statements from the Treasury and other members of the executive: "The Fed is absolutely correct in tightening and tightening further. We and they are on the same track with the same objectives and the same mettods," a very senior Treasury official told *EIR*.

What makes this administration so singularly unprepared to deal with the imminent danger of a market crisis is the magical belief expressed by both its "supply-side" and "Friedman monetarist" components that the continuously high interest rates are only the result of "bad financial circumstances based on the fact that the markets have not convinced themselves that the Fed will stick to its guns." The Treasury source explained, "The markets still think that we will pressure Volcker—which we will not. If only Volcker repeats that he will stay firm often enough, the markets will understand." As the deepening problems on the markets compound the bankruptcies prepared by Volcker's interest-rate policy—the Fed candidly asserts that it is doing contingency planning for large-scale bankruptcies in housing construction, the airlines, and the S&Ls—the aura of confidence that has been painted around the President's head will vanish overnight—and with it, any stability on the markets.

Old sharks patiently wait

The doctrinaires that surround Ronald Reagan may be shell-shocked by the outbreak of the crisis, but some older hands that surround him, at a certain distance from the mess being created, are not so naive. The "old boys" from the Nixon and Ford times—former Fed Governor Arthur Burns, former Treasury Secretary George Shultz, former head of the Council of Economic Advisers Alan Greenspan, whom high-level sources at the International Monetary Fund describe as feeding the President with the conceptions he then applies to immediate decision-taking—are not surprised.

In fact, not only did they predict the crisis six months ago, *they started it.* It was this group which warned the President in January that neither the Bank for International Settlements of Basel, Switzerland, nor the network of the leading central banks clustered around it, the Bank of England, the Swiss and Dutch national banks, and so forth, would tolerate Reagan action against Paul Volcker and his interest-rate policy.

When Reagan capitulated to the blackmail of a dollar crisis, Burns et al. started to openly predict that the "supply-side" panacea would be dropped after a short period—time for the tax bill to be passed, for massive, deflationary budget cuts to be implemented, and time for the administration to have cut itself off from its disgruntled constituencies.

What these self-styled "cooler heads" contemptuously explain about the administration can be summed up in comments received by *EIR* at the IMF. "This boy Stockman is profoundly insane. . . . The NSC does not know anything about economics. . . . Those people just do not know anything."

What they propose is deep, deep cuts in the budget—Chase Econometrics is now predicting that the deficit will reach $100 billion not only in fiscal year 1981, but *every year* of this administration—and, to start with, deep cuts in the defense budget. They propose to let "just a few banks including big ones go under in a carefully limited banking crisis—like Herstatt [the German bank that collapsed in 1974], which did not do any harm, to the contrary, since it's restored discipline to the banking world," as a senior U.S. source at the IMF told *EIR*. They predict—and in fact *propose*—"a rapid unraveling of the economy" and "a situation where people will be out of a job for a long period," while Paul Volcker, in his own testimony, wants wages to be slashed.

Last, they propose to let the Third World "eat cake." "The whole question at [the North-South summit in] Cancún is money—and we're not going to give any to the Third World, that's it. A one-way transfer of resources to the Third World is a non-start as far as we are concerned," a diplomat close to Caspar Weinberger and the old boys stated. It is quite likely as a result that a large number of Third World nations will face, as soon as the third and fourth quarters of this year, the immediate threat of open default. "When the bankruptcies come, and U.S. and European banks are in dire straits because they are overextended, then the central banks will be able to step in and take the whole matter in their own hands, failed borrowers and overextended creditors alike," the diplomat said.

A guarantee of last resort: gold

As this journal has been pointing out for the last five years, the outbreak of a generalized monetary and financial crisis demands that gold be used in some form to restabilize the system. That idea has now gained fresh credence, as the crisis approaches.

An extraordinary barrage of press articles has been paving the way for something to happen on that account. Editorials in the *Wall Street Journal*, radio debates, pieces in *Business Week*, the *Washington Post*, the *New York Times* have recently accustomed the general public to this idea that something ought to be done involving gold to solve the intractable budget problem and that of inflation.

A similar exercise is being conducted at higher levels, for the benefit of the credulous members of the administration and Congress, under the name of the President's Special Commission on Gold.

An apt definition of both advertisement campaigns was recently given by supply-side gold advocate Jude Wanniski, who explained that it was principally "filling in the stadium before the action begins."

Discussions such as that which the *Journal of Commerce* indulged in—should the gold cover of the money supply be set at 60 percent or 100 percent? should dollars be gold convertible, or only inside the United States and not to foreign dollar holders?—are in fact immaterial. The real debate is whether gold will be used as a method for smoothing out the dangers inherent in a deflationary collapse of the economy, and managing the crisis to that very purpose, or as a means of generating credit for productive investment?

It is extremely significant in this context that one spokesman for the old boys, Alan Greenspan, should have joined the ranks of the advocates of a return of the dollar to gold, in an Aug. 31 editorial-page article in the *Wall Street Journal*. Contrary to the doctrinaire propaganda about a 19th-century gold standard that has appeared in great quantities these last weeks, Greenspan's proposal to gradually reintroduce monetary gold in the dollar system has technical competence and legitimacy: Greenspan proposed to issue gold-backed and gold-pegged Treasury debt, with a 2 percent interest rate, and both interest and principal payable optionally in gold.

Greenspan calculates that compared to presently floated Treasury debt, which carries interest of close to 17 percent, his gold solution would entail an annual savings of $1.5 billion for $10 billion of debt, which would further help reduce budget deficits as well as inflation.

The snag in the Greenspan proposal is that it is entirely geared to manage what is accepted and prepared as a vicious deflation of the economy: he specifies that an appropriate "environment" should be constructed to support the gold option, namely, a tight monetary policy and fiscal policy. Greenspan is offering nothing else than the worst aspects of the current situation, save more of the same austerity, which would be fatal to further stretches of U.S. industry, farms, and financial institutions, as well as to world trade and the financing of the oil- and recession-induced Third World deficits.

What is being proposed is a fine-tuning of crisis management with the aid of gold. Greenspan and his sponsors are not interested in generating more and cheaper credit for the productive sectors of the economy. Moreover, this version of a gold standard, coupled with austerity, would prove totally incapable of wiping out the large budget deficits incurred at present; continuing deficits would simply deliver the gold stocks of the United States to holders of U.S. Treasury debt.

Expectations of crisis are so widespread that very large-scale movements have been observed on and off the international gold markets. As *EIR*'s gold column has stressed in the past months, the *fondi* of wealthy European oligarchical families have been grabbing any gold assets available, as the prices were plunging, to position themselves in the one asset that will survive the shakeup which has already begun. More than 150 tons of gold assets have been liquidated by Third World holders since the year began, and acquired by the *fondi*. The astute Japanese have acquired no less than 88 tons in the last seven months.

Gold and an 'independent Europe'

As preparations accelerate to organize and control the crisis in the United States, and make U.S. gold stocks available to foreign-dollar debt holders, a European counterpart has surfaced which originates in the same circles.

As the notorious Siena Group of monetary experts owned by the *fondi*'s oldest bank, the Monte dei Paschi di Siena, convenes the first week in September to discuss gold, the new Socialist finance minister of France, Jacques Delors, has launched a propaganda campaign for setting up among European Community (EC) member countries what he called "a dual system of interest rates" or a "European interest-rate snake" aimed at "decoupling European rates from those in the dollar area." Delors specified that he wanted to disjoint "external" interest rates—such as those paid on deposits of Arab petrodollars—from domestic rates, which would be allowed to float as low as local conditions would afford. Delors additionally proposed to combine this new "snake" with "a European currency based on the European Monetary System, running parallel to the dollar but competing with the dollar." In his view, that new EMS-based currency would become the reserve asset held by central banks—within Europe and without.

The influential British Conservative European Parliamentarian Sir Frederic Catherwood, formerly head of the British Board of Trade and now leader of the external economic affairs committee of Strasbourg's European Parliament, proposed simultaneously that Britain at last fully enter the EMS, in the framework of a plan to be voted by the European Parliament to propose a Euro-Arab "treaty" including the issuance of long-term oil-price-indexed bonds by the EC to guarantee the income of oil producers, who in return would stabilize the price of oil and deliver up to $20 billion a year to the EC.

Taken together, Delors's and Catherwood's ideas are reformulating a proposal issued last March in Trieste by Siena Group éminence grise Robert Triffin and a top EC bureaucrat, Italian nobleman Tommaso Padoa-Schioppa, at a secretive monetary conference organized by the "*fondi* of all *fondi*," the powerful Assicurazioni Generali di Venezia. Their idea—which is now acquiring dangerously real forms—was to set up two competing monetary blocs, the dollar bloc and an EMS bloc (with a probable yen bloc besides), the latter organized around the European Currency Unit (ECU); the two blocs should float against each other with credit and monetary policies inside each bloc centrally regulated and controlled by means of a gold cover for the money supply.

Whoever holds the gold in such a configuration would be able to rig relations between the two blocs—and who controls the key margins of gold at present are the *fondi* that have bought so much metal over the recent period. "Private-sector" raw-materials corporations generally headquartered in the British Commonwealth would exert unchallengeable control over a world of monetary zones, with a European central bank dictating the terms of monetary deflation to the EMS member-countries, just as the gold mechanism would be used in the United States by the Federal Reserve.

The alliance of Lord Carrington's government (it is not clear at this point whether Margaret Thatcher will long be retained even in the limited function of overseer of the "great experiment" in monetarism at home that she presently fulfills) with the Socialist government of François Mitterrand, and other Socialist International forces, has already shaped an alliance of the "old world imperialisms" around the British Commonwealth; the emergence of the gold option signals that the policy of an "independent Europe" playing the role of a third force between the superpowers—the policy Carrington is deploying all his efforts for—could now take monetary form.

Deregulation schedules U.S. airline service for a return to the 1930s

by Leif Johnson

Four years ago President Carter embarked upon his first easy victory. He put before a well-prepared Congress his plans to deregulate the airline industry—the first of the transportation industries to be released from government "constraints."

Within a year Congress passed the Airline Deregulation Act of 1978, which phased out the route-certification structure, allowed entry and exit from existing airline routes, admitted new carriers, and permitted fare and freight rate changes of great magnitude and complexity within a ceiling set by the Civil Aeronautics Board until 1983, at which time all fare and route regulation as well as the CAB itself will be abolished.

This era of "free enterprise" brought exuberant promises from the White House and its congressional sponsors centered in the office of Massachusetts Sen. Edward Kennedy. Free competition would permit fares to come down or show minimal increases, service would improve as management strove to attract passengers, new routes would open up to serve unexploited markets. Management would be free of crippling government-created paperwork and regulations which distorted management initiatives and lowered efficiency and productivity of management and labor alike.

It is remarkable, as the nation nears completion of the third year of deregulation, that the *Wall Street Journal, New York Times, Washington Post,* and the weekly magazines still herald the great promise of deregulation—as do the David Stockman-type ideologues in the Reagan administration. Haven't the readers of the *Wall Street Journal*—7 million every weekday—and the proponents of "free enterprise"—many of whom travel by air—noticed that the reality is different from the *New York Times*'s "facts"?

Fares haven't come down, remained the same, or increased moderately. They have exploded. In the last two years fares, averaging in commuter runs, local and regional service, and domestic trunk and international service, have increased 60.7 percent. The average fare this year will increase between 30 and 35 percent, an increase seven times as great as the average yearly increase during 1970-77, the years prior to deregulation.

United Airlines, in its 1980 annual report to stockholders, reports that a $100 ticket bought at the beginning of the year cost $152 by the end of the year.

In the three years from October 1977 to October 1980, flights per week went from 216,000 to 204,000, a decrease of 5.6 percent. By April 1982, at the conclusion of the airline "scaledown," the total number of flights is expected to reach 157,000 a week, a drop of 27.1 percent.

Since deregulation, 207 cities have received increases in flight departures, while 317 have lost departures, including 40 cities that have lost air service altogether. Two of those 40 cities are state capitals.

Figure I
Top five U.S. air carriers—1980

Carrier	Overall revenue passenger miles (million)	Employees	Total operating revenues (000)	Profit/Loss (million)
United	37,900	50,016	$4,737	–$ 23.2
Pan Am	30,200	32,259	4,638	– 247.6
Eastern	28,200	40,503	3,452	– 17.4
American	28,200	40,656	3.675	– 75.8
TWA	28,100	33,852	3,278	+ 21.9

Source: Air Transport Association; *Air Transport 1981*

In the period from November 1978 to January 31, 1981, individual air carriers have terminated all service at 216 locations, and had termination requests for another 50 points. Then, in the two months following, February and March 1981, airlines requested full termination of individual carrier service at an additional 224 destinations. These figures do not reflect the effect of the recent Federal Aviation Administration (FAA) order of a 25 percent cutback in flights.

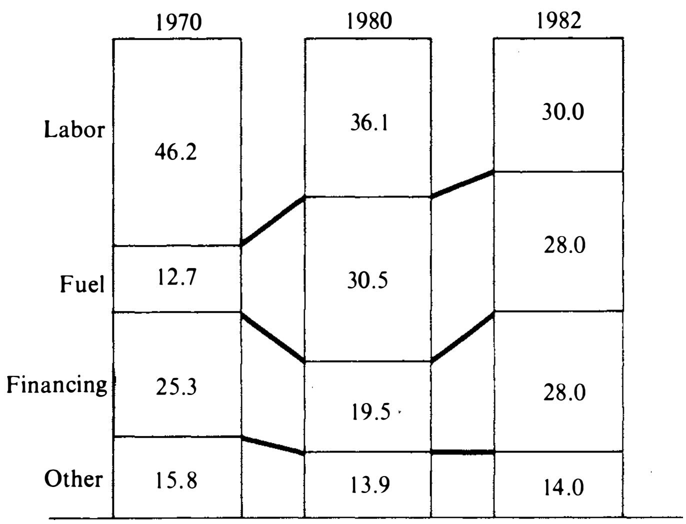
If arguments about falling fares and better service were believable before deregulation was accomplished, the assertion that deregulation of the airlines would foster competition was laughable from the beginning. The 22 carriers are a cartel controlled by the financial groups that established the lines during the Depression. The air industry is essentially an extension of railroad finance and the Harriman-Morgan-Rockefeller interests, which, along with their investment-banking associates and their policy controllers among the London banks and old European family funds, have continuously determined the direction of the industry since that time.

Airline finance was carried out in the 1930s specifically to *preempt* effective competition and prevent actual entrepreneurs like Henry Ford or, later, Howard Hughes, from dominating the sector. The bankers' intent (especially after the dissolution of the airmail contracts by President Roosevelt in 1933) was not to build airlines, but to prevent independent investors from developing the new technology. It was not until the advent of World War II that the financial oligarchs allowed significant development of aircraft, even in the armed forces. Regulation was used as an additional means of keeping industrial capitalists out of the industry.

Figure 2

Distribution of airline operating expenses

(in percentage of total costs)



Note: *Labor* includes wages, fringe benefits, pensions; *financing* includes long- and short-term debt, leasing, and other financial payments; *other* includes fees, advertising, maintenance materials, and commissions, insurance, legal. Figures for 1982 estimated from current scale-down plans of certified U.S. carriers.
Source: Air Transport Association, *Annual Report 1981*

Like the railroads, the airlines are not run as bona fide capitalist firms that require profits for technological and service growth, but as levers of overall economic policy. The 1960s decision to dismantle the industrial structure of the United States—the famous "Age of Aquarius" countermove to the industrial applications of NASA's scientific achievements, which, it was feared, would create a new generation of growth-minded Americans—mandated a long-term restructuring of the airlines as well as other branches of industry and transportation.

This postindustrial Aquarian planning was reportedly conducted by an array of individuals at Lehman Brothers-Kuhn Loeb, Lazard Frères, Citibank, Chase Manhattan, Bankers Trust, Wells Fargo, and Bank of America, as well as at think tanks like RAND, Stanford Research Institute, Battelle Institute, and the Brookings Institution. The planning had two premises:

1) **There would be no further development of aircraft design.** The supersonic aircraft would be shelved and the next generation of aircraft would be modifications of the 1950s technology currently in use in the industry.

2) **The domestic air network would be gradually devolved into regional networks** as part of a scaledown of all national air service. International routes would be ceded to Third World airlines, most of which would be located in British Commonwealth nations and funded through the Commonwealth's illicit drug channels. Air travel would once again become the exclusive privilege of the wealthy and their immediate appendages.

The first of these decisions has been largely carried out. Environmentalist groups were funded to try to obstruct the landing of the French Concorde supersonic passenger craft, and the American supersonic transport (SST) was hit with news-media charges of waste, impracticality, and excessive cost.

Few appreciate the technological backwardness of present-day aircraft. Each advance in design has come from government-sponsored R&D, most of it military-related. The postwar four-engine airships came from the development of heavy bombers; the current generation of jets represents redesigns of the Korean War-era B-52 and later military transports. By decoupling the design and materials achievements of NASA from the introduction of new commercial aircraft design (contrary to claims in certain advertisements), the industry is locked into modified forms of three-decade-old technology in its new planes.

The second aspect of this plan, the dismemberment

Three major carriers: who really runs them

United Airlines

Financial control: An amalgam of top New York, Chicago, and West Coast finance, including: British Empire financier Clement Melville Keys; New York international banker Rufus Dawes; Chicago elites Philip K. Wrigley, Lester Armour, Phil Swift, and Marshall Field II; and West Coast interests linked to Wells Fargo, Bank of America, and Boeing, which have connections with Warburg and Italian financial oligarchs. The present board reflects the same groupings including two trustees of the Ford Foundation, Stanford Research Institute and RAND Corporation and two directors of the American Security and Trust, a Harriman bank.

Corporate strategy: Created UAL as a holding company identical to railroad holding companies being formed in 1970 to milk the operating companies for the financial benefit of the holding company and its financiers. Diversified into hotels: merged with Western International Hotels in 1970, acquired three Hawaii hotel groups including Olohana Corporation from Laurance Rockefeller in 1979, and bought GAB Business Services, Inc., an insurance adjustment and appraisal company in 1975. Given holding-company asset mix, airline losses can profitably shelter other income. Airline company has asked employees for work-rule and wage reductions based on 1980 operating losses.

Eastern Airlines

Financial Control: Emerged from the breakup of the postal-airmail contracts in 1933 as a Mellon-Rockefeller company with strong ties to the Caribbean. Became a vehicle for incorporating an Atlanta elite into the New York-British financial circles who still control Eastern through such individuals as directors Laurance Rockefeller; Harper Woodward (Rockefeller Family & Associates); Wesley Posvar (University of Pittsburgh/Mellon); Roswell Gilpatrick (Cravath, Swaine & Moore); and Clifton Phalen, chairman of the Marine Midland bank, which voluntarily merged with Dope, Inc.'s central bank, the Hongkong and Shanghai Bank.

Director Felix G. Rohatyn, Lazard Frères partner, is an important link to the European financial networks of the "black nobility."

Corporate strategy: In 1970, Eastern worked with Laurance Rockefeller and Rockresorts to build the Cerrmomar Hotel adjacent to the Dorado Beach Hotel in Puerto Rico; both hotels disposed of in 1976, but condominium properties kept. Purchased National Distribution Services, Inc. and Caribair in 1973. Pattern of acquisitions similar to other airlines. On the basis of airline losses, the company has asked employees for wage and work-rule modifications.

Pan American Airways

Financial control: Originally, a creation of New York-London international bankers through South American, Far Eastern, and New York operations. Included William Vanderbilt, Cornelius Vanderbilt Whitney, William Rockefeller, and longtime Pan Am President Juan Trippe, scion of a Baltimore banking family. Early operations included flights for Dope, Inc.-linked United Fruit Company in Central America and the mail route from Key West to Havana. Was also financed to shut the Germans out of South America and open links to the Far East—the well-known Pan Am Clipper service. Said to have been run by the British Admiralty which designed Pan Am's flight rules; a major investor was Winston Guest, a cousin of Winston Churchill. Later directors included Global 2000 advocates Otis Chandler (*Los Angeles Times*), Frank Stanton (Arco), James S. Rockefeller, Cyrus Vance, and Thomas Watson, Jr. (IBM), Sol Linowitz (Coudert Brothers, a top oligarchic law-intelligence firm).

Corporate strategy: The leader in creating a hotel, real-estate, and services conglomerate around the airline, it is also the worst managed, and the biggest loss-maker. With an international advisory board of much renowned oligarchs, including Peter G. Petersen, chairman of the Lehman Brothers-Kuhn Loeb, Andrew Heiskell, former chairman of Time, Inc., and Chinese history Prof. John K. Fairbanks, the bad management must be considered part of an international money operation. The airline has asked employees for a 10 percent wage cut and has begun very heavy layoffs, currently at the 15 to 20 percent level.

of the national airways system, springs from the postindustrial considerations of the Aquarian doctrine. To reduce population levels, the basic purpose of the doctrine, the citizenry must be induced to accept lower standards of living, the dismantling of the industrial base, and increasing restrictions on personal freedoms. Curtailing mobility is an important psychological element in leading a population into the zero-growth feudal world presupposed by these financial strategists; the first and most important move was, in the persistent formula of the weekly magazines, to "break America's love affair with the automobile."

Since the airlines carry 86 percent of all intercity passenger traffic not traveling by private car, the airlines represented a second-round attack against living standards and mobility.

If baldly introduced, the Aquarian policy would never have been accepted, especially by businessmen, who are the largest class of airline users and do not share the assumption that it is desirable to have less business activity and therefore fewer business travelers. A public relations effort was required, not to pave the way for a truthfully stated objective, but to reshape the consequences of the policy so that they would either be seen as a positive good or as the airlines' necessary and rational response to circumstances beyond their control.

Deregulation

The decision to deregulate the airlines was made in 1969 by the industry's financial group, long before the academic treatises and government studies were issued to soften Congress for the passage of necessary legislation. Deregulation is the third of four elements, or flanks, of the Aquarian strategy: environmental controls, oil-price hoaxes, deregulation, and runaway inflation and borrowing costs. All were devised at the same time but implemented over the course of the next decade.

These policies were necessarily of the same package. Deregulation alone, in an economy that was still growing, might introduce an element of chaos, but would not allow for large-scale route abandonment and price increases.

But if environmental restrictions, such as the noise standards that are scheduled to ground half the present air fleet in 1985, and vastly increased costs, such as the 900 percent increase in jet-fuel price and the increase in interest rates from an average 5 percent to 20-22 percent occurred *at the same time,* the airlines would have to respond to "market conditions"—the ostensible purpose of deregulation.

Environmental legislation of the early 1970s, the costly 1968 Occupational Safety and Health Administration harassment, and the hefty tax increases levied to pay for Lyndon Johnson's "Great Society" (a cover for the already visible deterioration of basic industry), figured heavily in the passage of deregulation.

Under the circumstances, which included a punitive attitude toward small and medium-sized contractors by the Defense Department, many Americans were fully persuaded that any reforms eliminating the hand of government in private business could be nothing but beneficial; independent businessmen mistakenly assumed that the airlines were businesses like their own, instead of vehicles of a larger, New Dark Ages postindustrial philosophy.

Then came the "objective studies" by the professors, led by Alfred Kahn of Cornell University. A former New York State official under Gov. Nelson Rockefeller, a professed admirer of the Nazi economy, and Jimmy Carter's chief inflation-fighter, Kahn wrote two volumes entitled *Economics of Regulation.* Johns Hopkins University, Harvard, the Brookings Institution, and the British-controlled American Enterprise Institute contributed their scholarship, while a former Justice Department antitrust lawyer, and subsequently Harvard law professor, Joseph Beyer, joined the staff of Edward Kennedy in 1974 to prepare Kennedy's 1975 hearings that publicly regurgitated the volumes of academic and think tank "research" and forced Nevada Sen. Howard Cannon, then chairman of the Aviation Subcommittee to accept deregulation. At Cannon's 1976 hearings, Paul Ignatius, president of the Air Transport Association (ATA), the industry trade and public-relations arm, testified that deregulation "could spell the beginning of the end of the nation's air transportation system as we know it today."

Air service cuts for selected cities

The following are percentages by which air service to representative cities in the U.S. has been cut since 1977.

Bakersfield, Calif.	−39.5
Brownsville, Tex.	−41.0
Chattanooga, Tenn.	−22.2
Chicago, Ill.	−10.1
Concord, N.H.*	−100.0
Grand Rapids, Mich.	−35.7
Jackson, Miss.*	−20.6
Kansas City, Mo.	−22.7
Laramie, Wyo.	−41.1
Lincoln, Neb.*	−44.3
Oklahoma City, Okla.*	−21.1
Salt Lake City, Utah*	−13.2
Santa Fe, N.M.*	−57.9
Worcester, Mass.	−67.5
Wilmington, Del.*	−100.0

* State capital.

He knew exactly what he was saying, but his testimony was taken to represent the selfish motives of the established carriers—who were at that time feigning opposition to deregulation. Early in 1975, George James, the head of the financial section of the ATA, ran a computer study at Lockheed on the results of deregulation, and declared that one-third of all nonstop routes would be eliminated. Possibly even without any computer study, James knew what was being done, but his small bit of truth was dismissed as airline industry cavilling.

As the Ford-Rockefeller administration pushed deregulation, the airline industry suddenly broke ranks. United now affirmed its support of deregulation. The other carriers fell in line with a good-guy "we can compete" image. The ATA withdrew from the stage of this charade. Republicans from the Western states, which would suffer most from the planned airline scaledown, were pushed into the herd demanding deregulation. When the Aquarians' Trilateral Commission, delegated in the United States to the Rockefellers, put Jimmy Carter into office in 1976, Carter was told to make airline deregulation his first major legislative victory. Flanked by industry and congressional leaders, Jimmy Carter signed the Airline Deregulation Act on Oct. 14, 1978.

The scaledown plan

The airline financial group planned that, after deregulation was passed by Congress, the industry would be scaled down, its routes reorganized, and its total service reduced by an average 25 percent.

Federal Reserve Chairman Paul Volcker's credit restriction in October 1979 helped.

However, 1979 was a banner year for the airlines, and was widely used by the deregulators to effect trucking deregulation where, unlike the air transport industry, no cartel existed and there was also a powerful union whose ultimate concern was the health of its industry. Similarly in the rail industry, although virtually completely cartelized since the turn of the century, the shippers and local manufacturers and communities exert strong pressures on their congressmen to halt the massive abandonment planned by the railroad financiers.

Airline deregulation was exhibited to the nation as a successful experiment that must be spread to all transportation and energy production.

The "success" was over by the beginning of 1980. At the end of that year the cost of a gallon of jet fuel had risen to $1.10—exactly 10 times what it was a decade earlier. The cost of fuel as a percentage of total airline costs had soared from 12.7 percent in 1970 to 30.5 percent in 1980.

The tenfold increase in fuel prices in turn imposed an enormous cash drain on the airlines, with appropriate cries of distress from operating executives. Yet the increase is difficult to explain. Other fuel prices like gasoline and diesel fuel rose between four and fivefold, a multiple that could be attributed to increases in crude prices. The jet-fuel inflation is best understood as a transfer of funds from the airlines to the oil companies as the airlines prepared for their planned 25 percent cutback.

The fares

Since deregulation compels the airline industry to reflect "actual market conditions" more closely, fares began to soar as the fuel price rose. In the third quarter of 1979, the average coach fare was 11.74 cents per mile on domestic trunk airlines and 16.06 cents on local service. A year later domestic trunk fares averaged 14.17 cents per mile, an increase of 20.7 percent, while local service fares went to 22.50 cents per mile, an

Figure 3

Average coach fare per mile by carrier group

(third quarter 1979 to third quarter 1981)

Carrier group	3rd quarter 1979	3rd quarter 1980	3rd quarter 1981 (est.)	Percent change 3Q '79-3Q '81	Percent of traffic 1/81
Domestic trunk	11.74¢	14.17¢	19.23¢	63.8%	84.2%
Local service	16.06	22.50	24.58	46.5	11.0
Other carriers	12.70	16.03	18.35	44.5	4.4
Average fare per mile (3Q '81)			19.59	60.7	

Source: Civil Aeronautics Board, *Passenger Origin and Destination Survey, 1981*. Third quarter figures obtained by extrapolating first quarter figures. Actual fares may be higher.

TWA Constellations in 1947: further technology did not take off.

increase of 40.1 percent. Extrapolating the CAB first-quarter fare figures into the third quarter of this year (a conservative estimate), we find that domestic trunk fares will have risen 63.8 percent over the two years, and local service coach fares will show a 46.5 percent boost.

The overall increase in coach fares for the two years will be 60.7 percent, an increase unknown in any other domestic industry.

Analyzed in mileage terms, by the coming quarter fares for distances up to 150 miles will show a 60.9 percent increase.

The service

The Department of Transportation, traditionally run by the railroad financiers, will be the receiver of the bones of the "sunsetted" CAB in 1983; it had shaped the Professional Air Traffic Controllers strike to trigger the full-scale 25 percent airline industry cutback. Yet even before the strike had begun, service cuts were evident in every part of the country.

Flights from large hub to large hub had declined 6.4 percent from October 1977 to October 1980. Flights between medium hubs were down 13.4 percent; from small hub to small hub, 10.4 percent; the number of flights between non-hubs (very small airports), dropped 16.5 percent. Total flights decreased by 5.6 percent.

Under the airline scaledown plan, which was to have been completed by April 1982 but may be completed earlier, under the FAA order reducing overall domestic flights by 25 percent, overall service is estimated to drop by 27.1 percent below that of 1977 by the end of this year.

The resulting configuration of air service is a gradual dissolution of the national air network into a series of regional airways grouped around individual hubs. This means that connecting service, the backbone of a national air system, will gradually disappear, just as George James of the ATA predicted in 1978.

Figure 4

Average fare per mile by distance on domestic routes

(third quarter 1979 to third quarter 1981)

Mileage bloc midpoint	3rd quarter 1979	3rd quarter 1980	3rd quarter 1981 (est.)	Percent increase 3Q '79-3Q '81
100	27.95¢	40.20¢	44.98¢	60.9
200	21.13	35.28	26.74	26.5
300	17.38	20.79	24.89	43.2
400	15.81	19.64	22.78	44.1
500	15.61	20.42	24.38	56.2
700	13.58	17.79	21.16	55.8
1,000	11.33	13.88	16.18	42.8
1,300	10.80	13.03	15.39	42.5
1,600	10.34	11.26	18.09	74.9
1,900	10.10	11.71	17.64	74.6
2,200	8.81	11.12	16.74	90.0
2,500	7.63	7.33	15.67	105.4
2,800	8.37	8.91	11.19	33.7

Source: Civil Aeronautics Board, *Passenger Origin and Destination Survey, 1981.* Third quarter figures obtained by extrapolating first quarter figures. Actual fares may be higher.

An experiment in labor recycling: the gameplan for airline employees

Airline deregulation offers the financial group an opportunity to conduct a labor experiment that is perhaps even more fundamental to oligarchical plans than the reversion of the system to a luxury service for a relative handful of individuals in the highest income brackets.

Airlines are now conducting a recycling of labor that, if successful, could reduce wages in the industry by an average of 30 percent, and reduce the highest wages by as much as 50 percent. This process would become a model to be used in other industries.

The airline labor force is not typical of the workforce as a whole; it is characterized by a relatively transient labor force among certain job classifications, and by expectations on the part of the workforce of boom-bust employment where periods of layoff (or furlough, as it is called in the industry) are common and often lengthy. For example, among flight attendants, average job seniority is only six years, since most attendants are young, single women who often leave their jobs to marry. Other employees, including low-seniority skilled mechanics, machinists, and flight personnel expect to work on an "as needed" basis.

Before the PATCO strike, between the end of 1979 and the summer of 1981, the airlines had furloughed approximately 8 percent of their employees. Ten percent of all pilots had been laid off; at TWA, 1,150 pilots of a total roster of 4,450 had been furloughed. Over the course of the industrywide scaledown, the airlines expect to lay off an additional 20 to 25 percent of the employees, most permanently.

What would an airline employee do, for example, if he or she received a letter like the following one sent from John Truex, vice-president of in-flight services of TWA, dated Dec. 29, 1980:

"Dear Susie:

"We have just completed the financial planning and staffing levels for 1981 and it now appears that we will not have an increase in staffing sufficient to warrant any recall prior to the second quarter of *1982* [emphasis added]."

The letter further says that the industry "continues to respond to the uncertainties of the economic environment, competition, and fuel prices," concluding: "May I wish you the best possible holiday season and a brighter 1981 for all of us."

The 85,000 employees expected to be laid off by Christmas have two choices: either work for another airline that is hiring, or leave the industry. In either case, these workers will be recycled, entering another airline with loss of all seniority, or entering another occupation, usually a lower paid one, at starting salary.

A package that pushes the work force into a free-fall

We continue to believe regulatory reform has benefited the public and the employees and shareholders of United. . . . The freedom to make the decisions which affect our business enabled United in 1980 to:

- Complete a route-restructuring program begun in 1979 and generate a 12 percent increase in average passenger trip length. . . .
- Raise fares and improve the average revenue per scheduled revenue passenger mile . . . a ticket priced at $100 at the beginning of the year sold for $152 at the close of the year. . . .
- Adjust the airline's size to market demand quickly. We dropped certain routes where service could be profitably provided; on other route segments, we reduced frequencies to adjust to the available traffic. . . .

Decreasing available capacity required the unpleasant task of furloughing employees and taking other actions to reduce the payroll. In December 1980, United had approximately 5,200 fewer employees than in December 1979.

—*United Airlines, 1980 Annual Report*

Courtesy of Pan American

A pre-World War II Pan Am luxury flight.

If, for example, a pilot with average seniority of 14 years and average income of $62,000 a year enters another airline, he will begin at $30,000, the entry-level wage. If an attendant with average six years seniority and average wage of $18,000 a year decides to seek employment at another airline, that attendant will start at the entry level of $10,800.

Many attendants are considering working for foreign airlines like Singapore Airlines or Cathay Pacific, which are actively seeking personnel. Should the attendant decide to work for Cathay Pacific, the airline of Dope, Inc.'s Swire Group, she will receive a beginning wage of $521 a month or $6,250 a year.

To accommodate the recycled labor, the airline financial group has created a number of new, nonunion airlines like PeoplExpress and New York Air; the latter is financed by Chase Manhattan to recycle the resources of Texas International, an 85 percent unionized airline. Francisco Lorenzo, the front man for the operation, simply repainted the Texas International planes, and set up a high-pressure recruiting team with the pitch that rather than suffering from unionization, employees would become part of the New York Air "family," and grow and profit with the airline. As part of the "family" they would be required to work without the work-rules that exist at other airlines.

The large carriers will thus recycle labor downward to the newly created "new entrants," although both groups are, in fact, financed by the same source. To enhance this process it is possible that one or even two major carriers will go bankrupt in the period ahead, or that a company like TWA will move further toward becoming a hotel, vending-machine, and food distribution company, dumping its routes on the new entrants.

The investment-bank strategy

As the airlines recycle labor down into the regional and local carriers, they have demanded wage reductions, wage freezes, and work-rule changes. More than half the employee contracts come due between now and early next year; the airlines thus expect the fate of the unemployed workers to decide the issue in favor of wage reductions and work-rule abrogation.

Citibank recently demanded that four of the five Pan Am unions accept a 10 percent wage cut as a condition for extending a revolving credit to the carrier. The unions that accepted the cut, in hopes that the carrier would not go under, included the Teamsters.

The industry's financial controllers make no attempt to hide their intent to eliminate the airline unions. Robert J. Joedicke, airline analyst for Lehman Brothers-Kuhn Loeb, said, in a monograph titled "The Goose That Laid Golden Eggs," "The 'closed shop' situation that existed prior to deregulation has evaporated and the necessary gains in employee productivity now required by unionized carriers cannot be achieved solely by acquisition of more efficient aircraft, if the established carriers are to compete successfully with the newer unorganized entrants."

Joedicke notes that even in 1980 the soft employment picture made breaking strikes easier. A PSA pilots' strike in late September was broken when the company solicited strike-breakers and "was deluged by applications from unemployed but qualified pilots, many on furlough from other airlines." Similarly, Continental in December broke a strike of flight attendants who had been working 15 months without a contract.

Joedicke also notes with annoyance that Braniff workers refused to accept a 10 percent wage cut in return for the company's staying in business. In fact, Braniff was being used by the airline industry financial group to beggar its workers with the threat of possible bankruptcy as a paradigm for the industry.

Yet, says Joedicke, these givebacks will certainly come. Chrysler workers accepted a 13 percent wage cut, and cuts and work-rule changes have already been accepted at Uniroyal, Firestone, Armour, and Conrail.

Joedicke's solution is to replace wage increases and work-rules with profit-sharing plans that encourage employees to work harder. Of special interest to the airline financial group is the Eastern Airlines plan to have workers share their wages with the company when the company does not show a profit but to reap a share in the profits when the company is in the black. But since the financial group controls the amount of cash left in the industry, profit sharing could be an effective way of constantly raising the speed of the treadmill—provided the employees actually believed the industry's reported losses.

Joedicke concludes: "Meanwhile, investors should find it rewarding to consider labor-management developments as they unfold for each airline, new or old, in order to evaluate the companies most likely to succeed financially in the new climate of deregulation. There should be little doubt that a revolution is at hand in a key aspect of this labor-intensive industry."

Meanwhile there remains one last barrier to labor recycling in the industry. Section 43 of the Airline Deregulation Act provides for compensation to long-standing employees if it is shown that deregulation has caused an employment drop of more than 7.5 percent in any airline, and provides for the first right of hire industrywide for laid-off employees.

The Department of Transportation, the agency established in 1966 by the Harriman-Mellon group to dismember the domestic transportation grids, has introduced legislation to abolish Section 43. This is used as a bargaining chip to get a compromise bill which will be introduced shortly by California Democrat Norman Mineta, chairman of the House Aviation Subcommittee, that will create a national labor exchange for laid-off airline employees. Such a national hiring hall will presumably make the process of recycling labor more efficient. In neither the administration or Mineta bill will employees receive what amounts to the extended unemployment benefits detailed in Section 43, but it is just as likely that the 85,000 airline workers would never receive any compensation under the present law. Airlines and administration alike can claim that the massive layoffs are not due to deregulation but to market conditions and the PATCO strike.

There is much irony in the airline industry attack on employee wages and working conditions. Between 1970 and 1980 the industry workforce rose from 279,000 to 339,000 but airline passenger miles increased from 104 billion to 200 billion, indicating a very substantial increase in productivity. Measured another way, total labor costs—including fringe benefits, pensions, and management salaries—declined from 46.2 percent of airline expenses in 1970 to 36.1 percent in 1980. By 1982, after the scaledown and accompanying recycling is substantially completed, labor costs will fall to an estimated 30 percent of total expenses, an incredibly small proportion for a transportation industry.

Union members and pro-deregulation businessmen alike might find the fact that the FAA is guaranteeing the loans used by the new, nonunion entrants to purchase their planes a disagreeable irony. Yet, since deregulation was enacted, federal subsidies to the airlines have soared to record levels. Not only is the government guaranteeing portions of the industry financial group's paper, which will rise rapidly as airlines buy new aircraft, but the government is paying increasing subsidies to keep airlines flying—at least temporarily—to cities where the lines were required to fly under regulation.

Figure 5

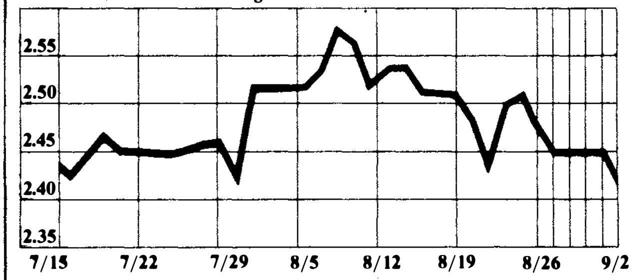
Effects of labor recycling on wages of flight attendants and pilots

Flight attendants		Pilots	
$18,000	Average yearly salary, U.S. major carrier. Seniority: 6+ years	Average yearly salary U.S. major carrier. Seniority: 14+ years	$62,000
$10,800	Average entry salary if unemployed attendant accepts a job at another U.S. airline. Seniority: 0	Average entry salary if unemployed pilot accepts equivalent job at another U.S. airline. Seniority: 0	$30,00
$6,250	Average entry salary if unemployed attendant takes a job with Cathay Pacific Airways. Seniority: 0	Average entry salary if unemployed pilot takes a job with Cathay Pacific Airways. Seniority: 0	$25,000

Currency Rates

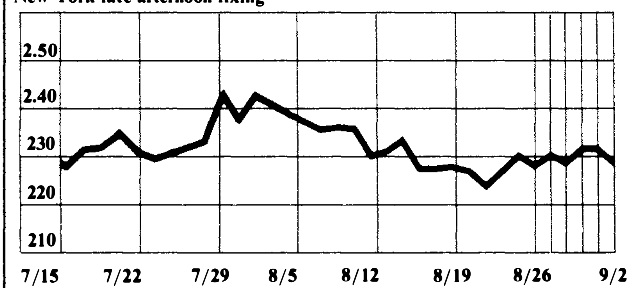
The dollar in deutschemarks

New York late afternoon fixing



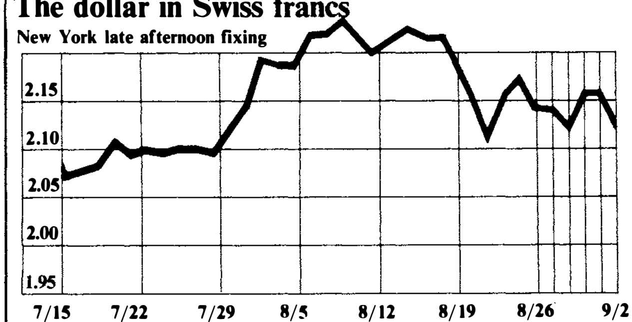
The dollar in yen

New York late afternoon fixing



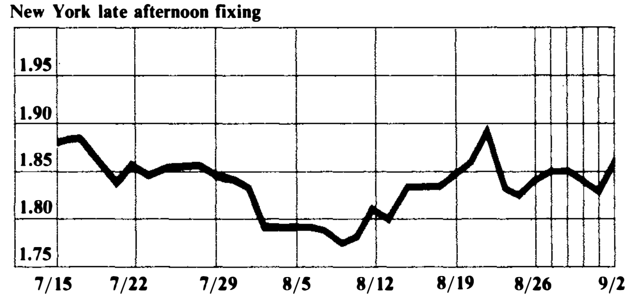
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



Is a budget deficit inflationary?

Japan's and Germany's are proportionally higher, their inflation lower; a look at credit shows why.

The Dow Jones industrial average has lost almost 50 points on the news that the budget deficit in President Reagan's fiscal 1982 budget, which the President originally projected to be $42.5 billion, will be closer to $70 to $80 billion.

As I wrote last week, we anticipated the higher estimates for the budget deficit. But why should the stock market collapse and the financial markets' panic on the news of a $70 billion budget deficit? What does it matter to the real physical economy if there is a $70 billion deficit in fiscal year 1981, or even one as high as $100 billion, which Chase Manhattan Econometrics chief Lawrence Chimerine is predicting?

The financial markets have been too much influenced by the snake-oil prescriptions of quack economist Milton Friedman. According to the Nobel laureate's scheme of thinking, a large budget deficit must be financed by the issuance of Treasury debt. To the extent that all or a portion of this new debt is monetized by the Federal Reserve, the Fed buys this debt and pays for it by creating new money. The money supply swells and this causes inflation.

In fact, there is no causal connection between the size of a budget deficit and inflation. The argument is a fraud.

As Jacques Rueff, the architect of President Charles de Gaulle's magnificent program for the successful restoration of the French economy in 1959, and an impassioned enemy of the Friedman school, wrote in his 1959 Treasury documents outlining the French economic recovery, a nation can disregard the size of the public debt and instead focus on the rate of savings and production levels.

What is debt? It is the overhead cost of an economy for certain services, some of which are useful and some of which are not, and for internal improvements, like road-building, and for sustaining science. Whether an economy can afford this overhead depends on its level of production and savings.

The useful side of government expenditures is that they contribute to the expansion of educational and other capacities of the workforce, and to vital services which allow our industrial base to be upgraded. If a sufficient level of savings exists in an economy, these savings can first of all serve as a pool of funds for the purchase and financing of Treasury debt, thus relieving the Fed of having to monetize it.

The U.S. savings rate for 1970-1980 averaged 6 percent, while in Germany the rate was 15 percent, and in Japan almost 20 percent. These countries were able to have higher deficits without inflation. Japan's budget deficit for fiscal year 1981 is $53 billion, and if Japan's budget were the size of the U.S. budget, Japan's budget deficit would be $159 billion. If Germany's budget were the size of the U.S., its fiscal year 1981 budget deficit would be $126.5 billion, Yet, Japan's inflation rate for 1981 is 5 percent, and Germany's is 6 percent, while the underlying U.S. inflation rate is above 10 percent. Surely if Friedman were correct, Japan's and Germany's inflation rates should be triple or quadruple the U.S. inflation rate.

But savings also serve as an investment pool for lending, by way of the banking system, for industrial expansion and technological upgrading.

This role of savings can be supplemented and expanded by the creation of fiat credit, provided that the latter is issued by the Fed in the form of 50 percent participations by the Fed in commercial bank loans to industry. Under those circumstances, it is not only not inflationary, but in fact counterinflationary.

How so? Say each new issue of credit is called Y. If for each new issue of Y, a corresponding output of production equal to or exceeding Y in value is produced, then the amount of new credit is paid back. Let us call this new output S', representing an economy's surplus. If the growth of S' exceeds the growth of Y, then goods production is outpacing money supply. In this case the growth of money supply is not dangerous, but in fact to be welcomed.

Further, to the extent that the pool of savings and the new fiat credit are used by industry to buy new technology, then the new technology will lead to cheapened costs. In this case, an economy can afford to support its overhead cost of government budget deficit without ill effects.

Can a computer forecast the price?

A South African mining industry-sponsored project suggests an intrinsically unworkable equation.

The International Gold Corporation, which describes itself as "the marketing arm of the South African mining industry," has published a study purporting to analyze the components of changes in the gold price during the short period of free-market gold movements. Mr. Eugene Sherman, the group's economist, summarized the results in a pamphlet entitled, "Gold: A Pricing Model," written in cooperation with the Hudson Institute.

Like all such exercises in regression analysis, Mr. Sherman's computer calculated the logarithmic change in a number of variables, including American and world liquidity, Eurodollar interest rates, real Gross National Product, the dollar exchange rate, and political tension, according to a "quantitative index" prepared by the Hudson Institute staff.

The computer then found a half-dozen or so ways of adding up the change in these variables to produce a graph that looks remarkably like the graph of gold price changes during the past 10 years.

Of course, "the relationships developed appear to be dynamic," Mr. Sherman says, "which is to say that they may not have the same validity in the future as they have demonstrated in the past."

Since the paper was written for the benefit of American portfolio managers, whom the International Gold Corporation wishes to buy gold, it may be excused as an exercise in computerized rationalization for the benefit of gentlemen who do not mind losing spectacular amounts of money for their clients, so long as they can demonstrate that they acted with prudence.

Its conclusions, to the extent they bear validity, are not surprising: "Price movements tend to be dominated by inflation and inflationary expectations . . . commercial demand for gold is highly sensitive to both the real price of gold and real total incomes among industrialized countries . . . interest rates and political tensions cause identifiable movements in the gold price."

The fact that the computer people composed an equation (so much inflation fear plus so much political tension plus so much spare income, etc.) which "explains 87 percent of monthly price variation" in the past does not, as Mr. Sherman states candidly, have much to do with the future.

Nonetheless he ventures a set of scenarios for the gold price during the next several years, ranging from $485 with low liquidity growth and low political tension to $618 with high liquidity growth and high political tension by the end of 1982.

To the extent that the effort is interesting, if admittedly limited, one crucial assumption which underlies the study, and takes up much of the pamphlet's text, is utterly false: that the gold markets are "efficient." That means that the market supposedly comprises many participants who "very quickly translate into market price all available information." No one but an American portfolio manager, the laughingstock of the financial world, would believe this. The gold markets are rigged, by Mr. Sherman's employers, among others.

There is no present justification, for example, for a $400 or so gold price, except that every price rally has been squashed by a syndicate composed of the major gold accumulators, e.g. Union Bank of Switzerland, Banca Commerciale Italiana, and Banco Ambrosiano, as I earlier reported in this space. *EIR*'s estimate of the rate of growth of world liquidity is 35 percent per annum for 1981, almost twice what Eugene Sherman has plugged into his scenarios; under his liquidity weighting system this would produce a spectacular price increase.

The fact that much of the world is going bankrupt by stages compels both individuals and governments to sell gold. Certainly there is a relationship between the sudden spate of Soviet gold sales, which brought the first six months' sales to between 60 and 80 metric tons (equal to all of 1980's), and the financial crises in Poland.

What is interesting to watch is how underlying economic reality tends to assert itself against efforts to rig the market. Mathematicians would call this a "system with two conflicting optimizing criteria," and pronounce it unsusceptible of treatment by any computer-based analytical methods. However, the human mind, as all great music attests, is capable of making sense out of such striving, and remains an analytical tool superior to Mr. Sherman's computer.

The fraud of 'sustainable agriculture'

Beginning with the Carter years, environmentalists have used real problems to create potential disasters.

The Worldwatch Institute's Lester Brown called for "sustainable agriculture" in recent hearings at the House Agriculture Committee. This marks a new effort by the zero-growth environmentalist lobby to intervene in domestic farm policy.

Brown's policy proposal—contained in a chapter of his forthcoming book, *Building a Sustainable Society,* which Brown pompously offered as testimony at House Agriculture hearings on world hunger July 23—is based on accommodating to an era of "limited resources." Brown documents the deterioration of cropland, the crisis of water supplies and price, the crisis of high-priced energy, the slowed pace of agricultural productivity gains in the United States and, deeming such documentable trends natural and inevitable, bids American policy-makers and producers to wind down their activity and output.

It is a proposal for shutting down American agriculture, historically the most dynamic and productive sector in the economy.

Until the reign of Agriculture Secretary Bob Bergland, the liberal environmentalist lobby did not play a large role in U.S. agriculture policy. Of course, their success in killing nuclear energy development and banning key farm chemicals seriously affected productive agriculture. But the snail darter set hadn't directly laid their hands on domestic farm policy per se.

In fact, Bergland's Agriculture Department was the original launching pad for the "sustainable agriculture" dogma. During the 1980 drought—three years after Carter had killed more than 10 critical water development projects and inflated energy charges had driven irrigation costs sky high—Bob Bergland's emergency aid coordinator Roger Sandman took up an attack on irrigated farming. "Water is not an unlimited resource," Sandman said, and proceeded to advocate the "limited inputs" method of dryland farming despite its lower productivity.

The Carter-Bergland view was carried over into the fight between Carter holdovers and the Reagan progrowth team in the Council on Environmental Quality, the agency that produced the notorious *Global 2000 Report* for President Carter. An early draft of the CEQ's annual report to the President—now under scrutiny by Reagan advisers—contained a section titled "Agriculture: The Transition to an Era of Limited Resources."

There is every indication that Brown and company will get a boost for their project from cohort Frances Moore Lappe and her San Francisco Institute for Food and Development Policy. Lappe, an intimate of brainwasher Werner Erhard of est, also testified at the House hearings and was promptly promoted by the *Washington Post.*

Lappe has a more sophisticated version of the same zero-growth mush, aimed especially at financially squeezed farm producers. Dumping food exports hurts the Third World recipient countries, says Lappe. And expanding production in the United States is ruining our soil and using up scarce resources anyway, she continues.

Like Brown, Lappe ignores or lies about the actual causes of the very real problem confronting American agriculture. The deterioration of American soil is not a "natural" result of chemical fertilizer use—it is the direct result of the lack of profitability in farming that has forced producers to forego those capital investments in future soil productivity.

The problem with farm exports is not, as Lappe demagogically implies, the exports themselves. The problem is the fact that this trade is conducted at price levels that deny the producer the profit necessary for his future productivity. That, and not the trade itself, is what locks American farmers into new cycles of unprofitable production-for-export and at the same time, condemns Third World producers to backwardness and poverty.

At the same hearings on Capitol Hill, American Agriculture Movement President Marvin Meek explained that a parity policy for U.S. agriculture is the first serious step toward solving world hunger.

Meek explained the farmers' point of view: "We see it as in our interest as farmers that other countries are able to develop their own agriculture, because if they do not, they will not have strong enough economies to afford to pay us a fair price for whatever we do export to them."

Art Investor by D. Stephen Pepper

Tradition and the 20th century

Remarks during the columnist's August tour of Detroit, Oklahoma City, Tulsa, Dallas, and Houston.

The article below by John Brandenburg appeared in the Aug. 23 issue of the Sunday Oklahoman, *published under the headline "Italian Baroque Art Period Enjoys Revival."*

An authority on 17th-century Italian art emphasized the importance of unlocking "not only the excellence but the appropriateness" of the Old Masters tradition in art to present-day life during a visit to Oklahoma City last week.

An expert on Bolognese painter Guido Reni, Dr. D. Stephen Pepper said the Italian Baroque period was often neglected during the late fifties because it was considered sentimental or even decadent.

But the former art history teacher, who writes a column on art investing for the conservative *Executive Intelligence Review,* said work of the period is currently enjoying a widespread re-evaluation as "great religious art."

"I like to think it's part of a reevaluation of the importance of tradition in art that's going on worldwide," said the New York City resident, who addressed private groups in Oklahoma City and Tulsa.

"You might say that I proselytize for the value of artistic tradition. I believe basically in the art of the Academy—which means learning to draw and building on traditions—but, above all, it means conveying ideas.

"Modernism believed that art existed on its own, not to convey ideas. I think that's played out. It's a phenomenon of 20th-century art to pay too great a respect to ideas in a primitive stage, as if being primitive was being sincere.

"The notion of the Academy is that there is some high ideal that is the vantage point of the artist. This was not overthrown because it was decadent, but because people sponsored nihilism and pushed it as the outlook of the 20th century.

"We can build a 20th-century art that is more satisfying and valuable for humanity.

"If that makes me an idealist, then I'm an idealist.

"Museums are very important educational, as well as cultural, institutions, and I think they're going to have to do a lot more educating that is not limited to universities and schools.

"There needs to be an actual understanding of the intellectual origins of modern society. The commitment to develop the technology to go to the moon was really a commitment to fulfill ideas that began in Renaissance Florence.

"Artists who understand that are much better equipped for the modern world than someone who pursues 'art for art's sake,' or thinks that science is just technology. . . .

"I think it's very important for the artist to establish the first view, but there are very few artists today with the ambition or talent to undertake that task. The product must be to create a viable contemporary art."

Associated with Pepper Fine Arts, Inc., which offers a New Collectors Series of 17th-century Italian paintings priced "in the range of $10,000," Pepper says he feels Old Masters works are more accessible than many people think.

"Especially with the Reagan idea of private money replacing federal money in the arts, and the Southwest in the forefront of growth, we want to be among those who serve this region," he explained.

Pepper said it is appropriate to think of art as an asset which a buyer can "reasonably expect to appreciate over time" so that if he wants to give it to a cultural institution he can get a "legitimate tax advantage."

He cautioned, however, that "first of all" an art object should provide "beauty and stimulus" to the owner. "Without that, I don't think any private buyer should be involved," Pepper said.

Noting in regard to art forgeries that "the hardest thing to fake is the conceptual power of the master," Pepper said society is only as strong as its ability to be moved by that power.

"I think we've fallen to a dangerous level in our critical appreciation of the Old Masters tradition, which is based on the fundamental idea that natural form can be used to convey ideas of substance.

"In the late 19th and early 20th century there was a sudden reversal of the prevailing purposes of art. Reality, content and the fundamental skills that had served us so well were denied. But we have a right to ask what the results have been, and to what purpose?"

World Trade by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
$900 mn.	U.S.S.R. from Finland	A series of advantageous contracts has been won by Finnish companies.	
Including:			
$490 mn.	Promaschin import from Finnstroi	Finnstroi engineering won contract to complete Kostamus iron mining project just across Soviet border from Finland. Finnstroi will build 9 mn. tpy iron pelletizing facility and complete town it is building for 15,000 Finnish workers and dependents at Kostamus.	Pellets will go to Raahe steelworks in Finland.
$210 mn.	Sudoimport from Oy Warsila	Finnish yards will build 3 ice-breaking multifunctional freighters of 20,000 DWT each; 2 ice-breaking rescue-salvage ships; and 4 ice-breaking oilfield supply ships.	All will be for Soviet Arctic development.
$17 mn.	Soviets from Valmet	13 special vessels for use in Arctic by Soviet natural gas ministry.	The "Finlandization" of U.S.S.R. is not expected.
$1.5 bn.	South Africa from U.S.A./ France/West Germany	Combustion Engineering and a Stein Industrie-ETV consortium won identical contracts to build 2 coal-fired electric plants in South Africa. Each dry-cooled station will generate 3,600 megawatts.	Financing arranged by Hill Samuel and Banque de l'Indochine.
	Maputo (Mozambique) /Sweden	2-year trade agreement signed; includes $80 mn. Swedish donation for energy, agro, education and communications development.	
$45 mn.	U.S.A. from Brazil	Villares has signed contract with Ohio River Steel for a complete 250,000 tpy rolling mill for plant in Kentucky. Villares is one of the largest industrial groups in Brazil, with broad scope of capital goods production.	Low interest export credit from Banco do Brasil.
	U.S.A. from Japan	Nippon Steel has made deal to ship Armco 20,000 to 50,000 tpy seamless steel pipe over next 10 years. Armco's 300,000 tpy production insufficient for growing demand. Armco is investing $671 mn. in expanding U.S. plants, but that is still expected to be inadequate.	Pipes used in oil and gas industry.
$130 mn.	Egypt from Canada	General Motors of Canada won order for 143 locomotives.	$113 mn. in Canadian export financing.
UPDATE			
$4.5 bn.	Brazil from U.K.	Brazil govt. considering scrapping 75% complete Acominas steel project. Mill would substitute present Brazilian imports of structural steel profiles, at moment when construction orders in Brazil are plummeting. Mill equipment provided by British Davy group is rusting all over site, following cutoffs of financing and delayed payments to contractors.	$3.9 bn. already invested in project could be wasted. London bankers who financed project prefer cancellation to rapid growth in Brazil.
$1.9 bn. just for British air industry orders	U.S.A./U.K.	Congress has let a deal signed in July for integration of U.S. and British military aircraft production pass into law. Deal is for joint production of British Harrier jump-jet, including 336 for U.S. Marine Corps and 60 for RAF. British Aerospace will make 40% of components and McDonnell Douglas 60%. Engines will be 75% Rolls Royce, 25% Pratt & Whitney.	All assemblage (except for RAF) will be done by McDonnell Douglas in U.S.

BusinessBriefs

International Credit

Predictions mount of financial blowout

The latest issue of the *Bank Credit Analyst,* a Canadian financial newsletter considered the most prestigious such financial bulletin, states that within the next 30-60 days there is danger of a serious "accident" on international financial markets. World debt markets are "overextended," the newsletter notes; high interest rates make financing of that debt impossible. Within the coming month or two, a global liquidity crisis may well become irreversible.

In a private discussion on Sept. 3, a top-level U.S. investment banker intimately linked to European oligarchic circles concurred: "Many people think things will improve; they think 'things never break.' " But, "an extremely painful process of adjustment in the Third World" is ahead. International banking is suffering from "growing illiquidity," he noted; "banks are still receiving payment on interest" on their loans, "but nothing of the principal. These debts were never intended to be repaid anyway." The situation ahead "for the Third World will be very painful. . . . What is important is the insolvency of the Third World."

Municipal Finance

Koch plans further fiscal crunches

New York City Mayor Edward Koch, now running for re-election, will institute significant new cuts in New York social services after the election, investment bankers are confident, although Koch is currently publicizing plans to borrow $30 billion over the next decade to finance a new capital-expenditures program. Koch has no intention, these circles report, of demanding increased revenues from the federal government.

"Of all the mayors of major cities," stated a spokesman for the Citizens Budget Commission, which coordinates with the New York banks, "Koch made the most realistic adjustments to new federal realities."

New York was scheduled to seek $125 million on the bond market before June 1982. However, in January, the city will issue a financial plan review. Currently, the terms of the review are being kept confidential, but the Citizens Budget Commission asserts that it will depict a grim financial situation, and revise Koch's campaign spending promises downward.

"Fiscal 1983 will be miserable," the Citizens Budget Commission official stated, characterizing the report's contents.

Bond Markets

Rohatyn and Morgan demand a credit cutoff

Claiming that the municipal borrowing crisis is worse than "that of Chrysler or the thrifts," the *Journal of Commerce,* unofficial organ of Morgan Guaranty Trust, issued a lengthy editorial Sept. 3 demanding that U.S. state and local governments sharply curtail their borrowing, which last year totaled $47 billion.

The *Journal* specifically excoriates the use of tax-exempt municipal bonds to build industrial parks, one of the few sources of viable credit left for local industry. "Congress should redefine the whole concept of 'public purpose' and consider a moratorium or ban on these securities that are not issued by publicly owned supporting enterprises."

The *Journal* notes that the Reagan tax program and the S&Ls' all-savers tax-exempt certificate have made municipal bonds much less attractive to high-income investors and forced the usually substantially lower interest rates on municipal bonds up to the level of those on taxable bonds. Therefore, "banks and equity companies have virtually pulled out of the market as buyers and wealthy individuals are distracted by the investment options and are, in any event, demanding shorter maturities."

Meanwhile, New York financial overlord and Lazard Frères partner Felix Rohatyn proposed to Mayor Koch and the New York State administration at a Sept. 2 press conference that the city, state, and regional authorities determine a collective limit to their borrowing, reduce the total by 25 percent, and scale down services and new construction "because of the unfavorable bond markets," which he assumes will remain that way.

Banking

Somber predictions from German spokesmen

Leading bankers participating in the yearly International Summer Banking School in the West German town of Timmendorfer, Schleswig-Holstein, have expressed unusually pessimistic views on the international financial situation.

The Bundesbank Governor, Karl-Otto Poehl, said in his speech that banks should become far more risk-conscious than they have been in the past and restrain their lending activities on the international markets. Citing the case of Poland, the German central bank chief commented that concentrating too much on one single borrower should be avoided, since it made the lender banks vulnerable to "blackmail," and forces them to grant further help.

Deutsche Bank cochairman Wilfried Guth strongly called upon Third World nations "to adjust to the new world economic realities," and asserted that the commercial banks should impose tough lending conditions similar to those demanded by the International Monetary Fund, when they lend to Third World nations. However, Guth continued, "even those nations that try to accept and implement conditionalities may end up losing their creditworthiness."

Finally, Commerzbank board member Engelbert Dicken stated that German banks have extended 20 times as much international credit as their own capital base, and demanded a massive improvement of German banks' capital structures. Dicken also proposed the development of joint financial ventures between OPEC nations, the industrialized countries, and official institutions such as the IMF and the World Bank.

Energy Policy

Hormats gets cool reception in Bonn

During the last week of August, U.S. Undersecretary of the Treasury for International Trade Robert Hormats led a large delegation to Bonn for a perilous exercise: at the recent Ottawa summit conference, the American delegation, in an effort to deter West Germany from entering a very large, long-term agreement to buy natural gas from the Soviet Union, had pledged to promptly present Helmut Schmidt's government a set of alternative proposals aimed at improving the German energy-supply situation.

Bonn has strenuously explained that the contracts with Moscow are already far too advanced to be repudiated; and the tenor of the package brought by Hormats suffices to ensure that the Germans reject it.

Hormats suggested that Bonn reduce the size of the gas contracts, and proposed to create instead a global Western "energy safety net." He then offered to 1) deliver large quantities of U.S. coal, building up East Coast ports and involving mine operators in the investment, and launch German-American synthetic-fuels programs; 2) make firm commitments for sale and delivery of U.S. uranium and enriched nuclear fuels; 3) export U.S. gas, which should become easily exportable, once it is deregulated, and; 4) export Alaskan oil.

While polite skepticism was expressed in Bonn concerning this set of offers, the German press announced that Wycoal Gas and other U.S. corporations have agreed with their German partners to "reduce the first phase and postpone the following phases" of the joint venture in coal gasification the Carter administration had launched with West Germany.

Third World

Costa Rica halts debt payments

Despite extended consultations with the International Monetary Fund, the global agency which aims to bolster countries' creditworthiness through emergency financing, Costa Rica declared a debt moratorium on Sept. 2 on $2.4 billion in outstanding debt. Its creditors include most of the major New York commercial banks.

Government spokesmen, in announcing the move, described the financial situation of the country as "desperate." Sharp import reductions will now be imposed in an effort to gain control over the chaotic financial situation. The cuts are to include a prohibition against imports of both cars and agricultural machinery.

The New York banks did not expect Costa Rica to declare a moratorium at this time, sources have indicated. The suddenness of the move is being interpreted as part of the worsening political crisis in Central America; further financial dislocations in the region are now expected.

Before the moratorium was announced, the IMF had been monitoring the country's finances very closely. During discussions between the IMF and Costa Rican officials, the IMF requested that representatives from the private business sector also be admitted to the talks. Observers interpret this as a signal that the IMF is accelerating the trend to make "private enterprise" the doctrine for governing financial and trade relations between advanced and developing countries.

This is the second occasion on which IMF intervention in Latin America has resulted in debt moratorium. Earlier this year, Bolivia declared a halt on payments after six months of deliberations with the IMF.

Briefly

- **THE SAUDIS** are "buying large amounts of gold off-market, and someone is giving them very good advice as to how to make the purchases," a Washington, D.C. source reported Sept. 4.

- **ITALY'S** top economic ministers met the week of Aug. 31-Sept. 4 and discussed cutting the Italian fiscal year 1981 budget by $9 billion to $23 billion, after having already cut the budget considerably.

- **ITALSIDER,** the giant state-owned Italian steel producer, could not meet its August payroll for 52,000 workers and is scrambling to borrow to cover the costs.

- **NORMAN TURE,** undersecretary of the Treasury, said in a Sept. 3 interview: "The Fed is correct in tightening monetary policy. If only Volcker repeated many more times what he did on TV last Sunday, he would finally convince the financial markets that the Fed will stick to its firm policy, and then interest rates would come down. . . . There is no connection whatsoever that can be established between the size of the Federal deficit, the magnitude of capital formation, and inflation."

- **REP. JIM MATTOX,** a Texas Democrat, addressing the state independent bankers' association at the beginning of September, described Paul Volcker as "a mad scientist." As for Donald Regan, Mattox predicted that when the Treasury Secretary gives his upcoming policy address on banking, the administration will move toward "true deregulation"; Mattox charged that this will open the regional banks, which are responsive to local needs, to takeover by major banks "who may not even have national interests at heart. Twelve of the largest banks in the U.S. are owned by foreigners." Mattox sits on the House Banking Committee.

Volcker's clamp on the economy: past and future results

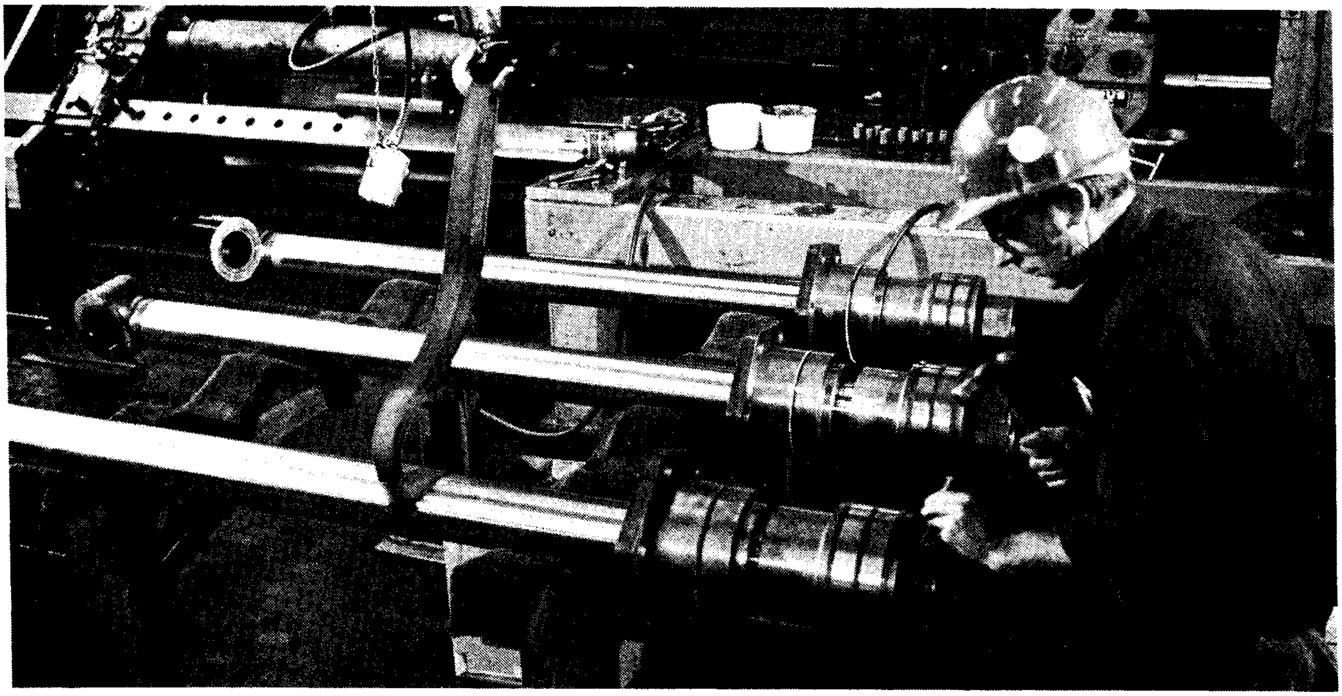
by David Goldman, Economics Editor

Last Sept. 2, *EIR* forecast a modest recovery from the depths of the 1980 industrial downslide, motivated immediately by the halving of interest rates that summer from their February 1980 highs, followed by a new downturn during the second half of 1981, or earlier, should Jimmy Carter remain in office. This forecast for the aggregate economy was elaborated, in January and again in May 1981, as a highly differentiated change in the structure of the American economy, within the same overall parameters.

Now the evidence is accumulating, to the point that the "consensus" of forecasters is finally that the United States economy will be in recession during the second half of 1981. If the "consensus," at last, cannot manage to be wrong, at least they are succeeding in being thoroughly misleading.

Short-term "business cycle" fluctuations have very little to do with what is at issue. *EIR*'s success in such forecasting stems from an approach which begins with the LaRouche-Riemann model's unique capabilities for "long-wave" forecasting. The computer model provides the only accurate quantitative analysis of the underlying crisis of the American economy. As an afterthought, short-term forecasts are possible from this unique vantage point, given a competent financial model and the political-intelligence capability to "outguess" the predictably stupid moves of both the monetary authorities and market participants.

However, the United States, and therefore the world economy, have entered a period where the political choices that must be made are so fundamental that it is not possible to forecast more than the appearance of a crisis sometime during the fourth quarter of this year. What form the crisis will take, and what might lie beyond it, are not yet decided. To the extent that the computer-based forecast presented in this Special Report accurately portrays the declining path defined by the *present momentum* of the U.S. economy, it does not tell us at what point this trajectory will intersect a monetary and political crisis. Since among the readers of *EIR* there are a number of participants in the decisions to these questions, it is sufficient that we all be clear as to the nature of what faces us.



Assembling hydraulic cylinders: capital goods are not flowing into the requisite industries.

First, let us agree with the Federal Reserve's cheerful confession that its supposed program of monetary control is a hoax, i.e. that narrowly defined money supply no longer has anything to do with other measures of monetary expansion, bank lending, or the economy in general. The first eight months have not been a period of monetary restraint, but monetary explosion, as the Federal Reserve staff will admit to any caller. What Salomon Brothers' oracle Henry Kaufman calls the "credit proxy," or simply business borrowing, has risen at a 35 percent annual rate. Economist Alan Reynolds of Polyconomics Inc. in Morristown, New Jersey, has constructed a monetary aggregate "M1-X," by "adding to M1-B the increase in money market funds, overnight Eurodollars and repurchase agreements," etc. His measure rose at a 22 percent annual rate in July, on the same path that this measure began at the start of the year.

The money-supply explosion

Other such approaches are possible. What stands out is the simple fact that U.S. corporations opened $36 billion of Eurodollar market credit lines in the single month of July, partly to obtain quick funds for merger negotiations, but also to prepare for direct controls on lending in the United States. The one area central banks cannot control—merely because they have not yet demanded of the banks sufficient information to do so—is loans from the Eurodollar market to domestic corporations.

Of course, the market still reacts to weekly changes in the silly M1-B measure, not because anyone except University of Chicago cultists believe it means anything, but because the Fed has the market trained through classical punishment-reward techniques. Because the Fed has conditioned the market to expect higher interest rates when the nonsense-measure M1-B rises, it responds appropriately, except to the extent that reality pokes up through the floorboards.

The side of the monetary process that has become "objective" is that over 65 percent of the gross internal funds of nonfinancial corporations must now be applied to interest on existing debt, against an average historical value for this ratio of about 25 percent. About 40 percent of all lending this year, *EIR* economist Richard Freeman calculated, merely refinanced old debt service, while a further 20 percent financed debt service indirectly, by keeping unsold inventories on retailers' and wholesalers' shelves rather than winding down production.

To the extent the Federal Reserve intervenes to slow the rate of liquidity expansion, itself due to the extreme illiquidity the Fed created through its initial high-interest policy, one of two things may happen. Either corporations will liquidate inventories and production, leading to a severe downturn, or they will cease to pay debt service, and enter bankruptcy proceedings.

That the Federal Reserve would do again what Arthur Burns did in October 1974, or Paul Volcker in March 1980, i.e. advise the banks to stop lending, has been predictable all along. Whether this takes the form of outright credit controls, or the more discreet application of a "bank credit target," is of secondary interest. "Paul Volcker wants a recession, and, by God, he's going to get one," said a senior economist at the Federal Reserve Board of Governors. The only problem is, Volcker may get considerably more than that.

Investment areas

The second, and more important, point of agreement is more elusive, if only because the most basic criteria of competent economics have been overwashed in the gush of "supply-side" economics and so forth. What the LaRouche-Riemann model permits is a rigorous examination of how the physical economy functions. To be specific, it immediately dampens the enthusiasm for so-called "sunrise industries" or "information society" devices.

As we indicated in our last general forecast, which took into account the combination then proposed of tight money, across-the-board tax cuts, and an expanded military budget, every dollar of sales in the economy is not equally important, particularly with respect to the prospects for getting the economy through to next year. If investment shifts to oil and electronics from steel and auto, but the product of electronics is consumed mainly in the form of home video games, office equipment, and military procurement, the shift represents a *net loss* to the economy. It does not matter, except in the very short run, that the electronics industry is much more productive (e.g. value added per unit of labor cost in the office equipment sector, such as computers, is about two and a half times as high as in the steel industry). So much more of the electronics industry's product is consumed as "overhead," rather than ploughed back into the stream of production that the shift actually lowers *real productivity,* measured by the key ratio of reinvestable surplus product divided by the sum of capital and labor costs in tangible-product terms.

Even more obvious, if more difficult to accept, is the fact that the present oil-drilling boom is a case of the economy collectively banging its head against the wall. It represents the substitution of American labor, raw materials, and capital goods to the extent of $15 to $20 per barrel in extraction costs, if not higher, to save the purchase of Saudi oil, at a per barrel extraction cost of less than $1. Of course, the Saudis extract payments from us of $34 per barrel, and a complicated financial mechanism is required to obtain, once again, use of Saudi revenues. But the underlying point is that American energy "independence" at the higher end of the production-cost spectrum represents a massive charge against the future potential of the American economy.

Together, all forms of energy-related investment, including oil and gas drilling, down-sizing of automobiles and aircraft, energy conservation, conversion of refineries to heavier crude oil, amount to 45 percent of all capital investment in the United States. Since the one form of energy investment that is best justified by state-of-the-art technological standards, nuclear power-plant construction, is practically nonexistent, the entire remaining mass of investment—except for a few obvious improvements—represents a form of economic retrogression. In other words, the differential between the cost of solving the energy-supply problem through construction of nuclear power plants and between solving it through investments of the sort America is now conducting represents a straight addition to "overhead."

The basis for downturn

For this reason, as *EIR* has emphasized, the internal content of the last year's industrial behavior is much more significant than the absolute volume of output. To the extent the economy has actually recovered, auto, housing, steel, and a handful of other industries have marginally revived above the 1980 trough point, but remain far below the 1970s' production average. To the extent that the industrial production of the nation has stabilized (most of the increases registered this year in the Federal Reserve's industrial production index reflect more statistical fluke than real output), this has occurred in a disturbing way. The sectors leading the increase are petroleum, electronics, machinery, and so forth, the so-called sunrise sectors who produce mainly for consumption as overhead. In other words, the division of the economy into a "losing" and a "gaining" stream of production, the characteristic of the economy's behavior since Volcker began his monetarist turn in October 1979, reflects a worsening of the actual problem, not a solution.

Built into the present computer forecast is an evaluation of the extent to which the *unproductive consumption* of the industrial product will lead to a future downturn. The projections we present below show the *structural* tendency of the economy toward decline according to these criteria. No other economic model is oriented toward such fundamental distinctions; the standard Wharton-variety econometric procedure treats gambling casinos and McDonald's hamburger stands indifferently from steel mills. The subtler distinctions, e.g. between energy savings due to expenditures on computer control of factory heating equipment and energy savings due to the provision of cheaper electrical power through the construction of nuclear generating facilities, lie entirely outside the imagination of the Wharton-variety forecaster. To the extent that such forecasts miss the fundamental structural tendency of the economy, no amount of sophistication by way of equation-fitting and financial analysis will prevent them from making devastatingly wrong predictions about even the near term of events.

The aggregate U.S. economy and the dangerous 'growth'/'decline' split

Figure 1 shows a moving annual average for the single most important part of the economy's tangible production, **total investable surplus.** At a given level of output the economy consumes a given level of raw materials, consumer goods, machines, energy, and so forth. If the economy is capable of growing, the input of these elements will yield a net surplus of consumer and capital goods, enabling the economy to employ more productive workers in additional productive capacity.

The productive sectors, i.e., manufacturing, mining, agriculture, utilities, and transport, must produce sufficient tangible wealth to replace the tangible goods they use up in their own activity, including the overhead cost of administration, government, education, health, and so forth, and other "unproductive" activities. The classical economic designation "unproductive" does not mean, pejoratively, that such activities are less desirable than productive activities, merely that their existence presupposes a sufficient volume of tangible wealth creation to maintain them. Above and beyond the replacement costs of production and the overhead costs of society, what remains of productive output may expand production.

Figure 1, therefore, shows the rate of tangible investable surplus creation, momentarily reaching a positive level of about $12 billion constant 1972 dollars at the beginning of 1980 after the 1979-80 recession, then falling steeply into the negative. The economy *disinvested* so far in 1981 at a rate now reaching about $17 billion per year, again in constant dollars. In fact, the adjustment of this figure for real depreciation, rather than the frankly underestimated depreciation series of the Bureau of Labor Statistics, would push the actual level lower, from the standpoint of the economy's *present* contribution to *long-wave development*. The present data base leaves this out of account, although a better depreciation of capital-stock estimate is in preparation.

Figure 2, or the **total economic real growth rate,** puts the information in Figure 1 in the right context. What is significant is not merely the absolute amount of investable product, but the ratio of the investable surplus to the current maintenance costs of labor and capital stock in the economy. This ratio, again on an annual moving-average basis, is portrayed here. Note the scale on the left-hand side of the diagram, .016, or 1.6 percent, to −.029, or −2.9 percent. The movement of the graph describes the change in a growth rate. The moving annual average rises barely into positive figures at the beginning

Figure 1

Total investable surplus

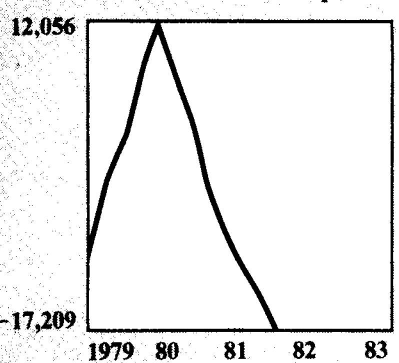


Figure 2

Total economic real growth rate

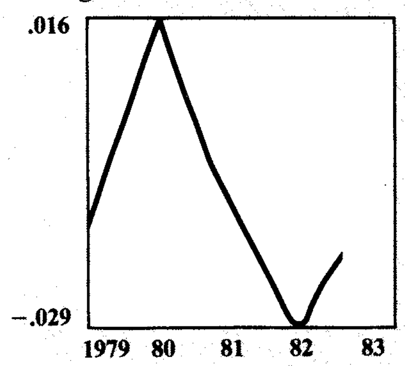
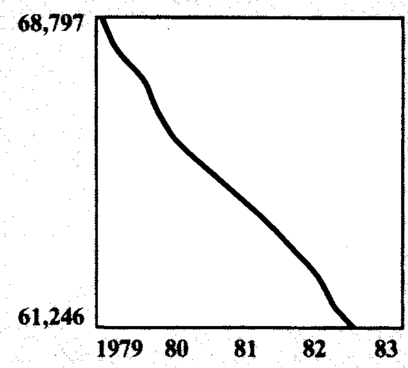


Figure 3

Labor costs, total economy



of 1981, at about 1.6 percent growth, and reaches about negative 3 percent per annum growth by the end of 1981. The slight upturn during 1982 does not show an economic improvement, only that the rate of decline is marginally slower, according to the computer projection.

The next two figures show, analytically, what this decline stems from.

Figure 3 shows **labor costs for the total economy.** This is not a measure of wages or hours worked, but of the physical volume of tangible product—cars, houses, dishwashers, loaves of bread, bars of soap, and so forth—consumed by households engaged in goods-producing employment. Note the left-hand scale; the volume falls from about $69 billion constant 1972 dollars at the outset of 1979 to a projected $61 billion by the end of 1982, a fall of 11.6 percent. Part of that fall represents lower industrial employment, part lower living standards. What is striking is that, in contrast to the behavior of the level of output, the decline in payments to productive labor is virtually continuous. The difference is the structural factor noted earlier, namely that employment and output have shifted toward industries whose product is consumed outside the stream of reinvestment in the productive sector, i.e., deducted from the future growth prospects of the productive economy. An additional factor is that the 1979-80 shakeout hit the more labor-intensive sectors of industry hardest, such as construction and auto, while leaving the relatively more capital-intensive sectors, e.g., electronics, unscathed, for the time being. The fact that this measure declined even during the apparent rise in the *investable surplus* measure indicates that the temporary recovery was structurally unsound. Precisely this criterion was the basis of *EIR*'s successful Sept. 2, 1980 projection of a second-half 1981 recession, noted earlier.

Figure 4 shows **overhead expenditures for the total economy**, that is, the total volume of school buildings, military equipment, office equipment, as well as consumption goods, for nonproductive employees. Again, this is a measure of tangible goods, not dollars. Note the left-hand scale, showing an initial fall during the first phase of the 1979 collapse from about $562 billion (constant 1972 dollars) to $504 billion in the first year of recession, or just 10 percent. However, the volume of overhead expenditures rises significantly, recovering about a third of the earlier losses, during 1980. This indicates the extent to which the so-called recovery was founded on a shift to unproductive expenditures rather than growth-producing industrial investment.

Sectoral analysis

The LaRouche-Riemann model currently forecasts the above and other relevant variables and ratios for 37 sectors of the U.S. economy. The full analysis is provided to consulting clients of EIR Research, Inc. in a comprehensive quarterly report.

From this report, a few examples from the model's sectoral results have been selected to illustrate the structural changes at work.

Figure 5 shows the **surplus product of the iron and steel industry.** Surplus is roughly equivalent to value added less labor costs, i.e., the constant-dollar volume of product above what is necessary to pay current production costs. That is, the steel industry "exchanges" steel with other sectors to obtain the consumption goods, capital goods, raw materials, and so forth which it consumes. What is left must pay taxes, debt service, and so forth, as well as account for new investment in the sector. The model's data base defines surplus as the constant-dollar volume of steel available either to meet overhead costs of the total economy as well as the steel sector, and to provide new investment.

Figure 5 shows that the bulk of the expected decline in this sector has already occurred; the model averages

Figure 4

Overhead expenditures for total economy

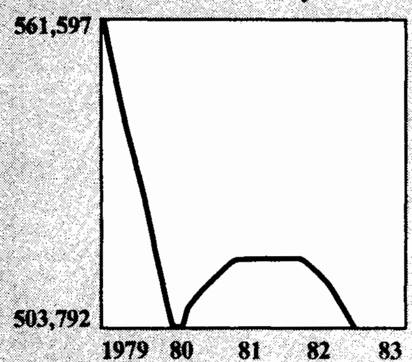


Figure 5

Surplus, iron and steel

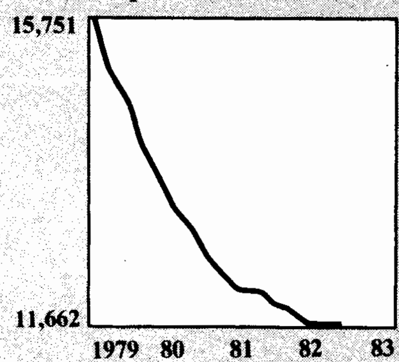


Figure 6

Surplus, construction

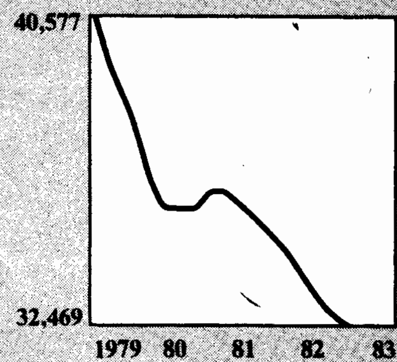


Figure 7

Labor costs, construction

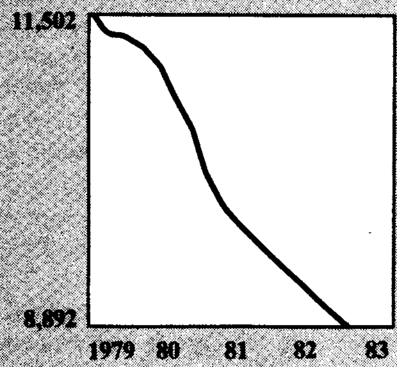


Figure 8

Surplus, nonelectrical machinery

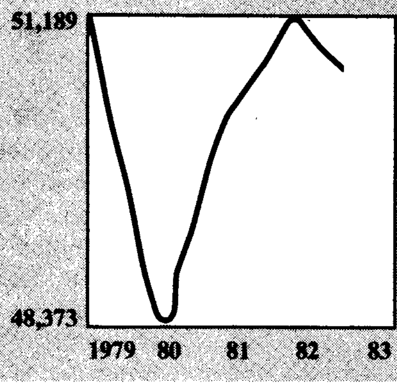
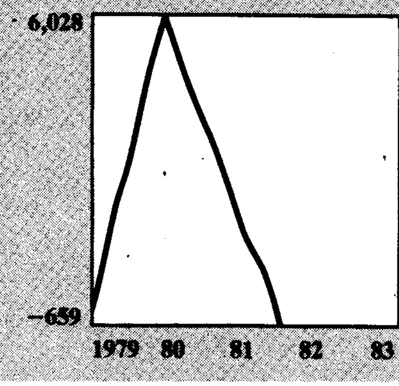


Figure 9

Net investable surplus, nonelectrical machinery



in the small recovery of the sector during the first half of 1981 with a projected decline during the remainder of this year and during 1982. On balance, 1981 is expected to be about 4 percent down with respect to the 1980 average. The modest recovery of the steel industry apparently stopped during July, when shipments from steel-service centers fell 3 percent and orders at mills fell even further. The only sector of demand that has kept up is oilfield pipe, which the United States does not produce in sufficient volume. Imports mainly of oil-related steel pushed the foreign share of the U.S. market up to 20 percent during July.

Figure 6 shows the same measurement, **surplus for the construction sector**. The model projects a 20 percent decline between the beginning of 1979 and the end of 1982, with the second leg of the decline taking place starting in mid-1981. In fact, the housing component of this sector has already fallen steadily through the first half of 1981, under pressure from mortgage interest rates, while the office-building and civil-construction components have risen by way of slight compensation. However, as budget cuts feed into state and municipal construction programs, the sector is expected to fall by an additional 10 percent through the remainder of 1981 and 1982.

Figure 7 shows **labor costs for the construction sector,** again a measure of tangible consumption rather than pay-scales in dollar terms. The left-hand scale of Figure 7 shows a fall from about $11.5 billion (constant 1972 dollars) to less than $9 billion over the three-year period, or about 23 percent. The continuous decline of the labor-cost measure contrasts somewhat to the interrupted decline of the sector's surplus measure. This is principally due to a change in the composition of the sector's output. Commercial office buildings yield higher value added per labor input, and a shift in composi-

Figure 10

Surplus, electrical machinery

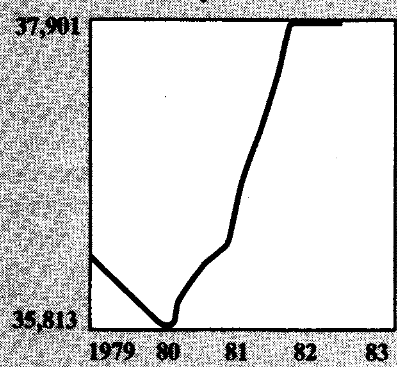


Figure 11

Rate of net investable surplus, electrical machinery

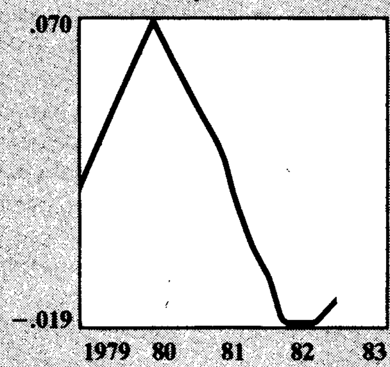
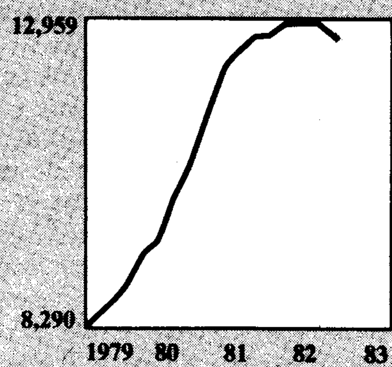
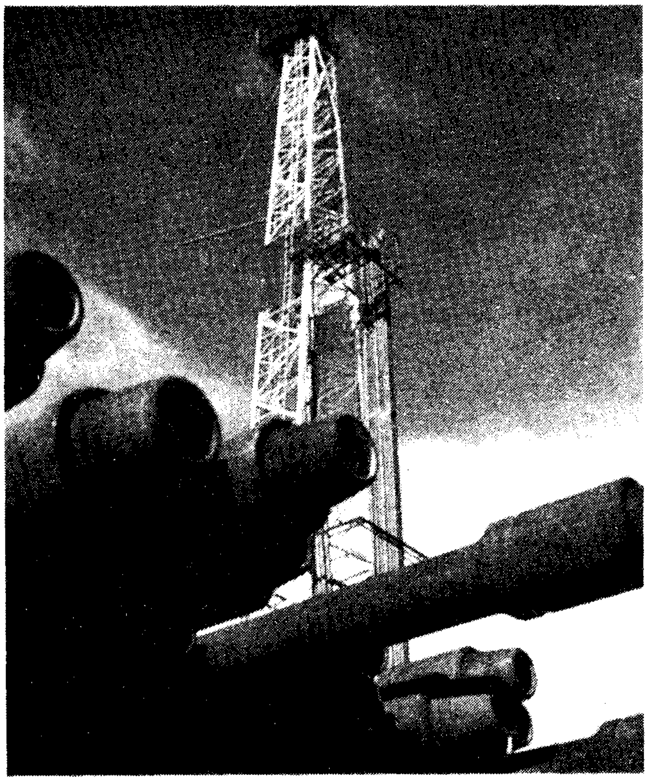


Figure 12

Surplus, petroleum/gas extraction




Courtesy of Nucorp Energy, Inc.

A drilling rig: the energy boom is misleading.

tion toward this construction sector, away from home construction, produced a temporary stabilization of the total value added of the sector despite a continued loss in employment.

The next set of graphs show results that are less intuitively obvious, regarding the "sunrise sectors" of the economy that have continued to rise during the course of the present economic decline.

The first measure shows the behavior of **nonelectrical machinery,** in Figure 8. The left-hand scale shows that the rate of surplus fell during 1979 from about $51 billion to $48 billion by the beginning of 1981. The steepness of the graph is a product of the scale; the actual decline, in percentage terms, is 5.5 percent over the year. Sustained by orders from the auto and aerospace industries, which required heavy machine-tool inputs for "energy saving" improvements, the machine-tool sector increased production moderately during the first half of 1981. Meanwhile the oilfield equipment sector, included in this category, rose about 10 percent, compensating for a fall in other industrial goods.

However, the 37 percent decline in machine-tool orders during July, reducing the rate of orders to half the monthly production rate, was a clear signal that the modest recovery was over. The computer, balancing out the expected continued rise in oilfield equipment with a few categories of decline, projects a stagnation of the sector through 1982.

Figure 9, **net investable surplus for the nonelectrical machinery** sector, shows more of what is at work. The sector's contribution to the rest of the economy falls significantly into the negative by mid-1982, even though its aggregate output has not fallen. The left-hand scale shows a $6 billion contribution to total investable surplus at the beginning of 1979 falling to a $600 million deficit by the end of 1982. The steep decline is due to the shift in composition of the sector; treating a portion of "energy saving" investments as an overhead cost, according to the formula noted earlier, the actual contribution to the economy falls much faster than apparent output levels.

The same contrast is evident in the **electrical machinery** sector, which includes both computers and related products, as well as electrical generating equipment (Figure 10). Due to the continued 10 percent per annum rate of increase in computer sales, the sector will continue rising, despite the collapse in orders for generating and related equipment for utilities. The steepness of the graph is belied by the left-hand scale, which shows a rise over the entire period from only $35.8 billion (in value added net of labor costs, constant 1972 dollars) to $38 billion, a rise of only 5.5 percent. It is interesting that since the computer projection was completed, the major semiconductor manufacturers have virtually all announced short-time or long weekends to work off excess inventories, since both consumer and military demand for their products have fallen below expectations.

Figure 11, or **the rate of net investable surplus for the electrical machinery sector,** shows an entirely different picture. Precisely to the extent that the computers and office-equipment sectors hold up the aggregate output level of the sector, the more of the sector's output is diverted to overhead rather than productive investment. Figure 11 shows this contribution in the form of a ratio, the proportion of the sector's output contributed to the stream of productive investment. This proportion falls from .07, or 7 percent, at the peak, according to the left-hand scale of Figure 11, to −2 percent. Despite the apparent rise, the sector represents a significant net drain on the economy!

The last graph shows similar results for the **petroleum/gas extraction** industry. Figure 12 shows a rising, albeit decelerating, rate of surplus from domestic oil and gas production. That is, the spectacular drilling boom, which produces a rise in value added from a left-hand scale measure of $8.3 billion to $13 billion, or a 36 percent rise in three years, is expected to taper off during 1982. The reasons are twofold: there are already endemic shortages of oilfield equipment, and the economy's petroleum consumption is still falling.

Kissingerian 'strategy of tension' moves to the brink

by Jeffrey Steinberg, Counterintelligence Editor

The Reagan administration now finds itself embroiled in "brushfire" conflicts in virtually every corner of the globe, all orchestrated by Secretary of State Alexander Haig, the presently unchallenged "vicar" of American foreign policy, and his friends in the European-centered Socialist International. While the more honest individuals grouped around President Reagan genuinely believe that they are "confronting Soviet and Cuban aggressions" and "demonstrating American will," the tally sheet of recent administration actions in Central America, in southern Africa, in the Indian subcontinent, as well as the newly projected cuts in the four-year Defense Department budget betrays the reality: the Reagan administration has wholly adopted the military strategic doctrine of the deposed Carter administration—including its Global 2000 depopulation blueprint.

If anything, the Reagan administration has achieved a level of implementation of the Carter doctrine that goes far beyond the success Carter and Zbigniew Brzezinski themselves could claim.

One of the clearest expressions of the current U.S. global posture was delivered at the end of August during a closed-door session in Kiel, West Germany. Before a gathering of 30 leading U.S. and European think-tankers, Fritz Kraemer declared that the United States "must confront the Soviet Union in the Caribbean basin."

"Just before I came here to West Germany," the Pentagon emergency planning consultant boasted, "I succeeded in convincing the Reagan administration to change its terminology. The Caribbean basin is now referred to as the 'frontier' in our battle against the Soviet Union. If the U.S. cannot confront the Soviets in Central America and the Caribbean where they are testing our will, then the U.S. cannot hope to succeed anywhere else. It is now a Pentagon priority to cut the flow of Cuban weapons into Central America." Kraemer concluded his remarks by proclaiming that "categorically there is no danger of nuclear war" between the U.S. and the Soviet Union in the foreseeable future and that therefore the U.S. can proceed with conventional challenges to the Soviets throughout the Third World.

If the military analysts in attendance at Kiel took Kraemer's remarks as a fairly accurate statement of the military and geopolitical thinking behind current Reagan administration actions, they were right. As is well known in Washington and European capitals, Kraemer was the Svengali who created the careers of not only Henry Kissinger, but also James Rodney Schlesinger and Alexander Haig. Since 1969, Kraemer has acted as the behind-the-scenes orchestrator of four successive U.S. administrations' slide into the insane military doctrine known variously as "limited nuclear war," "mad dog diplomacy," and the "strategy of tension."

Sources in Washington, D.C. have confirmed to *EIR* that since approximately the first week in July, Secretary of State Haig has been the sole arbiter of U.S. foreign and military policy. While the precise details of how this "cold coup" was carried out are not known at this time, evidence has accumulated demonstrating that the Kraemer-Haig-Kissinger triumvirate has seized at least temporary power, and is proceeding on a policy course 180 degrees counter to Reagan's November mandate.

Perhaps the single most glaring piece of evidence to this effect was the report that the crime-linked Italian Socialist Party (PSI) boss, Bettino Craxi, will visit Washington, D.C. in the near future for "private consultations" with President Reagan.

Craxi has been a personal associate of Alexander Haig dating back to the latter's tenure as commander in chief of NATO. Since his confirmation as Secretary of State, Haig has been an unabashed advocate of Craxi's rise to power.

A Craxi victory in October, following on the heels of the May victory of Socialist International figure François Mitterrand in the French presidential elections, would virtually assure a Socialist sweep of the entire Mediterranean region. Socialists George Papandreou and Felipe Gonzales are already likely winners in the upcoming elections in Greece and Spain.

Many of these European social democrats, including Mitterrand and Spanish Socialist Party head Gonzales, were present last December in Washington, D.C. for the conference on "Eurosocialism and America" at which plans were spelled out for a massive political destabilization of the Reagan administration.

Formulas for provocation

With Alexander Haig running U.S. foreign policy, a string of lunatic provocations has been undertaken in the past two weeks that threatens to 1) bring Washington to the brink of a strategic confrontation with Moscow at a time when the United States is ill equipped to respond in any effective fashion; 2) destroy U.S. relations with Mexico and West Germany, two of its most valuable allies and the governments most intensively under assault from the combined forces of the Socialist International and the Bank for International Settlements; and 3) throw major sections of the Third World into genocidal civil wars in which the only foreseeable consequence would be massive depopulation and likely Soviet domination.

This last is the Haig formula in South Africa, where, last week, 45,000 South African troops backed up by air and sea support units invaded southern Angola in pursuit of guerrilla bases run by SWAPO. Sources in Washington, D.C. have confirmed to *EIR* that the South African action was taken with U.S. consultation. The South African government has subsequently announced that a number of Soviet advisers were captured as part of the SWAPO contingent; unconfirmed reports from Pretoria indicate that several Soviet soldiers may have been killed following their capture, a move that would be calculated to provoke a response from the Soviets or the Cubans. The incident was staged on the eve of a special United Nations session on Namibian independence. Should the United States proceed to publicly back the South African regime, the regional situation will be polarized, with overwhelming Third World rage directed against the United States.

In the Mediterranean region itself, Libyan dictator Muammar Qaddafi has been directing an anti-American rampage in the aftermath of last month's air fight between U.S. and Libyan fighter planes. On Sept. 1, speaking before a mass audience in Tripoli commemorating the 12th anniversary of his coup d'état, Qaddafi threatened to bomb U.S. missile storage depots in Sicily, Crete, and Turkey should the United States attempt to carry out further incursions into the Gulf of Sidra; in the same breath, Qaddafi threatened to bring Libya formally into the Soviet camp.

A similar state of agitation now exists in the Korean peninsula, following the recent American claims that North Korean surface-to-air missiles were fired at U.S. surveillance planes traveling on the North Korean-South Korean border area. At the same time, an estimated $100 million in new arms shipments from the United States have been reportedly passed to Afghani rebels. The two principal conduits for these weapons are Pakistan and the Peoples Republic of China.

As Fritz Kraemer noted in his Kiel speech, however, virtually every country in Central America and the Caribbean is on some sort of alert status in anticipation of a coup d'état attempt, an outbreak of civil war, or a threat of destabilization on its border.

Alexander Haig has, for the time being, successfully reversed the "good-neighbor" breakthroughs achieved by the sessions earlier this year between Mexican President López Portillo and U.S. President Reagan, and has initiated a process intended to drive Mexico into the Socialist International camp. The Aug. 28 joint communiqué between Mexican Foreign Minister Jorge Castañeda and French Foreign Minister Claude Cheysson in support of the insurgents in El Salvador effectively launched that wrecking operation, one that threatens to draw Mexico into a preprogrammed Central America-wide civil war as a victim rather than an arbiter.

National sovereignty

In a recent interview with an official of the London International Institute for Strategic Studies (IISS), special attention was riveted on the question of national sovereignty. According to the *EIR* interviewer, the IISS representative went into near-Hitlerian ravings against the "outmoded, outlived, disgustingly moralizing" view of politics associated with the institution of the sovereign nation-state, singling out the president of Mexico and chancellor of West Germany as two of the leaders responsible for the continued prominence of nationalism and mercantilism in world affairs.

To the extent that President Reagan exerted independent qualities of judgment on foreign-policy matters during the first six months of his administration, it was a direct reflection of his consultations and developing personal relations with the heads of government of Mexico, West Germany, and to some extent with the former president of France, Valéry Giscard d'Estaing.

The severing of those relationships therefore represents a strategically significant factor in the ability of Alexander Haig and his Socialist International collaborators to provoke regional wars of genocide on behalf of the "one-world" Global 2000 doctrine.

In response to this internationally coordinated attack, both López Portillo and Helmut Schmidt have redoubled explicit organizing of their respective citizenries on behalf of nationalism and scientific and technological progress. Chancellor Schmidt appeared on West German national television Aug. 30 to outflank the ultraleft's Jacobin "disarmament" agitation by proclaiming that the trade-union movement of West Germany is the only antiwar movement of any legitimacy; the leadership of the labor movement promptly announced a petition drive among its 8 million members endorsing Schmidt's antiwar, progrowth call.

The reality principle

While Schmidt and López Portillo, in relative isolation, struggle to prevent their own nations from being consumed in the Socialist International/Haig drive, Soviet military superiority remains a factor that cannot be shunted out of existence by the rantings of madmen like Fritz Kraemer.

It is emphatically not the case that the Soviet Union has determined to give up the thought of fighting a strategic thermonuclear war. Numerous statements and diplomatic deployments by high-ranking Soviet officials in recent weeks have made it clear to all who wish to face reality that the Kremlin is not in the least snookered by either the Socialist International's embrace of the Third World cause or by Alexander Haig's "mad dog" efforts at intimidation.

The Soviet leadership knows the significance of the Reagan administration's announced intent to slash the U.S. defense budget by $30 to $50 billion. They understand the implications of the Reagan administration's immersion in Carter policy, including Global 2000. The Soviets have now embarked on a ruthless waiting game, in which they will encourage every global factor that contributes to the strategic-military weakening of the West. They will lend their tacit approval and occasional KGB expertise to the activation of Socialist International-sponsored terrorism. They will allow Haig, Kraemer et al. to walk into a reverse "arc of crisis" in which U.S. and allied forces are overextended in brushfire conflicts in every corner of the Third World. And ultimately, they will decide whether to go for a strategic showdown; barring, of course, a resurgence of the nationalist-mercantilist forces in the OECD nations with which the Soviets can establish an economic-foreign policy community of principle. Whatever course of action is taken by the Soviet command, it will not be taken on the basis of the criteria Fritz Kraemer spelled out in Kiel.

Terrorism

Targets: Schmidt, Reagan, Mexico —and Italy

by Michele Steinberg

The capitulation by the Reagan administration to international "crisis management" proposals advanced by Socialist International representatives François Mitterrand and Pierre Trudeau at the July 20-21 summit in Ottawa began a break in the emerging policy collaboration between the Reagan administration, West Germany, and Mexico—three of the last remaining Western governments not completely dominated by either the Socialist International or the British Foreign Office. That capitulation signaled a new round of destabilizations directed at crushing those three governments.

In the first four days of September, two plots on the life of President Reagan have been uncovered; Guatemalan right-wing death squads threatened to assassinate Mexican President José López Portillo if he visited the president of Guatemala to resolve a border dispute that threatens to precipitate a coup d'état; and the dreaded Baader-Meinhof gang, dormant for over a year, has been reactivated in West Germany in an assassination threat against Finance Minister Hans Matthöfer and a series of firebomb attacks on U.S. military installations and personnel.

In **the United States,** the Reagan administraton faces the first serious round of Socialist International-influenced mass protests against the White House since the Watergating of President Richard Nixon. On Sept. 7, a projected 100,000 people will march in the New York City Labor Day parade in a test of anti-Reagan strength for a larger national march on Washington, D.C. Sept. 19. In this context, the left-wing terrorist networks that vowed to eliminate the President just weeks before the actual March assassination attempt have once again been deployed against Mr. Reagan. During the Labor Day demonstration, countergangs led by the Yippies, the Communist Workers Party, and the Revolutionary Socialist League plan to disrupt a Reagan visit to New York City's Gracie Mansion.

Police in Baltimore, Maryland arrested a young drug addict named Ison Joseph Dean, Jr. on Sept. 3 as he was driving toward Washington. The trunk of his car was loaded with high-powered rifles and handguns; and he stated that he was on his way to kill the President. Two days earlier, police in Detroit found a letter-bomb with highly unstable dynamite addressed to Reagan.

In **West Germany,** U.S. Air Force facilities in the Wiesbaden-Frankfurt area were hit with a week of fire-bombings which left over 20 Americans and West Germans, including two high-ranking U.S. Air Force officers, seriously wounded.

Simultaneously, three buildings housing offices of the West German Social Democratic Party (SPD) have been firebombed. The Sept. 1 firebombing of the SPD headquarters in Frankfurt was accompanied by Baader-Meinhof gang slogans equating Schmidt's SPD with the American military presence in Germany.

On Sept. 2, West German Finance Minister Hans Matthöfer received a series of threatening calls at his home in Frankfurt. Both incidents are being attributed to Baader-Meinhof-connected terrorist elements.

In Vienna, Austria, two people were killed when terrorists identified as Palestinians attacked a synagogue, provoking statements of outrage by Israeli officials against Austrian chancellor Bruno Kreisky for "dignifying" the Palestine Liberation Organization with diplomatic recognition. This attack was the latest in a series of incidents involving Libyan- and Syrian-linked radical Palestinians; last month, Palestinian commandos attempted to smuggle arms into Austria, and issued threats against Kreisky and Sadat for their "deals" with Israel.

While the terrorist activations in the United States, Mexico, and West Germany are directed at bringing down the current governments, **Italy** has been racked with terrorist violence throughout the summer—aimed at ushering in a new government under Bettino Craxi. The Italian Red Brigades, which have been directly linked to the Propaganda 2 Lodge and to the Craxi-led Italian Socialist Party, perpetrated a string of sensational kidnapings and murders throughout the summer. In early August, the Red Brigades issued a 100-page communiqué announcing a fall offensive directed at the industrial infrastructure, beginning with the auto giant Fiat. In response, the Italian interior ministry issued warnings to all industrialists and labor officials that the government was powerless to stop the Red Brigades and extreme security measures should be adopted. In its communiqué, the government identified Dr. Giovanni Sensani, a radical criminologist and former government antiterrorism adviser, as the head of the current "third generation" Red Brigades. Sensani is a protégé of Craxi's Italian Socialist Party.

Sources close to the Italian situation believe that the activation of rampant Red Brigades terrorism is directed at creating the kind of governmental crisis that will sweep Craxi into office and then provide him with the mandate to carry out draconian repressive measures to "restore order."

Haig sets out to make 'many Vietnams' in Central America

by Timothy Rush and Dennis Small

The events of late August and the first days of September blew out any semblance of containment and restraint in the deadly Central American theater of conflict. The strategic deterioration of the region is now of a startling pace and magnitude.

The basic stage-manager was U.S. Secretary of State Alexander Haig. Quietly but systematically building up U.S. military capabilities in the Central American region throughout the summer, Haig broke every tacit understanding of restraint that Reagan and Mexican President López Portillo had worked out during their June summit, and which had been reaffirmed at the July meeting in Nassau among the foreign ministers of Mexico, the United States, Venezuela, and Canada.

Regular and irregular U.S. military forces now stand poised for a major Vietnam-style activation across Central America, whose strategic target is to corner Cuba and threaten to pull it—forcibly—out of the Soviet camp. Haig is receiving active backup in this enterprise from right-wing military forces of Argentina, Chile, and Brazil, who have already silently stationed personnel in Central America for the purpose.

Arrayed on the battlefield against this alliance are Central America's leftist and guerrilla forces under the direction of the Socialist International, which shares Haig's eagerness for a Vietnam-style bloodbath in the region. Haig and the socialists also coincide on a policy commitment to deindustrialize and depopulate the Third World—Central America included—goals which will be significantly furthered by the descent of the area into endemic civil wars.

Haig's buildup

During the past weeks, direct American involvement in Central America has picked up markedly, if with little fanfare. Secretary of State Haig himself has been open on this point. Asked by the *Christian Science Monitor* in an Aug. 24 interview if contemplated increases in U.S. aid to El Salvador were modest, Haig responded: "Nothing is modest when you deal in these difficult times, with increased levels of economic or security-related assistance." In a press conference three days later, Haig reaffirmed full American backing for the Duarte regime and the Salvadoran military, charged that the guerrillas had moved to a new phase of "straight terrorism," and pointedly reiterated Reagan administration lies that it is Cuba and the Soviet Union who are the only significant backers of the insurgencies in the region. Once more, Haig took the occasion to whitewash the documented role of his friends in the Socialist International in these activities.

The specifics of recent increased U.S. involvement in the area include:

- Crosschecked reports first appearing in the Mexican press confirm that the United States has begun to construct a naval base in the strategic Gulf of Fonseca, the body of water on the Pacific Coast lying at the juncture of El Salvador, Honduras, and Nicaragua. The first two nations, eager to stop the flow of Sandinista arms across the Gulf to their guerrilla allies, are reportedly joining with the United States in this effort.
- The dispatch of 21 Green Berets to Honduras for assignment to the Honduras-Salvador border area. This at a stroke brings the U.S. presence in Honduras to almost half the level in El Salvador which provoked such an outcry earlier in the year.
- Strong evidence of similar "special forces" deployment, smacking of Gen. Maxwell Taylor's Vietnam days, to provide leadership to the reported 6,000 anti-Sandinistas mercenaries concentrated on the Honduras-Nicaragua border. A recent issue of the recruiting magazine for international mercenaries, *Soldier of Fortune*, revealed that almost all the officers of this prospective invasion army are products of counterinsurgency training at select U.S. military bases, especially in the nearby Canal Zone.
- On Aug. 26, the Pentagon announced the dispatch of an additional four helicopters to El Salvador with an operating team of six men.

The Nicaraguan Sandinistas, for their part, are reportedly involved in a red-alert activation and buildup of their armed forces, in the full expectation of an imminent armed incursion into Nicaragua by U.S.-backed military forces, possibly including the 6,000

Salvadoran guerrillas.

Honduran-based troops. And in El Salvador, the FDR/FMLN insurrectionists have launched a renewed offensive targeting the economic infrastructure of that already hobbled country. "There is a forced-draft, supercharged move to build up both sides militarily," is the way one American directly in contact with Salvadoran security forces put it.

Mexican-French initiative

In this highly charged prewar environment, the Mexican government of José López Portillo has launched a number of "eleventh-hour" political initiatives designed to defuse the almost unavoidable military showdown, and to force the Salvadoran civil war in particular to the negotiating table. In late August, for example, López Portillo hurriedly scheduled a state visit to Guatemala for Sept. 5, in order to cool out current and potential regional tensions. These included the issue of Guatemalan refugees in Mexico and the independence of the British colony of Belize. But on Sept. 2, the two governments announced that the trip had been indefinitely "postponed," with the sudden emergence in Guatemala of three previously unknown far-right terror groups which threatened López Portillo's life if he entered Guatemalan territory.

On the morning of Aug. 28, the Mexican government launched another almost-desperate attempt to force the Central American crisis from the battlefield to the negotiating table. The Mexican and French foreign ministries issued a joint communiqué which recognized the Salvadoran guerrillas of the Frente Farabundo Martí de Liberación Nacional (FMLN) and their political negotiating front, the Frente Democrático Revolucionario (FDR), as a "representative political force" which must be included in negotiations for "profound changes in the social, political, and economic areas," including the "restructuring of the armed forces." While studiously avoiding a break in diplomatic relations with the Duarte Junta in El Salvador, the communiqué nonetheless gave important backing to the FDR/FMLN forces.

High-level official sources in Mexico report in private that this move—which France agreed to only under heavy Mexican pressure—was crafted to break the "socialist left" versus "Haig right" war scenario currently gripping all of Central America and which they believe threatens to unleash a "Vietnamization" process that could engulf Mexico as well. But there is also a strong possibility that the risky Mexican move will backfire, and strengthen the hand of the insurrectionary left and the Socialist International—including the Socialist Mitterrand government in France. This effect would further polarize the entirety of Latin America on "left"/"right" lines.

The *Washington Post* hoped that this would be the outcome of the Mexican move, in an Aug. 31 editorial: "The first effect of the Franco-Mexican gesture will be to encourage the guerrillas. The second effect will be to increase the sense of isolation within El Salvador's government, and its dependence on security forces over which its control is already inadequate. The ultimate effect will be to increase the desperate determination of both sides to press for a military solution, regardless of the casualties and desolation of the country."

Secretary of State Haig is also doing everything possible to urge things in that direction, working closely with regional ally Venezuela to pull together the widest possible rejection of the Mexico-France move in the rest of Latin America. On Sept. 2 the Venezuelan government announced that it had gathered eight other signatories on a formal condemnation, including those of Colombia, Guatemala, Honduras, the Social Democratic government of the Dominican Republic, and the Southern Cone military dictatorships of Argentina, Paraguay, and Chile.

Haig and his Venezuelan friends are also using the Mexican-French move as an opportunity to discredit Mexico throughout the Third World as a model of stable industrial development. For example, Leopoldo Castillo, secretary of foreign relations for Venezuela's ruling COPEI party, promptly stated that Mexico "can never constitute an example of human rights," since "millions of Mexicans die of hunger, while a corrupt and decadent oligarchy of parties reigns and derives the benefit of the enormous wealth of that nation."

Ramsey Clark runs amok over El Salvador

The irony of Haig's insistence that "the Cubans and Soviets run the El Salvador terror" was highlighted by the appearance of Guillermo Ungo, president of the Salvadoran FDR, at a crowded press conference in New York City Aug. 31. Sr. Ungo's escort was Ramsey Clark, a former U.S. attorney general. Larry Birns of the Socialist-allied Council on Hemispheric Affairs introduced Ungo; the conference was held on the premises of the Methodist Church office at the United Nations Church Center.

In 1979, Clark led pro-Khomeini demonstrations down the streets of Teheran on behalf of a demented Zbigniew Brzezinski, who thought he was playing an "Islamic Card" against the Soviet Union, while Brzezinski publicly insisted the United States was continuing to support the Shah!

EIR has learned that the Clark-Ungo collaboration began at a major planning session of the Socialist International-Theology of Liberation Forces at Guanajuato, Mexico, the last weekend in July. Among those in attendance were Clark; Birns; Rep. Mickey Leland (D-Tex.) of the Democratic Socialist Organizing Committee and the House Black Caucus; Xavier Gorostiaga, the Jesuit controller of the Sandinista junta; and, in an "unofficial" capacity, Guillermo Ungo. The cover for the planning session was an analysis of "U.S.-Mexico relations" hosted by several Mexican think tanks close to the United Nations. Ungo left the meeting to go directly into consultations with Mexican Foreign Minister Castañeda and his French counterpart Claude Cheysson.

What is Washington's policy toward Cuba?

by Cynthia Rush

Secretary of State Alexander Haig's recent attacks on the Soviet Union and Cuba for fomenting El Salvador's civil war and backing the "straight terrorism" of insurgent forces is only the most vocal aspect of the approach toward Cuba that Haig and his right-wing collaborators in the Socialist International have devised. The purpose of that policy, which invokes a perverse interpretation of the Monroe Doctrine, is to pull Cuba out from under the protective umbrella of the Soviet Union and force it to "negotiate" with the United States—on U.S. terms. Intoxicated with the delusion that the Soviets would actually tolerate such a move, Haig and fellow social democrat at the United Nations Jeane Kirkpatrick have embarked on a campaign to isolate Cuba politically and economically as a prelude to achieving their policy goals.

Some of the more publicized aspects of this campaign include Jeane Kirkpatrick's overt support for Huber Matos, the former Cuban political prisoner whose new organization Free and Democratic Cuba (CID) is being promoted as an "alternate" Cuban government. At an Aug. 22-23 rally in Miami, to which Kirkpatrick sent warm greetings, the CID's social-democratic leadership announced that its goals were "to take power in Cuba . . . through armed struggle coordinated with an uprising on the island and support from the [Cuban] exile community." The 1,500-person rally was attended by leading Christian democrats and social democrats from Central and South America.

Michael Novak, the Jesuit theologian who has influence within the Reagan administration through his association with Kirkpatrick, reported on Aug. 25 that "all that was needed was the emergence of a leader" to give the Cuban exile movement an aura of respectability, "and now he has emerged in the name of Huber Matos."

To bolster its respectable image, the CID has tried to disassociate itself from some of the better known and more extremist Cuban exile groups. Asked about "Cubans United," which recently set sail from Miami under the direction of convicted Watergate criminal Frank Sturgis to establish a "government in exile" on Guantanamo, a CID spokesman responded "they're just a crazy fringe group. . . . We have nothing to do with them."

However, the CID and the crazy fringe group apparently share the same telephone number in Miami, and *EIR* has reason to suspect they are coordinating their activities. Since the Cubans United rag-tag flotilla of boats also managed to pass through the U.S. Coast Guard's normally tight blockade undetected, it is likely that word came from higher up to let the boats through.

On Aug. 20 Radio Moscow charged that the exile group's plans to land on Guantanamo—plans that finally never materialized—were a provocation planned as part of the Ocean '81 maneuvers that were taking place in the vicinity of Cuba.

Kirkpatrick and Haig's collusion with convicted criminals is not the most important aspect of the Cuban policy now under discussion. According to a spokesman for Freedom House, an adjunct of Social Democrats U.S.A. that works closely with Kirkpatrick, the real core of the policy that the Reagan administration is expected to adopt this month will be to force Cuba to "negotiate" with the United States using the island's worsening economic crisis as a major bargaining chip.

Cuba can be softened up, the line goes, through a combination of measures that include outright sabotage of its economy—the U.S. Department of Commerce is currently preparing a detailed profile of the Cuban economy requested by the administration—and an intensified campaign of domestic subversion and destabilization through vehicles such as a new "Radio Free Cuba" program. "The greatest threat that Castro faces right now is a domestic one," a Freedom House representative reported, "not one of foreign imperialism." Presuming that the Soviet Union is passive while all this occurs, the social-democratic policymakers in Haig and Kirkpatrick's circles predict that if Cuba resists negotiating with the United States for aid and trade concessions, additional "penalties" can be applied.

What is Cuba to gain from such negotiations? If it is lucky, say Jeane Kirkpatrick's friends at Freedom House, it can follow the lead of former British possessions Jamaica, Barbados, and Trinidad in becoming model Hong Kongs and Singapores: that is, labor-intensive "free-enterprise zones" whose economies are intimately linked to the international drug trade. This scheme, also known as "Hong Kong West," is enthusiastically endorsed by Haig and by Ronald Reagan's National Security Adviser Richard Allen.

The Freedom House crowd feels that when Trinidad, Barbados, and Jamaica become "showcases for development" and "leaders" in the Caribbean, they will be able to integrate Cuba into the system, or at least curb its expansionist tendencies. The Commerce analyst currently studying Cuba's economy adds that "Cuba has no choice but to adopt the Singapore/ Hong Kong model. . . . Its labor force is growing too rapidly, and can't be employed. They will need labor-intensive industries to employ people, and export the goods produced."

Documentation

From EIR's briefing on Central America

On Aug. 26, 1981, EIR*'s Latin American intelligence director Dennis Small addressed a select audience of business executives, government officials, and diplomats in the latest of* EIR*'s ongoing seminar series in Mexico City. His topic: Central America. What he had to say was the next morning's front page news. The coverage in* El Sol, *the largest nationwide chain of papers in Mexico, highlighted the following paragraphs:*

"Small emphasized that there is a fall scenario prepared by the Socialist International and the U.S. Secretary of State Haig, to have violence break out in the Central American region before Oct. 22. 'They intend,' he said, 'to throw the left against the right in the six countries of the area. From here to October there will be leftist insurrections and preventive coups from the right. Haig's purpose is not to install governments friendly to the U.S. but to depopulate the region.' "

Following are excerpts from Small's presentation in Mexico City. Transcripts of the groundbreaking March 26 EIR *conference in Washington, D.C., "The U.S., Mexico, and Central America: Conflict or Cooperation?" are available for $100 each from* EIR, *Department M-3, 304 W. 58th Street, 5th floor, New York, N.Y. 10019.*

My intent today is neither to catalogue all of Central America's problems nor to list the various and sundry guerrilla operations in El Salvador. These are well known. What I do want to analyze is who is behind all this and why they are doing it. Who? and Why?: two questions generally given either tremendously naive or simply deceitful answers.

I'll be precise: U.S. Secretary of State Alexander Haig is a liar. He is lying right now about responsibility for the Central American problem. Since late 1980 and again in the State Department's White Paper, Haig has told us that the Cubans and Russians cause the Central American problem. . . .

I'm not saying that the Cubans aren't in there; they are obviously there making trouble in Central America. They are following policies inimical to the economic and political development of the Central American peoples. Nor do I deny that there is some direct Soviet presence or influence. I would be quite surprised and we would be quite naive to think that the KGB or other Soviet intelligence forces were not involved in Central America and all over the world.

But Alexander Haig lies in saying that that is all that is going on there, that the communists are responsible for the Central American problem.

Who?

The fact is that two other forces are primarily responsible for the Central American mess. One is the Socialist International presided over by Willy Brandt of the West German Social Democracy. The other is the Society of Jesus, that anti-Christian faction inside the Catholic Church which is organizing insurrections all over the Third World. The networks deployed by the Socialist International and by the Jesuits are the networks which have caused most of today's unrest in Central America. Running the whole business from above, controlling the Socialist International *and* controlling the Jesuits are the huge oligarchic financial interests based in the European oligarchy. I'm talking about the old noble families of Italy, Germany, and France, such as the Pallavicinis, Savoys, Hapsburgs—well remembered in Mexico—and the financial institutions which this oligarchic group controls. I'm speaking of the Wall Street banks, the International Monetary Fund, the World Bank, and so on. This apparatus is what is controlling from above *both the left and the right* in Central America. Our problem is that there are many honest people caught up on both sides of the conflict, honest but manipulated people. . . .

Mexico and Central America have recently received extremely important visits from people with capabilities of activating left-wing networks to promote insurrection. One of the tours was by the new French Foreign Minister Claude Cheysson, who went to Mexico for the foreign ministers' meeting at Cancún and then traveled through Nicaragua, Honduras, and Costa Rica before returning to Mexico. He spoke with the Central American leaders of the Socialist International, bringing them the orientation which had been worked out by the Socialist International in their quite public, quite open, December 1980 conference in Washington, D.C. . . .

Willy Brandt, whose well-known habits would name him "Willy Brandy," appeared on U.S. television one Sunday morning and said to the nation, "Sure, the Socialist International is financing guerrillas in Central America—why not? If there's an unjust situation there, why not admit that Socialist International funds go for that?" That is what Brandt said on television. So, we aren't talking about some secret or hidden conspiracy. We are dealing with publicly declared policies.

At the same time, Haig and U.N. Ambassador Jeane Kirkpatrick have taken care of activating the right-wing side of the imbroglio. It is worth emphasizing that Haig and Kirkpatrick are both social democrats. Mrs. Kirkpatrick is a right-wing social democrat; she belongs to the same international organization as Willy Brandt, but on the rightist side. Alexander Haig is also tied to the same social-democratic circles. . . .

Why?

We can analyze the why in terms of short- and medium-term objectives. The short-term target is the Cancún summit this October. The medium-term objective is to consolidate such drastic depopulation policies in the region that I give them the scientific name of *genocide*, which is the scientific term to describe what is going to happen in Central America should these gentlemen have their way. What the forces deployed by the international financial oligarchy are seeking so far as Cancún is concerned is to strengthen the hand of the International Monetary Fund. . . .

The medium-term goal of the people who are planning the explosion of Central America should give you a good idea of how crazy they actually are. It is the *depopulation* strategy. The oligarchic financiers put forth the following argument: given that there are not sufficient resources to support the growing world population, if population continues growing at its present rate or even a little slower, we are not going to have the raw materials and natural resources needed to keep all these people alive. Therefore, our problem is that population growth—and even absolute size of the population—must be reduced.

These people are saying word for word the same thing as the IMF. They want to wipe out billions of human beings as a matter of economic policy, *not* because of any resource shortage. Jacques de Larosière, the IMF director, declared a week ago that the biggest problem that the developing countries have is that they haven't succeeded in reducing their populations. He said that one of the conditionalities the IMF puts on its loans is that the countries getting them have to cut their population growth rate. . . .

The program of the Socialist International, the program of the State Department, and the program of the International Monetary Fund are identical. . . . This is the bestial, antihuman genocidal mentality of the men who are today controlling Central American destabilization. They do not support communism; they do not support authoritarian military regimes; they don't care whether something is socialism, communism, fascism, rightism; they could care less. What they really want is to manipulate both right and left to provoke civil war and chaos in which they can implement their only true policy—creating the requisite conditions for repeating the 14th-century depopulation of Europe in which half of the population was eliminated because the ravaged economy could support no more people.

Documentation

Commentary on the French-Mexican move

The following are excerpts from the communiqué issued by the governments of France and Mexico on Aug. 28, 1981 recognizing the Farabundo Martí Liberation Front and the Revolutionary Democratic Front of El Salvador as "representative political forces."

The Mexican foreign minister, Mr. Jorge Castañeda, and the French foreign minister, Mr. Claude Cheysson, exchanged opinions on the existing situation in Central America.

Both ministers expressed their governments' grave concern for the suffering of the Salvadoran people in the current situation, and [stated] that this is a source of potential danger for the peace and stability of the entire region. . . .

We hereby make the following declaration:

Convinced that it is the sole responsibility of the people of El Salvador to seek a just and lasting solution to the country's profound crisis. . . .

Conscious of our responsibility as members of the international community and inspired by the principles and purposes expressed in the United Nations Charter;

Taking into account the extreme gravity of the current situation in El Salvador and the need for fundamental change in that country's economic, political, and social structures, we recognize that the alliance of the Farabundo Martí National Liberation Front and the Revolutionary Democratic Front is a representative political force willing to assume the obligations and exercise the rights derived therefrom. It is therefore fitting that the alliance participate in the creation of the mechanisms of rapprochement and negotiation required for a political solution to the crisis.

We acknowledge that it is the task of the Salvadoran people to begin the process of a global political solution in which a new internal order will be established, the armed forces will be restructured, and the necessary conditions will be created to [guarantee] respect for the popular will expressed through truly free elections and other mechanisms characteristic of a democratic system.

We call on the international community so that, particularly in the framework of the United Nations, it will ensure the protection of the civilian population in accordance with applicable international norms, and facilitate rapprochement between the representatives of the battling Salvadoran political forces to re-establish peace in the country and avoid all interference in El Salvador's internal affairs.

Below are excerpts of U.S. State Department responses to the Mexican-French communiqué, made on Aug. 28 1981:

The French-Mexican letter is unhelpful . . . but it is not a complete disaster. We praise the document's expression of concern for the Salvadoran people, and [El Salvador's] right to self-determination.

And on Aug. 31, 1981: We continue to hope that all groups willing to renounce violence will choose to participate in elections.

We would regard it as regrettable if the declaration had the effect of encouraging the left not to participate in elections. As for those who refuse to lay down their arms, we are on record in our view that violence of any kind is a major obstacle to the development of the political process and the quest for social justice in El Salvador.

José Napoleon Duarte, president of the Salvadoran junta, told Associated Press on Aug. 29, 1981:

The Mexico-French declaration constitutes nothing more than interference in the internal affairs of our country. We categorically reject and energetically protest it. . . . This type of attitude contributes to sharpening our conflict by increasing the level of foreign interference. . . . This has been the work of Castro.

Venezuelan President Luis Herrera Campins responded to the Mexican-French communiqué on Sept. 1:

The decision taken by the governments of these friendly nations strikes us as very grave, and we are sincerely worried. . . . This came as a surprise and we have called in the Mexican and French ambassadors in Caracas to ask for an explanation on the scope of their governments' declaration which appears [to us] to be intervention. . .

Since we are opposed to any intervention by the United States in El Salvador, we also oppose any hemispheric or extrahemispheric [intervention]. . . . I hope that the Latin American nations express their feeling that the serious conflict can be resolved by the Salvadoran people. . . . Venezuela's policy is characterized by independence, multilateralism, and respect for the self-determination of peoples.

Fidel Castro, president of Cuba, told the Nicaraguan magazine Barricada *on Aug. 31:*

I consider the recognition by Mexico and France of the Salvadoran revolutionary movement as one that is capable of assuming responsibilities, to be very positive, good and just. . . . It is an action that ennobles Mexico and France.

Will Ronald Reagan anoint Craxi?

The Socialist chief's links to drugs and terror are further exposed, reports Umberto Pascali, yet he moves closer to power.

Revelations in the Milan-based daily *Il Giornale Nuovo* Aug. 30 on the relationship between the general secretary of the Italian Socialist Party (PSI), Bettino Craxi, and the boss of the Italian drug lobby, Francis Turatello pose the possibility of blocking the sweep to power of "the new Mussolini," as Craxi is increasingly termed here.

A day after these explosive revelations, the magazine *Espresso* reported that Craxi will soon meet with President Reagan—the first Italian politician to receive that honor—and will receive directly the White House "seal of approval" to become Italy's first Socialist prime minister.

The great majority of the Italian population was already well aware of the PSI leadership's thoroughgoing ties to the drug mafia and terrorism; and unlike its French counterpart, the party is a small one without a real mass base. Both Catholic and trade-union elements are now shocked to see that it is the most corrupt Italian politician who has been chosen, not only by Alexander Haig and Henry Kissinger, but by President Reagan as well, as their man in Rome. The hopeful expectations aroused by Reagan's electoral victory, especially among the leadership of Catholic and growth-minded conservative forces, are being transformed into demoralization, or, in some cases, into sheer anger; these circles are asking themselves whether Mr. Reagan is really going to give his blessing to an individual protecting the drug traffic and the so-called Kidnaping, Inc. in Italy.

The file on Craxi and his ties to organized crime and drugs was reopened after the assassination in the maximum-security prison in Nuoro, Sardinia, of the boss of bosses of the narcotics business, Francis Turatello, or "Angel Face."

In jail since 1977, Turatello was murdered in the most savage imaginable way; the four executioners were carrying out an order. The question that appeared throughout the press was, who gave that order? The first answer that circulated among journalists was that "Turatello knew too much about some very important politicians." A fuller story was then published in *Il Giornale*: "Turatello's patron saint was Bettino Craxi, about whom the criminal boss used to speak as if he were someone he had helped greatly in the past and thus was expecting some help from in return now.

"When Turatello was arrested in Piazza Duomo in Milan, together with a Socialist lawyer, he was convinced that he would be able to leave prison shortly. He was counting on his political friends, on the good offices of powerful characters who frequented his illegal gambling casinos. . . .

"There are many rumors that Craxi used to visit the Brera Bridge, probably without knowing what the club actually was," the journalist pointedly adds.The Brera Bridge was the most important gambling casino in Milan, and a center for drug distribution. What the article reports was generally known within certain Italian circles. Until now, no one has had the courage, or the political backing, to publish such information.

The story of the Craxi-Turatello relationship dates back to the beginning of the 1970s, and further. Craxi was then the leader of the Milan Socialist Party. The city's mayor was Aldo Aniasi, a Socialist politician constantly accused of links with the Calabrian mafia that ran Milan's brisk drug and kidnapping business. In 1980 Aniasi became Italy's health minister, whence he promoted the liberalization of heroin laws.

It was during the period in which Craxi and Aniasi dominated Milan that Francis Turatello, stepson of the veteran Sicilian mafia boss Frank Coppola, emerged in control of organized crime in the city. With the casinos as his base, Turatello moved into drugs, kidnapings, and so forth, up to the point that no criminal activity escaped his hands. His allies were the "Marseilles Clan" gangsters; this was during the period of the French Connection, the huge transshipments of heroin refined in Marseilles and smuggled to the United States.

It was obvious enough that, without political protection, Turatello never could have built his empire, and without such protection he never could have enlarged the drug-consumption market to its present dramatic dimensions in Italy. When he was arrested, his Socialist lawyer companion was one Lombino, who more precisely was a PSI councilman for the Sicilian town of Augusta. Lombino himself evaded an arrest warrant by claiming that he had been in the company of the fugitive criminal for "professional reasons."

But there were other very evident Socialist tracks. In Turatello's personal datebook police found the private phone numbers of Aldo Aniasi and Craxi's brother-in-law Pillitteri, a Milan city councilman whose name had already gained some notoriety when his personal secretary was arrested as a terrorist who specialized in weapons supplies. The association with these individuals could not be explained during Turatello's trial, which took place at the beginning of this year, although during the trial Pillitteri was officially interrogated.

Turatello began to lose some of his powerful protection. This summer, he was sent to the Nuoro prison, in an area outside his *capo dei capi* reach; previously, he had decided what prison he would take temporary residence in. "What happened?" asks *Il Giornale.* "Someone invokes the name of Licio Gelli and his P-2 lodge, and explains that the explosion of that scandal forced Turatello's protectors to be more circumspect in order not to become exposed themselves." The Propaganda 2 scandal to which *Il Giornale* refers provoked a real earthquake within the PSI leadership. Recent reports in the Italian press state that the P-2's banker, Roberto Calvi, president of Banco Ambrosiano, revealed while in jail that he had given 20 billion liras to leaders of the Socialist Party through Swiss banking channels; and the names of many PSI leaders appeared on the P-2 membership list. Reports were also published that Bettino Craxi used to meet with Licio Gelli.

According to investigators, the Turatello murder should also be seen in the context of a gigantic restructuring of drug traffic throughout the Mediterranean. Turatello wanted to direct that restructuring, but "this is too big a business to be managed by someone far from the real power that controls the heroin market." He knew too much; he could have begun to speak out against his protectors. The protectors decided to silence him.

Whether Bettino Craxi is a crucial participant in this "restructuring" is very difficult to clearly deny. In any case, Craxi is not simply an Italian asset; along with François Mitterrand, he is the most prominent instrument of the Socialist International's project for the region and for all of Western Europe.

This is the Craxi of whom, in *The Washingtonian* magazine, Ray Cline, director of the Georgetown Center for Strategic and International Studies (CSIS) and former deputy director of the CIA, wrote that "Bettino Craxi is a young, energetic leader likely to become the next prime minister."

Reagan, who has refused to meet with the Christian Democratic party secretary, Flaminio Piccoli, or even to receive Prime Minister Spadolini in the White House, is now reported to be welcoming Craxi this fall. Can it be in the interests of the United States to endorse one of Turatello's erstwhile protectors?

Science & Technology

Saturn findings are vindicating Kepler

by John Schoonover

Results from the latest Voyager mission to Saturn are a crucial experiment confirming the bankruptcy of Newtonian physics. Not only did physicists fail to predict the existence of Saturn's finely ordered ring system first seen on Voyager 1's approach to the planet, but further results this time are unaccountable under the assumptions of Maxwell and Newton, conventionally accepted by physicists today. The data returned from the Voyager 1 and 2 Saturn missions now cry out for scientific interpretation based on the superior approach of the 16th-century founder of modern astronomy Johannes Kepler.

Detailed study of the rings, using precise measurements of the brightness of starlight passing through them reveals that the structure persists down to a spacing of about five kilometers, or three miles. This means that there are probably about 10,000 rings in all. Conventional theory asserts that over billions of years, perturbations would have erased any tendency to ordered differentiation. Ordering on the scale that we find would be impossible.

Prior to the Voyager 1 trip, authoritative sources were ridiculing those few scientists who claimed the existence of more than the three rings observable from Earth-based telescopes. Just before the Voyager 1 arrived, some scientists were predicting there might be a few more, perhaps 10. No one ventured as radical a guess as 50.

When first several hundred, and then a thousand were counted, a wild attempt was made to salvage Newton by hypothesizing that each of the rings was shepherded by unseen moons which stabilized and kept them in orbit. But as Dr. Schoonover had already predicted in the May 1981 issue of *Fusion* magazine, and as Dr. Bradford Smith of the NASA imaging team has now confirmed, no such moons exist.

The changing rings

The experimental instruments aboard the Voyager 2 have allowed scientists at the Pasadena, California Jet Propulsion Laboratory to get a much more detailed look at the Saturnian system. Based on the results from last fall's encounter with the planet, a trajectory was established that would allow Voyager 2 to approach moons seen only from a distance by Voyager 1, and to do more refined inspection of regions on the rings and the planet's surface that could be expected to reveal new information.

Not only were the hypothetical shepherding moons proved to be nonexistent, but it is now clear that the rings are not in a static configuration, but that they change shape and size, and come into and go out of existence. The evidence for this kind of behavior comes from a number of different observations. First, the F-ring, a thin, isolated ring that resides far outside the major region of the rings, was seen by Voyager 1 to be composed of several braided strands, with a clumpy appearance. Close inspection by Voyager 2 has shown that the braiding has disappeared in the intervening months.

At the same time, a new feature has emerged on the Encke Division, a dark, relatively empty band between two major regions of ring material. Imaging scientists describe this new feature as kinky and clumped in a manner reminiscent of the way the F-ring looked last fall.

A third, as yet to be confirmed piece of evidence for the dynamism in the rings is the preliminary indication that rings can combine. Over a period of about 20 hours, three rings in a particular region appear to have become two.

Thus Saturn's 10,000 rings are a dynamic self-ordering system rather than a configuration created at the time of the planet's evolution.

This is the first time that we have seen a pure gravitational field exhibit the same self-ordering effects familiar to us in energy-dense plasmas of the type created in fusion research, where electromagnetic forces are at work. But such observations are completely coherent with the non-Newtonian approach to physics that the famed German mathematical physicist Bernhard Riemann was pursuing in the 19th century. In his paper *On the Hypotheses Which Underlie Geometry,* and his later study predicting the existence of acoustical shock waves, (*On the Propagation of Plane Air Waves of Finite Magnitude*), Riemann anticipated just such behavior.

Where Newton treats the particle as primary, so that fields are produced by the summation of two-body interactions, and the interaction of three bodies is not precisely determinate, Riemannian physics starts from the evolution of fields or manifolds and treats particles as ambiguities which represent the intersection of manifolds. This was precisely the approach of Johannes Kepler in the 16th century, who accounted for the creation of the planets from the harmonic topology of the field around the Sun.

The challenge that now faces scientists is to throw off the mental fetters imposed by the Newtonian world view. The Saturn rings demonstrate clearly that even gravitation shows just those self-organizing tendencies necessary to account for the existence of the solar system and the evolution of the biosphere.

On the basis of Kepler's original work predicting the distancing of the planets from the Sun from harmonic relations, the scientists Titius and Bode elaborated a close-fitting geometric progression to extend the distances beyond the six planets known at Kepler's time.

A similar geometric relationship exists between the moons of Jupiter and Saturn, if one neglects the recently discovered small moons. In two cases, that of Hyperion and Mimas, the fit is not exactly as predicted; however, the Voyager imaging team is now of the opinion that these moons were captured by Saturn rather than being created at the time of the planet's formation. If it proves to be the case that we can make a distinction between these moons—and the smaller satellites, which it is reasonable to treat also as captured material—and Saturn's other moons, this will be a brilliant confirmation of Kepler's original hypothesis.

Weather patterns

The weather system of Saturn has occasioned much comment by the Voyager scientific team, but they have not emphasized what is perhaps the most startling feature. Despite the greater activity which we now observe on Saturn's surface, the results we find are contrary to predictions based on what is known as the Reynolds number. According to conventional hydrodynamic theory, the more viscous a fluid, or the slower its velocity, the lower its Reynolds number, and the more it is subject to large-scale ordered effects. Yet observation of the weather patterns in the atmospheres of both Saturn and Jupiter, both composed mainly of hydrogen and helium, contradict this theory. Weather patterns on Jupiter, which is hotter and therefore less viscous and rotates more quickly than Saturn, still show larger-scale structuring.

This apparently anomalous effect makes sense once we look at hydrodynamic structures such as vortices—the spirals observable on Earth in such phenomena as tornadoes and whirlpools—not as the result of small-scale particle motions, but as the primary given, and correlate such structures with energy flow.

Weather studies done by Eric Lerner and Dr. Steven Bardwell, editor of *Fusion* magazine, with used a two-dimensional vortical model correlated with energy flows, do in fact predict the observed results found in Jupiter and Saturn.

The Voyager flights are wonderfully designed and executed experiments. As one would expect from a good experiment, the new results have raised as many, if not more, questions than they have answered.

L. K. Jha on the Brandt Commission, India, and prospects for North-South talks

The following interview with Lakshmi Kant Jha was conducted by EIR *Asia Editor Daniel Sneider in New Delhi on July 30. Mr. Jha, as a private individual, was a member of the Independent Commission on International Development Issues, known as the Brandt Commission. He is an adviser to Prime Minister Indira Gandhi on the preparations for the October North-South summit meeting, and has recently consulted with other governments on this issue on behalf of the Indian government.*

Jha is one of the most prominent and most senior civil servants in India, having joined the Indian civil service in 1938 and remaining with the central government after independence from Britain. He has served in a variety of posts mainly dealing with economic affairs. In 1967 he retired from the civil service to become the governor of the Reserve Bank of India. In 1970 he was sent by Prime Minister Indira Gandhi as ambassador to the United States, where he served during the Bangladesh crisis. From July 1973 until February 1981 he was governor of Jammu and Kashmir, the state bordering on China and Pakistan. He is presently chairman of the Economic Administration Reforms Commission formed by the government.

Sneider: Could you give me your views, and the views of the Indian government, on the Cancún North-South summit?

Jha: First of the all the Indian view is that this is something of a unique experiment and it should not be allowed to fail.

In this context I was asked to go to some capitals—Tokyo, Ottawa, Washington and London—and I came away with the feeling that the countries of the North, too, are anxious to make the conference succeed. Obviously, perceptions of what constitutes success are different.

We would naturally expect that such a meeting would clear political hurdles to the way of the North-South dialogue becoming a true dialogue and not just a sterile debate. We don't expect at the summit to negotiate or settle differences on individual points or issues. I would hope that the summit would focus on some of the global issues which are of concern to mankind as a whole and which cut across North-South boundary lines—food supply, or energy supply. Even the question of transfer of resources, a very controversial subject because it has been projected too often in terms of the rich giving away to the poor, can be viewed in a wider global perspective.

The problem of surpluses and deficits in the world trading and payment system have been matters of concern to countries rich and poor, even more so after the oil-price rise. It is in the common interests of the trading system as a whole that temporary shortages do not create a situation in which trade begins to shrink, the world economy gets on a downward spiral.

Sneider: So you are saying the issues of credit, and I assume debt, are the core of this resource transfer question?

Jha: Yes, ultimately the problem does come down to one of credit and indebtedness. The very poor need credit on very special terms if their debt burden is not to become too heavy. At present so many developing countries are having a serious debt position because they have borrowed short for long-term purposes. . . .

Now I don't imagine that the summit leaders who are not financial experts will get down to talking about what kind of arrangement is needed. But if they agree in principle even that we have to promote finanical flows in a manner where a deficit country's problems can be eased out by the surplus countries' following policies appropriate to the requirements, then we've got a major step forward. . . . We cannot have a world monetary system without some kind of an understanding about how the flows are to be integrated.

Sneider: On this question, one of the major topics at the July Ottawa summit was the U.S. high interest-rate policy. . . . Will high interest rates be a topic at the Cancún summit?

Jha: There are so many heads of government, with no agenda to address to, one cannot say where the discussion will go.

Let us look at the Ottawa experience to which you have referred. The first thing which stands out is that policy conceived from a national angle may have repercussions on your trading partners, or your allies. To say that we shall follow our policy, what suits us, in our own narrow self-interest, regardless of what happens to others, can lead to protectionism, can lead to the Great Depression, can break up the world economy into fragments. . . .

There is no way but to take a global view of most of these problems. . . .

Sneider: But what does "global" view mean? Are we talking about a globalism which is counterposed to issues of national sovereignty? For example, if you were to take the U.S. interest-rate policy, a far better argument might be that this is not in the *American* national interest.
Jha: Whether it is a right policy or a wrong policy purely from the point of view of inflation control in the U.S. is a matter of judgment. But once you see its larger repercussions then you see it is not a painless, costless process even for the United States. If, as a result, your trading partners buy less of your goods, well, that is a price you are paying.

Sneider: In your mind and in the mind of the Indian government, are the Brandt Commission and the proposals of the Brandt Commission, a major element of your own approach toward this meeting?
Jha: Well, I was involved in the Brandt Commission in a personal way. The Indian government was not a party to it.

Sneider: My overall impression of the Brandt report is that it says the way to deal with the international monetary crisis is to enhance the authority and the credit facilities of the IMF and World Bank system; with the amelioration that it will be reformed, democratized, and some of the more onerous conditionalities policies will be softened somewhat.
Jha: No, I think I would regard the Brandt Commission proposals on financial issues to be on the side of orthodoxy, and deliberately so. We had no pretensions that we were a group of financial experts, and we did not want to come out with a cut-and-dried solution which the experts would find fault with and kill on technical grounds. We are focusing rather on the problem, emphasizing that the conditionality of the IMF is one of the obstacles. Then we put forward the idea of a World Development Fund. . . . The whole idea was that it should be a fund to which even the developing countries would contribute. And if they contribute it would have a graded system of contribution—a progressive system—where countries of lower income would contribute at a lower rate. Secondly, we wanted to bring in some measures of international taxation to contribute. And thirdly, we hoped it would become a major source of raising, through long-term instruments, funds which today are reaching developing countries through short-term channels.

Sneider: These ideas of international taxation, aren't they controversial in that you are talking about forms of abridgement of existing national sovereignty?
Jha: The idea of international taxation in the Brandt Report has been related to areas outside national sovereignty, such as seabed resources, international flow of goods. . . . The Brandt Commission did not reach an agreed position on the balance or tradeoff between globalism and national sovereignty.

Sneider: Take India for example. There has been a longstanding criticism that the giving of money by multilateral facilities has involved certain conditions—not simply financial conditions.
Jha: I think, very correctly, you emphasized one of the weaknesses which we have been critical of. Now I can understand that if the World Bank is financing a project, it should be sure that the money is spent on that project, that there is no waste. That conditionality is totally rational.

But if it casts its net wider and brings in conditions to affect India's development priorities and political judgments, I could object to it not only on the grounds of sovereignty, but also because such meddling tends to be counterproductive, because people sitting in Washington, even if they may be Indians, have been trained, brought up in the World Bank tradition, and cannot be sensitive to the realities of the situation. . . . Earlier the World Bank would say, growth matters, not social justice. The Bank, under McNamara, did not take this view.

Sneider: What you describe as McNamara's pretensions toward social justice I think could be described less benignly. The Bank under McNamara has emphasized things like population control, labor-intensive approaches to production rather than capital-intensive, "soft technology" rather than "hard technology," and what the Bank calls "appropriate technology." In the Brandt report I saw some of this outlook as well. For example on energy policy, India has quite correctly emphasized the development of nuclear energy as a high technology which is in fact cheaper, more efficient and so forth. The Brandt report takes an antinuclear position.
Jha: Let me say that when I quoted McNamara's contribution and change, I did not imply that I agreed with everything that McNamara, or the Bank under him, said or did. I was only emphasizing the point that even the World Bank keeps changing its opinion and I would hope that on questions of technology they *would* change their opinion. The relationship between India and the World Bank should not revolve around our acceptance of whatever is the latest World Bank view.

Schmidt's strategy against tension

Schmidt's advice to Washington is to pursue cooperation with the Soviets, not to increase the tensions.

Facing an international escalation of tensions that may help the "hawks" in both Moscow and Washington to gain the upper hand in their countries' policies, the West German government of Chancellor Helmut Schmidt has resorted to a strategy of increased efforts at détente. The preparations for the scheduled visit of Soviet President Leonid Brezhnev to Bonn at the end of 1981, and the exchange of diplomatic letters between Schmidt and East German President Erich Honecker, are public signals for the way Bonn wants to move matters.

This is not to turn West Germany's back on NATO and the Western alliance partners, but rather, as both Schmidt and Honecker have stressed in interviews over the past days, an effort to contribute to international détente and thus to world peace on the basis of relatively unproblematic relations between the two German states.

The Soviet government has indicated that—despite the controversy with NATO on the stationing of Euromissiles and the lack of commitment by the U.S. administration to negotiate with the Soviets on arms reductions—they too want détente and cooperation. On the occasion of a visit to the north German port city of Lübeck, Soviet First Deputy Minister of the Maritime Fleet, V. I. Tikhonov presented a proposal that has received some notice in West Germany: he proposed that West Germany, East Germany, Poland, and the Soviet Union cooperate in the construction of a shipping/railway transport system to transfer industrial goods from the West to Eastern Europe and the U.S.S.R. This, if pursued, would connect the large harbor of Kiel in West Germany to the Russian port of Leningrad and help intensify East-West trade.

A further idea still in discussion in both Bonn and East Berlin is to have the industries of the two Germanies cooperate in development projects in the Third World.

Chancellor Schmidt, while not having officially addressed these economic proposals, has stressed in recent interviews that arms control and disarmament will play an important role on his agenda for talks with President Brezhnev in Bonn. Addressing the nation on television Aug. 30, Schmidt said, "We believe that the present level of armament in Europe has been exaggerated, and that it is not necessary to maintain peace in Europe to have so many weapons stationed here.

Hitting hard at the so-called peace movement—a leftist effort which some here believe aims only to provide headlines such as *Time* magazine's "Moment of Angst"—Schmidt stressed that "whoever wants to contribute to peace seriously, should do this in the context of my party, the SPD, and of the West German trade unions whom I consider the biggest peace movement there is in this country."

Beginning with the Sept. 1 demonstrations that commemorated the 42nd anniversary of the beginning of World War II, the West German trade-union federation, DGB, will begin a campaign to collect 2 million signatures among workers in favor of Schmidt's policy of military balance at the lowest possible level between East and West.

Schmidt himself addressed this point in an Aug. 21 television interview: "I am for maintaining the military balance; I have had this position for more than 20 years now. But I would strictly reject the West's trying to gain military superiority over the East. I am against the superiority of the Soviet Union, and I am, as well, against the superiority of our own alliance."

West German industry and Bonn have rejected any attempts by the Anglo-Americans to have canceled the planned West European-Soviet gas pipeline deal in favor of rather vague Western "energy alternatives." Though Schmidt is certainly not too optimistic at this point, he advises the United States to opt, as he has, for industrial cooperation with the Soviets, such as helping to explore the vast raw-material resources in Siberia.

Bonn insiders refer to President Eisenhower's 1953 "Atoms for Peace" proposal to remind the U.S. of a policy that, though deteriorating under U.S. administrations since the Cuba missile crisis, have in fact contributed more to peace than all the strategies of tension against the U.S.S.R. With the West German government pursuing a policy of partnership with the East bloc in the tradition of the Eisenhower effort, there are probably better Americans in Bonn than in the Reagan administration.

Unity of the left

Five left-wing parties are joining in one electoral force; who's stirring the alphabet soup?

The leaders of five leftist opposition groupings took Mexican political circles by surprise by announcing that they would form a single party of the left to run against the governing PRI party in 1982.

The surprise was less in the planned fusion of the groups—something of the sort had been in the cards for some time—as in the almost indecent haste of the affair. According to Heberto Castillo, head of the Mexican Workers Party (PMT), the idea "just occurred" to him a few days before the event, and he was "gratified" over how quickly the memberships went along.

It was obvious to any veteran political observer here that some strong orders "from the top" had come down. With a record of internecine squabbling rivaling any in the world, it was otherwise inconceivable that the Mexican Communist Party (PCM), the Mexican People's Party (PPM), the Revolutionary Socialist Party (PSR), the Movement of Solidary Action and Unity (MAUS), and Castillo's PMT, had come together before protracted debate within each group.

Some important details remain to be worked out. But the Jesuit-run left newspaper *Uno más Uno* was ecstatic—"undoubtedly the most important step since the [1977] political reform," it editorialized.

No one is saying that the left can win in 1982. But in the wake of the Mitterrand victory in France, any "unity of the left" movement will have a propaganda boost of considerable magnitude. Furthermore, there will be significant "playback" impetus derived from the intensifying Central American conflict—the left parties involved are all vocal supporters of the Salvadoran and Guatemalan guerrillas.

The role of Heberto Castillo is key. It was Castillo who made the Aug. 15 announcement on behalf of the five groupings. And Castillo's name is surfacing repeatedly as the most likely presidential candidate of the new party.

Castillo gained greatest notoriety since 1977 as the man who insisted that Mexican oil was much better left in the ground than exploited, and if exploited, should under no conditions be used to finance in-depth industrial development. "Ayatollah" Castillo became overnight the darling of both the anti-development left press here in Mexico and the *New York Times*.

But his background represents a deeper phenomenon. Almost all the leaders of his PMT party came out of "solidarist" Christian Democratic circles of Monterrey in the late 1950s and early 1960s. This is the same milieu that hatched the famed "red bishop" of Cuernavaca, Sergio Méndez Arceo; the 23rd of September League terrorists; and the newly metamorphosed Social Democratic Party (PSD).

These connections begin to point toward the "controller" levels of the affair. It is notable, for instance, that just before the mass political marriage ceremony last month, precisely the same list of left political operatives met with the high command of the "Theology of Liberation" forces for a summit of the "Christian-Marxist dialogue." Méndez Arceo presided over the planning session. A few weeks later, a long letter from Pedro Arrupe, father-general of the Jesuit order, suddenly appeared in a Mexican Church newsletter urging cooperation between Christians and Marxists "in projects for the common good."

There may in fact be another "Society of Jesus" involved, that of Jesús Reyes Heroles, the former interior minister who designed and executed the Political Reform during his 1976-79 tenure in office.

Reyes Heroles has come under increasing suspicion as his "reforms" have played into the hands of a damaging "pluralism" rather than a strengthening of republican institutions. It is widely suspected that the PCM's recent swing to self-proclaimed vanguard for homosexuals, marijuana smokers, abortion advocates, and Christian-Marxist liberationists, is in keeping with "counsel" from Don Jesús.

Several principals in the new fusion party stated that there really should have been no surprise in the sudden get-together—the idea actually dated back to the formation of the Political Reform in 1977. It is also noteworthy that Reyes Heroles was the only former PRI party president (he served from 1973-75) not to show up at the big PRI party unity banquet held at the beginning of August to bolster the López Portillo government.

A bogus option for Iran

With the Khomeini experiment gone awry, the British solution is a Zia-style dictatorship.

The demise of President Rajai and Prime Minister Bahonar signals the start of a new, even more chaotic, phase of the Iranian "revolution."

The British, working through Secretary of State Alexander Haig and the same mindless crew of Iranians who overthrew the Shah and put Khomeini into power, are now preparing to breathe new life into their Iranian experiment by attempting to transform the Khomeini regime into an Islamic military dictatorship à la Ziaul Haq's Pakistan.

Such a government would retain Khomeini as a symbolic centerpiece. However, the radical mullahs would be out, and the Mujaheddin, linked to the Socialist International would be in, thus restoring a semblance of order to Iran—a necessary prerequisite for facilitating the strategic manipulation of Iran against the Soviet Union, as well as the systematic deindustrialization and depopulation of the country.

Haig's State Department is fully in tow behind this largely British plan to preserve Khomeini's Islamic Republic in all its essential features. The *New York Post,* citing the State Department as a source, makes this clear: "There is a growing feeling among government experts and academics, and even some ex-hostages, that the survival and stability of Ayatollah Khomeini's revolution may be in the national interest of the United States. . . . The real long-term threat, just over the horizon from Teheran, is the Soviet Union. . . . Since January, Washington has been making small, quiet gestures to the Khomeini regime, selling wheat, offering to buy oil, winking at Israeli shipments of spare parts to Iran."

Why is a new Anglo-American version of Islamic fundamentalism in Iran unworkable? The Soviets have no intention of sitting by and giving London and Washington a free hand in the destabilized situation in Iran and the region, and are prepared to demonstrate their sentiments militarily if need be.

Nevertheless, Haig and his controllers are plunging ahead. Following the Aug. 30 assassination of Rajai and Bahonar, a delegation of "moderate" ayatollahs visited Khomeini to urge him to soften his line, i.e., to get him to cooperate with the Anglo-American scenario. Immediately after the meeting, Khomeini issued a plea for moderation and restraint in the pursuit of "justice" in the wake of the murders.

But, for the first time, Khomeini was openly defied by the radical mullahs. In one day alone, there were 55 executions of "traitors to Islam." More important, Prosecutor General Amlashi rebuked Khomeini by issuing official orders to speed up the trial and execution of 4,000 political prisoners now in jail. Ayatollah Montazeri, long considered Khomeini's likely successor, announced strong support for Amlashi and directly attacked Khomeini.

According to one intelligence source, "What the moderate ayatollahs are proposing is that Khomeini be salvaged, that he announce that he has erred in recent decisions, and then retire to the holy city of Qom to his spiritual life. They will keep Khomeini around as a symbol, but that is all."

In an interview, ex-President Bani-Sadr, now living in exile in France, extended an olive branch to Khomeini by letting it be known that while he backed the murder of Rajai and Bahonar, he refused to authorize a hit on Khomeini, stating that it would cause civil war. In what amounted to a combined ultimatum and offer to Khomeini, Bani-Sadr said: "Khomeini will give in to the will of the people, just as he gave in to Reagan" on the hostages.

The operation to retool the Khomeini regime has been initiated by the same group of British Petroleum-connected insiders that carried out the 1977-78 destabilization, among them Gen. Hossein Fardoust, the director of the Shah's intelligence agency Savak, who betrayed the Shah by deliberately conduiting misinformation to him and later defected to the Khomeini camp to head up Khomeini's intelligence operation, Savama. "Fardoust," commented one source, "is the perfect double agent."

Other old-boy figures in the operation are said to be the Shah's chief of staff, General Gharabaghi, and former naval chief Admiral Habibollahi, as well as former Foreign Ministers Ibrahim Yazdi and Sadegh Ghotbzadeh.

International Intelligence

Pol Pot 'united front' still lacks solidity

Representatives of three separate Kampuchean opposition movements met in Singapore Sept. 1-3 for talks on the formation of a coalition opposing the Heng Samrin government, which assumed power following the ouster of Khmer Rouge mass murderer Pol Pot.

The meeting brought together three sworn enemies: Khmer Rouge President Khieu Samphan, former Kampuchean head of state Prince Sihanouk, and former Prime Minister Son Sann, who attempted to agree on some kind of program for the establishment of a "united front." The meeting merely produced a "joint statement" condemning Vietnamese troops on Kampuchean soil.

The talks were a product of recent visits to Southeast Asia by Chinese Premier Zhao Ziyang and U.S. Assistant Secretary of State James Buckley.

Peking, which openly sustained and directed the Pol Pot regime from the start, and Washington are attempting to jerry-rig some "alliance" before the mid-September U.N. General Assembly vote on who will occupy Kampuchea's seat, which is currently held by the Khmer Rouge.

Soviets reiterate their disarmament position

In its Sept. 2 report on the Crimean meeting between Leonid Brezhnev and other Warsaw Pact leaders, *Pravda* resummarized the diplomatic proposals first stated at the February 1981 party congress. A "step-by-step disarmament" process would involve the following elements, according to *Pravda:*

- Expansion of the military confidence-building measures (cross-observation of East and Western military maneuvers, etc., under the Helsinki accords) to the western parts of the Soviet Union, if the West agrees to a corresponding expansion.
- A moratorium on further deployment in Europe of new medium-range nuclear missiles by both sides;
- Creation of a nuclear-free zone in Europe, to include the Baltic and the northern part of the continent;
- An international conference on the Middle East;
- "Confidence-building measures" in the Far East;
- A nonaggression pact among the Asian and South Pacific nations.

Colombian business leader attacks high interest rates

Ivan Marulanda Gómez, prominent Colombian business leader, recently issued a denunciation of his government's Volcker-style interest-rate policy as responsible for the wave of bankruptcies, soaring unemployment and collapsed production.

Marulanda, stock market president of the highly industrialized city of Medellín, warned that savings no longer function in Colombia as "raw material to feed production," but rather "end up in the complacent market of usury. . . .

"Dividends are now less attractive than interest, and so resources that were channeled into the stock market, are being reoriented toward the capital markets, markets of expensive money often hidden from the eyes of the tax collectors." He also stressed that as a result of financial manipulation of the economy, "bankruptcies and decapitalization of companies are a daily occurrence."

Qaddafi mobilizes anti-U.S. terror

Libyan dictator Muammar Qaddafi called for an intensified wave of terror against the U.S. during the Sept. 2 celebration in Tripoli of the 12th anniversary of the Libyan Revolution. The annual celebration brings together leaders from terrorist and liberation movements from around the world along with Third World heads of state.

Qaddafi ranted that he is prepared to bomb U.S. nuclear depots in the Mediterranean and cause "an international catastrophe" should the U.S. engage Libya in another air battle such as occurred on Aug. 19. Qaddafi also prophetically warned that U.S. military bases in Europe would come under attack.

In his anniversary day speech, Qaddafi proclaimed, "We are warning the peoples of Sicily, Turkey, and all the states of the Mediterranean that if America continues its attacks against the Gulf of Sidra, then we will intentionally attack the nuclear depots in their countries and cause an international catastrophe."

This threatened terror wave plays into the design of Qaddafi's longtime friend, Italian Socialist Party boss Bettino Craxi. Craxi, who is preparing to take power in Italy, advocates extending Italian naval power throughout the Eastern Mediterranean on behalf of NATO; a Qaddafi-led terror wave creates the pretext for such a plan.

Ray Cline on the Craxi plan

Ray Cline, the strategic studies director of Georgetown University's CSIS, announced the support of the United States for making Italian Socialist Party head Bettino Craxi the next prime minister of Italy.

The former deputy director of the CIA, in an article titled "Young Comer to Form New Pro-American Coalition in Italy," details how Alexander Haig et al. plan to install Craxi as the next Italian prime minister. Cline states that a "new center coalition" is now taking form to replace the "revolving door of Italian governments" and "make Italy a strong pro-American ally." The formulation "pro-American" is intended to signal that the Reagan administration has accepted the Craxi coalition as the next Italian government.

Cline points out that "every party which was tempted to join with the Communists" is now willing to renounce and isolate the Italian Communist Party and ally with Craxi. The center coalition, according to Cline, will be comprised of the Christian Democrats, Italian Socialists, and Social Democrats with critical support from the "tiny Republican Party, the [neofascist] Italian Social Movement (MSI), and the Liberal Party." The deal for the Christian Democrats will be the willingness of the Italian Socialists to shift their support from PCI local governments to the Christian Democrats.

"Bettino Craxi is a young and energetic leader likely to become the next prime minister" with a platform of strong support for NATO and the Reagan administration, and opposition to "Eurocommunism," concludes Cline.

Soviets tighten ranks in 'arc of crisis'

The Soviet Union has increased its efforts to consolidate allies in the region, corral the waverers, and warn U.S.-allied states that Moscow is prepared to move militarily in the region if need be. According to intelligence sources, 100,000 Soviet troops have been put on alert in the Soviet-Iran border area in the wake of the Aug. 30 assassination of Iran's president and prime minister.

On the diplomatic front, Soviet and Soviet-backed emissaries have been dispatched throughout the Middle East to consolidate the Soviet network in the region. Following a visit by the North Korean prime minister to Moscow and Syria, Syrian President Hafez Assad denounced the Iran bombing incident as "a sin and criminal act," signaling Soviet unwillingness to tolerate Anglo-American attempts to exploit the chaos in Iran to its own ends.

The Palestine Liberation Organization echoed Assad by denouncing the bombings, charging the situation "is allowing our enemies to gain ground." The PLO issued this statement following a meeting between PLO leader Yasser Arafat and Soviet ambassador to Lebanon Soldatov. Soldatov met with Arafat a day after the latter's meeting with French Foreign Minister Cheysson, who on behalf of the British is trying to lure the PLO into a "Phase Two" of the Camp David peace process.

The Soviets have also deployed their Afghan allies to help consolidate their position in the region. A special delegation of the Afghan Revolutionary Command Council arrived unexpectedly in Libya Aug. 31, signaling a possible "reconciliation" between Libya and the Soviets on the Afghan issue. At the same time, the Afghan foreign minister is on a trip to Libya, Syria, and Algeria.

In Pakistan, Zia is feeling the heat, as well as angling for fast delivery of the U.S. F-16s. On Aug. 31, Zia visited a Soviet-built and managed steel plant in Karachi that symbolizes the accomplishments of the deposed Bhutto regime, and expressed his desire to stay on good terms with Moscow.

Japanese send a message to Washington

Japanese participants at a bilateral U.S.-Japan conference "expressed their fear about a policy of using China as part of the U.S. strategy against the Soviet Union," reports Japan's JIJI Press.

At the fifth annual Japanese-American Assembly meeting, held this year in Japan, the Japanese participants said, "Although China's economic development is of significance both to Japan and the U.S., China's strategic aspects should not be stressed too much." American participants replied that the U.S. regards China "as a friendly power from a viewpoint of the balance of power," according to JIJI.

Speaking to the conference on the broader defense issues, Columbia University Prof. Gerald Curtis warned that differences between Japan and the U.S. on Japan's defense role could develop into a major political breach, akin to past and present trade frictions.

Briefly

● **ADMIRAL HABIBOLLAHI,** exposed by *EIR*'s Middle East Editor Robert Dreyfuss as a collaborator with the Ayatollah Khomeini, attacks Dreyfuss in an interview published at the end of August in the Iran Press Service, from its Paris bureau. Habibollahi headed the exile force that recently led a takeover of a French-built warship en route to Iran. The interviewer quotes at length from Dreyfuss's book *Hostage to Khomeini* and from *EIR* reports; Habibollahi very defensively denies the charges, saying that he never met or even heard of such persons as Cyrus Hashemi. Hashemi, a gobetween for Jimmy Carter and Khomeini, is currently suing New Benjamin Franklin House, publisher of *Hostage to Khomeini.*

● **HAS AGHA SHAHI,** Pakistan's foreign minister, established a second residence in Washington? This question circulated following his second visit in less than 10 days for meetings with Alexander Haig. Shahi, lobbying hard for early delivery of F-16 fighter-bombers, wants to ensure that the $3 billion U.S. aid package is not bogged down in the House.

● **BIBLIS,** a Ruhr town near the site of one of West Germany's besieged nuclear plants, was the site of a large rally Aug. 27 by the pronuclear European Labor Party.

● **DACCA** is not the capital of Pakistan, *EIR* is aware, despite the editorial equivalent of a printer's devil that crept twice into an item in our Sept. 8 International section.

● **ALBERT SPEER,** who oversaw slave-labor deployments for the Third Reich during World War II, received a reverent obituary by sportswriter Paul Montgomery in the Sept. 2 *New York Times.* The *Times* supported Adolf Hitler's rise to power, and endorsed his regime as late as October 1939.

Executive-branch insanity on the budget and defense

by Graham Lowry

With Paul Volcker's foot planted ever more firmly on the Reagan administration's neck, the White House has now made official what has been apparent for some time—there exists no program for economic recovery. The administration stated Sept. 1 that because of continuing high interest rates, over $100 billion in additional budget cuts must be made for the next three fiscal years, beginning Oct. 1. And while the administration continues the foreign-policy provocations which will engender a superpower confrontation, it has announced that the additional rounds of budget-gouging are to include further reductions in America's strategic and conventional military capabilities, slashing upwards of $10 billion for 1982 and hacking an additional $30 billion the following two years.

Bowing to Federal Reserve Chairman Volcker, and betraying his campaign pledge to restore America's position of leadership in the world, Reagan has now displayed the ugly commitment to intense domestic austerity as well. Administration officials have declared that they will seek $20 billion in further cuts in nondefense and social programs for the FY82 budget, and $44 billion more for fiscal years 1983 and 1984, on top of $15 to 20 billion in Social Security cuts for the latter years already submitted to Congress. While political tremors are heard across the country in opposition to Volcker's interest-rate policy, the administration is *publicly* arguing that these bone-cutting reductions are necessitated by the Fed's continuing regime of 20 percent rates.

Two days before the administration's announcement, Paul Adolph Volcker had flaunted his dictatorship on nationwide television over the administration and the American economy. Appearing on ABC's "Issues and Answers" Aug. 30, Volcker declared that he had demanded "further large budget cuts," including reductions in Social Security and the defense budget, where, he said, "there is still a lot of room to cut." Asked whether the President might ask him to lower interest rates, Volcker laughed. "The administration has a healthy realization that restraint on credit and money is necessary. I'm confident the administration will make the necessary cuts." (The same day, displaying the administration's submission to Volcker, White House Council of Economic Advisers Chairman Murray Weidenbaum declared on CBS's "Face the Nation" that "the Fed has targeted the correct policy to restrain inflation, to restrain monetary growth, and I concur with that policy.")

Volcker was also unabashed in portraying his policy as one *designed* to permanently level the U.S. economy and reduce American living standards. Asserting that wages are the major cause of inflation, taking up "two-thirds of the costs in the economy," Volcker declared, "People have got to change their expectations of the future, and change their behavior." After writing off any prospect for renewed real economic growth, Volcker added, "People have to be more rational and take smaller wage increases. That is always uncomfortable." The next day President Reagan sent a message to Congress recommending that federal employees receive a 4.8 percent

In front of the Washington Fed: Reagan hasn't listened.

pay raise—a pay cut when adjusted for inflation—instead of the 15.1 percent increase mandated by the Pay Comparability Act, designed to keep federal salaries competitive with the private sector.

Reagan has now entered the month of September on a confrontation course with his own constituents that amounts to political suicide. Deep cuts in education, health care, Social Security, transportation, etc.—made continually and repeatedly as each point increase in interest rates add over $4 billion to the federal deficit annually—are not what the electorate voted for, and the President faces a major test in Congress as the cries of "win one for the Gipper" turn to angry denunciations from the hustings, amplified on Capitol Hill by the fact that the '82 elections are not far away.

More immediate is a showdown with organized labor, which correctly perceives that the administration is now on an open wage-gouging and union-busting rampage. The pay standard for federal construction jobs has already been lowered by administrative revision of the Davis-Bacon law, and the Defense Department is on record on Capitol Hill for exempting defense contracts from its provisions altogether. A scheme is also being prepared by David Stockman and Volcker's other deputies within the administration to tax fringe benefits and pension plans, with the explicit intention of crushing labor. "Going after the benefit programs is a way to do it. If they collapse, the unions will collapse," says one congressional source. "Stockman thinks that he is going to make a revolution during this administration, and the real revolution is that he can collapse the labor movement."

In the face of these assaults, the potential is rapidly building for a massive turnout for labor's planned Sept. 19 Solidarity Day demonstration in Washington to protest Reagan's economic policies, a phenomenon the Socialist International wing of the labor movement intends to exploit on behalf of its long-held "class war" card of social chaos and disruption, setting up labor for further attacks.

At the same time, the administration is plunging into a strategic confrontation with the Soviet Union. Yet Volcker-dictated defense cuts will accelerate the deliberate jettisoning of U.S. military capabilities: at the level of the cuts proposed so far, with adjustment for inflation, Reagan's 1982 defense budget will barely exceed Carter's, and his 1984 budget will be virtually identical. While the President pathetically blustered in his Chicago speech this week that the Soviets must agree to arms reductions or "be in an arms race which they can't win," administration officials are identifying among the budget casualties previous plans for naval fleet expansion, new combat aircraft, and additional weapons for the army. Following Volcker's television appearance Aug. 30, the establishment press carried a profusion of editorials and commentaries arguing for the deferral or scrapping of strategic weapons systems as well as "sophisticated and expensive" conventional arms. On the day the cuts were announced, Pentagon spokesman Henry Catto confirmed that the cuts might jeopardize new strategic weapons such as the MX missile and the updated B-1 bomber, with the observation that "the knee-bone is connected to the thigh-bone."

Beyond this strategic debate conducted largely as "theater of the absurd," what emerges is a restructuring of the U.S. military in a manner posing the gravest threat to national security: the terminal conversion of American armed forces from an in-depth, technologically advanced war-fighting machine to a stripped-down band of marauders to hurl against the limited forces of countries in the Third World. It is precisely the doctrine advocated by Gen. Maxwell Taylor, whose proposals for scrapping the MX, the B-1, new combat aircraft, and the Nimitz-type supercarriers appeared in the *Washington Post* Aug. 31, and were quickly endorsed in the pages of the *New York Times* and the *Christian Science Monitor*.

The name of the policy, now the objective of the Reagan administration both domestically and internationally, is Global 2000. It is the policy issued by the Carter administration, being enforced by its Federal Reserve appointee Paul Volcker, to dismantle the modern industrial nation-state, and rid the world of 4 billion people by the year 2000.

The President may not know it, but that is what he embraced this week.

The lineup in the House and Senate

by Susan Kokinda

Congress returns from its summer recess on Sept. 9, politically singed by the outrage of constituents over Paul Volcker's usurious interest-rate policy. A grassroots movement, based on a fundamental point of economic policy, is stirring in a way not seen since the Great Depression; throughout the country, groups of small businessmen, trade unionists, and farmers are taking it upon themselves to force national action against the Fed's economy-crushing policies. In Paducah, Kentucky, the Board of Realtors has announced a full mobilization to make Sept. 8 "Save Our Society" (SOS) Day and to organize 1 million telegrams into Congress with the message: interest rates must be lowered to the single-digit range. In the Midwest, local home builders, trade unionists, and farm organizations have declared their intention to march on the Michigan State Capitol on Oct. 6, designating it "Black Tuesday," the second anniversary of Volcker's 1979 credit squeeze. Even the staid National Association of Home Builders put out a legislative alert on high interest rates in early August, and has indicated its intention to form a "labor-management coalition" for lower interest rates with the National Farmers Union, Lone Star Industries, the Industrial Union Department of the AFL-CIO and other trade unions.

This political firestorm has had its effect on legislators at home for the August recess. Even such liberals as Maryland Democrat Sen. Paul Sarbanes (who six months ago was stony-faced and silent as constituents trooped into his office demanding action on interest rates) have discovered the political wisdom of addressing the issue. Sarbanes convened three days of hearings across the state on interest rates, and exulted as his probable Republican opponent in the 1982 election, Rep. Marjorie Holt, attacked him for questioning Volcker's policies.

Republicans who are little more conscious of economic and political reality than Mrs. Holt, are beginning to concede that the issue could defeat a number of GOP senators in the elections next year. At least on their home turf, Republicans ranging from Senate Majority Leader Howard Baker of Tennessee on down are talking tough about the Fed's policies.

Immediately on the agenda as Congress returns will be the legislative fallout from 20 percent interest rates. President Reagan will have to ask for an additional $20 billion in cuts for the 1982 budget to compensate for the unexpected (at least to the administration) added cost of debt service on the federal debt. Rather than drawing the obvious conclusions—that is, lower interest rates and reduce the deficit by $20 billion—indications are that Congress will grit its teeth and continue to slash away at the federal budget in the "Catch-22" belief that the deficit causes high interest rates!

At least on the Senate side, some Democrats have promised to force the question of Fed policy and interest rates into the budget debate. Senator Melcher can be expected to raise his proposed S. J. Res. 104—which calls for the President to consult with the Federal Reserve Board and bring down interest rates within 90 days—as an amendment on the floor every chance that he gets. Similarly, the respected Mississippi Democrat Sen. John Stennis may once again raise his proposal to create a Commission on Interest Rates which would be charged with examining ways to reform the Federal Reserve Board. Brought up by Stennis during the tax debate, the proposal provoked a frantic dash by Treasury Secretary Donald Regan and others to a Capitol Hill back room to convince Stennis to withdraw the amendment. Stennis did withdraw it temporarily, but on the condition that appropriate Senate committees examine the interest rate/ Federal Reserve Board issue in September—a condition Stennis intends to enforce.

Possible targets for these or other interest-rate amendments include votes on the second concurrent budget resolution and on the extension of the federal debt ceiling. Under the legislative budget process, the second concurrent budget resolution is to be passed by Congress by Sept. 15—a deadline that will be missed. Instead, OMB Director David Stockman will come before the Senate Budget Committee on that date with details of the new round of budget cuts for the FY82 budget. Senate Budget Committee mark-up should be over by September's end and a floor vote—rife with opportunity for amendments on interest rates—can be expected in early October.

Congress must also approve each "temporary" extension of the total limit of federal borrowing. The extension comes up at the end of this quarter, Sept. 30, when the debt ceiling will top $1 trillion. Democrats may take two approaches—some may vote no on the extension—both for the perverse pleasure and for the political expedience of forcing their budget- and debt-conscious Republican colleagues to vote for a $1 trillion-plus ceiling. A more useful approach may be further amendments dealing with the impact of high interest rates on the federal debt load.

Melcher is reportedly looking for a serious House cosponsor. But some House Democrats close to Tip

O'Neill indicate that, while they think it is acceptable for Senate Democrats to wage guerrilla warfare on interest rates since they are the *minority* in that chamber, it would be "irresponsible" for the House Democratic *majority* leadership to "impede" the legislative process with such tactics. Behind that rather incredible reasoning stands the House liberals' hope to keep the party focused on the divisive budget issue and to provide further grounds for alienating and eventually censuring or expelling the conservative House Democrats.

Documentation

Clamor against Paul Volcker

The following are excerpts from testimony on the "Effect of High Interest Rates on Maryland Communities," delivered at hearings of the Joint Economic Committee's Subcommittee on Investment, Jobs and Prices in Annapolis, Maryland Aug. 31 and Sept. 1. The hearings were chaired by Maryland Democrat Sen. Paul Sarbanes.

From the statement of Hugh H. Gambrill, president, Anne Arundel County Chapter, Home Builders Association of Maryland:

I am here today to protest the high interest-rate policy of the Federal Reserve Board and to urge the administration and Congress to take whatever action is necessary to change their cruel and senseless policy.

Because of the policies of the Federal Reserve Board, in Anne Arundel County, building permits through July of this year are down as much as 50 percent from previous years and getting worse. In a county such as Anne Arundel. . . . The full economic impact can be calculated to be at least $500 million. This means that with building activity off by more than 50 percent from where it should be, the loss to the county [using a standard multiplier] is more than a quarter billion dollars.

In human terms it is worse. . . . For Anne Arundel County . . . the current drop in building means the loss of more than 3,000 jobs.

In conclusion, I feel that if this does not get the attention of elected officials now, I think that elected officials will be dealing with it this time next year.

From the statement of Henry A. Spies, Jr., Cordova, Maryland farmer:

Agriculture is the nation's largest industry. . . . The American farmer is the most efficient producer on earth. . . . The future of agriculture and the foundation of the American farm family is in serious jeopardy. . . .

Machinery ownership costs are primarily determined by prices of machinery and by interest rates. Increases in both of these items caused machinery ownership costs to rise by more than 20 percent in 1980 with an additional projected increase of 14 percent in 1981. . . . Farmers electing to store cash grains will find that interest costs will nearly equal the storage and insurance costs. . . . Farmers are reporting that their annual interest-rate payments exceed the amount paid on the principal. . . .

Many have asked the question, "Is the American farmer secretly going broke?" The response by the farmer: "Heck, no; the whole town knows I'm going broke."

From the statement of Joel A. Boren, general manager and chief executive officer of Marva Production Credit Association and The Federal Land Bank Association of Salisbury, Maryland:

The Delmarva farmer, as well as other farmers throughout the country, over the past five years, have seen interest rates soar from short-term operating-type loans in January 1976 of 8½ percent to the present level of 16½ percent. . . . Many farmers in our area have fought back in many ways: 1) Reduced amount of fertilizer and chemicals used. This can be done for a year or so, but detrimental effects will be noted if this practice is continued for an extended period; 2) The ideal of being debt-free, not owing anyone, is now a thing of the past. Farmers must now schedule payments they can meet, which means longer-term loans; 3) The selling off of timber and applying proceeds to debt. Timber does not grow at a rate that will offset interest rates.

Excerpts of testimony by Alan Thomas Fell, commissioner of consumer credit in Maryland's Department of Licensing and Regulation:

Record-high interest rates have affected Maryland consumers in the following ways: 1) These record rates have raised the cost of consumer goods to both cash and credit customers. Merchants and manufacturers have had to raise the cost of goods since their cost of carrying inventories has become almost prohibitive. In addition, most merchants are . . . forced to raise their retail prices, in effect, subsidizing the credit purchasers; 2) Installment sellers are finding it difficult to sell their financing contracts or hold their own paper. These merchants have been calling our office in record numbers.

From the statement by Sen. Paul Sarbanes:

The problems created by continuing high interest rates are approaching crisis proportions. . . . The damage thus far is serious; and, if conditions are not soon improved, will be irreparable. Enterprises which have been an important asset to their respective communities, an important economic resource, will be lost.

NDPC Democrats begin to disinfect California from Brown and Hayden

EIR conducted the following interview with William Wertz on Aug. 31. Mr. Wertz, who is based in Los Angeles, serves as the Western states coordinator for the National Democratic Policy Committee, the political action committee whose advisory board is chaired by EIR founder Lyndon H. LaRouche, Jr.

EIR: You have recently called on California's governor, Jerry Brown, to withdraw from the race for U.S. Senate. Why?

Wertz: Last week I held a series of press conferences throughout California on behalf of the NDPC calling on Jerry Brown to withdraw from the race for the good of the Democratic Party. It is our estimate that if Brown is the party's candidate he will bring many good Democrats down to defeat with him.


William Wertz

The primary reason we believe Brown's candidacy would be disastrous is his totally incompetent handling of the Mediterranean fruitfly crisis. Although the crisis has received significant coverage nationally in the press, the true story is yet to be told.

EIR: Governor Brown has claimed that the attacks on his handling of the medfly crisis are merely partisan in nature.

Wertz: That is not true. There was a drive launched to impeach Brown by Republican Assembly Minority leader Carol Hallett in order to force him to launch an effective eradication program. If Brown had been impeached, his replacement would have been the Republican lieutenant governor, Mike Curb, who is himself a candidate for governor. This would have given the Republicans significant veto power over current Democratic redistricting plans. However, although this particular move did not receive significant Democratic support, leading Democrats have been highly critical of the governor. It was the Democratic-controlled legislature which threatened to override Brown if he continued to oppose aerial spraying with malathion. Even Mayor Tom Bradley of Los Angeles, a close Brown ally who is running for governor, has criticized Brown's handling of the crisis.

EIR: In what way was Brown responsible for the medfly crisis?

Wertz: In 1978, under the influence of Tom Hayden, Jerry Brown's Department of Food and Agriculture adopted the extreme environmentalist "integrated pest management" program. The purpose of this irrational program was to cut the use of needed pesticides in half and to replace effective pesticides with totally ineffective so-called natural controls.

Having thus adopted Hayden's antipesticide bias, Brown in December 1980 ignored the advice of both his own medfly technical review committee and the USDA to begin aerial spraying of malathion. When a new outbreak occurred in June 1981, Brown once again rejected aerial spraying until forced to by the federal government and state legislature.

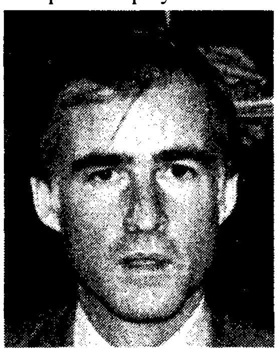
Hayden's influence in the crisis was even more direct. It was Hayden's organization, the Campaign for Economic Democracy [CED], which, through the dissemination of hysterical misinformation on the alleged harmful effects of malathion, organized popular opposition in Santa Clara County to aerial spraying. In fact, even as the medfly was spreading into the San Joaquin Valley, Tom Hayden's Toxic Responsibility Action Committee held a demonstration on Aug. 11 in Sacramento in opposition to the use of pesticides. Bob Brownstein, Hayden's top organizer in Santa Clara County is currently fundraising for the CED by organizing two-week tours to rural Red China, Tom Hayden's agriculture model for California.

EIR: Tom Hayden was a founder of Students for a Democratic Society, a defendant in the Chicago Seven conspiracy trial, he helped provoke the Newark riots, he was part of the Berkeley counterculture. Are you suggesting that he has sufficient political power to have dictated Jerry Brown's medfly policy?

Wertz: Yes, indeed. I have commissioned a research project, the results of which will be shortly released in the form of a pamphlet detailing Hayden's rise to power in the state of California. However, just to give some indication of Hayden's power in California, it should be noted that he now controls 25 percent of the State Democratic Central Committee. He has also taken over the majority of two city councils in the state—Santa Monica and Chico—and the Orange County Democratic Party. He represents the state of California in Western Sun, a federal energy program. He has been appointed by Governor Brown to the Southwest Border Regional Commission and to the Solarcal Council.

What is more, the Democratic-controlled legislature, in collusion with Governor Brown, is currently plotting openly in the press to give Tom Hayden a state assembly seat in Santa Monica by creating a congressional district for the incumbent Mel Levine, a Hayden ally.

EIR: How would you characterize Tom Hayden's political philosophy?


Jerry Brown

Wertz: Mussolini's socialism. Read Hayden's most recent attempt at a book, *The American Future.* Hayden doesn't have an original idea in his head. He is a total tool of the British-centered oligarchy's Socialist International. His economist of explicit preference is John Stuart Mill. He totally rejects the Hamiltonian notion of republicanism as elaborated in the *Federalist Papers* and instead harkens back to Jeffersonian democracy and even more explicitly to Aristotle.

As the title of his book suggests, he is a thorough futurologist in the tradition of Marilyn Ferguson's *Aquarian Conspiracy* and her mentor Willis Harmon's *Changing Images of Man,* both of which he references throughout. His objective is to turn California into a solar-powered "brave new world." He wants to phase out California's only two nuclear power plants, Rancho Seco and San Onofre, and to keep Diablo Canyon shut down. He boasts that in 1978 Governor Brown killed the Sun Desert nuclear plant and, due to a CED mobilization, created Solarcal Council, the aim of which is to impose Amory Lovins's soft energy path on California—"the first society based on renewable resources."


Tom Hayden

His international policy is racist genocide. He endorses the *Global 2000 Report* which proposes to reduce the world's population by 2 billion by the year 2000. He endorses the Club of Rome's report on *Reshaping the International Order.* Instead of developing the Third World, Hayden proposes the World Bank's appropriate-technology program: solar energy at the village level to prevent migration to the city and to enforce economic and cultural backwardness.

To summarize the millionaire socialist's program, it is as follows: "In an era of limits . . . less is more and the best things in life are free."

EIR: The NDPC has made the dumping of Federal Reserve Chairman Paul Adolph Volcker one of its primary goals. How have the Brown-Hayden forces in California responded to this initiative?

Wertz: They have moved to protect Volcker from our campaign at every turn. First, they have killed anti-Volcker resolutions that we have introduced before the state party, the California Democratic Council and the state legislature. Second, when these moves failed to slow our anti-Volcker campaign, the state executive committee voted to censure our political action committee. There is every indication that the executive committee's action was sanctioned, if not solicited by, Democratic National Chairman Charles Manatt, who is himself a Los Angeles-based banker. And finally, they have attempted to divert the ranks of the party from a fight against Volcker by launching a campaign to impeach interior Secretary James Watt.

EIR: What is your strategy for stemming Hayden's influence, aside from urging Brown not to run?

Wertz: Our strategy is to reconstruct the Democratic Party in the state by challenging Hayden on every front. After five years Hayden's CED has 10,000 members. We intend to have 5,000 NDPC members by January and 10,000 before the June 1982 primaries. Everywhere Hayden moves, we intend to counterattack. In Santa Monica we now have nearly 300 members. We plan major events there and in Chico and Orange County in late September. In short, we are rallying the opposition because no one else is and, as a result, by Labor Day we will have 2,000 members in the state. We are recruiting at a rate of over 150 new members a week.

The situation in Santa Monica is especially hot. Two weeks ago there were two mass demonstrations in the city protesting Hayden's dictatorial zero-growth policies. We have also made significant inroads in the rural areas of the state which are hardest hit by the medfly crisis and where Volcker's high interest-rate regime is driving farmers off the land.

EIR: Apart from his handling of the medfly crisis, are there any other issues that have weakened Brown?

Wertz: Yes. When the California Democratic Executive Committee censured the NDPC back in July, one reason cited was our description of Jerry Brown as the "candidate of sodomy." We were not wrong. Last week Brown appointed the first practicing lesbian to the bench in San Francisco. He previously appointed two gay judges in Los Angeles.

It has also been revealed in the press that Brown was recently the honored guest at a fundraising reception hosted by Los Angeles County's reputed porno king Milton Luros. Brown had earlier appointed Luros's son as a Los Angeles municipal judge.

EIR: What does the senatorial race look like on the Republican side?

Wertz: The Republican Party is in some disarray. The incumbent, S. I. Hayakawa, is being challenged by several other Republicans primarily because of his age. The challengers include Barry Goldwater, Jr., Pete McClosky, Maureen Reagan, and San Diego Mayor Pete Wilson. If Hayakawa drops out of the race, Wilson, who has the backing of the Reagan kitchen cabinet, will probably become the front runner. Wilson in fact began his campaign last week by attacking Brown for adopting "the farm policy of Cesar Chavez, the domestic policy of Tom Hayden and the foreign policy of Jane Fonda."

EIR: Are there any other Democratic candidates challenging Brown for the nomination?

Wertz: There are two Democrats considering running against Brown. Leo McCarthy, former Speaker of the Assembly who is expected to make a decision shortly after Labor Day, and Mayor Whitehurst of Fresno. McCarthy is being pressured by Brown to run for another statewide office. Whitehurst, a conservative with agricultural and business support, will be definitely running in the mid-term elections.

EIR: Does the NDPC intend to support either one of these two candidates, and if not, what kind of candidate are you looking for?

Wertz: At the moment, rather than supporting a particular candidate, we are attempting to shape the process by which an alternative to Brown can emerge who will lead a fight to retake the state party from Tom Hayden and mobilize the party agaist Paul Volcker's efforts to destroy the U.S. economy.

Will Wertz goes on the offensive against Brown

National Democratic Policy Committee coordinator Will Wertz spoke on Sept. 1 to the area press corps on his call for Jerry Brown to withdraw from the U.S. Senate race. Brown has not only disastrously mishandled the Mediterranean fruitfly crisis, Wertz charged, but the likelihood that Brown will lose his Senate bid is so great that he may pull sound Democratic candidates down with him to defeat. For the good of the party, Wertz concluded, Brown should withdraw.

Attending the press conference were the two all-news radio stations, KFWB, a Westinghouse affiliate, and KHJ, a CBS affiliate, and three independent television stations, including KMEX, the city's largest Spanish-language station. City News Service, subscribed to by the majority of the city's media, interviewed Wertz after the press conference.

An incognito representative of Tom Hayden's Campaign for Economic Democracy also attended, sitting rather dejectedly until the end, when he distributed an "information packet" on the NDPC and its advisory board chairman, Lyndon LaRouche. The packet included a leaflet the NDPC had put out depicting the Haydenites as modern Robespierres, and copies of *New York Times* attacks on LaRouche.

Following the press conference, KMEX buttonholed Wertz to ask about the NDPC's national policies. Wertz explained the NDPC's attempts to ensure that the Oct. 22 North-South conference at Cancún, Mexico revolves around the issue of industrial development for the Third World, not depopulation, and outlined the national significance of the NDPC's support for New York Democratic mayoral candidate Mel Klenetsky against "planned shrinkage" of the nation's cities.

After press coverage appeared the next day, in a surprise move, the Democratic National Committee decided to throw its support behind Brown. Peter Kelly, Southern California chairman of the Democratic Party, was interviewed on the Westinghouse-affiliated radio station making the implausible threat that the party may seek to attach the NDPC's funds. Kelly is a law partner of Democratic National Committee Chairman Charles Manatt who, NDPC chairman Warren Hamerman has exposed, last month sold a controlling interest in his Bank of Los Angeles at great profit to a Socialist International-linked Italian bank, the San Paolo di Torino. Jerry Brown's campaign manager, Mickey Cantor, is also a partner of "banker Manatt," as the NDPC has dubbed him.

The Western coal pipeline battle

A proposal to pump millions of tons of Wyoming coal has agriculture and others up in arms.

A new kind of controversy stares Interior Secretary James Watt in the face this month. Unlike earlier fights, this one divides his usual base of support down the middle—between energy developmentalists and agriculture developmentalists. Watt will be asked to approve the final Environmental Impact Statement (EIS) for a project known as ETSI, or Energy Transportation Systems, Inc.

This proposal, if approved, will allow construction of the longest pipeline in the lower-48 states, a giant $2 billion, 1,664-mile coal-slurry transportation project. The ETSI pipeline would haul between 25 and 37 million tons annually of strip-mined, low-sulphur, low-BTU coal, in pulverized form, in a water "slurry," to electric utilities in Oklahoma, Arkansas, and possibly Louisiana. The coal would originate from the rich Powder River Basin region between the Black Hills of South Dakota and the Big Horn Mountains of Northeast Wyoming.

The battle has been under way since 1974, when the Wyoming state legislature granted ETSI approval to use water from the Madison Formation aquifer. The principals in ETSI include the suspect combination of Lehman Brothers-Kuhn Loeb investment bankers, Atlantic Richfield, and Bechtel Construction. They have engaged more than $25 million and some 65 court cases against the potentially competing railroads to get basic right-of-way with private landowners to build the project. Because the proposed route would cross some 36 miles of federal land in Wyoming, Watt's Bureau of Land Management enters the picture. It's not a simple judgment Watt faces.

First, for years a guerrilla war has persisted between Eastern high-sulfur coal from the Appalachian region, most of it under UMW union jurisdiction, and Western coal. The Western coal, strip-mined by enormous machines from seams more than 100 feet thick in areas such as the Powder River Basin, is low in sulphur, a plus for certain environmental considerations. But, its BTU energy content is considerably lower than Eastern high-sulfur. This lower-quality, subbituminous coal, requires approximately two tons to every one ton of Eastern coal to give equivalent energy.

Because of this lower quality, until now, Western coal has not been economical for Eastern and Southern utilities to burn, given the high transportation costs.

The heart of this controversy is the fact that one ton of scarce Western water is needed to push each ton of coal, or about 20,000 acre-feet per year for the ETSI project as planned. No serious person with whom I discussed the question objected to the need to develop our coal resources. It is not a case of rails versus pipeline. It is one of serious concern that the state and region is getting locked into a decision that could pose major damage to the water table, for little gain.

One of the most articulate critics of the present ETSI proposal is a Wyoming state representative, Marlene Simons. She has spent considerable time and effort to show that there are better options such as pumping water from the Oahe Reservoir in South Dakota that otherwise would run into the Gulf of Mexico, for providing source water to ETSI. "One of my major concerns," she told me, "is the fact that nobody knows what the effect on the area of such a drastic drawdown could be after five years." I then spoke with Dr. Perry Rahn, a respected hydrologist with the South Dakota School of Mines. He pointed out that, while Bechtel and Atlantic Richfield claim in their proposal to Watt that there will be virtually no drawdown beyond the well site, that "most independent evaluations—U.S. Geological Survey, BLM, University of Wyoming, and South Dakota Geological Survey—all show that ETSI will have a wide-ranging effect on drawdown over thousands of square miles."

Concerned with these independent evaluations, the governors of Wyoming, South Dakota, Montana, and Nebraska have sent a letter to Watt urging him to hold final approval of ETSI until a full study of alternatives is made.

Leaving aside the specific merits of this ETSI and similar slurry proposals waiting in the wings, about which I personally have strong reservations, this issue dramatically poses the urgent need for a real national water policy . . . this one without David Stockman, please.

Book Review

The 'secret' of the hydrogen bomb

by Marjorie Mazel Hecht, Editor, *Fusion* magazine

The Physical Principles of Thermonuclear Explosive Devices
by Dr. Friedwardt Winterberg
Fusion Energy Foundation
New York, 1981
$9.95 145 pages

Dr. Friedwardt Winterberg has worked for some 30 years in the controlled nuclear fusion and weapons research communities. He was the first to propose electron-beam pellet fusion, ion-beam pellet fusion, impact fusion, magnetic isolation of electron beam and ion beam diodes for particle-beam fusion, and particle-beam superpinch fusion. He was also among the first to publish papers on the use of fusion and microexplosions for space propulsion, on an electromagnetic rail gun powered by a hydrogen bomb, on the staging of pellet targets, and on autocatalytic drivers for thermonuclear shock waves.

His book, which thoroughly explains thermonuclear explosive devices from the H-bomb, to beam weapons, to the currently ballyhooed neutron bomb, was written out of a passionate commitment to harnessing thermonuclear fusion as a cheap, clean, and plentiful energy source.

Over the years, Winterberg's commitment to achieving fusion energy has led him to inquire into many areas that are officially circumscribed by military secrecy classification. Since he does not hold a Q clearance, the rating required of scientists and other personnel involved in research in areas related to thermonuclear bomb production, he has had to reconstruct a great deal of the thinking that has gone into bomb design. This book is an outcome of that research.

In his introduction, Winterberg says: "It is not the *secret* of the H-bomb that protects us from thermonuclear annihilation but, rather, the correct political decision by our leaders. To cover up their own political inability it is, of course, understandable that governments try to make their people believe it is secrets that protect them. I hope that the publication of this book will not only contribute in demystifying the whole business of secrets, but also make the public aware that a belief in security by secrets is dangerous wishful thinking."

By classifying fusion weapons research—the principles of which can be easily pieced together from the public literature—the government, Winterberg says, is delaying progress in inertial confinement fusion, which is now close to breakthrough. "If secrecy persists," he says, "errors are likely to be made that will cost the taxpayers millions of dollars. The resulting failure could retard progress toward controlled fusion by many years . . . [and] could lead to the very energy war fought with thermonuclear weapons that the government wants to avoid."

One striking example of the chill government classification casts on fusion research can be seen in the exchange of letters Winterberg recently released to *Fusion* magazine. Writing on behalf of the Desert Research Institute of the University of Nevada at Reno, Nevada, where he is a research professor and scientific assistant to the president, Winterberg proposed to the Department of Energy's Office of Inertial Fusion a project to test a new idea in fusion fuel-pellet compression. The idea, using the soft X-rays from an underground fission explosion for pellet compression, would be much less costly and more efficient than the present methods using laser or particle accelerators.

The reply to the Winterberg proposal from G. H. Canavan, the director of the Office of Inertial Fusion is very brief: because "certain categories of information" are classified, Canavan wrote, "we cannot comment on the contents of your letter." Hence, no research will be done in this promising fusion area.

It is important to distinguish Winterberg's book from various antinuclear attacks on the U.S. weapons program. In recent years there have been a number of attempts to embarrass the U.S. government by pointing out just how ineffectual the security classification system really is. For example, in the 1979 *Progressive* magazine case, the government sued an antinuclear magazine to prevent the publication of an article on how the H-bomb works. The government lost its case, largely because of materials published by the Fusion Energy Foundation and Winterberg, and an FEF amicus curiae brief that made it clear that the so-called secrets of the H-bomb had been in the public literature since Bernhard Riemann's 1859 paper on shock waves.

Winterberg's intent in providing an explanation of how the H-bomb works is not to confound the U.S. security system, but to show that classification of scientific ideas is self-defeating because of the very nature of scientific discovery. Winterberg emphasizes that the conclusions he has arrived at in order to design targets for inertial confinement fusion research are based on well-known physical principles that are not and can not be classified. Probably the most significant of these principles arises from the above mentioned classic 1859 paper by mathematical-physicist Bernhard Riemann that laid the basis for subsequent intense research into the production and propagation of shock waves.

The book itself is written in a pedagogical fashion; in fact, it almost reads like a good mystery novel. Winterberg proposes an initial hypothesis for designing a workable fusion microexplosion target or a primitive hydrogen bomb. As the work progresses, he refines this initial hypothesis and transforms it, until a highly efficient design emerges.

Winterberg then traces the steps necessary to arrive at a workable design from the first considerations of ignition conditions and the physics of the radiation-particle energy mix of various trigger mechanisms. The problems inherent in ignition lead to the discussion of "boosters" and "spark plugs," somewhat esoteric ingredients in the design of a workable fusion device, but central ideas in practice.

The question then becomes one of optimization, and the key ideas revolve around the geometrical focusing of energy. Using some old ideas from the problem of reflected and focused shock waves, Winterberg derives a number of interesting configurations for bombs as well as inertial confinement fusion targets. The central concepts of focused shock waves come from the German hydrodynamicists Prandtl and Meyer in papers published in the first decade of this century. Thus, the essential secret that is still classified is based on *scientific knowledge at least 70 years old.*

Winterberg then applies these considerations to the key questions of yield and energy spectrum. The design of the cruise missile, tactical nuclear weapons, and the neutron bomb all depend on relatively recent developments in weapons research dealing with the ability to create small-yield (less than 100 kilotons) devices with energy outputs tailored toward more radiation energy output and less blast wave (and radioactivity) output. The physical principles and design considerations used in these weapons are extensively discussed in Winterberg's book, along with new ideas of his own concerning the peaceful application of these weapons in fusion research and civil engineering.

I found the most intriguing section of the book to be the last several chapters, which contain material on pulsed power generation, ignition of fusion reactions using chemical explosives, use of magnetic fields to enhance fusion ignition, and thermonuclear "microexplosions" for use in inertial confinement fusion.

Unfortunately, not more than a few readers, those with access to classified information, will know exactly how good Dr. Winterberg's design may really be. I share his hope that the artificial barriers to achieving controlled fusion energy will soon be removed.

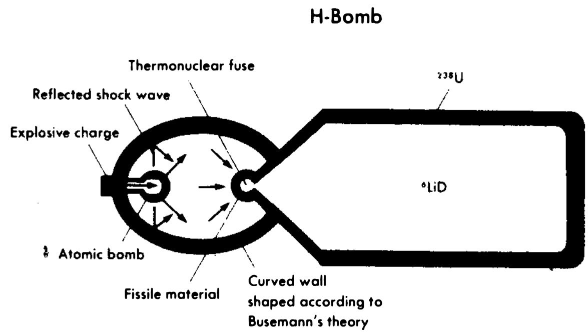


Figure 11. Design of dry H-bomb that I proposed in 1952. In this concept, ignition is accomplished using a Prandtl-Meyer ellipsoid with a thermonuclear exponential horn and a cylinder.

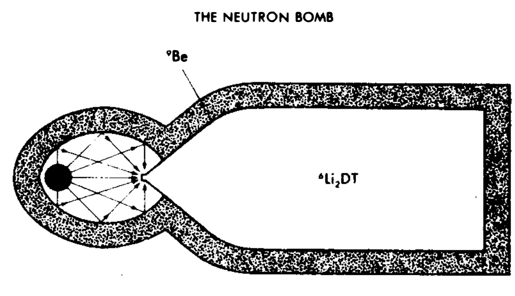


Figure 14. In the neutron bomb, the thermonuclear fuel is $^6Li_2DT$, replacing the ^6LiD of the ordinary H-bomb. The ^9Be shell serves as a neutron-multiplying reflector so that most of the energy goes into neutrons, with little blast effect.

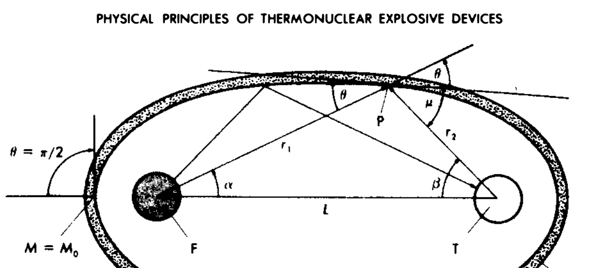


Figure 4. In the Prandtl-Meyer ellipsoid shock wave focusing principle, only one fission bomb F is used to induce a spherical implosion onto the thermonuclear explosive T by shock wave reflection from the wall inside the ellipsoidlike cavity. P is the point where the incoming wave intersects with the wall; M is the Mach number of the hypersonic flow associated with the diverging wave at P; θ is the angle between the wall slope and the incoming ray; r_1 and r_2 are the rays of the shock wave.

Reproduced from The Physical Principles of Thermonuclear Explosive Devices.

French Smith promotes foreign takeovers

Attorney General William French Smith has announced the Reagan administration's enthusiasm for a policy, already well under way, for the foreign takeover of U.S. corporations.

Speaking at the United Nations on Aug. 31 to the Union Internationale des Avocats, an association of attorneys who specialize in international law, Smith attacked recent antitrust rulings that have served to inhibit foreign corporations from business activities in the United States. Smith said these rulings had little basis "in real-world economics."

In recommending the loosening of antitrust enforcement, Smith said that the "Justice Department is therefore urging upon our courts a return to economic reality and a disavowal of arcane theories involving solely vertical arrangements or a lack of anticompetitive conduct."

Smith's statements come at a time when foreign business interests are playing an increasing role in U.S. corporate affairs. Smith earlier relaxed antitrust statutes to support the numerous corporate mergers that have occurred in the United States since the beginning of 1981.

Friedman, Hefner to sell TV pornography?

In a true union of "free enterprise" and "individual liberty," *Playboy* magazine publisher Hugh Hefner and quack economist Milton Friedman have jointly purchased the franchise to Boston's Cablevision pay-TV system, reported the Aug. 31 *Boston Globe.*

The franchise, okayed by Mayor Kevin White's cable coordinator, Richard A. Borten, gives the Hefner-Friedman combination control over pay TV offerings to the Boston viewing audience.

Cable TV has broadcast a substantial number of pornographic programs; most of its programming is exempt from federal regulatory standards.

Smut peddler Hefner and Milton Friedman, who has gone on record advocating "individual rights" to use illegal drugs and commit suicide, are not expected to upgrade cable programming.

Navy announces 'Project Upgrade' success

The U.S. Navy has announced the successful completion of Project Upgrade, initiated by Chief of Naval Operations Thomas B. Hayward to improve readiness and fighting quality.

The project consisted of dismissing 2,612 sailors from active duty in specially expedited discharges. "The surprising thing is that when you get these people off the ship, we're still getting the same amount of work done," said Capt. Paul Feran, commander of the U.S.S. Kalamazoo, who dropped 6 percent of his crew.

A spokesman for the Atlantic Fleet Surface Force reported that skippers "universally proclaimed their enthusiasm" for the project. In light of increased pressures from the Office of Management and Budget for defense cuts, there have been indications from the Pentagon that the number of active-duty military personnel would be reduced.

If this is upgrading, what will "Project Victory" look like?

Klenetsky issues campaign white paper

Mel Klenetsky, candidate for the Democratic mayoral nomination in the Sept. 10 New York City primary election, has issued a pamphlet entitled "How Paul Volcker, David Rockefeller and Ed Koch Destroyed New York." Its introduction includes this statement:

"New York has not been ruined because the 'middle class' moved out. They were systematically driven out. New York has been ruined because drugs sapped the moral and intellectual strength of its youth, and made crime the city's one real 'growth industry,' financed by the investment houses of the elite families. New York has not been ruined because greedy politicians robbed the treasury, bought votes, and mismanaged the city's finances. New York was deliberately bankrupted by a semi-aristocracy of powerful financial manipulators, in order that they might assume control of the government machinery, and depopulate the city."

Investigative Leads target of slanders

Both the *Baltimore Sun* and *Police* magazine published slanders at the end of August about *EIR*'s law-enforcement newsletter *Investigative Leads* (*IL*). The semimonthly, in its less than two years of existence, has earned an international reputation for intelligence services to the law-enforcement and intelligence community in the U.S. and Europe. The *Sun* and *Police* characterize *IL* as "right-wing," "extremist," overconcerned with "conspiracies," and so forth.

The source of the almost simultaneous slanders of the *IL* is the Washington, D.C.-based Police Foundation, which publishes *Police* magazine. The Police Foundation, headed by former New York City Police Commissioner Patrick Murphy, has been the subject of a series of *IL* articles that expose the foundation for its role in undermining state and local law enforcement and in dismantling crucial intelligence-gathering capabilities.

IL editor Robert Greenberg recently announced a campaign against Murphy and his foundation as part of *IL*'s commitment to restore the quality of law-enforcement requisite for protecting citizens and curbing international drug trafficking and terrorism.

Stockman says cuts 'will warm your hearts'

Budget Director David Stockman revealed some new budget-cut goals Aug. 31 in a speech before the Midwestern governors' conference in Minneapolis.

In response to a question from the governor of South Dakota, Stockman bragged: "Within a week, we are going to announce some changes in federal employment levels and agency termination levels that will warm your hearts, even in the middle of winter in South Dakota."

At a White House briefing on Sept. 2, spokesman Larry Speakes gave no confirmation on a report that 100,000 federal employees would be fired in 1983 and 1984 but stressed that the administration's policy is to reduce the size of government. Speakes said that Stockman has developed options to eliminate and consolidate agencies.

Roy Cohn turns red—above cover

Mob attorney Roy M. Cohn, who got his start in the early 1950s as Sen. Joe McCarthy's right-hand man in witch-hunts against alleged communists, took the stand Aug. 31 in the case the *People v. Dupont,* which is being heard in New York District Court this week. The case involves Cohn and Richard Dupont, whom Cohn has charged with harassment and coercion. Dupont, a fur designer and former owner of a homosexual body-building club, alleges that Cohn forced him out of business with a real-estate scam.

John Klotz, attorney for Dupont, concluded his questioning of Cohn that day by asking the bachelor lawyer if it was true that he had had a love affair with Dupont in 1971 when the two first met. Cohn turned bright scarlet, and then shouted, "No! Categorically, no!"

It is expected that the defense will call some of Cohn's former lovers to refute the testimony.

Cohn turned red again when he was asked by Klotz to describe the type of operation he underwent last year. Before Klotz had finished the question, Cohn blurted out, "An eye operation." But sources say that Cohn had undergone a cosmetic operation on a lower portion of his anatomy.

Cohn's court testimony also indicates that he may previously have been lying to the jury. Cohn admitted that he had been asked by a client and distant cousin of convicted drug-runner and murderer Buddy Jacobson to meet with Jacobson. Cohn further testified that he met with Jacobson for two hours. Last week Cohn said he had never met with Jacobson in his life. The trial has been blacked out of the *New York Times* and the otherwise sensation-mongering remainder of the metropolitan press.

Scoop Jackson: 'a revolt is brewing in this country'

A page-one article in the Seattle *Post-Intelligencer* on Sept. 2 ran the following statements by Sen. Henry "Scoop" Jackson: "Carter went for high interest rates as the only means to fight inflation. Both administrations, I think, have pursued a policy that is not working, but is in fact inflationary. A revolt is brewing in this country. The President will have to tell the Federal Reserve Board that we cannot look at interest rates as a way of curbing inflation."

Jackson, who was speaking at a senior citizens center in Seattle, went on to pledge that he would support efforts to stop cuts in Social Security. Anticipating that other congressmen will have felt the same pressures during the recess, Jackson added, "When we return after Labor Day I think you will see senator after senator speaking out on this." Jackson has never been distinguished by opposition to the Federal Reserve's policies.

Briefly

- **REP. PAUL FINDLEY,** an Illinois Republican who belongs to both the Trilateral Commission and Ditchley Foundation, held a town meeting for his constituency early this month, which the 250 participants insisted on turning into a referendum against the Federal Reserve's policies. Findley ended the meeting prematurely.

- **THE REPUBLICAN** National Committee has sent out thousands of questionnaires to get voter opinion on a number of issues they plan to emphasize in Congress. In a cover letter, President Reagan says that he had asked for the questionnaire to "give dramatic proof" to Congress of the extent of support for these programs. In addition to several questions on the President's austerity budget, the RNC asks about support for "free enterprise zones."

- **A FORMER DOD** senior official claimed in a Sept. 3 interview: "In the last few years, the U.S. military has lost its aura of inviolability around the world. In denying the Libyan claims, flying in and sailing in, we have restored the aura of competence of the U.S. military. There are a number of spots around the world that are candidates for this kind of victory."

- **ALEXANDER HAIG,** after requesting exhaustive investigations by Britain's College of Heraldry, has received confirmation that the Haig family's genealogy traces back to the ancient folk who constructed the Tower of Babel. Haig ordered the study as part of his two-front war strategy, being conducted simultaneously against the Soviet Union and the English language. The former NATO commander's general order to "Keep your powder dry until you see the bottom line" has been questioned by military experts as potentially leading to the overrun of American positions without a shot being fired.

Editorial

The national stakes in New York City

On Sunday afternoon, Aug. 30, NBC-TV carried the first of a series of debates among the three candidates for this year's New York City Democratic mayoral nomination: the incumbent, Edward Koch, supported by the city's Roy Cohn Republicans and the Reagan administration, as well as by the Felix Rohatyn Democrats; Frank Barbaro, backed by a coalition of social democrats and other leftists; and Mel Klenetsky, endorsed by the National Democratic Policy Committee (NDPC), who proceeded to make Paul Volcker and zero growth the political questions facing the voters in the Sept. 10 primary and thereafter.

The debates, and the front-page coverage day after day in the *New York Times* and the rest of the metropolitan press, have done a great deal to convey to millions of people Klenetsky's insistence that Paul Volcker is wrong when he says that "American standards of living must decline," and there is no need to tolerate the drugged, immiserated, deindustrialized existence Koch is imposing on behalf of that policy.

"Too hot to handle" was the way two of the city's national TV network affiliates characterized Klenetsky's Sept. 2 press conference at City Hall, where he charged that on Mayor Koch's desk has been sitting a list of the precise locations of major drug trafficking in the city, a list Klenetsky released. The mayor, he said, had not only stalled on shutting down those operations but had withheld the information from the public. The candidate also released a series of statistics, suppressed by Koch, documenting the epidemic of drug consumption during Koch's tenure.

WABC-TV covered that press conference, further cracking open a situation that had seemed so tidily under control.

At the same time, favorable coverage of Klenetsky appeared in *The Jewish Press*, the city's largest-circulation newspaper devoted to Jewish readers. The coverage featured the strength of Klenetsky's support (his campaign "amassed 26,000 signatures on his petitions for the right to run," as the *Press* notes, and he withstood a lavishly financed Barbaro effort to challenge those petitions and his bona fides as a Democrat)—as well as his charges against Koch, his program, his own Jewish background, and his commitment to restoring the greatness of New York.

The Koch/Cohn/Rohatyn strategists are unsettled by the prospect that Klenetsky could attract the attention of the hundreds of thousands of Jewish voters who detest Koch, dismiss Barbaro, and look to the city's once-great role in uplifting its population. What has happened overall is that a different political universe has come into view for New Yorkers; trivial click-clack between Koch and Barbaro has been cut through by a challenge to face the questions of depopulation and economic depression bearing down on the country as a whole.

Americans in other parts of the country who have watched with resignation or hostility as the second-largest city in the United States was turned into a Gomorrah should take special note of Klenetsky's unsparing fight against the plans for "free enterprise zones" in New York, because the Federal Reserve's allies in the Reagan administration are on record as stating that this policy is to be applied across the country. It is a policy of low wages, low technology, subminimal education and services, and deregulated vice: the restoration of everything generations of immigrants came to this country to escape.

Clearly we are not impartial toward Klenetsky, an associate of *EIR* founder LaRouche, or toward his program, which encapsulates the American System economics to which *EIR* is committed: investment in large-scale, advanced industry and educational excellence; punitive taxation of speculative, unproductive capital flows; and a law enforcement and financial war against every level of the drug traffic. We are not impartial, but we are objective, and our conclusion is that, provided the citizenry is up to that challenge, Klenetsky is making a national contribution by superimposing actual politics upon what had been a brainwashed New York consensus for Paul Volcker's austerity.