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EIR

From the Managing Editor

The Eurodollar markets are presently at the center of world financial attention. The precarious state of underdeveloped-sector and East bloc debt, most of it Euromarket debt, has shaken even the most complacent and narrowly preoccupied bankers.

In this week's Economics section, we present the evidence that certain London and Swiss strategists intend to use a chain of debt defaults 1) against the borrowers, who will be deprived of the financial means to sustain their economies, and restored to a condition of primitive degradation from which, in the view of the Anglo-Swiss strategists, they should never have had the arrogance to emerge; and 2) against the United States, allocated the privilege of honoring whatever portion of the \$1.7 trillion offshore dollar-denominated loans these central bankers choose to force into default.

"Honoring" those Eurodollar claims, *EIR* founder Lyndon H. LaRouche, Jr. has emphasized, would contradict the U.S. Constitution's definition of the national currency. The Euromarkets are an outlaw entity, whose offshore dollar deposits and dollar-denominated loans are exempt from reserve requirements, U.S. regulation, and U.S. taxation. Without reserve requirements, Eurodollar bankers have piled a vast multiplier of chiefly non-productive loans on a relatively narrow base of deposits. It is true that, since the early 1960s, the U.S. citizenry has allowed this monstrosity to expand, but it is not true that they are obliged to debase the U.S. dollar by bailing out the offshore shell-game.

The National Democratic Policy Committee, the nation's fastest-growing political action committee, is petitioning the President and Congress on the Eurodollar question at the behest of Mr. LaRouche, who chairs the NDPC's advisory board. The U.S. government, states the petition, must declare "that it recognizes no lawful responsibility to redeem any form of U.S. dollar except lawful issues of actual currency notes presented. Fictitious dollars issued such as Eurodollars are funny money and fully the responsibility of the financial institutions which actually issued the credits. They will not be redeemed by the U.S. government."

EIR readers, whether American citizens or not, are in a position to ensure that Washington, D.C. gets this message. We ask you to use all your influence and resources to obtain a successful conclusion to this matter.

Susan Johnson

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Special Report



The latest results of the LaRouche-Riemann economic model show that the U.S. economy will either be buried in a financial crash or reduced to rubble by Paul Volcker's continuing high interest rate regime. Above, four U.S. Steel blast furnaces, idle since early 1980, are demolished with dynamite charges.

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Volcker pledges to print money... for the British

by David Goldman, Economics Editor

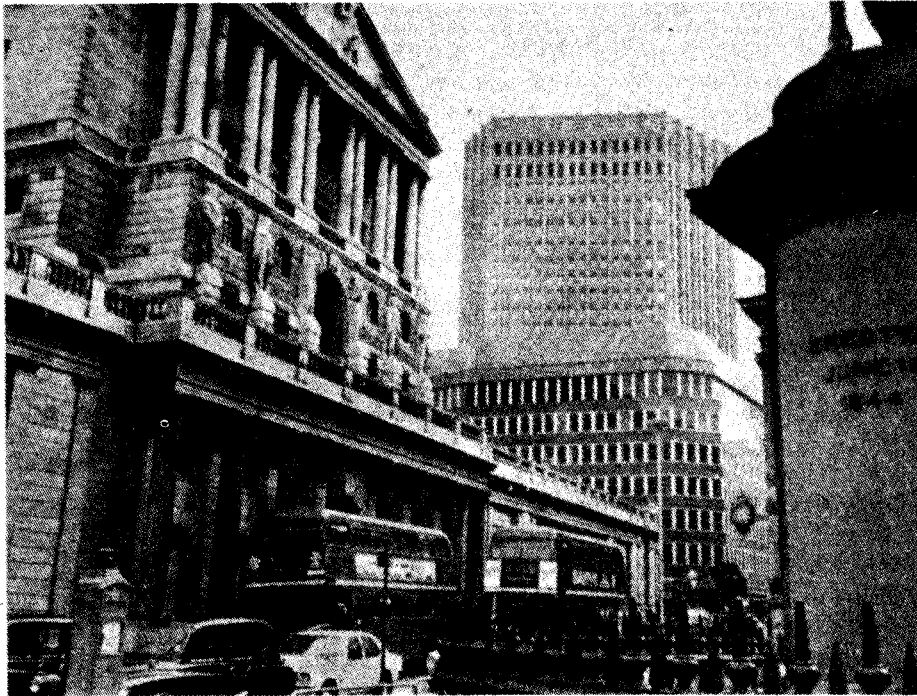
The Bank for International Settlements' Annual Meeting, held this year at the bank's Basel headquarters July 11-12, is usually the most secretive of all financial gatherings; the BIS, the "central bank for central banks," is beholden to no government but that of its host, Switzerland, and weaves its web behind closed doors. For the first time since the institution's 1931 founding, a part of its proceedings were opened to the press, by the Bank of England. Contrary to protocol, the British made known that the assembled central bankers were contemplating a global financial collapse.

Yet, as striking as the Bank of England's report was, an even more secret, more astonishing subject of deliberation was kept from the press: an agreement in principle to *make the United States treat \$1 trillion in offshore bank deposits as if they were official obligations of the U.S. government* in the event of a banking crisis, an action which would collapse the U.S. dollar's international value, by as much as 40 percent, according to Bank of England estimates. *EIR* correspondents in 10 financial capitals worked together to ferret out a story which a Federal Reserve official boasted "we will never spill": if a financial panic occurs, the American central bank has made a commitment to provide liquidity in unlimited amounts to foreign central banks who need dollars to prop up their own banks, or local branches of foreign banks. That amounts to a Federal Reserve obligation to directly bail out every troubled bank operating in the dollar market in the world. We will explain this in more detail—and also why it may not happen—below. First, the Bank of England's extraordinary version of events.

'People don't know how bad it is'

"Pessimists among the world's central bank governors estimate that more than \$200 billion of outstanding international debt is of doubtful or potentially dubious quality. This emerged from a meeting of central bankers at the BIS, at which delegates attempted to assess the degree to which international lending poses a threat to the international banking system. There are widespread disagreements about the extent of the problem, however, and not all those present shared the gloomy view of the pessimists," wrote the London *Financial Times* July 14, on the strength of Bank of England briefings. "The main trouble spot is Eastern Europe, where total foreign debt is \$80 billion. But concern now growing about Latin America, with total foreign debt of \$220 billion, has been heightened by a disclosure that Mexico has had to draw on its credit line with the Federal Reserve to supplement its meager cash resources."

To this, a Bank of England official added: "American banks are up to their eyeballs in Latin American debt, and no trigger is needed to detonate that. Very soon, the U.S. banks will be presented with a lot of non-serviced accounts. People around the world do not know how bad the situation is as well as we know it. At that point, just one instance of undermined confidence in the U.S. banking system combined with the domestic crisis in the United States, and off they go. Mexico, Argentina, Brazil—they'll go, in that order. Other countries may hurt, for example German banks, or Austrian banks, which are in any event state-owned and must be bailed out.



The City of London

“But it is the United States that you ought to watch. It is not a matter of ‘European retaliation’ against the pipeline sanctions or financial warfare against the East bloc on the part of the United States. That just isn’t necessary. The domino effect is automatic. We are beyond the stage of financial warfare, you understand. For the last few years, the United States led financial warfare against Europe, and Europe lost out. The U.S. has got to realize that its interest rates are untenable, and their result is catastrophic. We are probably beyond the point at which things could have been controlled. We’ll have to write off the whole debt of the East bloc, Latin America, and many large U.S. corporations.”

The Bank of England spokesman added, “Our London banks are much more solid, in a sounder position than banks on the continent.” But that is hardly a general view. A senior Swiss monetary official explained that the Bank of England “was trying to scare the central banks into taking more sweeping measures to deal with the crisis because it is afraid that the London market may collapse, and the Bank of England will have to take responsibility for the entire mess. Understandably, they are trying to shift responsibility to somebody else.”

Both the British and Swiss statements are true in their own way, but they leave out the main item on the BIS agenda, an American financial commitment so huge that a leak of its contents might subject Federal Reserve officials to suspension from Washington lamp-posts. The “someone else” that the Old Lady of Threadneedle Street has in mind to pick up responsibility for

the London Eurodollar market, still the biggest center of offshore banking, is the Federal Reserve.

Central banks have never agreed as to which one of them would be responsible to pick up the pieces of a failure of a branch of a foreign bank in their country. The Bank of Canada insists, for example, that the New York branches of Canadian banks, which do little but borrow dollars from the New York banks and re-lend them through their Montreal head offices, are not the Bank of Canada’s responsibility; since the Canadian bank’s New York outlets are chartered under U.S. law, the Bank of Canada says that the Fed must be responsible should any problems arise, which is a more than hypothetical problem. This agreement to disagree, following the collapse in July 1974 of the West German Herstatt Bank, goes under the official name of the “Basel Concordat.”

Federal Reserve Chairman Paul Volcker, who led the American delegation to the Basel annual event, set the United States up for disaster in threefold fashion. First, the unabating high-interest-rate posture of the Federal Reserve has put the world monetary system past the point of bankruptcy, as the Bank of England’s background discussions correctly argue. Secondly, the Federal Reserve represented the “I’m all right, Jack” attitude toward this imminent bankruptcy denounced by the Bank of England. Playing the insensitive heavy, the Federal Reserve told the gathering that the Fed believed “no crisis is imminent,” as a Volcker aide put it. In particular, the Federal Reserve chairman denounced the recent action by European central banks to

assemble a \$510 million loan package for Hungary, following the U.S. administration's economic warfare posture towards Eastern Europe. The Europeans believe not only that the United States has endangered their fundamental interests by conducting economic warfare against the Soviets, but that the administration and American banks are intent on instigating a German banking crisis to punish the Germans for lending to the East. This was the subject of the title story in this week's issue of Germany's leading newsweekly, *Der Spiegel*, and is widely believed by German bankers otherwise.

Pumping out dollars

Third, the Federal Reserve has committed itself to swallowing the entire Eurodollar mess. The potential consequences for the dollar may be expressed in simple balance-sheet terms: the present foreign liabilities of the United States government are less than \$200 billion, including foreign holdings of U.S. government debt and Federal Reserve notes. Under the responsibility assumed by the Fed at the Basel meeting, these could rise overnight by \$1 trillion. As *EIR* has emphasized, at least five-sixths of the Eurodollar market consists of deposits generated through the potentially infinite banking multiplier of the reserve-free Eurodollar market; that is to say, they represent "bank money," rather than "Federal Reserve money." If the Fed steps in to rescue institutions which have lent this bank-created money to bankrupt borrowers, it turns \$1 trillion or more in Eurodollars into Federal Reserve money, or U.S. government obligations—at which point the dollar will lose 40 percent of its value or more, according to Bank of England estimates, i.e., fall from DM 2.50 to DM 1.50.

The mechanism under the secret Basel agreement is the exchange of "central bank swaps." That is, if banks in one area suffer a run on their deposits in the "interbank market," i.e., if other banks pull their money out of banks in trouble or suspected of being in trouble, the entire credit system would implode; at least \$800 billion of the total \$1.7 trillion offshore market consists of such interbank loans. Under such circumstances central banks other than the Fed, which alone has the power to create dollars, would not have the dollars available to replace the bank money that would disappear through the reverse-multiplier of a banking contraction. These central banks, short of dollars, would issue their own IOU's, namely, foreign-currency Treasury bills to the Fed in return for cash dollars. The effect would be identical to the Fed creating dollars by purchasing U.S. Treasury bills on the open market, which is the way in which the Fed (under existing, regrettable arrangements) creates liquidity: dollar hyperinflation, and dollar collapse.

The limit to such an operation is the ability of the fundamentally weak American dollar to bear such obligations; after an initial period of money creation and dollar collapse a banking crisis would ensue in any event, because the dollar would have reached a point of weakness past which the Federal Reserve could issue no further such swaps.

The Ambrosiano case

However, it is doubtful whether the plan will click into motion in any event; it depends on the willingness of the European central banks to play the Bank of England's game. The present near-bankruptcy of the Italian Banco Ambrosiano, whose operations fit in somewhere between the purposes of the Propaganda-2 Freemasonic Lodge (*EIR*, June 7, 1981) and those of the Vatican, is a case in point: central bankers describe its far-reaching global operations as a "classic case" of central bank division of responsibility. It happens that its Luxembourg subsidiary owes \$1 billion on the interbank market to City of London banks, in particular National Westminster and Midland Bank. The Bank of Italy has unsuccessfully demanded that the Vatican's financial organization, the Istituto per Opere Religiose (IOR) take responsibility for Ambrosiano, on the dubious grounds that the Vatican IOR had, at one time, issued some guarantees for Ambrosiano funding operations, long since lifted. The Bank of Italy also unsuccessfully attempted to persuade the Italian government to bail out the bank's foreign liabilities, according to Italian press accounts.

As of July 15, a six-bank consortium has agreed to stand by Ambrosiano's domestic Italian operations, and the Vatican—with an eye toward developments in Latin America—has agreed to support the operations of the bank in Argentina and Venezuela. No one is backing up the Luxembourg operation, through which Banco Ambrosiano assumed all of its interbank debt! The British are beside themselves. "This is a holy raving mess," said a source at a London bank which handles Ambrosiano's clearing operations. "If the Italian government doesn't change its hard line on bailing out Ambrosiano, there could be a general crisis of confidence." Italian press accounts say that both National Westminster and Midland could fail as a result, probably a vast exaggeration of the *direct* impact of an Ambrosiano failure, if not of its ultimate consequences. European banking sources describe Ambrosiano's payments status to its banking creditors as "a moratorium."

The result could well be that the Bank of England spoke truthfully about the banking system in general, and the Swiss official quoted above about the British in particular.



Brock: 'We don't know how to bring down interest rates'

A comment by U.S. Trade Representative William Brock on interest-rate policy during an exclusive June 29 interview with *Executive Intelligence Review* illustrates how the Reagan administration traps itself into carrying out Carter-era policies that have results opposite to what the administration wants. Brock told *EIR* he agrees with the contention that continued high interest rates may prove a bigger security threat to the West than the Soviet Union. Yet, he continued, the administration does not know how to bring the rates down. Moreover, as Trade Representative, Brock has carried out many trade policies, often designed by others, made "necessary" by the high interest rates. This includes, as he told this correspondent in an earlier conversation, pressuring Japan to raise its interest rates (see *EIR*, June 29).

Similarly, Brock worries that high levels of economic friction, combined with a perception of declining American economic and political power, could divide the West. Yet, this concern does not seem to square with administration policy on the one issue—aside from high interest rates and bilateral trade friction—that has done more to divide Tokyo and Washington than any other in recent memory: the administration's June 19 extension of anti-Soviet sanctions to Japan's oil and natural gas cooperation project with the Soviet Union in Sakhalin, Siberia. Washington disregarded several personal appeals from Prime Minister Zenko Suzuki, who pointed out that this was a "natural project" for energy-short Japan. Washington not only forbade American firms from taking part, but is also trying to prevent Japanese firms from using American-licensed equipment in the effort.

Upon hearing of the decision, Tokyo announced it would file a diplomatic protest and would go ahead with the project anyway—the first time in postwar history that Japan has embarked on a major economic cooperation project with the Soviet Union against American wishes.

Brock told *EIR* that the administration's decision will not be reconsidered, and said he doesn't "think it will be a source of division in the long term. . . . Our lack of

agreement on the issue of trade with the Soviets has had a negative impact on Western security in recent years. We have been asked to lead for a long time, but when we do, it seems people don't like the direction. Well, that's a matter of disagreement that I hope is temporary."

In fact, this issue, along with high interest rates, led Economic Planning Agency Director Toshio Komoto to declare July 8 that Japan "should keep in step with the European Common Market [which faces analogous sanctions against their natural-gas pipeline deal] and not follow Washington blindly," extremely unusual language in postwar Japan.

In the following excerpts from the June 29 interview with Mr. Brock, *EIR*'s Richard Katz raised the issue of what these policies and America's economic decline meant for continued American world leadership.

Katz: A major issue between the U.S. and Japan is the question of credit and interest rates. I remember after your discussions with the Japanese last year on restraining auto exports here, you repeatedly said that Japan's restraint was not going to help our auto industry at all unless U.S. interest rates came down. It has proven to be a fully accurate forecast, and one which *EIR* also made at that time. Yet now, it seems that you're saying the opposite. You charged in your National Association of Manufacturers speech that the Japanese have a managed credit system which keeps their rates artificially low. When we spoke the next day, you said they should eliminate this and allow their interest rates to rise to be equal to rates here. This seems to be opposite to what you said last year. What accounts for the difference?

Brock: Not at all. I have suggested that they fully open their capital markets to the extent that ours are open, that we be allowed to borrow, loan, buy, and sell freely on the Japanese capital markets. If that were to occur, the short-term impact would be that American borrowers would borrow in the yen market, and that would further depress the value of the yen, and make our competitive situation even worse. At least, that's the conventional

economic argument.

The reason I argue for freeing the capital market is not to achieve any short-term gain or loss. Rather, I fundamentally believe, the most important aspect of a free-flowing commercial relationship is a free-flowing capital system. To the extent that we are fully equal in Japan as they are here, we will measurably reduce our trade problems and barriers, both cultural and governmental, and we will closely intertwine these two countries that mean so much to each other. That is worth a short-term price. But I do not see what I have suggested as either contrary to what I said last year, or being said to gain short-term interest. It might be somewhat damaging in the short-term, but the long-term implications are fundamentally important because they allow a much closer interweaving of these two countries economically.

Katz: With the Euromarket system in Europe, and the offshore banking system here, there seems to be a “multinationalization” of credit as well as of manufacturing concerns. Is that something you see as a goal, or as a tendency?

Brock: I see it as a goal, yes. It is part and parcel of Japanese industrial policy to control the allocation of credit, just as they control the allocation of other resources—government support, governmental emphasis, pricing policy, purchasing.

Japan has a marvelously sophisticated talent to select certain industries for emphasis. How they get away politically with the consequences of ignoring other areas, I don't know. Politically it would not be possible to do that in this country. But they have been succes

The problem so far is that—and this is particularly obvious in the high-tech areas—by selecting certain segments of industries, or even whole industries, for special treatment, they effectively are skewing the resources of the entire society—governmental and private—to highly critical industrial areas. These areas then become super-competitive in the world industrial system. As a consequence of their desire to take all of their market, they have created negative responses in other countries, here and in Europe. This is not healthy for the trading system.

If they opened up their system, if they let the market dynamic work, and not simply governmental determination—a true market dynamic—you would have much less potential for the kind of trade tension that we now see in the high-tech area.

Katz: They get away with it politically because it works. . . .

Brock: Of course it works.

Katz: They've raised the living standard of their population, and they've raised the skill level of their labor

force. Though there is a fascination here with free enterprise at the current time, the U.S. has done similar things. NASA is similar, though perhaps we were less conscious about what we were doing. I think the Roosevelt pre-war mobilization was similar. Particularly the 19th-century industrialization of our nation was similar. The Japanese say—and I agree—why can't the U.S. do similar things, both in cooperation and healthy competition with Japan and our other allies, for the benefit of both?

On the interest rates, Japanese I have talked to said they view the high interest rates as a greater security threat to the West than the Soviet Union, because of what it is doing to the economy, and the industrial base.

How do you respond to the comment that the interest rates are undermining the West in a way that the Soviet Union is not even capable of trying?

Brock: I think that's quite possibly so. The problem is that those who are so quick to point out the hazard of high interest rates are remarkably tardy in suggesting how to get them down. There doesn't seem to be the same alacrity in providing answers.

This administration has done what is traditionally necessary to bring interest rates down. We've brought down the rate of inflation by 60 to 70 percent in the period of 18 months—an incredible accomplishment. I can't think of another country that has done so well. Interest rates haven't fallen. We've cut our discretionary spending by a third. I don't know of another country in the world that's done that.

You can't charge us with a lack of political will. There is no economic reason for interest rates to be at this level in real terms. Maybe there's something happening that we just don't understand yet. We don't know. We think they will come down.

I don't think any of us would argue that the continuation of this level of interest rates could do more violence to our ability to sustain our economic growth than almost any other act other than war.

Katz: *EIR* has pointed out that at least about \$75 billion of the budget deficit can be directly or indirectly attributed to the effects of high interest rates. Moreover, the same thing happens with corporate budgets. About 60 to 70 percent of the new money supply being created in this country is being used by corporations just to pay off past debts, not to invest in new production or new investment. And therefore, the high interest rates have become a sort of self-feeding spiral. This is why the high rates have remained. I wouldn't say inflation has come down. I would say corporations can no longer pass along their costs. So, we're seeing a wave of bankruptcies we have not seen since the Depression.

It would seem to me that a political decision has to be made to change Fed policy—and some of the managed

credit policies that the Japanese use, which you criticize, might well be done in the United States. That would help production and productivity.

Brock: What changes in Fed policy would you suggest that would bring rates down? I'm not trying to debate. I'm curious.

Katz: I think what you have now is a Fed policy which directs—by nature of the high interest rates themselves—incentive for credit away from productive investment into non-productive. . . .

Brock: I don't disagree at all. How would you change that?

Katz: First, simply cut the discount rate, ease the tight money. You would bring down interest rates in the very short-term.

But I think also you would need a managed two-tier credit system in which the Federal Reserve, through decisions of the administration and Congress, would be willing to supply credit at very low interest rates, 2 to 4 percent interest rates—i.e., low by current standards but normal by the standards of the 1960s—toward productivity-enhancing types of investments or normal production: housing, steel, etc. And maintain penalty levels of interest rates for non-productive types of investments. I think there are also things that can be done in terms of

Brock on the Japanese computer espionage case

Seven days before *EIR's* interview with Mr. Brock, blaring newspaper headlines announced that 16 employees of the Japanese giant firms Hitachi and Mitsubishi had been charged with attempting to steal computer software secrets from IBM. In this case the FBI used against the Japanese firms the same entrapment tactics it had used to set up Congressmen and Senators in the "Abscam" affair. In separate incidents, Hitachi and Mitsubishi employees were allegedly offered more than \$600,000 to buy IBM secrets in meetings with an FBI dummy corporation named Glenmar Associates and a former FBI agent serving as a security consultant to IBM. Hitachi had been induced to hold the meetings by Max Paley, a former IBM employee, who, as head of Palyn Associates, had been Hitachi's paid consultant for eight years.

The Japanese press charges that the case was a politically motivated entrapment operation; *Mainichi* labeled the case "Japscam." In private comments to both *EIR* and the U.S. State Department, Japanese government officials charged that the entrapment was linked to the current economic frictions surrounding high-technology trade. By making Japanese firms look like thieves in the eyes of the world, the incident would be used to put Tokyo on the defensive in its trade negotiations with Washington.

Even an American software firm executive in California's Silicon Valley commented, "Everybody here buys secret information from other companies. They don't ask how you got it. What people here are wondering is why the Japanese firms were the ones that they decided to catch."

Since this is the first case of industrial espionage

brought against a non-Comecon nation, the issue of political motivation will no doubt increase if, as reported in the July 11 *Detroit News*, the Japanese pharmaceutical firm Green Cross is about to be charged with trying to steal secrets on the manufacture of the anti-cancer drug interferon.

In his June 29 *EIR* interview, Mr. Brock flatly denied the political entrapment charge. "It would be extremely dangerous and unwisely self-serving of persons in Japan to view this case as being politically motivated. That simply is not the case. . . . The danger with that kind of response is that certain individuals might then make the mistake of believing that the business practices are the same in the two countries. Obviously they are not if this sort of thing is acceptable in Japan."

Brock said the case "may make it slightly more difficult for us to stop protectionist legislation. It will increase the temptation for somebody in Congress to take punitive action." However, Brock added, "in the final analysis, it won't change anything this year. The administration is committed to stop protectionist legislation. We are convinced we have the political will and the political strength to achieve that purpose."

Nonetheless Brock seemed to fuel the tensions by implying that "cultural" factors may have had an effect. "Apparently, industrial espionage is not considered with quite the same view in Japan as it is here. I'm not sufficiently familiar with the Japanese mores and practices to comment; I will simply say that in this country, it's considered a crime . . . and people go to jail for it. . . . The loss of proprietary trade information is a matter of real concern, particularly in the national defense area. If we cannot maintain any security in this country, then not only are we at hazard but so are the people of Japan, because we are their umbrella, by their choice."

tax-law incentives, both to the company that invests in new-technology, productivity-enhancing investments and to the stockholder.

Brock: We've done that. We've cut the corporate taxes, we've given a much faster write up on depreciable equipment; we've given 25 percent tax credit on R&D; we've done everything which we can frankly in conscience do, or politically do with the Congress, on the tax side.

I guess no one in this administration feels that this government is wise enough to allocate credit. The hazard to our personal freedom which would occur would be greater than we would be willing to accept. Because that's the right of life or death.

Katz: What about simply lowering discount rates, ending tight credit, lowering the policy of managing bank reserves which currently keep interest rates high? Simply having a Fed policy which lowers interest rates such that you are going to encourage, makes it possible. . . .

Brock: Any step which would have the effect of lowering interest rates without restoring inflation would be welcome. The question comes to that caveat: Will it have an inflationary impact? Because if in fact we falter in our fight against inflation, we will have lost the war. The real cause of high interest rates was the rate of inflation. Interest rates are simply a discount value. They put the price on money when it is repaid, that's all. And the market has made a judgment that inflation can return, and until they are convinced that it won't, they are discounting for that prospect. I'm not really sure it is as much Fed policy as it is basic market psychology, which is creating the most horrendous rate of interest we have ever seen in this country.

Katz: So you're saying you don't see what steps can be taken to bring down interest rates?

Brock: I'm not saying precisely that. I'm trying to be very careful about what I'm saying.

Katz: Treasury Secretary Donald Regan is doing a study on Fed policy, and we have elections coming up. You are a former Republican Party chairman. I think the Republicans are going to get clobbered unless these interest rates come down.

Brock: It will not be a comfortable election for any politician this year, because of the rate of unemployment, the rate of interest, and the rate of economic stagnation. I'm not sure that it's necessarily going to have its total impact on one party. Congress is yet to measure up to the mandate that they were given in 1980.

Katz: Do you think this Donald Regan study will produce some sort of decision, that involves the administration going to the Fed and saying we want you to change

your policy?

Brock: I can't make a prediction on that. I've been involved in looking at the operations of the Fed since the first day I came into Congress. The first two years I was in the Congress I did a two-year study of the monetary system. I have very strong views on the subject. But at the moment that is not my area of jurisdiction.

Katz: When I speak to Japanese officials, businessmen, etc., what is uppermost in their minds is not even so much the bilateral trade frictions but the following fact: There are only two superpowers in the world, the United States and the Soviet Union. If the United States—through economic weakness, through military weakness—ceases to either be or act like a superpower, to manage affairs such as the Middle East, Argentina, then this is the uppermost worry in the minds of the people of Japan. They are very seriously worried that we face the prospects of another depression. They are concerned about where U.S. policy is going, what is the direction? That's why they are saying that interest rates are a bigger threat than the Soviets.

Insofar as the United States seems to show a lack of leadership, I think there is a tendency in Japan to seek a certain amount of accommodation with the Soviet Union. Not that they are going to join the Soviet bloc or something, but they will want to avoid being in a confrontationist situation with the Soviet Union, even if the United States is in such a situation. This is also true of Europe. I think we see this in the reaction to the pipeline and Sakhalin situations.

Does it ever occur to you that the level of economic friction, the trade friction, between the U.S. and Europe and Japan, combined with what is perceived as a U.S. economic weakness, in fact has an effect opposite to what you seek? Rather than uniting the Western camp, it in fact divides it, leads other nations to seek a *modus vivendi* with the Soviets.

Brock: Constantly. I am extremely sensitive to that, and I've not been reluctant to talk about it, as a number of my colleagues will attest.

That is not really the germ of U.S. policy though. The fact is that we—and I'm talking now in the collective sense of the free world and primarily the industrial powers of the free world—for virtually a decade ignored what was happening as a consequence of two events, one, internally generated and one, externally generated, on our financial systems. The external generation we had discussed adequately and that was the energy crisis, and the drain of our productive resources that that entailed. But we did not address, until the advent of Ronald Reagan, the domestic drain, our governments' inability to live within their means, for the last couple of decades in most of the industrial world.

Currency Rates

What happened was that we had already stretched our financial capability, our capital formation, our capital pool. We had already stretched those resources too much when the energy crisis hit, and what most governments did in the past nine years since the crisis began was to buy political stability by increasing debt. Rather than face the problem and deal with it, we tried to buy time, and to postpone having to do the tough things.

The administration felt, and I think feels today, that a continuation of that pattern could only result in a collapse of the free world. We had come to the point where we could simply not afford to borrow in excess of our capacity to repay. We had to put constraints upon the growth of government, and to restore incentive, and the prospect of capital formation through savings and investment.

We have taken some very difficult steps. It may be that we are not precisely perfect in the definition of those steps, but at least we have taken them. If we fail in this regard, it will not be for doing the right thing, it will be because not enough others have been willing to exercise the same kind of political courage. There are shifts of a tactical nature that could be made that might make the situation better. We are certainly not perfect, but we are doing in a fundamental sense the things that have to be done to restore our basic opportunity for economic growth.

If we lose this battle, and if inflation does in fact return, then there is a matter of time, and a very limited amount of time, before our system simply cannot sustain itself. We will see a depression, and one that will be in greater magnitude than any we have experienced before, because we have built a larger house of cards.

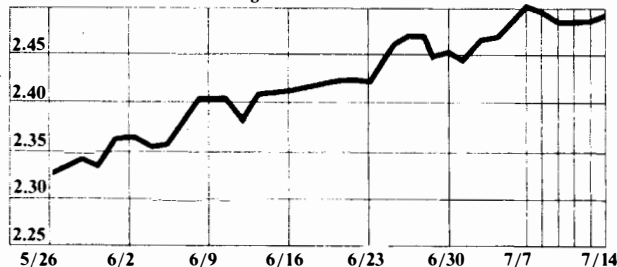
I personally am extremely sensitive to what we do and its impact on our trading partners and the possibility of division. By the same token, if we don't lead the effort to correct that which we have not adequately dealt with heretofore, then nobody will.

The same applies to our quest for keeping our markets open. We've done some very tough things. We are still doing some very tough things. We are fighting the protectionism that is rampant, at least in the Congress, but if we collapse in the face of that political diversity, the world system will collapse. Nobody else can lead the world in the cause of free trade. We have to do what we have to do. And we have to expect our trading partners to understand that, and to try to share some of that burden.

The full text of the June 29 interview with William Brock is included as an appendix to a new 95-page EIR Special Report, "Outlook for U.S.-Japan Economic Relations." Contact Special Services Director Peter Ennis at (212) 247-8820 for further information.

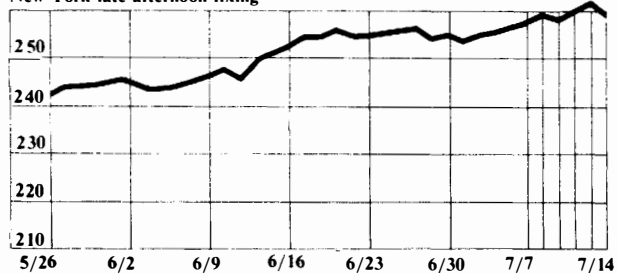
The dollar in deutschemarks

New York late afternoon fixing



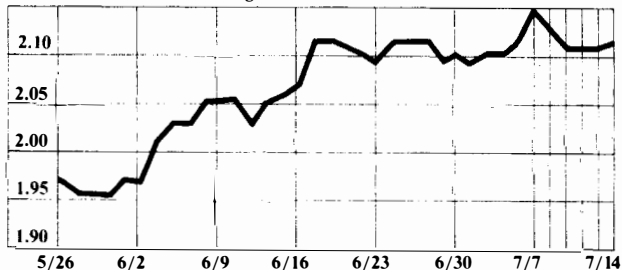
The dollar in yen

New York late afternoon fixing



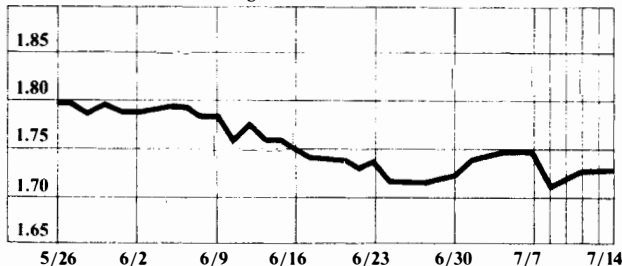
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



SID promotes the 'Global Village'

by Peter Rush

On July 18 an expected 3,000 people from all over the globe will gather in Baltimore to discuss ways to return the developing nations to colonial backwardness and degradation. Under the auspices of the Society for International Development (SID), the umbrella "Third World development" organization run since the late 1970s by open advocates of denying advanced technologies to underdeveloped countries, the attendees will be bombarded with "share the poverty" policies designed to "ruralize" large parts of the developing sector.

Aurelio Peccei, founder of the fascist Club of Rome which advocates reducing the world's population by 2 billion people by early in the next century, will preside over a panel on "Limits to Growth."

The SID has undertaken the largest-scale effort in the world to make respectable the attack on what the Society terms "conventional development strategy," first launched by members of the former British Colonial Office in the late 1960s. The title of the meeting, "The Emerging Global Village," connotes their "post-industrial," Aquarian goals.

In the midst of the worst economic crisis since the last depression, not a single panel addresses this question, nor is one of the hundreds of panels devoted to the high-interest-rate question, the single greatest threat to the developing sector today. Instead, an entire day is largely devoted to "grass-roots people's organizations" assigned to demand "decentralization" rather than industrially-based development.

Numerous panels deal with energy questions, pushing "alternate" and "renewable" sources, primarily solar power, an approach so expensive as to bankrupt any developing nation that might attempt to meet its energy needs in this way. Other panels deal with "meeting basic needs," fostering "appropriate technologies," and deurbanizing the Third World because cities have ostensibly failed. A featured speaker is Willis Harman, of Stanford Research Institute in Palo Alto, California, in a panel on "New Issues in Science and Development." Harman is the author of a study claiming that the "self-image" of Judeo-Christian man as creator of moral and material progress must be replaced.

The keynote address at the plenary, to be delivered

by Dudley Seers of the Institute of Development Studies (IDS) at Sussex University, England, will lay out the real theme of the conference: to lead the 3 billions in the developing sector backward to Stone Age tribalism in a dog-eat-dog Hobbesian world. Seers, a former British Colonial Office employee, was tapped in 1967 to head the newly formed IDS, 95 percent funded by the British government. From that platform he led the effort to get the SID to adopt his colonial policies of "appropriate technologies," labor-intensive employment, and denial of advanced technologies to developing countries. Seers and his colleagues at IDS, including Richard Jolly, Seers's successor as head of IDS and the designer of the program for this conference, have led the battle to convince the nations of the Third World that industrialization has failed in their countries, and that true development is impossible for them.

By 1976, this doctrine had become hegemonic in Robert McNamara's World Bank and in the State Department's AID (McNamara, AID director Peter McPherson, and former U.S. aid official Edwin Martin are also speaking in Baltimore), as well as in NATO and the OECD—but not in the developing sector itself. At that time, Seers laid out the next phase of his attack on the developing sector: the effort to foster tribalism and social breakdown. He called in print for fostering "traditional customs . . . preserving and developing shrines and monuments, supporting traditional crafts, etc."—i.e., maintaining backward cultures. These customs "appear as barriers against modern consumption styles and technologies," and "a development plan will need to devote substantial resources to reinforcing" what he accurately describes as "obstacles to development when this was synonymous with economic growth." Inflows of capital and technology he labeled "rape." Seers concluded this 1976 piece by calling for increased arms expenditures in the underdeveloped nations. Wars for dwindling resources are the center of colonial depopulation policy.

Flanking Seers will be Claude Cheysson, the French Foreign Minister, and anti-industrialization "friend of the Third World," and Mahhub ul-Haq, formerly of the World Bank who led the campaign in the early 1970s to convince the developing nations they could never reach Western consumption levels. He extols the "Chinese model" of autarchic, labor-intensive austerity, and argues that foreign aid is harmful for the Third World.

Also speaking at the opening session is Raul Prebisch, author of austerity policies in Argentina in 1957, leading advocate of light-industry "development" in place of heavy industry, and the first head of UNCTAD. But, all three slots reserved in early conference brochures for opening speeches by President Reagan and other world leaders are still vacant: conference organizers are still scrambling to get at least one leading administration figure to open the session, so far without success.

Block announces 1983 wheat program

The plan gives farmers their death certificate, and credit to starving nations is denied.

Agriculture Secretary Block, after meeting July 12 and 13 with President Reagan and the Secretaries of the relevant departments, announced his 1983 wheat program.

Farmers have been anxiously awaiting the announcement, praying for some words of hope and sanity. Instead, they got a death certificate. Not only would his program fail to help farmers in need of reasonably priced credit, but the long-term effects would shrink grain production substantially.

The Block program, of course, is subject to congressional decision, but, as I reported last week, Congress has shown few signs of adequate response to the farm crisis.

Block linked farm loan programs to a 20 percent set-aside program. While he claimed not to believe in a mandatory set-aside, linking acreage reduction to loan eligibility boils down to the same thing. If farmers participate in the set-aside program, they will also be eligible to receive half the amount of deficiency payments at the time of sign-up and the remainder five months later. Deficiency payments represent the difference between the target and market prices paid to the farmer, as a form of subsidy, when prices are low.

A further ringer in the program is that the 20 percent land set-aside must be used for conservation purposes, and not for grazing. Block calculates that taking this amount of land out of production will result

in holding the 1983 crop to the same size as 1982's.

A third point to his program is an increase of \$300 million in the export guarantee program, CSM-102, bringing it to a \$2.8 billion level. This, he believes, will stimulate exports. This program is already a lame duck, because the borrower only gets a guarantee, not a loan. And commercial banks are guaranteeing only creditworthy countries, at high interest rates. So a Zaire or Bangladesh is still unable to purchase grains.

What will happen to the 30 million tons of unsold U.S. grain? Block made no mention of sales to the Soviets who are out to buy 12 million tons or more, with cash, but not, under current political conditions, from the United States. When the Long-Term Agreement (LTA) with the U.S.S.R. ends Sept. 30, U.S. sales for 1983 are pitifully low (especially for corn and sorghum).

Hopes for a new LTA look doubtful. Secretary of State nominee Shultz had helped negotiate the first LTA, and his nomination sent positive signals to the farm sector. But he told the Senate Foreign Relations Committee July 14 that with martial law still in effect in Poland, "this is hardly the time to negotiate a new LTA," and that "it would be the wrong signal to lift the sanctions against the LTA." Of course, if martial law is lifted, a switch may occur, but the Soviets hardly con-

sider U.S. supplies reliable at this point.

Aides to Sen. Thomas Eagleton (D-Mo.), who has played a leading role in legislating price support payments before the harvest, say adamantly that the Secretary has the power to use the direct credit line under "existing authority" if he chooses to do so, because it has not been deauthorized; they blame him for not exercising that option.

It is probable that Block tried to get the President to release the \$500 million allocated by Congress for the export revolving fund. This is the most workable of the schemes currently on the table, but funding has been frozen since 1981. OMB considers such a fund a "bail out," yet the plan would actually pay for itself.

Until 1980, when the Carter administration killed it, the United States had a direct credit program, CSM-5, and it was the dropping of this program which has stymied increased exports of grains.

It is rumored that the President was considering what is being called a buy-down interest-rate plan. This would not require new allocations; money would be taken from the Commodity Credit Corporation's Title I of PL-480. Up to 25 percent of that fund would be used to buy a 4 or 5 percent reduction in prevailing interest rates.

In Congress, this idea is contained in the House's Hagadorn bill and in the Senate's Cochran bill.

In other words, Congress and the administration are considering stealing money that provides food aid to starving refugees in Africa and Asia. They are proposing to subsidize high interest rates that drove the U.S. farm sector into the crisis in the first place.

Who shot J.R.'s oil boom?

The bottom has fallen out of drilling in the United States, thanks to Federal Reserve Chairman Paul Volcker.

The shock waves set off by the failure of the Oklahoma City oil bank, Penn Square, will prove as profound in its effect on the collapsing domestic oil industry as on the world of international finance. As we said as early as June 1981, the boom in domestic oil and gas drilling could not remain immune from the overall economic collapse ravaging the economy.

As recently as last December, the number of active oil drilling rigs domestically broke all records, topping 4,530. Industry associations and trade journals extrapolated from the previous 30 months of uninterrupted increase in activity to project the same into the future.

Then the crash hit. The price of OPEC crude took a decided drop due to North Sea-London manipulations and sagging demand. This produced a drop in average domestic oil from about \$35 per barrel in March 1981 to just over \$29 today, compared with the OPEC marker price of \$35. In addition to removing about \$15 billion from the annual cash flow of the domestic oil industry, the price drop sent a wave of panic through the industry, a panic which has deepened with the Penn Square affair. Then, with industry shutting down across the country, natural-gas demand began collapsing. In recent weeks, contracts for deep gas in the Anadarko Basin of Oklahoma—which is precisely where Penn Square operated—have fallen from a high of

\$10/mcf down to \$5-\$6/mcf. Deep gas, currently unregulated, absorbed 40 percent of total industry costs last year.

Under Jimmy Carter, the Trilateral Commission effort to phase out the industrial economy of the United States centered around use of energy and interest rates. At the Department of Energy, RAND's James Schlesinger and Trilateralist John Sawhill were content to allow an episodic short-term flow of funds into oil investment while they secured the more important gain of higher domestic prices. President Reagan accelerated this process in February 1981 when he lifted the remaining price controls. As the economy sunk under the stranglehold of Paul Volcker's interest rates, oil (and real estate) became "the only game in town," as one speculator termed it.

Well, boys, it's over. The July 6 Hughes Tool count found 2,816 oil or gas drilling rigs active in the United States. This represents almost a 40 percent drop since December, the sharpest collapse ever.

I just completed a survey of industry and investment sources, and the most striking thing I found is that nobody knows how serious things are. The Independent Petroleum Association of America, chief lobbyist for some 12,000 independent oil companies, cautiously predicts revival of drilling by the year end. One driller from Mississippi, W. E. Craft, calls the shakeout a

good thing because it will weed out the fly-by-night hustlers. He says that during the euphoria of 1980-81, "at least 40 percent of wells drilled were useless and without merit." He correctly claims many companies were formed "simply to promote money from the public." But there is a deeper reality which nobody, especially the "J. R. Ewing types," wants to face. There will be no recovery in oil before there is a fundamental growth of the real economy.

Not only drilling companies, but the \$70 billion oilfield supply, service and equipment industry, and in crisis. Hughes Tool spokesman Frank Potter has characterized the overall situation as "catastrophic." Last month, one of the three largest builders in the world, Dresco Energy of Houston, filed for Chapter 11 bankruptcy. Five of 17 rig manufacturers are trying to sell out their companies. An estimated 25,000 rig hands are now unemployed, and thousands more are about to be laid off by service companies as order books shrivel. Expanding capacity to produce oil pipe and related goods represented the only area of steel growth over the past two years; companies such as Armco gambled hundreds of millions on adding new capacity. One Chicago-area steel tubing plant saw its production drop 90 percent since December, and no new business is coming in.

More solid companies feel insulated at the moment, but they are not immune from the growing Volcker-induced depression. The only upturn will come when the independents realize they are in fact "dependent" on the same economic reality as housing, steel, agriculture, and other industries.

Trade Review

by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
CANCELLED DEALS			
\$2 bn. plus	Taiwan from U.K./others	Taiwan Power Company announced indefinite postponement of Taiwan's 7th and 8th nuclear electric plants. This means cancellation of \$140 mn. contract to NEI of U.K. for turbines and cancellation of bidding on nuclear systems and constructions.	Taiwan was world's last active nuclear contract competition, following Mexican cancellations.
UPDATE			
\$15 bn.	U.S.S.R./ Western Europe	West German banks formally signed in Leningrad agreement to provide \$1.6 bn. credits for building 3,500-mile natural gas pipeline from Siberia to Western Europe. West German govt. will guarantee 85% of credits, lent for 8 years at 7.8% interest. Credits will finance German pumping equipment and services, \$1.1 bn. of which have already been ordered from companies including Telefunken and AEG, which is near bankruptcy. Pipe is being financed separately. Reagan admin. has sought to block pipeline, first by banning use of U.S.-made or -licensed components, then by demanding 12.25% minimum interest rate.	Europeans breaking with U.S. on both counts. Italy's Nuovo Pignone will deliver to Soviets the first 2 of 19 25,000 MW turbine pumps, completed using GE blades. U.K. will also flout embargo, Prime Minister Thatcher announced. Soviets are preparing to make the blades themselves.
NEW DEALS			
\$11 mn.	Mexico from U.S.A.	Education Secretariat is receiving from Prime Computer of Natick, Mass., a system to decentralize processing of teacher payrolls to the 31 state capitals. Package includes a Prime 550-II computer and several terminals for each state, plus a Prime 750 in Mexico City to monitor pay process. System will be installed by August.	Delays of up to 6 months in teacher salary payments have helped Jesuit agents use teachers to fuel insurgency around Mexico. Will computers end this security problem?
	Guyana/Brazil	Letter of intent signed by energy ministers includes preferential export of oil from Guyana's Takutu River fields to Brazil. There is no road across 460 km. of jungle from Tukutu to Atlantic coast of Guyana, but oil could readily be barged down-river to Brazilian Amazon region, which already refines and consumes imported oil. Takutu oil discovered by Home Oil of Canada risk contract drilling. Guyanese told Brazilian officials Home Oil estimates 1 mn. bpd output from the new field, which compares with 1.4 mn. bpd total current production of Venezuela.	Takutu field is in Essequibo region disputed between Venezuela and Guyana, which hopes that Brazilian involvement will deter any Venezuelan military action.
\$1 bn. plus	Saudi Arabia	2 Disneyland-type centers will be built near Jeddah and Riyadh. Each will have monorail, 100 stores, 15 cafeterias, 30 fast-food shops, racetrack, zoo, yacht club, artificial islands, etc.	
\$21 mn.	Saudi Arabia from India	3 silver recovery refineries will be set up in Riyadh, Damman and Jeddah by Saudi entrepreneur Abdulla Alial Amoud. Royal Corp. of New Delhi, India, is supplying equipment, know-how, and management.	Each refinery will extract 75 kg. silver/day from development solutions used in x-ray and photo studios.

Business Briefs

World Trade

GATT approves penalties against U.S.

The General Agreement on Trade and Tariffs senior operating board has authorized the European Common Market to impose up to \$3 billion in trade penalties against the United States.

The GATT, an informal branch of the British Colonial Office which is ostensibly designed to eliminate unfair trade practices among its 87 members, ruled that the U.S. Domestic International Sales Corporation illegally subsidizes U.S. exports.

If carried out by the European Commission, the GATT ruling will intensify the possibility of trade war between the United States and its West European allies. GATT ruled on an EC request made 10 years ago.

International Monetary Fund

IMF: 'new approach' for Ibero-America?

According to an EFE wire published in the Mexican press, the IMF has prepared an internal report on the extent of the economic crisis in Ibero-America and the Caribbean and its potential effect on the world economic system. The reported IMF study argues that a "new approach" must be designed by the institution to ensure that these countries do not default on their loans, which means the old policy of "conditionalities" cannot be applied. The IMF sticks to its old diagnosis, however; the basic economic problem facing these countries, the report claims, is that they still "spend like they did in the years of bonanza, and have not tightened their belts enough." An IMF officer contacted in Washington July 15 denied that such a report exists, but added that the "basic concepts" described in the wire are "accurate."

The IMF worries about default reflect the levels of discussion on strategies

to break from IMF control, and the potential for break-away by several of the previously solid monetarist regimes in this hemisphere to join the momentum toward unity in Ibero-America. Former Mexican President Luis Echeverría called in mid-July for the countries of the Third World to negotiate "collectively" with the industrialized countries on "vital matters of trade and economics," not leaving them to bilateral discussions, in an interview with Inter-Press Service.

East-West Policy

U.S. computer seizure heightens tensions

The U.S. Commissioner of Customs seized \$400,000 worth of American-made minicomputers in West Germany, claiming that the computers were "strategically sensitive" and bound for the Soviet Union. The seizure has aggravated tensions between the United States and West Germany, already inflamed by U.S. attempts to block the German-Soviet accord to build the Siberian natural gas pipeline.

The minicomputers, produced by Digital Equipment Corporation, had been on the market since 1975 and were described by the head of the company that arranged the sale to a West German company as "about as significant strategically as sending over a Dodge Dart."

Agriculture

Block calls for an end to the CAP

U.S. Agriculture Secretary John Block is blasting the Common Agricultural Policy as too successful in promoting European exports. He is suggesting that it be dismantled on the grounds that it is planned and controlled centrally by national governments. The CAP is the system whereby the European marketing boards buy produce from their farmers

and sell it through exports.

In an article published in the July issue of *Europe*, the magazine of the European Community, Block rips into the CAP for having "too much production, which is then exported through the use of the subsidies." The problem, he says, is that "market conditions are not permitted to influence either production or consumption," and the CAP has made the EC into a "leading exporter of most major food products."

"Our concern is that EC continues a policy of all-out production, which it continues to subsidize into export. We would like to see the Community restrict production or store its excess production, making export subsidies unnecessary," Block concludes.

International Credit

Wharton School wants to "shock" Mexican economy

According to the Mexican columnist Manuel Buendía in the July 14 issue of *Excelsior*, a group of economists from the Wharton School met in Philadelphia early June to demand that the Mexican economy be given "shock therapy." Wharton's demands are an escalation of their long-time project to send Mexico back to the Dark Ages through Iranian-style chaos. Wharton School leader, Lawrence Klein, has repeatedly warned Mexico that it would pay the "Iran price" if it tried to develop its oil wealth and "grow too fast," as it did during the López Portillo administration. As Buendía notes, Wharton's program for Mexico is de facto an IMF austerity program.

Buendía continues to note that these outside pressures on Mexico come at a moment when the economic crisis this country is going through have created ripe conditions for social unrest. There is a "threat of massive violence in the streets," Buendía says, citing a growing unemployment rate, a huge foreign debt, and reports that the rate of growth in the energy sector will start to decrease soon.

The debt pressure Mexico faces was

underlined by release of news July 14 that Mexico is placing a \$100 million bond on the Eurobond market at the highest coupon rate in the history of the market, 18½ percent. Hans-Georg Hoffman of the London branch of one of the leading underwriters of the bond offering, Merrill Lynch, said, "I think it is in the cards that Mexico will go to the IMF, and that should certainly improve their current situation."

Corporate consulting firms in the United States and Europe are telling their clients that on the one hand, Mexico must introduce more drastic austerity, and on the other hand, that this will cause tremendous political unrest. Food subsidies and wage policy are especially hot issues. One U.S. corporate officer compared the riot potential to the uprising in Egypt in 1977 under President Anwar Sadat.

Labor Policy

Trudeau plans 'fascism with a friendly face'

Speaking before members of his Liberal Party in Kingston in early July, Canadian Prime Minister Pierre Trudeau responded to the economic disasters besetting Canada by calling for "an exercise in national will" in the best tradition of Italian fascist Benito Mussolini.

"We can improve conditions in Canada by sharing, as it were, between those who have jobs and those who don't; between those who have security and those who don't. And that is the operation," he said.

Trudeau plans a massive "work sharing" policy for the still employed, and a redeployment of the 1.3 million unemployed into post-industrial technetronic industries. According to Manpower Minister Lloyd Axworthy, people will have to settle for "part of a job on a permanent basis."

Under the Emergency Planning order, 11 cabinet ministers will have all powers over manpower, finance, production, transportation, and energy, includ-

ing the power to create civilian internment camps in case of emergencies.

Monetary Policy

Argentine dirigism under assault

The Argentine government's latest economic measures, designed to eradicate the speculative parallel economy, are under intense attack from monetarist forces.

In less than two weeks since dirigist measures were announced creating a two-tiered credit system in the country, nearly half the banking system's deposits in pesos have been withdrawn and spent either on real estate and other speculative ventures, or in purchasing black-market dollars. In that time period, the official peso has gone from 14,000 to the dollar to about 35,000 today, and is over 48,000 pesos/dollar on the black market. Similarly, many of the monetarist elements in the country have refused to cooperate with the government's appeal for a price freeze, and basic food prices have soared by an average of 40 percent in the space of a week. A government-mandated across-the-board wage hike of 30 percent has already been devoured by this spiraling inflation rate.

Central Bank head Domingo Cavallo sent a top aide to the financial center at Córdoba this past week to explain the fight he has undertaken:

"The era of the 'financial cycle' is finished, destroyed in one blow. The country can no longer sustain that type of purely speculative maneuver which pulled funds out of production. . . . The large international banks, making use of their influence, requested funds from the central bank at a rate of 80 percent and then re-lent the funds to . . . state entities at 85 percent. The entire operation was concluded in a comfortable office by telephone. Thus, it took only five minutes to obtain a 5 percent profit. . . . Those who paid the difference were, obviously, the Argentine people."

Briefly

● **THE KASTEN-MOYNIHAN** amendment mandating the President to explain to Congress why Poland should not be declared in default on its debt was approved July 14 when the \$5.5 billion emergency supplemental appropriations bill passed the conference committee. The U.S. press has blacked out the passage of the amendment. The President is expected to sign the package.

● **EIR's NEW** client report, "Outlook for U.S.-Japan Economic Relations," was the subject of a front-page article in the July 1 issue of Japan's *Yomiuri* daily, which features Trade Representative William Brock's comment to *EIR* that the Hitachi-Mitsubishi "computer espionage" case will give a boost to protectionism. The *Asahi Shimbun* and *Nihon Kezai Shimbun* also covered the release of the 95-page, \$250.00 report.

● **TURGUT OZAL**, the IMF's top operative in Turkey, resigned on July 14 from his post as Deputy Prime Minister. The Finance Minister, Minister of Public Works, and Undersecretary of the State Planning Organization also resigned in the wake of the collapse of Turkey's largest money broker, Banker Castelli, which had been lending at rates over 100 percent under Ozal's monetarist regime, with praise from the IMF and OECD.

● **BRAZIL** ran a \$32 million trade surplus in June, because of an accounting sleight-of-hand. With the approval of the IMF, Brazil sells big-ticket items, such as oil platforms, to a Brazilian government-run leasing company in the Cayman Islands for cash and then leases the product for use offshore. The platform never leaves Brazil, but its value appears on the IMF books as an export and as a foreign exchange receipt.

LaRouche-Riemann model: unsurpassed economic record

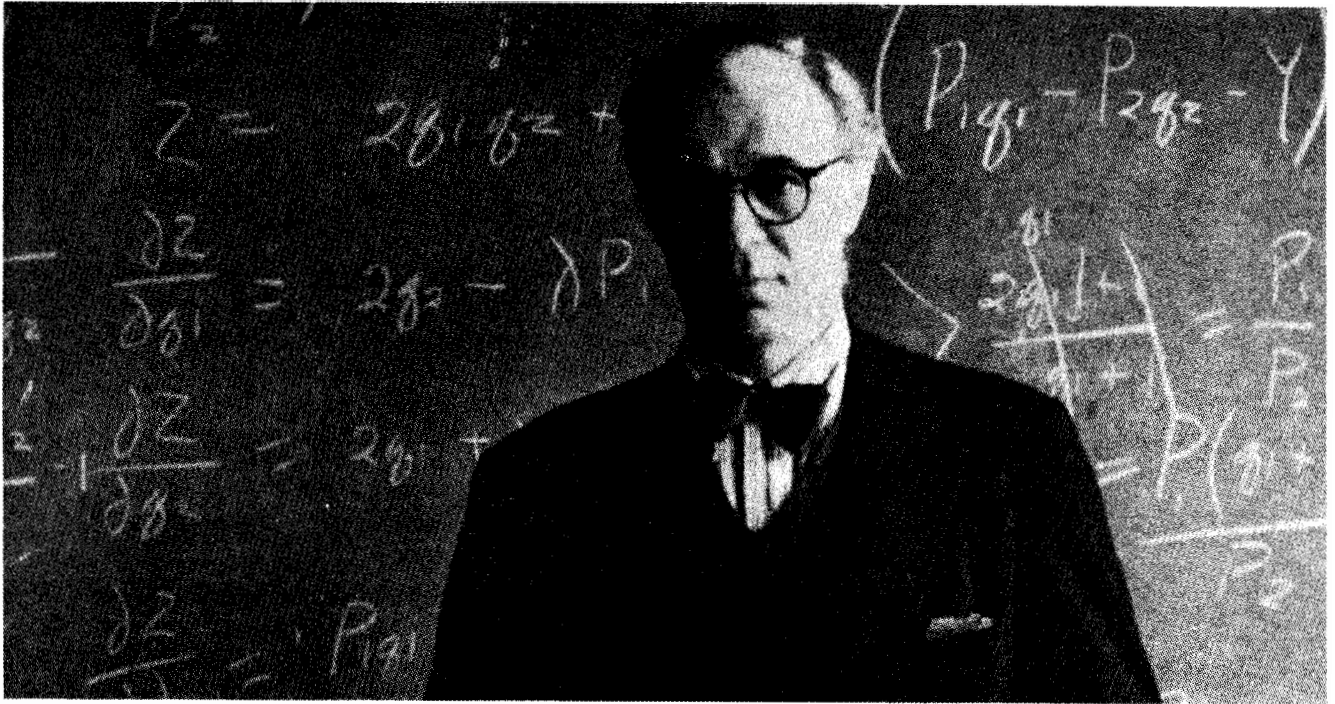
by David Goldman, Economics Editor

If economics is a science and not a branch of astrology, there must be some relationship between the predictive power of an economic theory and the policy recommendations that ensue from it. The public has come, with justification, to regard economists as a notch below astrologers, after years of hearing recovery predictions while the economy continued to collapse around them. There has, however, been one economic theory and an associated computer-based econometric model which has successfully forecast not only the important turns of the economy, but the quantity of those turns, since 1979: the LaRouche-Riemann economic model, with which readers of *EIR* are familiar.

In preface to the release of our most recent projections for the next year's economic behavior, we have the resulting obligation to insist on the soundness of the policy recommendations which have accompanied our previous, accurate, forecasts. Our analysis has proved correct not because Lyndon H. LaRouche, Jr., the model's designer, possesses a better crystal ball than the Wharton School, but because the model examines rather than suppresses the features of economic activity that tell whether man will continue to exist in the physical universe or not.

Contending models treat indifferently expansion of white-collar and blue-collar employment, video games and machine tools, gambling casinos and steel mills, urban renewal and infrastructure building. Their bottom-line is constant-dollar final sales or Gross National Product, whether or not such sales reflect activity which makes more likely continued existence of the underlying, physical economy. It is no surprise that their predictions have been nonsense in a period in which the principal economic development has been an upheaval in the productive base of the economy.

Equally incompetent have been the principal policy recommendations of the authors of such predictions, including the suggestion that tight money will cure inflation. Tight money has merely destroyed productive capacity and lowered productivity, while leaving virtually untouched the actual



Nobel Prize winner Lawrence Klein, whose forecasts of U.S. economic performance for the past four years have been as accurate as those of the other U.S. econometricians: dead wrong.

sources of inflation in the economy, principal among which is the higher rate of interest—which now comprises 10 percent of Gross National Product. Equally absurd was the notion that tax cuts would revive the economy, under monetary conditions that prohibit capital investment and, in many cases, even operation of the existing productive capacity.

To the extent that the administration and the Congress continue to act according to advice which has failed without exception during the past several years, no better results can be anticipated. Both in our quarterly forecasts and in our frequent development studies of the United States and foreign economies, we have demonstrated that the criteria of economic growth are improvements in the physical economy, especially those that lower the base of social cost of production, e.g. energy, transportation, and water. Shifts in investment in favor of overhead functions, e.g. administration and associated electronic equipment, do not represent an economic “sunrise,” but a fundamental deterioration.

It must be added, in all fairness, that the Wharton, Data Resources, and Chase Econometrics forecasts are not meant to be accurate: they are meant to intersect with and shape the prejudices of the policymaker, as executives of the relevant forecasting firms say frequently in private discussion. Data Resources notoriously carves out the “middle of the road” forecast, i.e. seeks to be wrong with the greatest justification, while Chase Econometrics deploys itself either to the optimistic or pessimistic flanks of the “consensus” analysis.

Nor should the policy recommendations be taken at face value. As we have repeated in this publication, the underlying prejudice of all such econometrics favors zero economic growth, and treats all technological improvement as an unwanted disturbance of “equilibrium.” The administration has bought, in deceptive packaging, a frankly Malthusian economic theory, and should not be surprised that it has obtained Malthusian results.

Therefore, we restate once again what steps must be taken to revive the economy:

1) Federal Reserve Chairman Paul Volcker must be shown the nearest door, and the Federal Reserve must immediately discount credits to goods-producing industries at low interest rates, preferably on a participation basis with private banks. This policy will suffice until the Federal Reserve can be replaced with a better institution modeled on the old Bank of the United States.

2) The United States must remonetize its gold reserves and employ them, at \$500 per ounce, as backing for an international bond issue at interest rates of approximately 2 percent, to recapture the base of the Eurodollar market, and assemble a fund for low-interest credits for trade and development. This action approximates what Third World leaders have proposed under the name, “New World Economic Order.”

3) The administration must immediately undertake a crash program of nuclear plant-building and improvements in water and transportation infrastructure, which will pay for themselves several times over in enhanced productivity.

Two paths into depression for the American economy

by David Goldman

On Dec. 29, 1981, *EIR* published the results of our quarterly economic survey for the fourth-quarter period, employing the LaRouche-Riemann economic model. Presuming unaltered monetary policy in Washington, we projected a year-to-year decline in the output of goods-producing American industry (manufacturing, agriculture, mining, construction, and transportation) of 7.8 percent. At present annual rates the economy is performing at a level 7 percent below the previous year's, with declines ranging from almost 50 percent in steel to 17 percent in auto, and with no significant gains registered in any sectors.

The present forecast, a survey of the second quarter of 1982, is not substantially different from our December survey in terms of its base-line projection. No other computer-based service can come close to making such a claim. We project—on the assumption that the policy of the Federal Reserve remains unaltered through the period under consideration—a 7 percent decline of economic activity in the 1981-82 comparison. That is to say that there will be no economic recovery, but little spectacular downward motion in the rest of the year—with one great proviso: that the financial system does not break down. In the latter case, which now appears next to unavoidable, economic activity will turn down again sharply by year end, and the annual rate of economic activity will be substantially lower—perhaps 13 percent lower—than the 1981 average.

The forecasting effort *EIR* has maintained since 1978 employing the LaRouche-Riemann model does not, as we have emphasized, claim to enjoy the powers of a crystal ball. Once the parameters of financial, fiscal, and regulatory policy are known, the model, which accurately depicts the functioning of the economy's physical aspect, will project the result with great accuracy. However, as the economy nears a political and financial breaking point, it is impossible to "predict" the future. The high degree of accuracy that *EIR*'s forecasting team achieved since 1978 has depended on two conditions. The first is an accurate profile of the future course of economic policy. The second is an economic model capable of

analyzing the effect of such policy changes in the real world, as opposed to the Mad Hatter's GNP tables.

Our use of the term "depression" rather than "recession" is not a matter of linguistic emphasis. No one in the United States is blind to the fact that a fundamental deterioration has swamped the American economy during the past decade, raising obstacles to economic growth in the form of inadequate industrial plant, transportation facilities, urban services, educational facilities, and above all, skilled labor and moral qualifications of the labor force generally. Whether or not an apparent "recovery" lifts the economy out of the depth it apparently reached in June—and small positive results are conceivable as a quirk during the July-September period—the deterioration of the economy continues.

The collapse of capital spending

For the first time in the course of the present depression, which began with the double impact of higher oil prices in June 1979 and Fed Chairman Volcker's monetarist turn in October of the same year, capital spending has collapsed in absolute terms. Apart from the virtual abandonment of the obsolete American steel industry, which the major steel companies expect never to recover, the 15 percent reduction of the level of oil drilling since this time last year, the reduction of machine-tool orders to one-third their level of two years ago, and the mass cancellation of aircraft orders, have generated a 20 percent per annum rate of contraction in capital goods output. Even the formerly startling growth in the electronics sector has turned into stagnation, while basic capital goods are in a situation comparable to the worst of the last Great Depression.

This fact has toppled the standard "recovery" forecasts, which simply assumed that since consumer spending for durable goods had fallen so far below the rate of replacement of such goods, consumer spending had to pick up, if modestly, and generate an economic recovery. Such a recovery has already taken place, led by auto and other big consumer items—but only relative to the worst of the December 1981 period. Calculating

the impact of the estimated \$45 billion in combined tax cuts and transfer payments entering the income stream this summer, conventional forecasts have made a seemingly convincing case for a modest recovery—and thereby demonstrated that they understand nothing of whence we have come and whither we are going.

GNP analysis and conventional econometrics cannot answer the most elementary of all questions about economic performance, namely *what is it about our present economic activity that will generate growth or decay in the future?* To reiterate our characterization of the economic problem in our Dec. 29 forecast:

“Since 1974, the United States has undergone fundamental deterioration in productive capability, characterized by:

- 1) A collapse in relative productivity that has made unfavorable trade balances a structural condition;
- 2) A diversion of 40 to 50 percent of investment resources into investment in expensive energy-producing or energy-saving areas, with consequences much greater than the initial cost of higher energy prices;
- 3) Virtually no growth in productivity during the past three years (while Japan, for example, has averaged more than 8 percent productivity growth per annum); and
- 4) Adverse shifts in employment favoring white-collar and service employment over goods-producing employment.”

To concentrate on the second point: at least half of all capital investment in the United States (gross, not net) has been directed toward energy-saving rather than raising productivity; the remaining capital investment *is not sufficient to even maintain the existing stock of plant and equipment*. That the fundamental productivity level of the economy should continue to fall is therefore not surprising; as *EIR* demonstrated in a computer-based analysis released April 6, 1982, the overall productivity level of the economy correlates precisely with the rate of improvement of national infrastructure.

Supposedly, the attrition of older industries would make way for the accession of “sunrise” industries, e.g., high-technology electronics or aerospace. This favorite “structural” analysis of American economists, repeated ad nauseum in the glossy business weeklies through the past several years, has turned out to be an even crueler hoax than the “business cycle” bone-casting process. In our first analyses of the “sunrise-sunset” business in 1980, we employed the LaRouche-Riemann model to analyze how much of the “new industry” phenomenon represented more capacity to reproduce the economy’s physical existence, and how much reflected garden-variety additions to corporate and government overhead costs. We concluded that the “structural shift” was hot air, because it favored industries that represent overhead rather than future growth capacity.

How the LaRouche model works

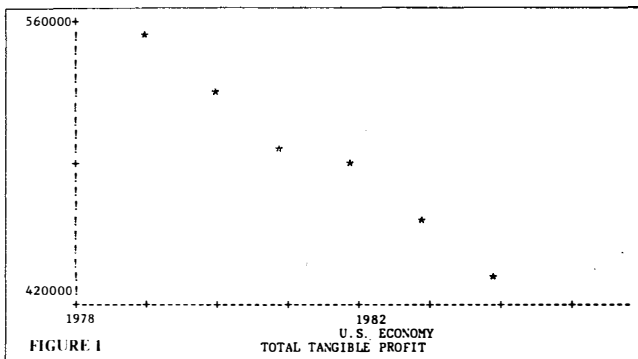
Despite a bewildering complexity of Rube Goldberg devices that link everything from consumer quirks to sunspots, conventional econometric models have failed, because they do not ask the simple and essential questions which will yield useful answers:

- 1) At what technological level does productive labor function (measured by value-added per unit of labor)?
- 2) What is the capital requirement in terms of machines and raw materials per unit of value added?
- 3) How many overhead employees are maintained per unit of productive labor?
- 4) How much capital equipment (office equipment, buildings, military goods, etc.) does the overhead consume?
- 5) How much capital investment is available after depreciation costs are met?
- 6) How much value-added does each industrial or other goods-producing sector contribute to the economic stream?
- 7) How much is returned to each sector, after deductions for social overhead costs, in the form of new investment?

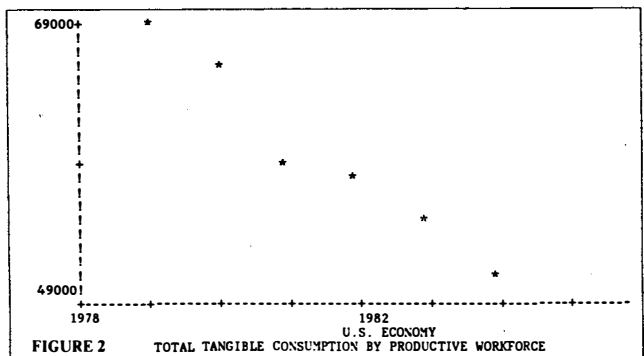
The LaRouche-Riemann model, in its present generation, converts these questions into time-rate-of-change equations, which the computer solves simultaneously, generating a future economic profile on the basis of investment decisions affecting these equations. In its next generation, now under preparation, the model will evaluate the effect of population and labor force, as well as energy-flow characteristics, on the “long wave” of economic performance.

To the extent that the analyst can accurately estimate the impact on these equations of economic policy decisions, the model will, as it has, generate quite accurate results. In principle this is not difficult; we know that higher interest rates will divert corporate and household income flow away from productive expenses, and depress economic activity, for example; this diversion is readily estimated. Military spending is a trifle more complex; it changes the investment mix, increases overhead costs of the economy, but tends to raise investment in the more productive sectors. Depending on the associated technology it may have a variety of different effects. The present Reagan program, however, has few technology benefits, and raises productivity only to the extent that military spending favors sectors that are already more productive, i.e., it generates a one-shot rise in productivity. The present forecast combines inputs reflecting the interest-rate problem, the military budget, and the present budget’s tax cut whose effect is much smaller than GNP forecasters are programmed to believe.

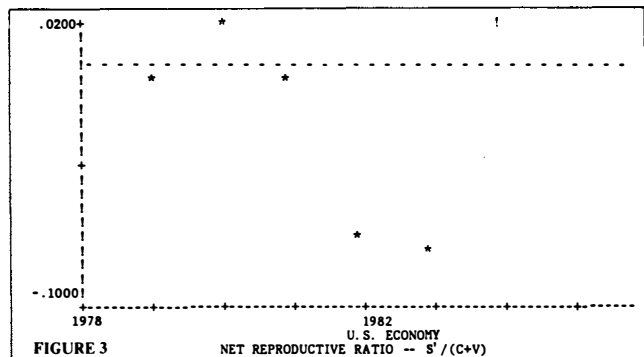
Viewed together, the LaRouche-Riemann model’s measures constitute an accurate portrayal of the econo-



Under the present monetary regime, the rate of decline of the U.S. economy already registered during the second half of 1981 and the first half of 1982 will continue through 1982 and 1983. The graph shows tangible profit, or value added adjusted for inflation, in the economy's productive sectors, falling at a 7 percent annual rate.



The wage bill in terms of tangible goods, i.e. the bill of consumption of the goods-producing labor force, will continue to decline under the present monetary regime during 1982 and 1983.



The ratio $(S' / C + V)$ is the model's fundamental measure of economic performance: it expresses the net surplus or deficit of tangible production relative to the production costs, in labor and capital, over the previous production period. Since 1979, with a brief interruption, this ratio has been negative for the American economy, with the major decline registered during late 1981. The model shows that the level of -0.7 , or negative 7 percent per annum growth, will continue at approximately the same level through 1982 and 1983.

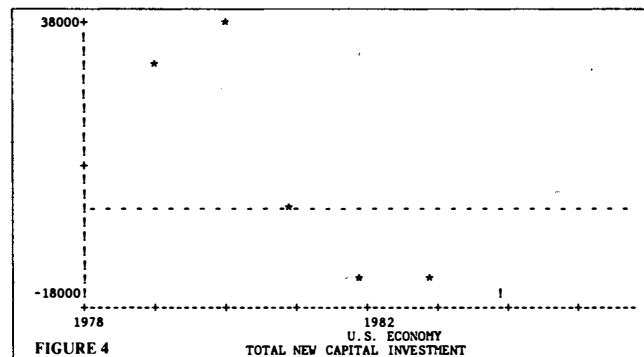


Figure 4 shows that, in contrast to the earlier period of steep decline over 1980, the principal new feature of the continuing depression is the collapse of the capital goods sector. The model's measure graphed above shows capital investment net of replacement costs to the existing capital stock, calculated according to the Commerce Department's extremely conservative estimate of depreciation requirements; the actual depreciation requirements are much worse. Even by this measure, however, U.S. industry is presently investing at a negative \$18 billion annual rate, against a positive \$38 billion annual rate (both in constant 1972 dollars) before the first Volcker recession in 1980. That is an extraordinary rate of net disinvestment.

my's condition in the medium term, noting the absence of changes in population characteristics which we are currently adding to the model.

The forecast

Figure 1 shows the economy's total value-added in tangible terms, or economic profit: goods produced in excess of their capital-plus-labor production costs. Over the 1979-83 period this will fall by one-fourth, assuming an unchanged policy profile in Washington, from about \$56 billion to about \$42 billion (constant 1972 dollars).

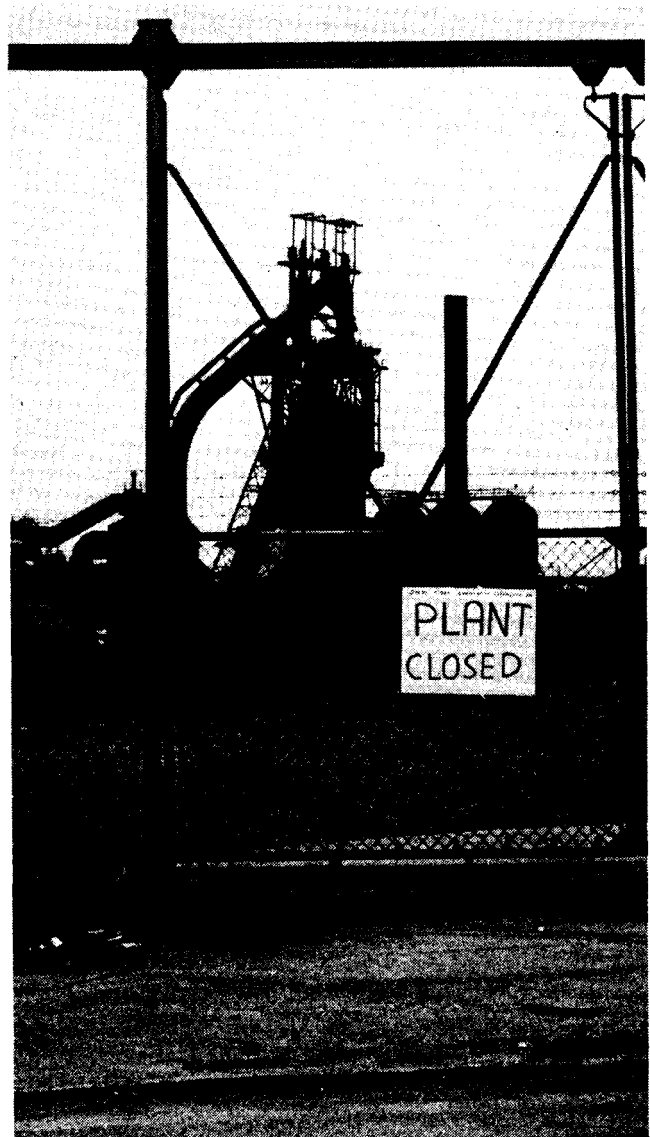
Figure 2 shows us that the decline in profit is the direct result of a similar degree of attrition of the productive labor force (measured by the output of tangible consumption goods consumed by the productive labor force). The labor-force graph has the same curve as the value-added, or tangible-profit, graph, which is to say that the productivity of labor remains unchanged.

Figure 3 shows the economy's growth rate, $S'/C+V$. That is to say, the portion of the tangible profit available for reinvestment in additional capital and labor after overhead costs are deducted is divided by the capital and labor costs required to produce that volume of profit. In the model, as in the real world, expenditures for overhead are strictly one-way: they represent consumption but no production. The determinant portion of the economy's output is the reinvestible portion of the tangible profit, or the net profit; the determinant ratio $S'/C+V$ is the rate of production of net profit. Calculating the effects of the present policy mix, the model projects a negative 7 percent growth rate for 1981-82 (in a year-to-year average; the graph does not necessarily reflect quarterly fluctuations), and a slightly lower rate of decline for 1983.

Figure 4 shows the portion of the net profit (or negative net profit) devoted to new capital investment; as is clear, the bulk of the decline in net profit is taking place in the capital goods portion of the economy. In consequence of the energy-related investment boom, capital investment remained positive overall in the earlier phases of the depression, as the graph shows. However, since this investment merely substituted capital and labor for energy, without improving the productivity of labor, it could not be sustained. The collapse of investment, which translates into an expected 20 percent reduction in capital spending over the year, reflects the rollback of oil drilling, the abandonment of steel, and so forth.

Figure 5 shows the consumption of raw materials and energy in the production process; what is interesting is the steepening of the curve of decline during the second phase (1982-83) of the depression, as more capital-intensive sectors are brought down.

Figure 6 shows the halving of value-added in the steel industry over the 1979-83 course of the depression,



NSIPS

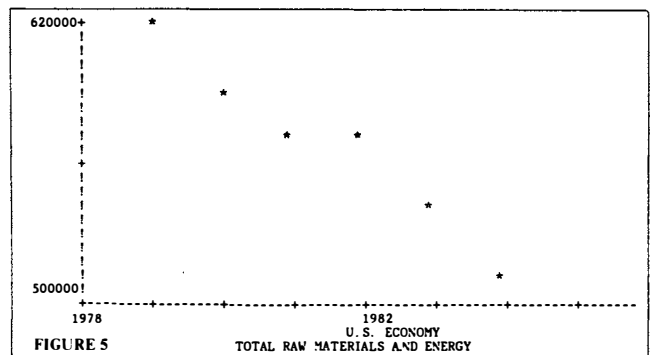


FIGURE 5 As the most capital-intensive sectors of the economy close down under the impact of the capital spending reduction shown in Figure 4, consumption of raw materials and energy declines more sharply than in the past. Figure 5, which shows a 12 percent reduction in raw materials consumption over the 1982-1983 period, reflects the halving of steel output and sharp reductions in other primary producing sectors.

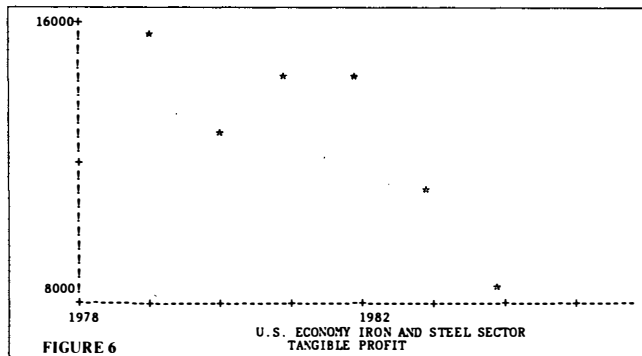
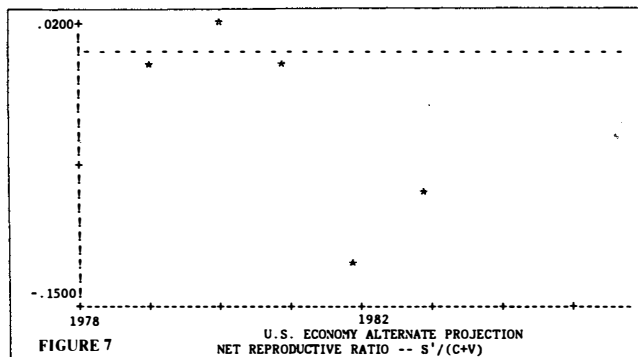


Figure 6 shows the steep decline of what was formerly the economy's largest single sector, iron and steel. By the end of 1983 the sector is expected to be only half as large as before the Volcker monetary policy began, with most of the decline occurring during 1981; that is to say that the steel sector is not expected to rise this year above the present 47 percent capacity utilization rate and is expected to fall slightly again during 1983.



Under conditions of sharply curtailed credit extension, i.e. a financial "crash," in which banks are forced to pull in loans to corporate customers, the economy will fall more dramatically than under present circumstances, in which corporations are still able to refinance their debt but have difficulty obtaining credits to expand production. The assumption in the alternate projection is somewhat arbitrary, i.e. a halving of the present rate of credit extension; it is meant to indicate only generally how the economy would behave under conditions of financial collapse. In this case the key growth ratio falls to -13 percent per annum, against 7 percent in the first forecast.

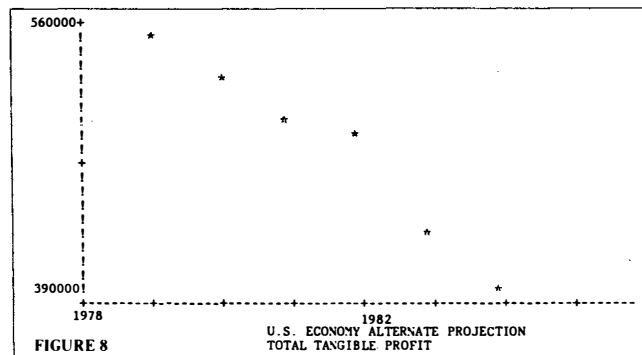


Figure 8 shows the same measure of total economic profit, or value added, shown under different assumptions in Figure 1. Assuming a dramatic contraction of credit, the level of tangible profit will fall to \$39 billion (1972 dollars) rather than \$42 billion as under the previous scenario.

one of the major factors accounting for the declines registered in the foregoing two graphs. Of course, the average annual values displayed do not reflect the precipitous collapse of the industry during the last 12 months.

In all, the model generates close to 1,000 such graphs (including rate-of-change measures of the same variables). The above figures are directly computer-generated and computer-drawn. The measures shown summarize the most elementary characteristics of economic performance; the full profile is published quarterly as a subscription service.

The financial crash projection

All the above profile assumes is that the present grinding pressure of interest rates will continue, but that the financial system will not break down, i.e., that banks will continue to lend to industrial corporations at the same 25 percent per annum growth rate they have for the past year. Since, as we discuss in the next section, the present rate of lending represents simple refinancing of interest payments that corporations cannot pay without new loans, the first scenario should be viewed as contaminated by extremely optimistic assumptions. If the present rate of lending slows—in this alternate projection we have arbitrarily assumed that it would halve—corporations would have to liquidate capital and labor to pay debt, and reduce production expenditures accordingly. We have treated the assumed requirement for payment of interest at the expense of production as a de facto rise in overhead costs for purposes of modeling.

Figure 7 shows that the impact of a financial contraction, under assumption of a halved rate of credit extension, would be a 13 percent negative growth rate by year end, i.e., the rate of economic activity in December 1982 would be 13 percent below the 1982 average. Note that the net reproduction rate remains sharply negative, but not nearly at the 1982 level, for 1983.

Figure 8 shows the measure of total tangible profit for the U.S. economy under the second set of assumptions, falling to \$39 billion rather than \$42 billion in the first projection.

These are grim results indeed, and the extent to which the abandonment of capital stock in steel and other industries will inhibit future recovery—let alone the rapid attrition of industrial labor—remains to be determined. A program of capital-stock rebuilding, starting with electrical-utility and other basic infrastructure requirements, could, starting from the 1981 economic profile, still yield an economic recovery in the middle and late 1980s, as we demonstrated in the aforementioned April 6 survey. Whether the economy could do as well after the current shock remains to be determined.

U.S. industrial collapse: worse than the First Great Depression

by Leif Johnson

The following data on the trend in production of machine tools, steel, construction materials, autos, housing, transportation equipment, capital spending, and current total public works spending do more than confirm the predictions made by the LaRouche-Riemann economic model. They confirm the conclusion described in the *EIR* issues of March 18, May 6, and Sept. 3, 1980, and subsequently republished as an *EIR* Special Report entitled "Can the American Economy Recover?"

What was then identified by LaRouche-Riemann analysts as the basic direction of the U.S. economy is now, two years later, a matter of empirical fact. The imposition of usurious interest rates by Federal Reserve Chairman Paul Adolph Volcker was described by *EIR* in 1980 as forcing the U.S. economy through a "phase change" in which the economy was unable to reproduce its plant and equipment and labor force to sustain growth in real manufacturing and agricultural output. Current output statistics for some basic industries are certainly as bad as in the depth of the First Great Depression, the years 1931-35. We predicted, however, that the Second Great Depression would be substantially worse. Industries and labor skills that survived long years of very low production in the 1930s (when interest rates fell to 1 and 2 percent) cannot survive 14-16 percent and higher rates.

Machine tools

The basis for productivity gains in manufacturing, of course, is the invention of new manufacturing processes and the installation of the metal-working tools to allow that production. Thus, the machine-tool industry is essential to the nation's productivity. That industry has now suffered losses from which it may not recover.

In May 1982, orders for both cutting and forming machine tools, in current dollars, totaled just under \$100 million. This compares with the \$229 million worth of orders for the same month a year earlier. Yet 1981 was no banner year for the industry. Net new orders were only \$2.9 billion, down 37 percent from 1980, which in turn was down 16 percent from the peak year 1979, when orders were at \$5.6 billion.

Thus by 1981, the industry was already booking net new orders (new orders minus cancellations) at only half the pace of the year prior to the introduction of Volcker's usury policy. And 1982 net new orders are running at only slightly more than half the rate of 1981.

If present trends continue, the industry's order backlog will be exhausted by the spring of 1983; even before that time, many individual companies will have come to a standstill.

In May 1981 the machine-tool order backlog stood at \$4.156 billion, a low but not dangerous figure. One year later the order backlog was only \$2.015 billion. This has already cut shipments, which were at \$410 million in May 1981 but only \$296 million this May.

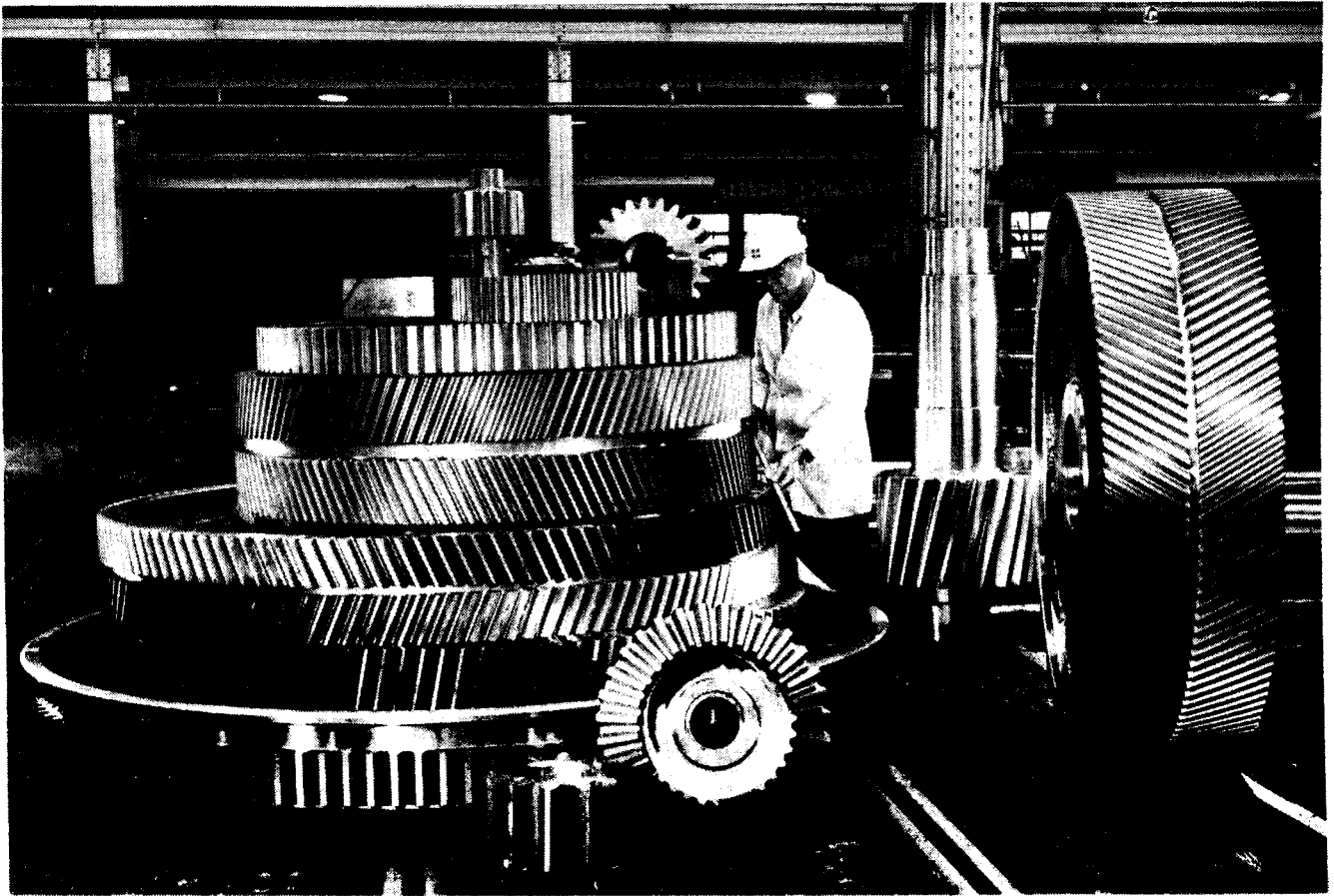
There is simply no sector of manufacturing that promises to provide substantial order increases for machine tools. Auto, the largest single purchaser, which took as much as 65 percent of the machine-tool industry's output in 1979, has all but eliminated its procurement, as the largest company, GM, has indicated that it will diversify its much-reduced production worldwide.

Machine tools for the oilfield machinery and equipment industry will be greatly cut back because of the 40 percent drop in new well-drilling activity since last October.

Steel

The capacity utilization of the steel industry is presently lower than the average level during the worst five years of the First Great Depression, 1931-35. For the week ending July 10, the industry is producing at 40.2 percent of capacity, 4 percent below the average capacity utilization of 1931-35 and 12 percent below the average utilization for the 10 years of the First Depression. Industry employment is currently lower than at the depth of the last Depression, although production remains much higher since productivity has greatly improved over the past 50 years.

Since steel is the indispensable building block of the nation's industries, the following declines in shipments to end-users indicate much of the condition of the U.S.



This year's orders for machine tools are half those of 1981, which were down 37 percent from 1980. Above, precision-cut gears are checked at the factory.

economy at large. Steel shipments to auto for the first five months of 1982, compared with the first five months of 1981, is down 35 percent. Steel shipments to construction are -32 percent; to steel service centers (distributors), -28 percent; to the oil and gas industry, -22 percent; to equipment, machinery and industrial tools, -31 percent; appliances, -31 percent; to forgers, -36 percent; to containers, -17 percent; to shipbuilding, -63 percent; and to rail, -48 percent. Only the military sector, which uses less steel than the nation's yearly supply of tin cans, showed a gain (17 percent).

As we have described (see *EIR*, July 20), the American steel industry, a cartel formed by the London financiers who backed the Morgan and Mellon banking houses at the turn of the century, has de facto joined the European Community's Commissioner, Count Etienne Davignon, in a plan to establish a world steel cartel that would reduce global steel production by 50 percent or more. American steel production could be held permanently as low as current production levels.

Railroads

With total main track route mileage of 176,466 at the end of 1981, American railroads have been shrunk

back to their level of the year 1894 from the high point of about 250,000 miles reached before World War I. Using the 1980 Rail Deregulation Act (Staggers Act), railroads are expected to shed another 10,000 miles this year, the largest rate of abandonment in history. The target areas are agricultural regions and the industrial Northeast, with Conrail abandoning 2,600 miles.

Freight-car loadings (the standard measurement of railroad activity) for the first six months of 1982 are trailing the same year-earlier period by a shade less than 10 percent, provoking railroads both to cut trackage and service and to reduce repairs and capital investment. The most serious downturn is in capital investment.

Capital investment for the first quarter of 1982 was down 55 percent from the comparable period the previous year. For Conrail, the nation's largest road, the capital-investment and operating costs of repair had begun to be substantially reduced at the onset of the Volcker Depression. From a total capital investment of \$836 million in 1979, the railroad dropped the outlay to \$375 million in 1981. In 1981 only 199 miles of new rail were laid on a system of over 16,000 miles; the railroad wishes to abandon 16 percent, or 2,600 miles, of that track.

Conrail further boasts that it has successfully cut mechanical maintenance of equipment from \$90.67 per carload in 1980 (in constant dollars) to \$80.06 per carload in 1981 while reducing car inspection and repair from \$55.30 to \$44.29 per carload. Such savings are generated by reducing inspection and repair and laying off employees.

American railroads overall intended abandonment of 10,000 miles of track this year (Conrail will tear up 3,900 miles including double track, yard track, and sidings). That is five times the rate of abandonment at the First Depression peak in 1933. Once gone, abandoned track can only be restored at great cost, in order to once again service industries temporarily shut during the Depression.

Coupled with abandonment is failure to purchase new freight cars and motive power. Conrail bought 4,875 cars in 1978 for a fleet consisting of 114,000, implying a 20-year replacement program—a minimum replacement cycle—then dropped its purchases to 120 cars in 1981, explaining that it had tried to cancel the order but failed. That same year, 1981, the line retired 7,950 cars.

Purchases of locomotives is expected to drop to extraordinarily low levels in 1982. Last month, the world's largest producer of railway engines, the Electromotive Division of GM, permanently shut its plant, leaving only one American producer of engines, General Electric.

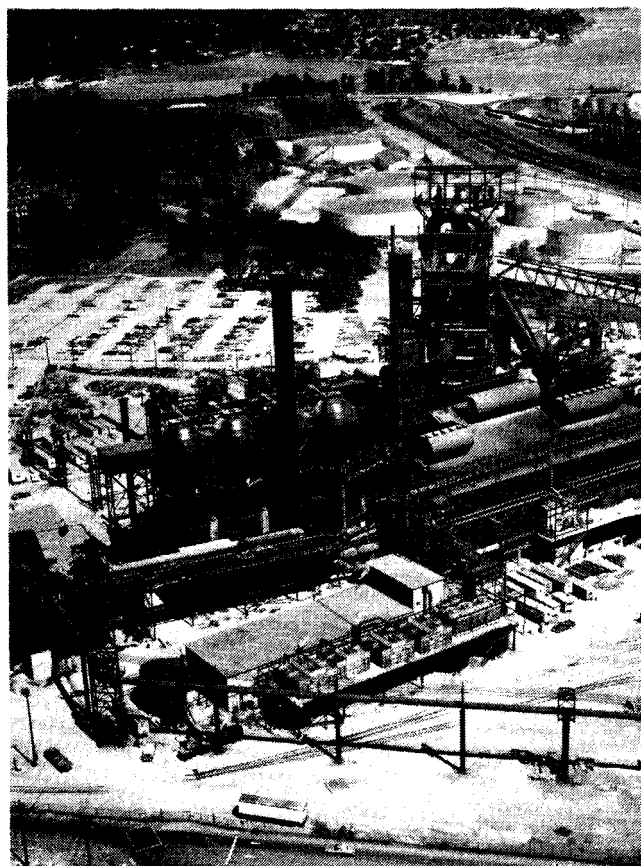
Construction materials

If we continue to look at the nation's ability to rebound if the Volcker usury is lifted, we necessarily consider the availability of construction materials. Concrete, bricks, and lumber products are becoming a tremendous problem. Those industries, victim to Volcker's intent not to allow homebuilding in the 1980s and to the collapse of industrial building, rail construction, and public works, now face an astonishingly quick end to their last important source of sales: the office building boom. (See *EIR*, June 29, July 7, and July 20.)

The most capital-intensive industry within building products is cement.

From a 1979 production of 84.9 million short tons delivered—not including the 12 million tons of imports—domestic shipments are expected, on the basis of the first four months figures for 1982, to fall to 58.3 million tons.

This means many plants will close; and if Volcker remains, vital interstate highway repairs, state and local public works, and required rebuilding of basic industries such as steel—not to mention such projects as the North American Water and Power Alliance and nuclear power generating plants—cannot be built even with heavy importation of cement or clinkers.



Courtesy of Bethlehem Steel

The U.S. steel industry is presently producing at 40.2 percent of capacity. Above, Bethlehem steel's Sparrow Point, Maryland plant.

The nation's lumber industry has suffered an even larger decline than the cement sector. From its peak of shipments in 1978 of 38.1 billion board feet (bbft) the shipments are currently running at an annualized rate of 24.2 bbft, a drop of 36 percent. The staggering rate of bankruptcies among the many smaller sawmills indicates that, although the capital expenditure for sawmill construction is far less than for cement production, the industry would take as long as three years to recover to 1978 levels.

By far the most dramatic collapse has occurred among brick producers, who are about 50 percent dependent on the homebuilding market. Based on early 1982 figures, the industry may produce between 2.7 and 3.0 billion bricks for the year. Contrast that with 8.6 billion bricks produced in 1978, the year before Volcker's appointment. This decline nearly matches the drop from the 7.6 billion bricks produced in 1929 to the average 1.9 billion for the five worst years of the First Depression. The difference, however, is that today brick producers, mostly serving local markets, are being bankrupted or voluntarily going out of business because of high interest rates; they cannot carry the burden of usury while producing at 30 to 50 percent of capacity.

Debt burden and investment collapse: the fraud of the consumer-led recovery

by David Goldman

During the first quarter of 1982, U.S. business credit expanded at an \$80 billion annual rate (commercial paper and bank loans outstanding). This is the highest annual rate ever recorded, and exceeded only once on a quarterly basis, during the third quarter of 1981. Including bond-market issuances, corporate credit rose at a \$126 billion annual rate. If trade credits were included, the rate would be considerably higher; the TRW Company credit analysis reports indicate that the volume of overdue receivables—involuntary trade credits—is at its highest recorded rate. However, data on trade credits, available from the Federal Trade Commission survey, will not be available for some weeks yet. What may be concluded, and will be documented in the analysis below, is that the tendency for debt service to siphon funds away from productive activity has intensified during the first two quarters of this year.

The corporate drain

An ironical twist in the credit picture for the first half of 1982 is the so-called consumer recovery, which translates into a modest improvement in the auto industry (from 30 percent below the 1981 average to “only” 17 percent below the 1981 average as of the beginning of June).

The transfer of funds from corporate balance sheets to consumer incomes is mirrored in the picture of corporate dividends. Although corporate profits in the first quarter of 1982 were a full 30 percent below the previous year's levels, corporate dividends dropped only marginally. Corporations maintained dividends by raising the proportion of retained earnings paid out as dividends from the historical levels of 40 to 45 percent to a full 60 percent.

Debt service has risen from only 1 percent of GNP in 1945 to 10 percent of GNP in 1981; a considerable portion of that debt service is paid to individual investors, who benefit in the short run from high interest rates. The growth of money-market funds to over \$200 billion in assets, heavily invested in unsecured, high-interest commercial paper, has played a major role, in the context of the “financial deregulation process” of the past two years.

Since the total volume of interest payments in Gross National Product is a net \$300 billion, or 10 percent of GNP, the circulation of interest costs is of far greater importance for economic activity than the \$30 billion tax cut coming on line July 1, and the net result for the economy has been negative. That has, in fact, been the case for the economic results reported to date. May 1982 industrial production declined by 0.2 percent (according to the Federal Reserve Index, an early but unreliable indicator). A modest improvement in consumer durables was overbalanced by a rapid decline of capital-goods output. That has characterized the economy all year.

It may well be the case that we have already been through the consumer recovery's peak, and face a new series of declines; but even if consumer spending manages to stabilize the Federal Reserve's industrial production index during, say, the July-September period, it is evident that the breakdown of the capital-goods sector will leave the economy in a sharply negative direction by the fourth quarter. Year on year, *EIR's* estimate of a 7 percent production decline over 1981-82 still holds.

Through the year, capital-goods output (including raw material such as steel) has fallen at a 20 percent annual rate, while consumer durables have risen at more than a 9 percent annual rate; the overall rate of production decline has been 6 percent since last December. In May, business equipment fell 1.6 percent and consumer durables rose 2.3 percent (although consumer non-durables continued to fall), and the overall index fell 0.2 percent. The relatively small drop in the index has aroused the predictable cry of “recovery.” But the fact that the bulk of the consumer-durables rise was due to a one month 10 percent increase in auto sales, linked to non-recurring (and immensely costly) auto rebates, does not augur well for the third quarter.

What is evident from the available data on the financial position of non-financial corporations, however, is that the *rapid decline of capital investment has only begun*. Under prevailing circumstances capital investment stands to decline by over \$35 billion, or about 15 percent, from 1981 levels. That assumes no destabil-

ization of the lending markets, no inroads against the current investment tax incentives, no financial panic—all of which are in fact to be expected within the next year. Therefore, while it is theoretically possible that the rising curve of consumer spending could temporarily cross the falling curve of capital spending for two or three months during the third quarter, showing a temporary rise in the industrial production index, no recovery whatsoever is in the works.

The collapse of the capital-goods sector represents not so much a continuation of the falling phase of a business cycle, but a change in America's industrial base, in which major industries will face reduction to roughly half their former output levels. Let us examine the financial mechanism through which this is brought about.

Cash flows and investment

According to the Federal Reserve's numbers for sources and uses of funds during the first quarter, American corporations' internal cash generation (in annualized values) fell from \$208 billion in the last year's fourth quarter to only \$169 billion in the first quarter. Sixteen billion dollars of the decline was due to a rise in tax payments (lagged versus accruals one quarter), but most was due to a fall in profits from \$166 billion to \$127 billion.

In all, their cash needs rose by some \$60 billion, as capital spending rose to \$254 from \$247 billion (all annual rates). Corporations met these needs by increasing their rate of borrowing from all sources by \$34 billion (from \$92 billion to \$126 billion), and by liquidating \$35 billion worth of inventories.

The rapid runoff of inventories, which reached a record 0.9 percent in May, has been viewed as a factor promoting recovery; more importantly, it has been a means by which corporations raised needed cash flow during the first quarter. It is no coincidence that the big bankruptcy wave started in April after the inventory cycle had run its course.

To achieve the same sales rates, corporations would have to sharply increase expenditures and therefore their rate of borrowing. Although the rate of corporate borrowing has remained high, there is no indication of such a burst; Chase Manhattan recently publicly characterized the present 23 percent annual rate of rise of bank lending and commercial paper writing as "distress borrowing."

Capital-investment plans are relatively slow to respond (reaction time of more than one quarter) to a collapse in corporate income, and the collapse of first-quarter profits will only begin to show up fully in the third and fourth quarters of this year—and perhaps through the beginning of 1983, according to some

investment bank analysts. The rate of capital-goods production has already dropped; but the order cancellations that became apparent in the Commerce Department estimate that factory orders fell by 2.3 percent in April, and the National Association of Purchasing Manager's reports that capital-goods orders were the lowest since 1955, indicate much worse to come.

Judging from the first-quarter balance-sheet numbers, non-financial corporations will have to fill a \$35 to \$40 billion hole in their balance sheets by other means than access to the credit markets. Certainly with the Treasury in the market for \$90 billion in the next six months and long-term interest rates on the rise again, the drying up of the corporate bond markets can be taken for granted. This hole will have to be filled somehow, and the only area untouched by corporate managers in the first quarter was capital expenditure.

The 'lease-back' loophole

If Sen. Robert Dole's (R-Kan.) Senate Finance Committee responds to the budget crisis by eliminating, as seems likely, tax-related leasing arrangements which cost the Treasury upwards of \$12 billion a year, matters could become much worse. Currently corporations may lease capital equipment from a profitable corporation that buys capital equipment for them, and as nominal owner, takes the value of the tax credit in return for a partial cash payment of the tax credit's value. This reintroduction of tax-farming, outrageous as it is, nonetheless enables troubled industries like the airlines and auto companies to maintain certain capital purchases. Now United Airlines has officially threatened to cancel all its \$1.8 billion of orders for new Boeing 767 jets should the lease-back provision be canceled. All in all, Morgan Guaranty Trust estimated this year, some \$50 to \$60 billion of capital investment, or about a quarter of the total, will involve some form of lease-back tax arrangements. A significant portion would be endangered by a move against this prominent "loophole."

As bad as all this may sound, it is really a numbers game, useful to the extent that it demonstrates that the current trend cannot possibly make both ends meet, but wholly inadequate for picturing the next several months. The three great crises in the financial system, the U.S. federal budget, the American corporate problem, and the developing sector debt situation, will not sit and wait.

No such direction as may now be discerned from the corporate liquidity figures ever follows itself out to logical conclusions. A political crisis intervenes en route, and decides matters, appearing as an "exogenous variable." The basic truth of the present situation is that as long as the Volcker monetary policy remains in force, America will continue to descend into depression.

Reagan faces a war on two Mideast fronts

by Robert Dreyfuss, Middle East Editor

President Reagan and Secretary of State George P. Shultz are facing the eruption of a two-front war in the Middle East, whose outbreak is the product of former Secretary of State Alexander Haig's outright collaboration with America's enemies in the region. The Israeli invasion of Lebanon and the Iranian move into Iraq might appear to be two distinct conflicts, but they are in fact a single war spanning the entire region. In this conflict, the Begin-Sharon government in Israel, Ayatollah Khomeini in Iran, and the radical Arab rejection front based in Damascus—with tentative support from the Kremlin and the full support of the British intelligence service—have launched an all-out move to destroy U.S. influence in the Middle East.

To the extent that President Reagan can establish cooperation with Pope John Paul II's Vatican, with the moderate Arab forces in Egypt, Saudi Arabia, Iraq, and the Palestine Liberation Organization, and with Israeli opponents of the fascist Begin-Sharon clique, then it is possible to secure the American national interest in the region. If this is done, the Soviet Union will have little choice but to cooperate.

But with each step by the Reagan administration in that direction, the forces deployed by Sharon, the Muslim Brotherhood secret society, and the Rejection Front have escalated their anti-American campaign.

That campaign is sponsored by London and by the Western European oligarchy, who have two objectives: first, to eliminate the United States as a major force in the Middle East and replace America as the chief financial power and arms salesman in the area; and second, to make a deal with Moscow's heir apparent Yuri Andropov and the H. A. R. "Kim" Philby faction to establish

a "New Yalta" in the Middle East. The destabilization of the kingdom of Saudi Arabia—America's chief ally in the area—is the prime objective of this operation.

Given this, no competent observer doubts the link between Sharon's genocide in Lebanon and the monstrous Iran human-wave attacks against Iraq, especially in light of General Sharon's public boast about sending Israeli arms to Khomeini's hordes. New conflicts are being spawned in the Yemens, the Horn of Africa, and the eastern Mediterranean to complicate the problem.

The Vatican solution

Although the Israeli ceasefire imposed within minutes of Haig's ouster on June 25 has held as of deadline—except for periodic atrocities by Israel's artillery—the Reagan administration is still embroiled in a complex diplomatic effort to resolve the crisis. Beyond the crisis-management immediately linked to the siege of Beirut, it is apparent that the administration's goal is to create the basis for a stable and prosperous rebuilt Lebanon and, more broadly, to open a dialogue with the PLO's moderate wing.

In this effort, the most vital ally of the United States is the Vatican. Pope John Paul II has mobilized the Church to prevent the disintegration of the Lebanese state into "ministates" run by puppet-like warlords, and, in coordination with President Reagan and Lebanese leader Raymond Edde, has proposed to stop the fighting, and restore order to Lebanon.

In a July 11 statement, *EIR* founding editor Lyndon H. LaRouche urged the superpowers to immediately support the Vatican formula for Lebanon. "The Vatican is correct in identifying the current Ariel Sharon-led

invasion of Lebanon as part of a years-long plan to do away with the sovereign state of Lebanon and set up a small Christian state allied with Israel, led by the Falangist leader Bashir Gemayel. Israel would then annex what is now southern Lebanon," said LaRouche.

"I am certain that my trusted acquaintance Raymond Edde will be capable of undertaking the responsibilities that are implied," LaRouche added, urging that Rome's efforts be supported "before the genocide being carried out by Israel under its Nazi Defense Minister Sharon becomes the trigger for World War III."

The Reagan administration is moving toward opening relations with the PLO in the Beirut negotiations. Shultz, in confirmation hearings on July 13, placed great emphasis on a solution for the Palestinians and their "legitimate rights." His statements sharply contrasted with Haig's babbling about "strategic consensus."

According to Arab sources, the foreign ministers of Saudi Arabia and Syria will present a letter from PLO Chairman Yasser Arafat to Reagan in a scheduled July 20 meeting, endorsing the eight-point peace plan of King Fahd of Saudi Arabia, which implicitly recognizes Israel's right to exist. In the delegation—it is rumored—Khaled Hassan of the PLO will be present as an adviser.

Issam Sartawi of the moderate Palestinian wing indicated the PLO position in a July 14 speech in Paris by saying that "formally and officially," on behalf of the PLO and the Palestine National Council, he offered to exchange reciprocal recognition of Israel. He also asked Washington to talk directly with the PLO. In Cairo, top PLO diplomats Ahmed Dajani and Said Kamal offered to establish a government-in-exile based in Egypt, provided that it would win U.S. recognition. Many other PLO officials made similar remarks, including endorsements of Shultz's remarks, and the PLO official spokesman Mahmoud Labadi, speaking of efforts to resist the Israeli siege of Beirut, said bluntly, "The Israeli people are now our best ally."

Sharon's Iranian flank

But no sooner was General Sharon's blitzkrieg halted by American ultimatum than Israel assisted the Iranian regime in opening its long-awaited offensive in the war with Iraq.

Khomeini's human-wave assaults into the Arab Gulf—backed by Israeli arms and intelligence and the support of Moscow's Arab radical allies—were aimed at upsetting the alliance between Iraq, the Gulf states, and Egypt in support of the PLO.

The message to Saudi Arabia from Sharon is simple: unless you desist from efforts to effect an American-PLO rapprochement, Israel and Iran will destroy you. The first target in the attack on Saudi Arabia may be

Jordan, the chief supply line to Iraq and the gateway to the Gulf. Repeatedly in the recent past Sharon has pledged to overthrow King Hussein's monarchy and, according to intelligence sources, he has reached a tactical accord with Syria's President Hafez Assad toward that end. Now, by moving against Jordan, Sharon would also squeeze Iraq in a pincer. Syria, long allied to Iran, is already supporting its lunatic Teheran friends.

In its first response to the July 14 Iranian attack on Iraq, the Reagan administration renewed its pledges of neutrality in public, while privately letting it be known that it leans toward Iraq's position. Clement Zablocki, chairman of the House Foreign Affairs Committee, urged July 15 that American arms be shipped to Iraq via the Gulf states. Zablocki's proposal may be a trial balloon for the administration. An associate of Secretary of State George Shultz told *EIR* that Shultz intends to eliminate from the Department of State those remaining among of "the Kissinger-Haig geopoliticians who supported Iran over Iraq."

Iraq dealt Iran a serious setback in its invasion, according to battle reports from the Gulf, killing thousands of Iranian soldiers—most of whom are drawn from the ranks of the Revolutionary Guard and units of Iraqi Shiite exiles—and repelling the invaders. Provided that Iraq can overcome the command weaknesses that led to the disastrous setbacks in the war earlier this year, Iraqi forces have the capability of blocking Iran's intended advance. But Iran's goals include the establishment of an "Islamic Republic of Basra" in southern Iraq, and the toppling of Saddam Hussein's nationalist, pro-development regime.

Where the Soviets stand

So far, the Soviet Union has played both sides of the Middle East crisis. While making appeals to Arab moderates by condemning "U.S.-Israeli collusion," the Soviets have also mobilized the radical and communist forces in the Arab world for an Alamo-like last stand against U.S. efforts to strike a deal with the PLO.

For instance, the U.S.S.R.'s top specialists in destabilization—Boris Ponomarev of the Communist Party's International Department and Yuri Andropov, ex-KGB chief—met with Khaled Bagdash of the Syrian Communist Party on July 16, following a meeting of eight Arab communist parties held early in July. With them, George Habash's radical Palestinians began to prepare for a break with the moderate PLO Arafat wing, presumably with the support of the radical Arab front of Syria and Libya with Khomeini's Iran.

An Israeli official, alarmed about progress toward a U.S.-PLO dialogue, expressed satisfaction that Moscow's Arab allies would prevent the threat to Israel represented by American moves to talk to the Palestinians.

Vatican undercutting the Jesuit gameplan?

by Thierry Lalevée

The Roman Catholic Church is deeply involved in the Lebanon crisis and deeply divided over it. On the one side, Pope John Paul II has begun to intervene in an effort to preserve Lebanon's integrity as a sovereign nation and to prevent further slaughter. On the other side, the Jesuit Order and the Order of Malta are working at many levels on behalf of the fragmentation of that nation into an array of backward, cult-ridden, perpetually warring fiefdoms.

The Pope has called on political leaders everywhere to do their utmost to halt the extermination being committed in Lebanon by Israeli troops and their Lebanese-based allies. After having offered to go to Lebanon to directly mediate a peace agreement, on July 9 the Pope sent a message to President Yitzhak Navon of Israel stating that the Vatican has received numerous letters, from Jews as well as others, requesting John Paul to "make every effort to prevent further loss of life, destruction, and suffering." "World opinion is looking upon this tragedy with horror and indignation," the Pope concluded.

As sources close to the Vatican have confirmed, these public statements betoken a deeper level of Vatican-led diplomacy. One such indication came from an article published in the Italian Communist Party daily *L'Unità* on Vatican discussions with Syrian and Lebanese representatives. The Syrian Ambassador to the Holy See was received by the Pope on June 29, while the exiled Lebanese Maronite Christian leader Raymond Edde was present at one of the Pope's numerous masses for Lebanon. The Vatican, continues *L'Unità*, views the Paris-based Edde as a potential President of Lebanon who could oust Falange chief Beshir Gemayel (a fascist pseudo-Christian) and preserve Lebanon's integrity. This option is a subject of discussion between the Vatican and the Reagan administration, reports *L'Unità*, by way of the Vatican's representative in the United States, Monsignor Laghi.

Edde—who claims to *EIR* that he is not aware of any Vatican efforts to renew his role within Lebanon—represents the nationalist, Gaullist tradition in that country.

It is not clear how precisely plans have been developed for a coalition that could put Edde forward as the ecumenically minded nationalist alternative to the current Maronite leadership of the Gemayels. According to Lebanese sources, the key Lebanese Sunni Muslim negotiator in Beirut, Saeb Salam, is a close friend of Edde's.

The Jesuits, the British, and Mitterrand

The Jesuit counterpolicy against reconstituting the Lebanese nation is manifest in France—a chief conduit since the 19th century for both good and evil influences on Lebanon. The Socialist government in Paris, having fully backed Defense Minister Ariel Sharon's evil invasion of Lebanon, is now angling for a role in drawing Arab nations into enforcing the final evacuation of the Palestinians, and in the re-drawing of the Middle East map.

President François Mitterrand is acting at the behest of 1) Great Britain directly, and 2) the "lobbies" associated with the worst elements of the vanished French Empire and Vichy France, many of whose pro-Nazis transformed themselves, like Mitterrand himself, into Socialists. Those "lobbies" have restored the 1916 Sykes-Picot policy of chopping up the Middle East among themselves and Great Britain, at the expense of the region's modernization potential and of U.S. influences. Supervising this strategy are the old French imperial families who head the "lobbies," advised by the Jesuit Order.

Mitterrand's policy controllers are mulling over various drafts of plans for Lebanon's future. In Paris, a gathering of Lebanese bankers recently discussed the idea that the expulsion of the Palestinians from Lebanon might lead to a Palestinian state in Jordan, as advocated by Sharon adviser General Baum; they see this as an opening to invite King Hussein of Jordan to realize his grandfather's dream of annexing the entirety of southern Syria up to Damascus, a region which is predominantly inhabited by Sunni Muslims, leaving the Syrian Alawites to establish their own little state in and around the Port of Latakia.

As we have reported (see *EIR*, June 22 and July 7), these ideas reflect the geopolitical approach voiced by the Paris-based Jesuit Father Riquet and his superiors: a systematic process of "cantonizing" the Middle East. Riquet is a spokesman for groupings such as the Comité d'Aide aux Chrétiens Libanais founded in 1976 by Pierre de Lassus Saint Genies, a former colonial governor of Lebanon. Says Pierre's heir Xavier: "We have a good understanding with the British."

(He recalled, as if to underscore the point, that although his father had led Vichy's troops against the British in the Levant in the early 1940s, the British had

been "fair enough" not to accede to the anti-Nazi Free French of de Gaulle; instead, the British commander, General Wavell, sent them all back to Vichy with weapons.)

The de Lassus family, which doesn't like to be named publicly but is open to discussing its strategic viewpoint, wants to revive *La France traditionnelle* of the imperial and Vichy eras; it controls the Falangist Gemayels, through noble Lebanese families such as the Sursoks, whose last heiress, Yvonne (Lady Cochrane through her marriage to a Scottish aristocrat), is still active: this summer she donated one of her palaces in the Christian Beirut quarter of Achrafiyya as a hospital for the Falangists.

Another branch of the Jesuits' Franco-Lebanese networks is the Comité Catholique, which openly and bitterly opposes the Vatican. The Comité works through the Freemasonic Grande Loge Nationale de France, which traditionally regards Britain as "the Brother Empire" and has been named as a correspondent lodge to the fascist Propaganda-2 Lodge of Italy. The Comité is also associated with various associations more publicly concerned with Lebanon, such as the Comité de Soutien aux Forces de la Résistance Libanaise, led by Marie-Madeleine Fourcade, a veteran of the British intelligence-controlled wing of the World War II French Resistance. It is among these groups that Beshir Gemayel's Falange representative in France, Commandant Malek, receives moral, political, and financial support.

The Order of Malta

Yet these groups in turn are only lower-level extensions of the oligarchic forces who invented European fascism and succeeded for so long in keeping the Middle East in bestial backwardness: the ancient Order of Malta, which originated in the effort to use the Crusades to crush the Arab scientific and technological centers of world culture.

The Maltese Order, in recent history overseen by the ostensibly Catholic Hapsburg dynasty and the Jesuits, had its role in the Lebanese slaughter underscored when the Begin government, which has rejected the offers of other organizations to provide help for the wounded and homes in the Lebanese cities of Sidon and Tyre, ordered Israel's invading armed forces to welcome Prince Lobkowitz, the order's current Grand Master, together with the Order's ambulances, while Israeli authorities were denouncing the Vatican as pro-Arab.

The Order of Malta should provide "international brigades" in Lebanon, the Jesuit Father Riquet proposed a year ago. Now it is said privately in these circles that the Order will have to play a "spiritually guiding role" in the planned multinational force there.

Interview

Raymond Edde on the crisis in Lebanon

Raymond Edde was born in Alexandria, Egypt, in 1913, the son of Emile Edde and Lody Sursok. He is a Maronite Christian. After his father's death, he was elected Amid, or party chairman, of the National Bloc, and over the years became the symbol of Lebanese opposition to the Syrians. After two assassination attempts against him in 1976 in Beirut, Mr. Edde chose to continue his fight outside Lebanon and exiled himself in Paris. Although he diplomatically denies knowledge of Vatican efforts on his behalf in the interview excerpted below, other sources have confirmed that the Vatican sees him as a preferred candidate for the Lebanese presidency. The interview was conducted on July 13 in Paris by EIR Paris Bureau Chief Sophie Tanapura.

EIR: What do you think of American policy in the Mideast after the departure of Mr. Haig?

Edde: The impression one gets is that Haig was a clear ally of Israel. We all hope that his replacement, George Shultz, will be more fair concerning events in Lebanon. Since the Israeli invasion, several U.N. resolutions—501, 508, 509—continue to be unheeded by Israel. The epitome of it all was the American veto against the French resolution. . . .

Now let's take the case of Syria, and I am on very bad terms with Hafez Assad simply because he had ordered me shot at twice. I must admit that I am getting pretty used to it because I am now at my ninth assassination attempt. . . .

Now, if the aim of the Israelis were to decapitate the Palestinian resistance, they could have launched an Entebbe-style operation against the leadership. They could have kidnapped these gentlemen, one after the other, instead of totally destroying Beirut. In reality, Israel wants to occupy part of Lebanon. And I accuse Israel of having a long-standing agreement with Hafez Assad so that each could take a part of Lebanon. . . . By sending the MIG 21s and 23s, Assad wanted to show that he represented the only force opposing the Israelis. This all occurred over Lebanese territory and nothing happened to Syria. I truly believe that there is a secret agreement between the two countries. The MIGs could have at-

tacked the tanks as they were filing into Lebanon from three different points, but not one MIG did it. Assad only wanted to make a minimal show in order to be paid by the Arabs. . . .

EIR: The Italian press has reported that the Vatican has a proposal to preserve the national integrity of Lebanon. Do you know more about this?

Edde: No, I don't know anything about it.

EIR: They also referred to you as the presidential candidate of the Vatican.

Edde: As early as March 1982, journalists came here to ask me if I were a candidate. I just want to make one point clear. One does not present one's candidacy. It is the parliament that elects you. By the way, the Lebanese constitution is modeled on the French constitution of the Third Republic. Therefore, I can be elected President even while I am here.

So, as early as March 1982, I issued a declaration stating the three preconditions under which I would accept a candidacy in the next presidential elections: 1) withdrawal of Israeli forces from the entire south of Lebanon and application of the 1949 Lebanese-Israeli armistice convention; 2) withdrawal of Syrian forces from the entire territory of Lebanon; 3) replacement of the Syrian army by a multinational force. I would like to emphasize that it should be *multinational* and not *international*. It should be Arab or European or Euro-Arab, with no Syrian forces of any kind in it. . . .

Lebanon has turned into a football field worked over by both sides. The absurdity is that people applaud whichever side is winning or losing, and no one speaks of Lebanon any more. The chief of state of Lebanon, who was elected under conditions everyone knows, did not open his mouth to protest against the Israeli invasion. The Foreign Affairs Minister did not protest either. No one protested because they were afraid of being killed. . . .

The Russians are very good chess-players. They are letting things run their course. . . .

EIR: It was the Italian Communist paper *L'Unità* that covered you as the candidate of the Vatican. . . .

Edde: That is nice. Doesn't the Vatican have its own press? Why did they address *Unità*? Why don't they print it in their own press? Was the Communist coverage favorable? After all, I am an original candidate. I don't swallow everything. Even President Reagan [made campaign promises]; I impose conditions. I don't want to become President just for the pleasure of it; my father was one. I know how it starts and how it ends in Lebanon. I will accept it only when I know that I will have the means to save the unity of the country and the country's sovereignty.

ITALY

POE: London behind Roberto Calvi case

by Umberto Pascali

On July 7 a brief was filed with a court in Milan, Italy that threatens to blow wide open the control of international terrorism, drug running, and other criminal operations by the British royal family—as *EIR* has contended for years. Fiorella Operto, Secretary-General of Italy's European Labor Party (POE), filed the legal brief documenting the probable role of the British Freemasonry, led by royal family members, in the recent shocking death of Roberto Calvi, head of the Banco Ambrosiano and member of the Italian lodge "Propaganda-2." Calvi's body was found hanging from Blackfriars Bridge in London on June 18.

Since the middle 1970s, the POE—collaborators of *EIR* founder Lyndon LaRouche—has established itself as a special kind of authority on terrorism in Italy. In a series of dossiers and legal briefs, the party of Fiorella Operto exposed and demanded the dismantling of the *command center* of terrorism. The POE's method of "striking at the head of the beast" contributed to the success of Italian authorities in tracking down the P-2 lodge as the source of repeated massacres and attempted coups, and in such anti-terror operations as the Jan. 24 rescue of Gen. James Lee Dozier.

Since Calvi's death, the British Royal Family, government, and press have attempted to cover up what is now emerging in the major Italian press: evidence that Calvi was murdered to prevent him from revealing the central role of the Grand Mother Lodge of London (led by the Queen's cousin, the Duke of Kent) and the City of London in running political and financial operations to control and destroy national governments.

The Milan daily *Il Giorno* reported July 11 that British Prime Minister Margaret Thatcher met with Italian Interior Minister Virginio Rognoni while in Rome the week of July 5 to discuss the Calvi case, and that Rognoni had told Thatcher he wanted London to stop attempting to thwart the Italian investigation of the case.

Corriere della Sera, a Milan paper, stated July 13 that "certain interests" want to shift the blame in the Calvi case from the role of the Grand Masonic Lodge and the City of London onto Italian institutions. Italian author-



Fiorella Operto (right)

NSIPS

ities have been requesting the aid of British authorities in investigating the London role for the past month. This shift of responsibility was intended, the paper stated, to use the Calvi affair to weaken the Italian government, just as the first explosion of the Propaganda-2 scandal brought down the Forlani government in May 1981.

In response to the building exposure of the case, Milan Judge Dell'Osso has issued warrants for suspects in the death of Calvi's secretary, originally ruled a suicide, who "fell" out a window at the same time Calvi died in London.

In London, the Duke of Kent's Grand Mother Lodge is not indifferent to the efforts to bring the investigation home there. Sources report that at the last meeting of the Lodge, several prominent members did not attend, and the Duke ran a "blitz investigation" of his lodge which concluded that Calvi and the P-2 had no connections to London. Yet Italian magistrates have in hand confessions by Calvi which confirm that connection.

Fiorella Operto has stressed to journalists that an attempt may be underway to interfere with the actions of the court, as has been done when the POE has presented previously suppressed, but irrefutable testimony to the courts in the past. In 1977, she filed a brief on Prof. Francesco Alberoni, the suspected creator of the terrorist Red Brigades, which detailed the responsibility of leaders of the Italian Socialist Party in that operation. The presiding magistrate in the case, Emilio Alessandrini, who was also investigating money flows at the Ambrosiano Bank, was subsequently killed by terrorists.

The day after Operto filed the POE Calvi brief, the Milan court, known for its determined investigations into P-2, had its chief attorney suspended. The General Attorney retired at the same time, and the magistrates were unable to take their places in the court.

The following is an interview conducted with POE Secretary-General Fiorella Operto by EIR Wiesbaden correspondent Umberto Pascali, after she submitted a legal brief concerning the death of banker Roberto Calvi to the Milan court July 7.

EIR: Your brief requests an urgent investigation of the United Grand Lodge of the Duke of Kent in connection with the violent death in London of Roberto Calvi. What is your aim?

Operto: I presented the brief because, although the Italian authorities have done a splendid job against the Mafia, terrorism, and drug trafficking, the command center that is conducting the destabilization against Italy and other nations, has yet to be exposed and dismantled. With the Calvi case, this problem of not hitting at the center of the operations became even more apparent.

As we have documented in the brief, what emerged is that this center must be in London. But if you look at the British press, or you ask some of the British authorities involved in the investigation, or follow the coverage of the larger portion of the international media linked to London, you see that the word London is scarcely mentioned, and of course the name of the United Grand Lodge does not even appear. On July 7, Prime Minister Thatcher was sent to Italy to discuss how to deal with this scandal. One of my collaborators, Leonardo Servadio [EIR's Rome Bureau Chief], asked Mrs. Thatcher at her press conference if that were why she was here. The British journalists could not control themselves when the Duke of Kent was mentioned. For them, the British Royal Family is untouchable, no matter what crimes it may be involved in.

Thatcher lied when she said she was not going to discuss Calvi. Even the July 11 London *Observer* was forced to admit that Thatcher had lied in substance in answering Servadio, who used the contents of our brief. The *Observer* recognized that "the highest political levels are pressuring for a verdict of suicide and to close the Calvi file," and in fact that Scotland Yard is following instructions closely. One month after the body of Calvi was found, they still refuse to give any serious investigative material to the Italian authorities. Many magistrates and police officers here are saying openly that London is covering for unnameable conspiracies.

EIR: What do you think London's plan is?

Operto: You can track directly to London the command chain of the Mafia and the most important operations carried out, politically and financially, against the nation of Italy. At this point, it is very well known, for example, what Winston Churchill did to ensure that Mussolini came to power in Italy. It is also known that the "antifascist" Churchill remained in contact with Mussolini until the last moments of the *Duce's* life. Mussolini was killed in the way he was in order to cover for the disappearance of explosive documents incriminating Churchill and others in London, which Mussolini was carrying with him. The story of the Mussolini bag looks, in a certain sense, like the one of the Calvi bag. The "super-efficient" Scotland Yard have not yet been able to find what Calvi

was carrying with him, and now they are saying that no bag existed.

EIR: You are accusing the Duke of Kent of direct involvement in the case.

Operto: Yes, we believe that it is finally time to investigate this gentleman. British Masonry, besides the kooky, macabre elements (which seem very attractive to the British oligarchy), is a political instrument. It is a gigantic network reaching into almost every country, and it is used to force certain policies on those countries. The Duke of Kent was, and very likely still is, the protector of Licio Gelli and the real controller of P-2, the organization that tried for more than 10 years to subvert the Italian republic. Was Edward of Kent ever investigated? No. Why not? It is time this impunity is dropped. The Grand Lodge of Kent, and you should note that it is known as the Grand Mother, controls the City of London, which means very large portions of the international financial system. Italian police know that the City is the international center for laundering dirty money. . . .

EIR: Why do you think these oligarchic centers in London are trying so hard to dismantle Italy?

Operto: This is, from their standpoint, a “geopolitical” question, centering on the historical importance of the Mediterranean. But the primary reason is the presence of the Vatican in Italy.

The British oligarchy considers the Vatican the institution it must destroy. It is their most important enemy, because of the pro-development policy of the Catholic Church.

If you read the British press, you see that in the Calvi case, they refrained from asking whom Calvi met with in London. They concentrated on the Vatican. The way in which the question of the Ambrosiano bank was handled was: how can we provoke a financial bankruptcy of the Vatican? This has nothing to do with the head of the IOR [Institute of Religious Works, the Vatican bank], Msgr. Paul Marcinkus, and his several financial operations, but it has a great deal to do with the financial reorganization that John Paul II is determined to carry out inside the Vatican. The British want to prevent this reorganization. And this has even more to do with the determination of the Pope to establish the concrete basis of a new world economic order: not the one sponsored by [Club of Rome founder] Aurelio Peccei, and the various cannibals at Sussex University, but a plan to restart the real economy in the developed and developing sector. This is the supreme threat to the British oligarchy. This is why the campaign on the “Vatican financial scandal” was accompanied by an even more vicious threat against the Pope personally and politically. We have to ask if this is a campaign that precedes an even more serious threat to the Pope’s life.

Many have said that the manner in which Calvi was killed was a Masonic warning, a warning against those who are abandoning the “protection” of the Grand Mother Lodge, a bloody warning to attempt to save a monstrous financial system of usury that is now threatening the very existence of civilization.

Documentation

‘Urgent to investigate the Grand Mother Lodge’

Excerpts from and paraphrases of sections of the brief filed by the Partito Operaio Europeo (POE) in Milan on July 7 follow. Such a brief, termed an esposto, is a legal document which, under Italian law, can be presented to the courts by any citizen who may in this manner further justice. It does not constitute formal charges, but can lead to opening investigations as to whether any crime has been committed.

“Fiorella Operto, as General-Secretary of the POE, brings to the attention of the Milan attorney some facts related to the inquiry on the escape and violent death of banker Roberto Calvi, in order to show the role that British Masonry and, in particular, the leaders of the United Grand Lodge, alias Grand Mother Lodge of London, had in the violent death of the banker and in the destabilization of the institutions of the Italian republic. . . .

“The investigations into the Italian Masonic Lodge Propaganda-2 can and must be analyzed in the context of these new facts, through which it may be possible to hypothesize that the leaders of the P-2 were operating against the institutions of the republic, at an international level through evident links with foreign Masonic organizations, [and] above all that P-2 is a direct outlet of the London Lodge. . . .

“1) Although many newspapers, magazines, and media have explicitly reported the thesis that banker Roberto Calvi had been killed following orders of the Grand Mother Lodge of London, until now no investigations have been initiated in this direction.

“Banker Roberto Calvi confessed last year to Milan Judge Guido Viola that he was a member of the London Masonic lodge. ‘I am a member of the Grand Mother Lodge,’ Calvi declared, ‘because Gelli [the Venerable Master of P-2] and [Umberto] Ortolani [who P-2 associates boast “owns Uruguay” through his BAFISUD bank there] convinced me to become one. On the other side, if I had disobeyed the orders of the Lodge, I couldn’t have conducted business in the City of London.’ Although Calvi was a member of the Lodge, he was also terrorized by it. When some members of the Parliamentary Com-

mittee of Investigation on P-2 asked him explicitly to reveal the name of the lodge of which he was a member, Calvi answered, 'I cannot say anything because it is forbidden to me. I have received death threats for years. I don't want to end up dead.'

"From these declarations one can assume that Calvi was aware of: a) the willingness and capability of the London Lodge to kill him; b) the fact that he could be personally threatened by death by such a Lodge; c) the fact that such a Lodge had strong control over the banking and other activities of the most important British financial center. . . .

"3) From what appears to us, until now there has been no deep investigation of the contacts between the leaders of P-2, Licio Gelli and Umberto Ortolani, and the leadership of the London Lodge. According to what has been reported by many media and books, the career of Gelli was pushed by the Grand Master of the Scottish Rite [and head of the London Lodge] the Duke of Kent, cousin of the Queen of England. Gelli and Kent would be linked by personal friendship. . . .

"High-level leaders of Italian Masonry, during the P-2 scandal, revealed that the then-Grand Master of Italian Masonry, Lino Salvini, justified the rapid rise of Gelli . . . and even drastic changes in the 'Masonic rules' in order to promote Gelli among the other Masonic leaders, with the fact that support for the head of P-2 was the only way to get the recognition of the Grand Lodge of London. Several witnesses interrogated by the Parliamentary Committee on P-2 declared that Gelli told them several times that 'behind P-2 is the financial power of the British crown and the Dutch crown.'

"4) Many newspapers connected the escape and violent death of Calvi to the existence in the City of London of an illegal international center specializing in laundering dirty money.

"Italian police, in the context of the investigations of Calvi's death, asked the British police to confirm the existence of such a center, which would be the direct continuation of the so-called instant banks of Mafia boss Pierluigi Torri. . . . Such banks were also linked to the head of U.S. organized crime, Meyer Lansky. Torri's money was then used, as police have discovered, to finance terrorism all over Europe. Torri's banks were frequented regularly by the brother of terrorist Pierluigi Concutelli, the head of Ordine Nuovo who killed Rome Judge Vittorio Occorsio in an ambush in 1976, the same day on which Occorsio had obtained conclusive evidence on the huge flow of money passing through the hands of Licio Gelli."

The brief goes into detail about a group of Mafiosi and criminals, for example Danilo Abbruciati, a known Rome-based gangster, who tried two months ago to kill the Vice-President of the Ambrosiano, Roberto Rosone. Abbruciati was an accomplice of Torri in London and

specialized in drug traffic in Rome. He was part of the so-called Clan of Marseilles, which included several criminals from the French city and involved in the "French Connection" drug traffic. This gang was responsible for several kidnappings in the Italian capital and has been identified as "Kidnapping, Inc." The real head of the gang was a high-level leader of P-2 and personal friend of Gelli, Gianantonio Minghelli, who used to take care of the financial aspects of the operation: the recycling of money from the kidnappings. The brief also establishes factual links between the gang and the Mafia families Gambiono, Spatola, and Zerillo.

The brief also repeated the story that appeared in an Italian paper and was confirmed by other sources in Rome, about the secret Masonic Lodge, the "Blackfriars" of Edinburgh. The Lodge is known by insiders as the "British P-2." It is likely Calvi may have decided to leave for South America and for this would have asked the aid of the Blackfriars, realizing too late that they wanted to kill him. According to some sources, the Blackfriars are the executors of the death sentences handed down by what one source called "the secret council of the Queen." This would continue the practice of the republic of Venice, where the Council of Ten decided secretly to condemn to death persons considered "dangerous." The sentences were executed by killers with black hoods and could be arranged as open assassination, suicides, or accidents. The brief continues:

"On the basis of such material and other material the POE will supply, it can be hypothesized that the following crimes were committed by the leaders of the Grand Mother Lodge: 1) Political conspiracy through association, Article 305 of the Penal Code; 2) attempts against the constitutional bodies, Article 289; 3) political and military espionage, Article 257; 4) substitution of money and valuables from robberies and kidnappings, Article 648; and 5) criminal association further aggravated.

"In addition, on the basis of Article 7 of the Penal Code [that Italian and foreign citizens must be pursued, even if the above-mentioned crimes are committed abroad] Italian justice has a full right to operate. . . .

"The POE requests the opening of a legal proceeding on the deeds of the United Grand Lodge of London. . . . The POE believes that the Grand Mother Lodge, through secret organizations like P-2 and the financial control of certain important banks such as the Ambrosiano, did operate against the republic's institutions. Such a lodge appears to be the center of the recycling of funds from the drug traffic in our country and to have financed terrorism. It is clear that investigations into such a nexus of 'unnameable' interests, reaching to the British Royal Family, presents difficulties. But, given that the Grand Lodge of London appears to be the top center of financial, political, and terrorist destabilizations of Italy, we demand you proceed with the utmost urgency."

PAN party launches post-election 'movement of national insurgency'

by Timothy Rush

The affiliate of the fascist international in Mexico, the National Action Party (PAN), has declared itself in a state of insurrection against the republican constitutional order of the nation, following national elections July 4.

Alleging fraudulent voting, PAN presidential candidate Pablo Emilio Madero declared July 13 that his party was not recognizing the victory of PRI party candidate Miguel de la Madrid for president, despite an overwhelming 75 percent of the vote for the PRI, against 15 percent for the PAN. The same day Madero and the president of the Party, Jesús González Schmall, mobilized the party for a "movement of civic insurgency," contesting local races in at least eight states throughout the nation, as well as several dozen races for federal deputy and senator.

Violence erupted in the northwest agricultural state of Sonora. One thousand PAN militants swept into Caborca, a large town near the U.S.-Mexico border, on July 12, and occupied the municipal buildings. Two days later a group of PANistas burned the local office of the Federal Elections Commission to the ground, vandalized the downtown commercial district, and stoned the local police station. Sonora state security police report stashes of molotov cocktails and other weapons in PAN party offices across the state. Violence and threats of violence also characterized PAN actions in the states of Baja California, Chihuahua, Coahuila, Nuevo León, Puebla, Yucatán, Veracruz, Hidalgo, and Tlaxcala.

The left-terrorist PRT party, which gained a 2 percent (450,000 votes) toehold in the elections, has officially joined the PAN protests in Monterrey and Sonora. A number of other small opposition parties are doing the same—though not the largest left party, the PSUM.

What is the PAN?

The conventional description of the PAN is as a "right-wing Catholic party." Its roots and its current deployment are much more insidious. The Mexican Labor Party (PLM), the third largest electoral force in Sonora after the PRI party and the PAN, demanded July 14 that the PAN be outlawed as an explicitly fascist party, run by foreign powers, now in revolt against the constituted constitutional order. PRI Undersecretary of Information Hector Murillo Cruz used the same sort of

formulation the day before: the PAN leaders "are attempting to disorient public opinion, proclaiming victories when it is perfectly clear that they did not win. It is a Nazi-fascist attitude, in the service of anti-national oligarchic interests."

The key to the current PAN rampage is a semi-secret planning session held in Guadalajara in mid-January 1982, called "Atalaya II." (See *EIR*, Feb. 16, 1982.) The meeting brought together a top echelon of European oligarchs connected to Pan-European Union (Hapsburg) circles, with Mexican business associates. Prince Nicholas Lobkowitz, an intimate of the Hapsburgs and Franz-Joseph Strauss, directed the European input; the Mexican side was run by Agustín Legoretta of the Swiss-controlled Banamex banking conglomerate.

It was at this meeting that the final details were worked out to force through a maxi-devaluation of the Mexican peso, subsequently accomplished on Feb. 17. At the same meeting, the orders went out to consolidate a fascist "middle-class movement" in response to the deliberately triggered economic collapse.

The PAN was the ideal vehicle. It had begun the year before to experiment with "civic insurgency" on the local level, following the model of the "pots-and-pans" movement of fascist-leaning Chilean middle class elements in the 1971-73 period. The most successful Mexican test mobilization was in Coahuila state, where an escalating series of protests culminated in the complete shut-down for a day of the commercial district of Coahuila's transportation hub, Torreón.

After the Atalaya meeting, PAN presidential candidate Pablo Emilio Madero declared officially that the party's ideology was "neither capitalist nor socialist, but solidarist." That was a clear reference to the European oligarchical control over the party, solidarism being the Jesuit-shaped "third way" ideology forged at the end of the 19th century in Europe.

The *Economist* of London gloated July 10 that the operation had worked. The PAN vote in the July 4 elections is the reflection of "a middle class that matters," it proclaimed. The magazine hastened to sketch the next phase: "Mexico's capacity for violence is not to be doubted. Its revolution of 1911 left one person in 15 dead or wounded. Its present homicide rate is second to

none in the world. Will the lid blow?"

The principal point of reference for the current PAN operation is the bloody insurrection of the 1920s and 1930s known as the Cristero Revolt. Cristero bands, made up largely of backward peasants manipulated by Jesuit priests and funded through U.S. and European conduits, declared war on Mexico's efforts to build a modern industrial republic. The rebellion eventually required a full campaign by the Mexican army before it was suppressed.

In the late 1930s, fascist organizers linked to Franco's Spanish Falange networks, then spreading throughout Ibero-America, pulled together the remnants of the Cristero movement as one of the core elements when the PAN was founded as the Falangist party of Mexico.

Oilman William Buckley Sr., who had lost the absolute oil rights he coveted in Mexico as a result of the Mexican Revolution, was one of the principal financiers of the Cristero rebellion. Today, Buckley's nominally Catholic offspring form a crucial U.S. triangulation point for the "PAN-European" connection. One of the most important points on the European side is the European Center for Documentation and Information in Madrid, a Hapsburg deployment center which is a regular stopping point for the current generation of Buckleys and such PAN figures as industrialist Andrés Marcelo Sada of Monterrey.

Terrorism, drug-running, and flight capital

In 1976, in reply to charges from the Mexican Labor Party, top PAN ideologue José Angel Conchello admitted that in fact the party's economic thinking was Nazi. He stated publicly that his thinking followed from that of Hitler's finance minister, Hjalmar Schacht, and that he was proud of it.

The PLM declaration July 14, calling for outlawing the PAN, highlighted the following additional PAN connections:

- The party is deeply complicit with drug-running and terrorist bands along the U.S.-Mexico border, one of its centers of strength. A PAN candidate for mayor in the border town of Nogales was disbarred from the elections three weeks before the voting when it was discovered that he had a police record for running arms across the border and collaborating with the terrorist 23rd of September League.

In the same area the PAN works with the Mafia networks of Johnny Alessio, attempting to bring back legalized gambling as a cover for drug and other organized-crime activity.

- Close PAN collaboration with the so-called "Blue Army of Fatima" operations puts the PAN in the orbit of those who ran the two unsuccessful assassination attempts against the Pope in the past 14 months.

- PAN-affiliated oligarchic business circles are at the center of the flight-capital operations which felled the Mexican peso in February, and after it, the rest of the Mexican economy.

The British-born correspondent for the *New York Times* in Mexico, Alan Riding, underscored in his election report July 11, that "some fresh political response" from the middle classes—which he notes turned out in record numbers to back the PAN candidate—"will be forthcoming." "Certainly, a populist approach by the incoming de la Madrid administration would aggravate middle-class nervousness and prompt a new flight of capital out of the country. The Mexican middle class has shown that when it can't make itself heard politically, it can at least make itself heard in the economy," Riding threatened.

- There are extensive PAN ties to the environmentalist movement, especially the terrorist-linked "left" PSD party. Family business interests of PAN presidential standard-bearer Madero are managed by the PSD's business consulting firm Sintemex. Madero himself, two weeks before the elections, delivered a slashing attack on Mexico's nuclear program as "the worst alternative" the country could choose for energy diversification.

The Sonora case

But the PAN did not emerge as the unquestioned "second force" in the country after these elections just on the basis of "middle-class mobilization." Substantial help came from factions of the PRI party itself, factions committed to the same vision of a re-feudalized Malthusian order.

District PRI bosses working for the PRI mayor of Mexico City, Carlos Hank González, systematically took down all election posters for the PRI, the PLM, and other parties—except the PAN's, which were left intact.

The place most graphically demonstrating the obscene alliance of PRI factions with the PAN was Sonora, where the PAN has had a substantial base for years. Their goal was to undermine PRI governor Samuel Ocaña, a national leader of the PRI pro-growth faction, who has championed nuclear development, large irrigation works, and high-technology industrial development. Banking and landowning interests nominally identified with the PRI, such as the Valenzuela and Pavlovich families, poured millions of pesos into putting the PAN on top in the state. The most flagrant example: Alicia Arellano de Pavlovich, PRI mayor of the state capital, Hermosillo. It is widely acknowledged that Arellano not only voted personally for the PAN but gave orders to her local PRI machine to do likewise.

The strategy worked. On voting day, PAN "campaign workers" physically took charge of many polling booths, threatening and turning away PRI voters.

Aspen's Ibero-American strategy

Elsa Ennis describes the institute's latest blueprint for ending national sovereignty and modernization on the continent.

The Aspen Institute last month released a 100-page report titled "Governance in the Western Hemisphere." The document, now circulating among Latin American governments and ambassadors to the Organization of American States (OAS) in Washington, is one of the most elaborate blueprints ever produced for the destruction of the role that nation-states have played in the continent's industrial development. Latin America, Aspen says, is to be given the "Iran treatment."

It was the September 1975 Aspen Institute "Iran: Past, Present and Future" conference in Persepolis, Iran which approved the plan to oust the Shah and use Muslim Brotherhood cultist Ayatollah Khomeini to reverse the industrialization of that developing nation. Even more than Iran or any other sector of the Third World, Latin America is too modernized and industrial-

ized, Aspen complains; therefore the continent's future will be "marked by population pressures, famine, ethnic and religious conflicts, territorial disputes and irredentist causes," the 21 members of the task force which wrote the study conclude.

The report summarizes two years of deliberations under the chairmanship of Viron Vaky, Assistant Secretary of State for Inter-American Affairs during the Carter administration.

"The clue to building a New International Order that works is to make sure we know why the several national orders are falling down on the job of governance," says Aspen leader Harlan Cleveland in a paper setting policy-guidelines for the study. "The evidence is now overwhelming that every national government is beyond its depth . . . traditional institutions of national government

Who's who on Aspen's steering committee

The steering committee of the Aspen Institute's "Governance in the Western Hemisphere" workshop includes:

Viron Vaky, Chairman. Former Assistant Secretary of State for Inter-American Affairs. Georgetown University. Member of the Council on Foreign Relations.

Nicolas Ardito Barletta. Vice-President of the World Bank for Latin America and the Caribbean.

Rodrigo Botero Montoya. Former Minister of Finance of Colombia. Key member of the Brandt Commission in Latin America.

Antonio Casas. Director of Petróleos de Venezuela.

Jorge Domínguez. Center for International Affairs,

Harvard University.

Gonzalo Facío. Former Foreign Minister of Costa Rica. Leader of the Socialist International.

John Gallagher. Former Vice-President of Sears Roebuck, a corporation reputed to have played a key role in touching off the 1968 student destabilization of Mexico.

Augustin S. Hart. Vice Chairman Emeritus of Quaker Oats Company.

Felipe Herrera. President of the core "one-worldist" United Nations think tank, UNITAR. Brandt Commission member. Former President of the Inter-American Development Bank.

Peter T. Jones. General Counsel, Levi Strauss and Company. Chairman of the Inter-American Foundation, a funder of environmentalist and terrorist groups in Latin America.

Joseph John Jova. President of Meridian House International, a key outpost of British intelligence for Latin America operations. Former U.S. ambassador to Mexico, Honduras, and the OAS. Knight of Malta.

Neville Linton. Christian Action for Development

are badly designed for the kind of problems they now face." National governments are too concerned with uplifting their population's standards of living, with modernization and industrial development, Cleveland thinks. Therefore they have to be destroyed to give room to a feudal, zero-growth "New International Order" of powerless, backward regional groups ruled by British-run supranational agencies.

The continent's most industrialized countries, such as Mexico, Argentina and Brazil, are described pointedly as "middle powers willing to act locally to advance national interests." Argentina's resistance to British colonial designs "revealed the persistence and depth of such concepts as nationalism, '*Hispanidad*,' fears of dependency, and competitive feelings between the developed and the developing worlds," the paper says.

A strategy for destruction

Among the report's "Iranization" formulas are:

- **Engulf the continent in endless disputes over territorial claims.** Aspen calls special attention to such conflicts as the Argentina-Chile fight over the Beagle Islands; the territorial dispute between Peru, Chile, and Bolivia which led to the nineteenth century War of the Pacific; the border fight between El Salvador and Honduras which in 1969 led to what Aspen circles call a "population war" between those two countries. Guatemala's uneasiness over Belize's role in the volatile Central America region is the subject of detailed profil-

ing for similar future provocations.

These disputes, the report says, should not be left to national governments but to a "poll of distinguished statesmen," that is, policy-makers whom Aspen would draw from different countries.

- **Set up supranational institutions to control the "mass migrations" and refugee problems which will emerge from territorial and other wars.** Aspen proposes an "Inter-American Commission on Refugees." This commission would be a regional bridge to the British-controlled United Nations High Commission on Refugees (UNHCR), intervening in such cases as the migration of Guatemalan refugees fleeing civil war in their country into Mexico. The government of Mexico has refused to let the UNHCR and similar institutions interfere with its national sovereignty in this matter.

- **Balkanize the continent by promoting resistance among "indigenous" groups to national integration.** Aspen's allies have spent millions of dollars to create synthetic terrorist groups and send them on anti-nationalist rampages (see *EIR*, July 20). Included among the report's task force are members of the board of directors of the Inter-American Foundation, a publicly funded U.S. organization which since 1971 has financed environmentalist groups, would-be Ayatollahs among Indian tribes, and radical priests of the Theology of Liberation current in the Catholic Church.

- **Dismantle the industrial capacity of the continent.** Aspen demands that all countries join the General

in the Caribbean.

William Moody. Director of International Programs for the Rockefeller Brothers Fund.

Gert Rosenthal. Former Minister of Planning of Guatemala. Head of the Mexico Office of the U.N. Economic Commission for Latin America.

Richard Rubottom. Former Assistant Secretary of State for Inter-American Affairs. Southern Methodist University.

Javier Silva Ruete. Former Finance Minister of Peru.

L. Ronald Scheman. Assistant Secretary for Management in the OAS. President of the Pan-American Foundation.

Stephen P. Strickland. Vice-President of the Aspen Institute. Project director of the workshop.

Sidney Weintraub. Former Deputy Assistant Secretary of State for Economic Affairs. Trade-war expert based at the University of Texas.

The workshop was financed by the Rockefeller Brothers Fund, the Owens Foundation of Dallas, the Quaker Oats Company, Sears Roebuck, Levi Strauss,

IBM World Trade Americas/Far East Corporation, the National Bank of Washington, and Marshall B. Coyne.

The policy guidelines for the Aspen workshop were formulated by Harlan Cleveland, former U.S. ambassador to NATO. A member of the U.S. Association for the Club of Rome, the Aspen Institute, and the Atlantic Council, NATO's main ideological arm in the United States, Cleveland teaches at the Hubert Humphrey Institute of Public Affairs.

In a paper "The Governing of International Community," published by the Aspen Institute in March 1981, he wrote: "National government agencies in the main still are not organized to handle problems that 'cut across' disciplines, specialties and bureaucracies, to heighten decision making. . . . There is a place for extranational institutions—with a wider reach and stronger powers than a U.N. style of governments, yet not a world government from which there is no earthly appeal. . . . A pluralistic world order will be made up of regional and functional communities of the concerned. . . ."

Agreement on Trade and Tariffs (GATT), the main vehicle for imposition of British "free trade." The idea is to flood the continent with industrial goods produced in the advanced sector and force them to return to an emphasis on raw-materials production.

• **Halt transfers of advanced technologies to the continent.** Under the excuse of controlling the proliferation of nuclear weapons, Aspen's policy-makers propose a series of complicated mechanisms and "safeguards" which would make nuclear-energy development in these nations virtually impossible. Under this guise, Cuba, Argentina, and Chile are ordered to join the Tlateloclo Treaty on non-proliferation while Brazil, a signer, is told to comply with it.

• **Stall industrial development through so-called international anti-pollution rules.** On the model of Aspen's deployment of the environmentalist movement to stop nuclear energy development in the United States, the workshop now proposes that inter-American agencies in the OAS undertake legal battles against industrial "pollution" in Latin America. Environmental problems on the U.S.-Mexico border are presented as an example of where this apparatus would intervene.

The anglophilic Aspen strategists welcome the collapse of U.S. influence in the continent after the Malvinas war. They recognize that Ibero-American governments and economic leaders are looking for new workable institutions to defend the continent from outside aggression and to further industrial development. Now Aspen hopes to direct this reorganization process.

Aspen's plots against Latin America had the unrestricted logistical support of the head of the OAS, Alejandro Orfila, as Viron Vaky notes in his introduction to the study. It is through ideological control of Orfila that Aspen hopes to take control of the OAS, the most important representative body for the continent.

With the United States discredited, Aspen proposes to have the British protectorate of Canada playing a greater role in inter-American affairs. Contrary to U.S. obsessions with Soviet expansion in the continent, the report notes, Canada has wisely won sympathies in the continent by befriending both "left" countries like Cuba and "rightist" ones like Haiti.

Using Canada as a channel of British influence in the continent, however, would require some structural changes in the OAS. Since it is not a sovereign nation but a dependency of the British crown, Canada has never been admitted to the OAS, where it only holds the status of "observer." Aspen calls on the OAS to admit all countries in the hemisphere as members. The institute also hopes to deploy the English-speaking countries of the Caribbean, some of which are not currently members of the OAS, against the Ibero-American nations which have traditionally dominated the OAS.

Interview: Spain's Defense Minister

'We must command our territory'



Spain's precipitous decision last year to enter the North Atlantic Treaty Organization (NATO)—a decision entered into after intense international pressure mainly from Britain and the United States, on the one hand, and internal pressure to appease the coup plotters that still threaten the future of the country, on the other—has now led to predictable complications. Some of the most important of these are discussed in the interview below with Spanish Defense Minister Alberto Oliart.

One of the most acute and potentially disastrous complications revolves around the issue of the NATO command under which Spain would be integrated. Will Spain have a unified command or, as currently looks more likely, will the NATO powers continue to insist on a humiliating division of the country between the English command for the nation's Atlantic side, and a Neapolitan command for the Mediterranean half? This issue has led to a temporary halt in the country's negotiations with the NATO allies.

The question of Gibraltar is thus placed on center stage. As NATO chief Joseph Luns explained in an interview to the Spanish daily *Ya* on June 20, it is the current control of Gibraltar by the British which makes appropriate the integration of Atlantic Spain into the British NATO command at Norfolk. Particularly after the Malvinas affair, the mere proposal that Spanish generals be forced to operate on Spanish territory (Gibraltar) under British command is a provocation of such a high order that it guarantees disorder and possibly worse among the Spanish officer corps.

There is no doubt, therefore, of the correctness of Defense Minister Oliart's statement that Spain must have sole and undivided control over the command of her territory, in which he emphatically includes Gibraltar. What is involved is a fundamental question of national sovereignty, and one of high emotional content at that, which no Spanish government would dare disregard with impunity. The internal pressure, from the military point of view, is compounded by the expected landslide victory of the Spanish Socialists in the early legislative elections

scheduled for this fall. The most reactionary, not to say Falangist, elements in the military are already speaking of the necessity of going so far as to promote another coup d'état to stop what (correctly, as it happens), they view as a disaster for the country.

The most pro-development forces in Spain, however, correctly view such a Falangist military coup as an equivalent catastrophe. In this situation, the NATO-sovereignty issue further fans the flames.

Defense Minister Oliart is also quite explicit on his lack of support for the Luns thesis promoting NATO out-of-area deployments. Here too the Spanish government is on a decidedly different track from the currently prevailing NATO posture, which Luns reiterated in his cited interview and which was made official during the June NATO summit in Brussels at British insistence.

This interview was conducted on June 24 in Madrid by *EIR*'s European Editor, Vivian Zoakos, and *EIR* Paris Bureau Chief Katherine Kanter.

EIR: After the Malvinas crisis, does Spain plan to integrate itself militarily into NATO, or to play a more limited role like that of France?

Oliart: We plan integration into the military organization of NATO in a way which of course must be worked out with the actual components of the alliance; but we do not intend to remain in a position like that of France.

EIR: [NATO Secretary-General] Joseph Luns in an interview with the Madrid daily newspaper *Ya* on June 20 speaks of the possibility of interventions into the Third World by NATO members as something perfectly natural in the future. What do you think?

Oliart: I have not read this interview with Luns. I imagine that, given the special nature of the NATO alliance, and the independence maintained by the countries within the alliance, to determine their own foreign and military policy, that Secretary-General Luns has probably simply justified the fact that some countries within the alliance have intervened, obviously, in the past and at certain points, in various Third World areas like Africa.

I insist that this corresponds to the sovereign decision of each of the member countries of NATO to act in matters of foreign policy or military policy as they think opportune, without prejudice to the ultimate aim of the alliance, which is the defense of territory vital in interest to all the alliance members, which includes Spain today. As members of the Atlantic alliance, we have committed ourselves to the sphere geographically within the terms of the treaty, not to any other. This does not affect our decision to continue our foreign policy just as we consider it should be carried forward, as a sovereign and independent nation.

EIR: What do you think of the proposal that Gibraltar could be a NATO base jointly governed by Spain and Great Britain?

Oliart: We have clearly put forward the fact that it is a priority, a vital strategic interest for our nation. I mean that zone defined by the points of the Balearic Islands, the Straits of Gibraltar, the Canaries. We have clearly expressed the concept that in this zone, the Spanish command is not subject to debate.

EIR: A debate is presently raging in NATO about the future of armaments: Whether one should opt for conventional forces, or else develop, as the Soviets are now doing, new strategic arms based on space-age warfare—laser beam weapons and so on. What do you think, taking into account the very distinct implications of the two alternatives in terms of world economic growth, about this debate?

Oliart: In my country's situation, at our industrial, economic, and technological level, I believe we can develop an army by land, by sea, by air, which in conventional terms will be on a par with the others in the Atlantic alliance. The other arms systems you refer to do not enter the immediate horizon. I do not mean to say that we are not paying careful attention to this advance, nor that we are not gaining the means to handle these technologies in the event we should possess them. However, the present modernization project we have for the armed forces materiel still does not include these levels of high technology, for budget, economic, and technical reasons.

EIR: But on what side do you stand in the debate?

Oliart: It is hard to answer this, but I would say that each country must do the utmost to attain the highest possible defense level. The Atlantic alliance is a defensive alliance, faced with what appeared to be a decisive Soviet menace against Europe in 1945. This potential threat still exists in spite of all the diplomatic, political, and cultural relations between us. I do think therefore that anything those countries in the alliance which can develop the absolutely highest technologies can do to defend the free world, should be done, because this helps to maintain the character of a true shield, which the Atlantic alliance is supposed to be. These countries should develop the type of technology you referred to.

EIR: What do you think about the European Rapid Deployment Force?

Oliart: This already exists. Each country in the alliance has contributed to it. This force is necessary, and Spain is disposed to contribute units, and to discuss the size of the units. This Rapid Deployment Force of the Atlantic alliance of course is not the same as the North American Rapid Deployment Force.

EIR: Could you elaborate a little more on the question of out-of-area deployments?

Oliart: I cannot imagine under what conditions my country could have an interest in intervening militarily in countries which you have called Third World countries, and which are not included in the geographically delimited area of the North Atlantic treaty. For a great many years now, my country has not had an expansionist policy outside its own territory. Spain is concerned and involved in defending and developing its own national territory and population. I do not see reasons why at this point we should find motivations to intervene in other countries.

EIR: In your opinion must the NATO mandate for Spain be under Spanish control or could you accept integration of other commands?

Oliart: More detailed discussion will be required on this topic. But, as you know, Spain is a country between southern Europe and northern Africa. The Straits of Gibraltar are not an abyss separating us from Africa, but rather a means of communication.

Furthermore, we are a nation between the Mediterranean and the Atlantic. This poses so many problems that if you take the NATO commands as they presently stand, you could come up with Naples, just as you could come up with Norfolk. Perhaps the first priority from which we move is a Spanish command, as now already exists. This is justified precisely by the fact of our complex situation, and by the enormous importance, in my eyes, which my country has strategically for NATO as a nation, and as a reserve territory, a last bastion. It is not inconceivable that there must be a single command for this territory which is so special.

EIR: You mean a single Spanish mandate?

Oliart: Yes, naturally. Dependent or integrated of course, as is the English, as is any other mandate, on the alliance as a whole. This is what we plan to discuss with our allies. We wish to see whether this is possible or not. We think that they too must work through the question in depth, i.e., whether, given our complex situation, we must fit into the pre-conceived schemes of NATO, which has been around for 35 years. This alliance was constituted by agreement between the countries which composed it at the time of its creation. But a new piece is entering the alliance, which has its own peculiarities, unlike those of any other European country.

EIR: But will this be a *sine qua non* condition?

Oliart: I would not go so far as to say that it is a *sine qua non* condition, but it is a priority which we want examined very thoroughly indeed.

INDIA

Behind the Khalistan separatist movement

by Thierry Lalevée and Uma Zykovsky

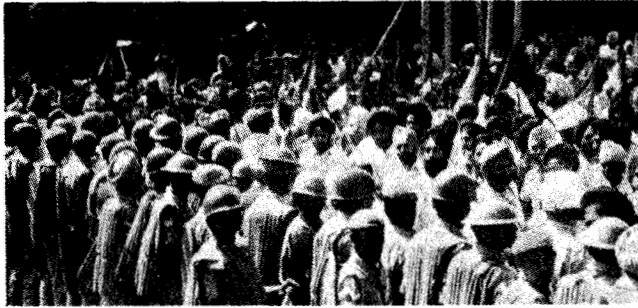
In September 1981, a small band of terrorists hijacked an Indian Airlines aircraft from India to Pakistan, making international headlines as representatives of the obscure "Khalistan" separatist movement. Although no one in India knew much about this group, the Khalistanis, as they call themselves, had taken care to inform the *New York Times* of their goals a few weeks prior to the hijacking.

The *Times* reported that the group demanded Indian recognition of the "nationhood" of the Sikh community and acceptance of their plan to carve a new Khalistani nation out of a big part of north India. There are approximately 16 million Indian Sikhs, a separate religious community which comprises about 2 to 3 percent of the nation's population. The Sikhs share many customs and beliefs with Hinduism and have never expressed a desire to separate from the country. Nevertheless, the Khalistanis, a fundamentalist extreme sect within Sikhism, told the *New York Times* that they will use terrorism, sabotage, and communal rioting to force India to surrender to their demands for a "Sikh homeland." In April this year, the National Council for Khalistan and the Dal Khalsa party, both groupings of Khalistani separatists, systematically provoked Hindu-Sikh riots in the holy city of Amritsar. The riots were triggered with an old British colonial trick: the Khalistanis placed severed cow heads in a Hindu temple, where the cow is considered a sacred animal.

The Indian government reacted swiftly, banning the Khalistanis and clearly expressing what everyone in India thought and saw: First, the Khalistanis have no support for their movement, even in the areas they claim for a homeland; and second, by choosing Pakistani dictator Gen. Ziaul Haq as a "friend" and sparking conflict between Hindus and Sikhs—two communities that have coexisted peacefully for a long time—the Khalistan movement was doing a third party's dirty work.

Made in Britain

There are three levels to any investigation of the Khalistan movement: who is behind it? why? and how is



A 1978 demonstration by Sikh militants in New Delhi.

it organized so effectively that even with virtually no base in India, it is still operating internationally?

Indian government investigations have located the primary bases of operations for the Khalistanis in London, the United States, and Canada. In these three places, the group's main activities are concentrated on pulling in overseas Indians to fund the homeland scheme. As was the case with Muslim fundamentalist operations, it is known that funds and materiel from Great Britain and North America, including guns, are entering India through Sikh religious channels and being hoarded in temples which are off-limits to the police.

By February of this year, no doubts remained for the Indian government that Washington and London were giving shelter to the Khalistan movement. After the Indian government revoked the passport of the movement's London-based leader-in-exile, Jagjit Singh Chauhan, on the grounds that the Khalistan movement was secessionist and terrorist, the Washington-based Heritage Foundation, working through the office of U.S. Senator Jesse Helms and U.S. Undersecretary of State for Security Affairs James Buckley, allowed Chauhan to enter the U.S. anyway and continue organizing for the movement. (See box on page 46 for more on Chauhan.)

During this and other visits, Chauhan was wined and dined around Washington. He reported himself to this news service that a special cell has been set up at Georgetown University's Center for Strategic and International Studies (CSIS) to sell the idea of a separate Khalistan to U.S. policymakers. It is Chauhan's plan "to organize the movement like the Zionist lobby in the United States. We have them as our model."

The Coupland plan

The Khalistan movement and Chauhan are but players in the latest stage of an operation, worked out by the British Foreign Office as early as the first decade of the century, to balkanize India using tensions between India and Pakistan as a trigger. The plot is

known to insiders as the Coupland Plan, which was drawn up in 1942 by a special emissary of the Crown to India, Sir Reginald Coupland. The idea then and the scheme now are basically the same: to break India up into pieces and ensure that the Indian subcontinent, encompassing what is now India, Pakistan, and Bangladesh never becomes a force for peace and development in Asia. Quite the contrary, South Asia's role as a pawn in Anglo-American strategy is merely to weaken the Soviet Union.

To understand the ideological underpinnings of the Khalistan movement, one has to examine the Coupland plan.

The historic British view of India, which has unfortunately been adopted by the United States lock, stock and barrel, is that separatist movements under various guises will dismember the Indian subcontinent. The first such shock was delivered in 1947 with the partition that created India and Pakistan. Now the view is that periodic mini-partitions, with the Indo-Pakistan conflict as a trigger, will finish off the job. British intelligence estimates that by 1984, six or seven pieces of India and Pakistan will come into being, with absolutely no prospects for development.

Coupland wrote in his 1942 report: "India is a geographic unit; it is not divided by such physical barriers as separate nations in Europe. Its unification under British rule has not only made all Indians feel themselves Indians; it has saved India from the fate which political and economic nationalism brought on Europe." This "fate" was the successful industrialization of France, Italy, and Germany, which kept Britain off the continent. Instead, India remained the looting ground for the British oligarchy and became "the jewel of the Empire" precisely because it was converted into a Malthusian hell-hole.

Coupland developed his point further: "The Partition threatens to throw India back to the condition it was in after the breakup of the Moghul Empire, to make another Balkans. This would negate the development of democracy in India. Partition would also prevent a free India from taking its due place in the world as a great Asiatic power; for it would probably mean disruption into several states ranking from Egypt to Siam.

"The British government cannot impose, but it could, at need, propose a settlement. The drawbacks to Partition are the converse of the case of Union and apply to all Indians, not to Muslims only. It would rob India of the supreme, the one unquestioned boon which British rule has given her. *It would convert the whole subcontinent into a complex of rival quasi-national sovereignties, walled off from one another, by political and*

economic frontiers. India in fact would be balkanized and instead of being a peaceful and stable element in the new international structure, it might well become like the Balkans in the past, a breeding ground for world war."

As things stand today, the top three Coupland plan "case studies" have been implemented. First was the bisection of the eastern state of Bengal between India and Pakistan in 1947, and subsequently between India and the new nation of Bangladesh in 1971. Each time Bengal has been cut up, it has been at the cost of millions of lives. Second is the case of the northeastern state of Assam, which for the last three years has been in turmoil, held hostage by a "sons of the soil" movement with separatist overtones. Finally, the latest and possibly most explosive made-in-London scheme to come alive is the Khalistan movement in the northwest state of Punjab, India's bountiful agricultural state. When Khalistani leader-in-exile, Jagjit Singh Chauhan admitted to this news service that the Coupland plan was "good" and reflected the aims of his movement, he gave away his role in the bigger plot. Coupland's primary analysis was that India was a "communal" nation divided on Hindu-Muslim-Sikh lines. He visited the Punjab shortly after the 1940 Lahore conference that called for a separate Muslim state (what became Pakistan) and indicated that the Sikhs would fight "tooth and nail" against the creation of a Muslim nation that divided what this community considered its homeland. This bloodbath occurred as per prediction in 1947, and the seeds of revenge have been kept alive in the Sikh communities living in London and Africa ever since.

Coupland's second manipulation tactic was pitting the notion of a strong federal system against state demands. He pushed for greater local control, charging that in post-Independence India "the crux of the constitutional problem is not in the provinces but at the center . . . whether India remains united or partitioned," and recommended as much decentralization as possible and a constitution similar to that of Switzerland. Today's Khalistanis echo Coupland's calls for decentralization, but the Indian government has held firm on implementing a republican constitution which determines the allocation of resources from the center for the good of the entire nation.

The Khalistan movement was created first in London, and subsequently spread in the United States and Canada. In 1966, the then-finance minister of the state of Punjab, the little-known Dr. Jagjit Singh Chauhan suddenly resigned from office and moved to London. Chauhan told his close lieutenants that he would create the Khalistan movement, and it must be done in Britain first. The target was the wealthy Sikh entrepreneurial community in the Commonwealth. Little is known of his activities in the first years except that in 1971, Chauhan was active in Anglo-American contingency

plans for redividing the subcontinent as a result of the India-Pakistan war. (This war was provoked by Henry Kissinger's backing for a Pakistani military dictatorship that was set on committing genocide against its own people in East Pakistan. India intervened in support of the Bangladesh liberation movement after close to 5 million refugees flooded into India's eastern states seeking refuge from the carnage. At that time, Kissinger vowed that India would be bled to death by the refugees and the crisis in the Bay of Bengal became a flashpoint for superpower crisis. Anglo-American geopolitical strategists sent the Seventh Fleet into the area to back up the Pakistani genocide campaign.)

At that time, Chauhan took out a half-page advertisement in the *New York Times* calling for the creation of Khalistan. To this day, Chauhan traces his relationship to that period of chaos, indicating that Henry Kissinger promised financial support to his movement and to establishment of Khalistan Airlines, which is now situated in the same building as the notorious drug-smuggling Pakistan International Airlines.

Jagjit Singh Chauhan: profile of a British agent

EIR had the opportunity to talk recently in Europe with Dr. Jagjit Singh Chauhan, the self-appointed "leader" of the Khalistan movement. Chauhan operates out of London, but spends most of his time traveling in Europe and North America propagandizing and raising funds on behalf of the Khalistan separatist movement. Although he is very murky about his doings, particularly during the past decade, what he does admit to is revealing.

The picture that emerges is not of a "leader" of a mass political movement of Indians of the Sikh religious minority, but of an agent of a network of intelligence operations which eventually traces back to the British Secret Intelligence Service, the mother of all separatist movements in India since the days of the British Raj.

Chauhan talked to *EIR* just after returning to London from Vienna. There are no Sikhs in Vienna—he was meeting there with the Socialist International. He described the previous secretary-general of the Socialist International for ten years as an "old friend" and said that the Khalistan movement "should be

The next phase of the operation was launched in 1977, when Mrs. Gandhi's government was ousted and an unstable coalition named the Janata Party took office in India. This coincided with the coup d'etat by General Ziaul Haq in Pakistan and the Kissinger-ordered hanging of the legitimate Prime Minister, Zulfikar Ali Bhutto. This period of instability on the subcontinent was used by London and Washington to send Sikhs into the Punjab to set up terrorist and sabotage capabilities run out of the temples which are off limits to police.

Sikh activities in the U.S.A.

In the United States, the prominent Sikh, Ganga Singh Dhillon launched a propaganda drive for U.S. Congressional support of the movement. Dhillon is married to the daughter of a wealthy East Africa-based millionaire of Indian origin. Dhillon is of particular importance in Khalistan activities because he is the contact man with Pakistani Gen. Ziaul Haq whom he refers to as "my brother." During the last two years

Dhillon has met with Zia several times, seeking the Pakistani dictator's permission for the Khalistanis to set up bases along border areas with India. It is reliably reported that the Pakistan Embassy in London finances Chauhan and a pro-Khalistan newspaper printed there.

Immediate expansion plans for the movement involve a June visit by Chauhan to West Germany where he plans to meet political figures and think tanks associated with the opposition to Chancellor Helmut Schmidt. It is reported that, to test the waters, some Sikhs are being sent to West Germany across the East German border (where Indians can go without visa problems). Then, in shady maneuvers to get political asylum, legal fees of up to \$15,000 are being paid to lawyers close to Christian Social Union politician Franz Josef Strauss. Chauhan himself speaks hopefully that a cell, similar to the CSIS Washington project, can be created at Heidelberg University's South Asian Studies Center. A final scheme on the books to legitimize the Khalistan movement is an effort to get status under some guise at the United Nations.

brought into the main orbit of the international socialist movement." Among Chauhan's friends in the socialist international he told *EIR*, is George Fernandes. Fernandes is the Indian socialist whose underground terrorist activities against the Gandhi government in the early 1970s were illegally financed by the socialist international on the orders of Willy Brandt, who was backing a destabilization of the Indian government at that time. Chauhan also claimed to have recently met Socialist International-linked AFL-CIO head Lane Kirkland in the United States.

Chauhan also told *EIR* of his links to another asset of British intelligence—the Zionist movement. He revealed that while in the United States recently he met with the President of the American Jewish Congress. On a visit to Canada, he met with Zionist groups there.

The geopolitics of separatism

Chauhan's "friends" in London have also given him some geopolitical "ideas," about which he freely talks. Chauhan proclaims that his goal is to redraw the map of the South Asian subcontinent, shifting the national boundaries of India, Pakistan, Nepal, and Bangladesh into a loose confederation known as the "United States of South Asia," creating Khalistan in the process. He backs separatist movements inside India, like the northeast hill tribe terrorist agitation of the Nagas and Mizos (armed and backed by China) and similar separatist movements of the

Baluchis and Pathans inside Pakistan.

Chauhan says that a United States of South Asia is necessary because centralized government is not "natural," primarily because the people are not "evolved enough." The "natural ecology" of the people can be preserved with the establishment of the new system, applying the oligarchic canton model of Switzerland, he says. Chauhan, not surprisingly, is also an advocate of "appropriate technologies," that is, the preservation of labor intensive agricultural and industrial production on the excuse that development of capital-intensive technology doesn't fit the "natural ecology." According to Chauhan, "the unnatural conglomeration of cultures" in India today "has to be rectified," in other words, the central India government must be destroyed.

Chauhan's assertion that the United States of South Asia would fit into a new "Third Bloc" echoes the Third Force concept now guiding British designs against the two superpowers. The bloc could include South Asia, China, France, Germany and Britain, an idea, Chauhan says, he has discussed with his friends in the Socialist International.

Chauhan's loyalty to London apparently knows no bounds. In a recent issue of his *Khalistan News*, Chauhan supported the British war against Argentina in the South Atlantic. One question about his activities remains perplexing: when does Chauhan, in his many travels to the outposts of British intelligence across the globe, have time to talk to Sikhs?

Global 2000 bears down on Yugoslavia

by Irene Beaudry

The old British-Venetian policy of arousing ethnic passions among small squabbling entities is well under way in its place of origin: Yugoslavia. The British-inspired Albanian separatist movement that erupted over a year ago in the Serbian province of Kosovo is still active, and still provides the capability for splintering Yugoslavia and, in the process, drawing Bulgaria and Greece into a Balkans conflict.

The plans envisaged for Yugoslavia do not differ from the Global 2000 plans for war-torn Lebanon. The Global 2000 program put together under the Carter administration stipulates devastating population reduction accompanied by zero technological growth. The idea is to dismember a country into Swiss-model cantons, each containing a specific group devoted to maintaining its own "ethnic purity."

The specifics of this plan as it applies to Yugoslavia were discussed in March 1981 at the John Carroll University in Cleveland, Ohio during a conference entitled "Global 2000 and the South Slavs" organized by the American Croatian Society, better known as the National Croatian Council (NCC).

The NCC is part of an international umbrella organization regrouping Croatian separatists, the World War II fascist Ustashi, and the latter's terrorist arm, the Otpor (Resistance). Following that Global 2000 conference, which coincided with the outbreak of Albanian separatist riots in Kosovo, the NCC began working together with émigré Albanian networks that had operated in Albania during World War II under the control of British intelligence officers Fitzroy Maclean, Lord Bethell, and British triple agent Harold "Kim" Philby. The NCC also made contact earlier this year with the Ayatollah Khomeini's regime in Iran for the purpose of instigating separatism among the predominantly Muslim population of Bosnia-Herzegovina, aiming at the creation of a fundamentalist Muslim state in that republic.

The U.S. head of the NCC, Matthew Mestrovic, has unabashedly made clear the plan for fragmenting Yugoslavia into "ethnically pure" regions, with Yugoslavian Albanians unified with Albania (for, says Mestrovic, the Albanians are not Slavs) while Bulgarian, Greek, and

Yugoslav Macedonians, form another entity. Bosnian Muslims (who Mestrovic says are after all Slavs) would also be unified in a Muslim micro-state. Mestrovic recently traveled to Bulgaria as official guest of that government, which is disposed to promote friction over the Macedonian question. The Bulgarian side of the operation is being overseen by an Oxford-trained British national, Marcia McDermott, who for the past 10 years in Sofia has written official histories on Bulgaria's right to Macedonia, and who is reportedly responsible for training Bulgaria's diplomatic corps.

Mestrovic's Ustashi networks have organized protests in the United States and in Western Europe together with such Albanian terrorist groups as the Red Flag, which has been named by the Yugoslavian government as responsible for fomenting last year's riots in Kosovo.

An IMF policy

At the League of Communists Party Congress June 26-29, the first since the death of Marshal Tito, it became evident that ethnic squabbles were not merely limited to the issue of Kosovo.

The congress's official theme was an economic stabilization program to deal with Yugoslavia's 40 percent inflation rate, growing unemployment, and \$20 billion debt. The plan—put together under the supervision of the International Monetary Fund—calls for stringent austerity and increased exports.

But one of its provisions exacerbated ethnic rivalries. A new law which mandates pooling foreign currency in the domestic market was opposed by Slovenia, the most prosperous republic, and by Croatia. Both contended that local exporters would be denied their profits and that other poorer and less efficient republics and provinces would use up their foreign exchange.

Though the congress deliberately avoided dealing with the turbulent nationalities issue, a program all too congruent with Global 2000 was outlined for Kosovo. Laying the blame for the riots in Kosovo on the allegedly over-ambitious plans of industrial development in that most backward region of all of Yugoslavia, the authorities have resolved to curb industrial growth in favor of the creation of small craft enterprises and agriculture. Before the party congress the Kosovo League of Communists also pledged that "special attention will be paid to the pursuance of an active population policy in this province. In Kosovo the population registers an incomparably higher increase than in other parts of the country or the world. We will also pay attention to the need for family planning," stated the Kosovo authorities.

The congress was followed July 5 by a two-day visit to Belgrade by U.K. Foreign Secretary Francis Pym, the first official British visit in over six years.

Banking system ready to blow

Dome Petroleum and the CIBC are not the only entities in trouble. And a collapse would spill over on U.S. banks.

By the fall Canada may have its most spectacular bank failure since the 1930s: The Imperial Bank of Commerce (CIBC) will probably fail. As of the end of 1981, the CIBC had assets of \$66 billion (Canadian), or about \$53 billion American, making it one of the largest banks in the world.

It is likely that the gentlemen who run Canada's Privy Council—the real power in Canada, which controls Prime Minister Trudeau on behalf of Queen Elizabeth II—are hoping for a CIBC failure, because a Canadian banking crisis would bring to the brink of collapse the American banking system.

As a financial analyst who has studied the Canadian banking system for two decades reported July 14, "The American banks have lent their largest amount on the inter-bank market to Canadian banks, probably tens of billions of dollars. If Canadian banks go, the Bank of Canada will not step in to save them. That means that the Canadian banks will not be able to pay back some of their loans to the American banks. The American banks will have only one solution, to run to the Federal Reserve and ask for a bailout."

The strain this would place on the Fed would be enormous, and dumping of American bank stocks would begin.

A small foretaste of what could occur was delivered on July 9,

when, according to the July 10 *Financial Times* of London, panicky traders in the Euromarkets dumped significant amounts of "North American bank certificates of deposit and bonds." The Canadian bank targeted for dumping was CIBC. The dumping operation followed not only rumors of CIBC troubles, but the failure July 5 of Oklahoma's fourth largest bank, the \$500 million Penn Square Bank.

The Federal Reserve had to interject liquidity into the American banking system—thus temporarily lowering U.S. interest rates—before the markets were quieted.

The problems of CIBC stem most immediately from its overexposure to Dome Petroleum. Dome, one of the high-rollers in the Canadian oil expansion boom of 1979-81, will not be able to meet its interest and principal payments when they come due this September, according to a New York bank source July 13.

Dome has accumulated \$8 billion in Canadian debt, which has been heaped onto the leading Canadian banks: CIBC is owed \$1.7 billion; Bank of Montreal \$1 billion; Toronto Dominion \$1.8 billion; Royal Bank of Canada \$315 million, and Bank of Nova Scotia \$150 million. American banks have lent Dome Petroleum over \$1 billion, with Citibank of New York accounting for at least 10 percent.

But the oil and gas market has

broken across the world (see *Energy Insider*, page 14). No longer can oil companies expect to command the prices they used to, let alone the \$40 or more per barrel that Dome would have to earn in order to meet interest payments on its staggering debt and still have a positive cash flow. The Canadian government guaranteed a \$100 million loan to Dome recently (which was repaid), but Dome needs billions of dollars to straighten out its financial situation.

The July 14 *Montreal Gazette* reports that Canadian Energy Minister Marc Lelonde has privately said that the Trudeau administration will not bail out Dome under any circumstances. A source close to the Canadian government reported on July 13, however, that Dome will probably get a few billion from Ottawa in exchange for certain assets which the government will sell off.

But Dome may still not have enough money to get by. And, as most people know, Dome's stated \$10 billion assets (Canadian) are inflated by 40 to 50 percent.

There are tens of other Canadian oil companies, large and small, with similar debt problems. And the Canadian economy is in terrible shape overall. According to the weekly *Financial Times of Canada*, the profits of the top 70 Canadian companies listed on the Toronto Stock Exchange fell by 59 percent in the first quarter of this year compared with the first quarter of 1981. Profits in the first quarter of 1981 were down by 25 percent from the comparable period the year before.

Therefore, whether or not Dome goes under this September, it is likely that CIBC won't be around by the end of 1982.

How Sharon intends to cash in

The Israeli proconsul and the Falangist warlord are looking to a drug and banking bonanza.

In the eyes of Israeli Defense Minister Ariel Sharon, the invasion of Lebanon which began June 6 is intended to accomplish far more than to drive the Palestine Liberation Organization out of Lebanon. Sharon's bid for a prolonged Israeli occupation of Lebanon is calculated to reshape Lebanese politics, and above all to install Lebanon's most powerful feudal warlord, 34-year-old Bashir Gemayel, as President.

Sharon and Gemayel are known to have met secretly months before Israel's invasion to plan how to dismember Lebanon's central government into tribal cantons over which Gemayel would hold sway. The last obstacle would be removed to making Lebanon into a lawless state in which Sharon's mafia associates inside and outside of Israel and Gemayel would divvy up the revenue from the illegal drug and contraband smuggled through Lebanon, and control the highly lucrative banking system of Lebanon.

Since 1978, when Israel made its first invasion of southern Lebanon and installed its mercenary, Falangist Col. Saad Haddad, opium and hashish cultivation in the southern Lebanon no-man's-land has flourished. Similarly, in the Syrian-occupied Bekaa Valley, record crops of opium and hashish are found, along with new heroin refineries.

According to an Israeli source, Sharon has also cultivated close ties with the Syrian and Khomeini-

linked Shiite Muslims of southern Lebanon. The Shiites are a conduit for heroin, hashish, and opium export from Pakistan and Iran, as well as Syrian-controlled drugs from the Bekaa. Through Sharon, Israel is said to have taken a large cut of the handsome profits from drug exports: the unspoken financial benefit of Israel's occupation of Lebanon. So close are Sharon's relations with elements of Lebanon's Shiites that he has worked out a scheme to make them the overlords of a southern Lebanese canton whose capital would be the port city of Tyre.

Sharon is not acting out of mere greed, but in association with a powerful mafia of Israelis associated with mobster Meyer Lansky and U.S.-based Meshulam Riklis, the chief of the Rapid-American import-export empire. It is this mafia and its assets within Israeli intelligence who have drawn up elaborate schemes to make the Lebanese Swiss-style banking system an adjunct of Israel, in order to facilitate the massive dirty-money transactions associated with the multibillion-dollar smuggling business in Lebanon.

Since Israel's invasion of south Lebanon, the two major ports south of Beirut, Sidon and Tyre, have been taken over by Israel, leaving only the so-called free port of Jounieh, north of Beirut, functioning. Jounieh is controlled by the Falange.

According to a very influential Lebanese political leader, since the 1976 civil war the Gemayel clan has consolidated unprecedented control in Lebanon over hot-money transactions and the illegal drug and contraband flow through Jounieh. The Gemayel-controlled Falangists are reported to charge a tithe for all exports from Jounieh. Moreover, they now control the casinos, once government-owned, which are a fulcrum of loan-sharking and other forms of organized crime.

Last year, during investigations conducted by the Italian government on the connection between illegal drug and gun trafficking and Italian terrorism, Lebanon was named as the prime transshipment and production site. In fact, both Lebanon and Syria are transshipment points for a massive increase in drug exports from the so-called Golden Crescent—Pakistan, Iran, and Afghanistan. U.S. drug experts estimate that up to 70 percent of all heroin imports to the U.S. now either originate in the Golden Crescent or are shipped through it.

One key point for such shipments is the Persian Gulf emirate of Dubai. In recent months the ancient gold-smuggling center in Dubai, which dried up after the Iranian revolution, has suddenly come back to life. *Far East Economic Review* reported April 16 that the gold bullion stamped "Almighty God" is used to facilitate the purchase of raw opium from Pakistan. The revival of the Dubai gold market coincided with a warming in Iran-Dubai and Iran-Pakistan economic relations earlier this year, about the same time that Saad Haddad made his first offer to aid Iran in its war with Iraq.

Overtures from Armand Hammer

Following the model of his inroads into Peru, the oil magnate is trying to take advantage of Mexico's economic troubles.

Armand Hammer, the legendary owner of Occidental Petroleum, is once again making a big play as "friend of Mexico." Late in June, Hammer arrived here for a series of meetings with high-level business and government officials including President López Portillo. In statements for the press, the international power broker presented himself as a defender of Mexico's industrial development and a promoter of better relations between this country and the United States.

Hammer's courting, however, met with prudent suspicion by government officials. Fresh in their minds is Hammer's approach to Peruvian government officials in the mid-1970s. As other oil companies simply packed up in order to force Peru to roll back nationalist investment laws, Hammer went in with a splashy "support" operation. In one famous incident, he wrote out the equivalent of a personal check to give Peru the immediate funds to stave off bankruptcy.

The cost emerged several years later. Such juicy under-the-table advantages had been secured for Occidental that the government oil company, Petroperu, became insolvent. It was at that point that the investment laws were rolled back. The outcome: Occidental made the highest return on any investment in its history.

Hammer's modus operandi in Mexico is similar. The game is to seem to "play within the Mexican

rules," in order to lull the nationalists in the Mexican bureaucracy, while encouraging the assault on those rules from other quarters. Many foreign businessmen, lured by the idea of sudden investment riches, have fallen for this scenario—unmindful that Mexico's nationalist laws actually guarantee investments in the country by strengthening domestic stability, and keep a coherent development focus in place. There are in fact few complaints from companies who have gone along with Mexico's 1974 laws.

Hammer's recent public statements have been all in favor of the basic 51 percent Mexico/49 percent foreign joint-investment framework. He points to Occidental's Hooker Chemical affiliate in Mexico as an example of successful "Mexicanization" on this model.

Nonetheless, Mexican officials remember that in April 1981, at a business convention in Puerto Vallarta, chairman Merfzer of Hooker Mexicana, the chemical company partially owned by Occidental Petroleum, attacked Mexico's nationalist investment laws. Merfzer set the tone for several multinationals' executives to demand that Mexico become more open to multinational ventures.

And in June 1981, an Occidental Petroleum official told *EIR* that the decline in international oil prices could lead Mexico "to change its mind" and drop its nationalist in-

vestment laws. Occidental has its eyes particularly on breaking open the Pemex monopoly on primary petrochemicals production, and oil and gas exploration.

Publicly, Mr. Hammer is in an accommodating mood. He is even organizing a "North-South meeting for businessmen" in Guadalajara with the President of the Mexican-American Chamber of Commerce, Ernesto Rubio del Cueto.

But this "North-South" crusade is something for Third World leaders to avoid. Mexican officials are especially wary of Hammer's plans to create an elite high school and college in an isolated 1870s castle in Montezuma, New Mexico, near the Mexican border. The idea for this special operations center, the *Los Angeles Times* reported last month, emerged from a meeting between Hammer, the late Lord Mountbatten, and Prince Charles of Britain back in 1979. As usual, Hammer put up the money.

One angle which keeps Mexicans on guard is the role Hammer's networks played in the creation of the Social Democratic Party (PSD), this country's most active terrorist-linked "greenie" group. Sintemex, the "consulting firm" branch of the PDD, was founded by Charles H. Lee, President of Hooker Mexicana from 1971 to 1981.

Sintemex's Adip Sabag is tied to Arab terrorist circles around the Abu-mrad Bank of Mexico City. Do these connections lead, in turn, to Libya's dictator Muammar Qaddafi, close friend of Armand Hammer? An investigation here could probably shed some light on the funding which, according to security authorities here, Qaddafi is currently pumping into Mexican radical groups.

International Intelligence

Gandhi visit could improve U.S.-India ties

Indian Prime Minister Indira Gandhi will arrive in the United States July 27 for a week-long state visit, the first visit by an Indian Prime Minister in about 10 years. The Indian leader will hold talks in Washington with President Reagan on July 29-30 and will be giving a foreign-policy address in New York before the Foreign Policy Association on August 2. She will also address the National Press Club in Washington and will be meeting with members of the Indian community in New York and Washington, followed by a brief visit to Los Angeles.

According to well-informed sources in New Delhi, the Indian Prime Minister sees her talks with the President as the main objective of her visit, and hopes to open the way to improvement of Indo-U.S. relations, which have been plagued by problems. Mrs. Gandhi is expected to focus her discussion on concerns over the deteriorating international situation—the danger of war in particular—rather than on bilateral issues between the two countries. Mrs. Gandhi will visit the Soviet Union in September; there are hopes in India that these visits can contribute to improvement in U.S.-Soviet relations.

Sources close to the White House stressed to *EIR* their strong desire for improvement in U.S.-India ties, and their recognition of the importance of India's role in world affairs.

Church diplomacy over Poland continues

Archbishop Jozef Glemp, Primate of the Catholic Church in Poland, said after early July talks at the Vatican, that no one, including the Soviet Union, could "veto" the planned second visit of Pope John Paul II to his native Poland. The Pope's trip, originally meant for an Aug. 26 religious festival, has been linked to the alleviation of martial law strictures in

Poland. Relaxation of Polish martial law, in turn, could become the occasion for lifting American and NATO sanctions against East-West trade.

On June 18, when a Vatican emissary was in Warsaw for negotiations, the Soviet news agency TASS released two warnings about the visit. TASS criticized the possible exploitation of John Paul's trip for "anti-socialist" agitation and accused President Reagan of urging the Pope to have this as his goal. During Glemp's stay in Rome, TASS recycled an even harsher commentary by Czechoslovakia's Bratislava *Pravda*, which attacked the Pope's own intentions.

Regionwide war in Central America?

Joint counter-insurgency campaigns by the militaries of Honduras and El Salvador within each other's borders, and the extension of terrorism by El Salvador's guerrillas into Honduras in the past month, have fused the once parallel civil wars into a regional danger-point.

Reorganized following their setback in the Salvadoran elections at the end of March, the Salvadoran guerrillas of the Faribundo Marti Liberation Front (FMLN) took to the offensive in June. The Salvadoran army then launched new counter-insurgency campaigns in the east of the country, this time pulling Honduran army troops into deployments inside El Salvador's borders.

In a "hammer and anvil" effort, Salvadoran troops—the "hammer"—drove guerrillas and the population, men, women and children, fleeing towards the border where some 2,000 Honduran soldiers were positioned, inside El Salvador, as the "anvil," to prevent any refugees from crossing into Honduras.

FMLN spokesmen, in interviews provided to them by the *Washington Post* and Mexico's *Excelsior*, responded that they would retaliate with "military" operations inside Honduras itself.

On July 4, two electrical towers near Honduras' capital, Tegucigalpa, were

blown up, leaving the city without electricity for nearly 24 hours. General Gustavo Alvarez, the head of Honduras' Armed Forces, charged that a FMLN commando which had entered Honduras two weeks before was responsible for the terrorist incident.

Tension flares between Ethiopia and Somalia

Disturbances erupted this month in two northern Somalia towns near the Ethiopian border, heating up the conflict between the two countries. Because of Soviet backing for Ethiopia and U.S. support for Somalia, the conflict in the African end of what Zbigniew Brzezinski termed "the arc of crisis" could take on major proportions. The attacks were reportedly led by Ethiopian-supported Somali forces opposed to the government of Somali President Siad Barre.

Barre has charged Ethiopia with responsibility for the disturbances, posing the problem as a Soviet threat, and asking the United States for assistance. The Ethiopians have dismissed the Somali charges as false alarms intended to divert attention from internal difficulties. Radio Moscow itself has warned that the growing tensions could lead to U.S. intervention and a resulting international conflict.

Lord Carrington to reappear at Whitehall?

The "investigation" conducted by Britain's Privy Council committee into the events leading up to Argentina's invasion of the Malvinas Islands has begun the process of clearing former Foreign Secretary Lord Carrington. This is widely believed to signal Carrington's return to an official position in the government.

Carrington resigned shortly after the invasion, but is known to have retained an important degree of control over Brit-

ish foreign policy. The Privy investigation found that Carrington had requested—two weeks before the invasion—that the government send two or three hunter-killer submarines into the South Atlantic to deter the Argentinians. *EIR*'s contention all along has been that Carrington expected the attack.

The Foreign Minister's request was rebuffed by Prime Minister Thatcher and Defense Secretary Nott, who argued that existing forces in the area were sufficient to secure the islands.

This "vindication" of Carrington has the earmarks of preparation for some form of government reorganization, probably aimed at Nott in particular.

Israeli soldiers: 'End the war in Lebanon'

Hundreds of Israeli officers and soldiers, claiming to represent thousands of their fellow fighters in Lebanon, are returning to Israel from the battlefield to denounce the war. A prime target of the soldiers' protests is Defense Minister Ariel Sharon, who is being attacked for having repeatedly "lied" as to the scope and real aims of the operation into Lebanon.

The anti-war protests are the first in Israeli history to be organized during wartime. On July 3, 100,000 Israelis demonstrated in Tel Aviv against the war.

Early in July, a group of 35 reserve officers, all veterans of the Entebbe commando raid in 1976, sent a letter to Prime Minister Begin calling the war a "catastrophe for our world image and for the chances of peace in the Mideast.... This is the first war in the history of Israel which is not a defensive war, but a dangerous gamble for political objectives."

A second letter from 86 reservists just returned from Lebanon asked that they not be sent back and called for all Israeli soldiers in Lebanon to be sent home. In their letter, addressed to Sharon as well as to Begin, the soldiers said: "We have had enough of killing and being killed without knowing why. You are trying to

impose a 'new order' on the ruins of Lebanon, to shed our blood and the blood of others for the Falangists. This is not what we joined the army for. . . ."

A third group of 122 Israeli reservists has accused Begin and Sharon of perpetrating "war crimes" in Lebanon against the Lebanese and Palestinian people. Yehuda Meltzer, an army reservist and spokesman for the group, said, "Nobody attacked the settlements in the north for a year, which is probably what scared this government the most."

Egypt-Iraq axis could counter barbarism

Well-placed sources in London and Paris confirm that a new relationship is evolving between Egypt and Iraq which could have great strategic significance for the Middle East and the developing sector.

Early in July, Egyptian President Hosni Mubarak announced his acceptance (the same day it was received) of Iraqi President Saddam Hussein's invitation for Egypt to attend the Baghdad Non-Aligned summit in September. This is being played in both European and Mideast media as "the end of Egyptian isolation in the Arab world," an isolation which began with the Camp David accords in 1978.

One Arab source said of the emerging axis: "Both countries want to counter-balance Syrian influence, and Iraq has a further goal to minimize Saudi influence to the advantage of Cairo. Baghdad . . . would like to see an Egyptian comeback on the diplomatic and political scene. The two countries will now formulate common policies on issues facing the Arab world. There are a lot of Egyptians living in Iraq, and this makes the relationship all the more solid."

Iraq and Egypt are the two most pro-development regimes in the region. A working alliance between them would promote the effective form of defense against the destruction promised by both Iran's Khomeini and Israel's Sharon.

Briefly

● **EL MERCURIO** editorialized on July 12 that the proposals being discussed by Peru and Venezuela for Latin American unity in the wake of the Malvinas conflict present Chile with "new options" for ending its isolation. The Chilean daily was expressing a viewpoint not often heard within that country, a bastion of British economics, but which has become increasingly attractive as the Chilean economy disintegrates.

● **'A WALL OF SILENCE'** is what Colombian investigative journalist José Suárez says he ran into when he traveled to Medellín, the home base of the recently collapsed Grupo Colombia banking conglomerate. "There is wide speculation," the *El Espectador* reporter notes, "that a good part of the millions attracted by the Grupo Colombia came from individuals dedicated to unsavory businesses." Suárez was referring to the role of drug money.

● **URI AVNERI** met with Yasser Arafat in Beirut early in July. The Israeli peace movement leader and former Knesset member, who faces possible treason charges in Israel for the meeting, told *EIR* that it was "plausible" that Israel was in collusion with Iranian plans to invade Iraq. "There is automatic collaboration between the extremists in Israel, the Soviet Union and [the radical faction of] the PLO," said Avneri. "Israel wants to do everything possible to weaken the moderates in the PLO."

● **JACQUES CHEMINADE**, the general secretary of the European Labor Party (POE) of France, released a statement July 12 denouncing the Wharton School of Economics and London's Tavistock Institute as behind French Socialist government plans to dismantle the capital city of Paris into 20 separate municipalities. This is a plan to "weaken the nation-state by going after its capital," said Cheminade.

‘Economic depression the key foreign-policy issue’

by Lyndon H. LaRouche, Jr.

Below is the slightly abridged text of a July 14 communication from EIR founder Lyndon H. LaRouche, Jr., to the U.S. Senate Committee on Foreign Relations. Subtitles have been added.

Re: Confirmation of George Shultz to Become Secretary of State of These United States

Members of the Senate:

It is my most carefully considered judgment that the President should have a Secretary of State whose personality, qualifications, and outlook are subsumed by an overriding loyalty to the President himself.

Ours is a constitutional republic, and not a parliamentary system. The powers and policies of cabinet officers, including the Secretary of State, must reflect the fact of our system of government, that the powers of cabinet and lesser-rank Executive functions are powers delegated by the President, but are never alienated from the President in the course of delegating them.

Therefore, if the name of a cabinet officer is placed in nomination for the advice and consent of the Senate, if there be no disabling flaw of competence or character in the person so nominated, it ought to be the wish of the Senate to accept the President's nomination, if we can also be assured that the nominee will function as an agent of the President's undiluted constitutional powers. . . .

Although I strongly disagree with numerous among the policies with which the nominee has been associated in past service to our government, I know of no flaw in him on which account I would recommend that the Senate prevent the President's will in this matter from being effected.

However, the nomination of a cabinet officer is not merely an occasion for exercise of the powers of consent. It is also the occasion for exercise of the Senate's powers of advice. . . . It would be difficult to imagine any point in our history during which our foreign relations have been in a more perilous condition. We must explore, in present hearings on this appointment, what areas of urgent change in foreign policy are required to rescue our nation from what presently appears to be a monstrous foreign-policy catastrophe.

To this point, I identify summarily foreign-policy matters in which I have well-established expert qualifications. There are three interconnected matters to which I ask you to turn your attention. These are the interdependency between East-West and North-South strategic crises, the ongoing collapse of the world monetary order, and the impact of gross disinformation of intelligence received from non-U.S. agencies upon the shaping of our foreign policy as well as our adjustments of foreign policies in practice.

The economic dimension

The Senate is more or less aware that I publish a series of quarterly analytical forecasts on trends and turning-points in the U.S. economy, and that since these quarterly reports were first published, beginning the last quarter of 1979, my own forecasts have been the only competent forecasts published by any known public or private forecasting agency. I stress this fact to emphasize that the United States is presently in a new economic depression, and to indicate that contrary assessments of our economic situation originate entirely with economist circles which have proven themselves incapable of

competently forecasting trends in our economy over the period from October 1979 to the present date.

I can also report, on the basis of regular discussions with international financial institutions and other relevant policy circles of numerous nations, that it is the prevailing judgment of Switzerland, London, and other centers that the immediate period of monetary crisis has two outstanding features. First, to the extent that analogies can be drawn in such matters, we are presently in a situation of impending general monetary collapse comparable to 1931. Second, that the magnitude of the threatened monetary collapse dwarfs anything civilization has experienced since the general collapse of Lombard banking during the 14th century.

Every problem confronting us domestically or in foreign relations now is either directly a result of this slide toward the deepest depression in modern history, or . . . is shaped to a very large degree by economic and monetary pressures.

For example, to pinpoint a very immediate, very concrete and potentially devastating problem, there is, in some misguided but influential circles, a delusion to the effect that we can collapse the "Soviet Empire" by aid of forcing a default on the external indebtedness of Poland, Hungary, and Romania. In fact, although that action might temporarily slow down certain features of the Comecon economy, it would have no damaging effect on the military sub-sector of the Soviet economy, which is approximately one-third of the combined agricultural and industrial economy of the Soviet Union as a whole, and would otherwise simply force the entire Comecon into greater Soviet economic domination as well as emphasis on resuming the kinds of relatively autarkical, dirigistic methods echoing the Stalin period. What such a forced default would accomplish is a chain-reaction collapse of the entire Western international monetary system as we now know it.

The problem is much worse than even that implies directly. . . . Some among the London and Swiss gentlemen concerned have worked out the following cute little operation against the U.S. dollar. First, they lure the United States into taking actions to damage the economies of the Federal Republic and Japan. This forces Germany and Japan to join with London and Switzerland against the U.S. dollar, simply as a matter of self-defense. These combined forces then, according to the London and Swiss scenario, let the trillion-dollar Euro-dollar market collapse upon the U.S. dollar, putting the United States under financial receivership directed by the Basel Bank for International Settlements.

To assist this sort of scenario, central European and other sources have been passing into Washington specially doctored intelligence on the Soviet economy, false information to encourage Washington to believe that

shutting down credits to the Comecon nations will cause an economic catastrophe hitting billiard-ball fashion into the heart of the Soviet economy itself.

Meanwhile, our ever-loving allies, Britain and France, have resurrected the 1916 Sykes-Picot Treaty agreement, under which Britain and France then proposed to carve up the remains of the Ottoman Empire between them. Aided by elements in Israel enjoying Orde Wingate's [a British military officer and Old Testament fundamentalist cultist who trained both Moshe Dayan and Ariel Sharon—ed.] pedigree, such as Defense Minister Ariel Sharon, and with aid of certain expedient measures of mutual understanding between Moscow and London, the intent is to throw the United States out of the Middle East. A similar Anglo-French policy is operational for Africa, and the French government plans to take over our former influence in parts of our hemisphere below the Rio Grande.

The administration of our foreign policy under the recently retired Secretary of State has not been precisely what one would describe as an empyreal height of service to our national interests. Clearly, the relevant features of our foreign policy and related practices must be drastically changed, and immediately.

The North-South crisis is key to the complex of our foreign-policy problems as a whole. The problem is exemplified by the condition of approximately a quarter trillion dollars of external debt of Ibero-American nations. Presently, under present world-market trends, perhaps only Mexico and, perhaps, Venezuela among those nations has the bare possibility of meeting the debt-service obligations coming due during the 12 months ahead. Moreover, the refinancing arrangements employed to cover over virtual debt defaults over the recent five years are no longer functional. International lending institutions are presently committed to "decoupling" from Ibero-America, Africa, and most of Asia. Virtually our entire, highly exposed commercial banking system is threatened with chain-reaction collapse as a result of these combined circumstances.

Recovery measures

If we could revitalize the world-market in capital-goods traffic and reschedule Ibero-American debt overhangs in a proper fashion, the looming disaster could be prevented. There is no technical reason such measures could not be effected. The difficulty is entirely a matter of perception of the solution and the will to force through implementation of the solution in time.

Again, I must refer your attention to the implications of the successful performance of my quarterly economic forecasts. Those experts who argue that monetarist policies must not be eradicated immediately, and who oppose restoring a gold-reserve basis for the

U.S. Treasury's issues of currency notes, have abundantly demonstrated, through the miserable performance of their own varieties of economic forecasting, that they have simply not understood the bare fundamentals of our present economic and monetary situation.

This is a matter of foreign policy as much as of domestic policy. If the United States summons its will to restore the power of a gold-reserve-based U.S. Treasury currency note, the world can be quickly induced to submit to our will in this matter. . . .

Unless the shock of this new monetary crisis and economic depression can rouse leading institutions of this nation to clear away the fog of monetarist ideologies we are already as good as finished as a world power.

If we summon our idled agricultural, industrial, and skilled-labor potentials to produce an outflow of capital goods for medium- to long-term high technology development of the productive powers of labor in nations below the Tropic of Cancer, we will find a joyful reception for our policies among those and other nations, as well as a joyful eruption from our farmers, industrialists, and growing masses of unemployed. . . .

Relations with the U.S.S.R.

As to the Soviet Union, in the context of our resurrection of the "American Century" strategic policy, the matter becomes elementary. We say to Moscow: "We are summoning from our idled farms, factories, mines, and labor a power which may stun your powers of imagination. We are creating among our friends in this world a new world economic order, which we call the 'American Century.' It is a world ordered according to the conceptions of those who designed our Constitution, a world dominated by nations committed to the benefits of technological progress for each and all, arranged through an ordering of our system of credit and commerce to foster this result. Where does the Soviet Union stand with respect to our efforts to lift the hungered nations of the southern portion of our globe out of that heritage of colonialist looting and degradation whose remedy has already been postponed too long?"

These arms negotiations are necessary, but in and of themselves they are almost useless exercises. If the chaos the monetary crises are beginning to unleash is not stopped, we shall go to war whether we presently intend so or not. And, sooner or later, whatever remains of the thermonuclear arsenals of the world will be launched, because no government will know how to stop itself from unloosing them. If we bring the world to order, as the "American Century" implies, then, and only then, does the lessening of the impulse toward war impel nations to spend less on those weapons for which they have no prospective need.

PLASMA PHYSICS

U.S. turning over the lead to Japan

by Steven Bardwell, Military Editor

The most prestigious international plasma physics and fusion science meeting, held in Göteborg, Sweden June 9-15, reflected in a striking way the world economic crisis: the fusion efforts of all countries have dramatically slowed down in the past 18 months, with the single exception of the Japanese, who now boast of the largest, most aggressive, and most engineering-oriented program in the world.

The Soviet program, for a long time the most scientifically sophisticated and creative program, has been totally eclipsed by a military reorientation of Soviet scientific manpower; and the American program, long the leader in engineering and technical development of fusion devices, has slowed its research tremendously, with no new machines having been designed or come on line in the past two years.

Japan and India: the new fusion superpowers?

Contrasting with the downturn in the Soviet and American programs are the world's two newest fusion programs, those of Japan and India.

Four years ago, Japan had essentially no fusion research program. At that point, however, an informal directorate of politicians, scientists, and industrialists proposed a long-range fusion program, which they claimed would play the same role for the 1990s and early 2000s that crucial industries had played in the past (textiles in the 1950s, steel in the 1960s, auto in the 1970s, automation in the 1980s). Fusion, as the lead industry of the 1990s, should become Japan's "energy export" by the year 2000, these leaders proposed.

The result of this group's work was a very rapid acceleration of the Japanese effort; today it is the largest fusion program in the world. The biggest laser in the world devoted to fusion research is in Japan; the Japanese are currently constructing a machine as large as the Princeton tokamak fusion test reactor (TFTR) on the same time scale; they are undertaking experiments in all areas of magnetic confinement (they have both a stellerator and bumpy torus laboratory, unlike the Soviet Union or the United States).

There is no question that the Japanese program lacks the depth in manpower of the present U.S. and Soviet programs; it takes considerably longer than five years to train a significant number of plasma physicists. But, what they lack at the moment in theoretical capabilities they have more than made up for in experimental and engineering finesse.

The Japanese laser fusion program is exemplary. Under the direction of Professor C. Yamanaka at the Osaka University Institute of Laser Engineering, the Japanese have produced three generations of glass lasers in five years. The current laser, the Gekko 12 (of which two arms are complete), is not only the largest existing glass laser in the world, it is larger than any ever constructed (the United States dismantled its large Shiva laser last December in a cost-cutting move). Rather than having been hand-built in the laboratory (as is the usual procedure), the Gekko 12 was contracted out to Hitachi; this strategy of forcing industry to develop technologies and manpower in the most advanced areas is something the Japanese hope to see pay off in 10 years as fusion becomes commercialized. The Gekko 12 laser overcomes many of the engineering limitations of past laboratory lasers: it is highly automated, requiring, according to Yamanaka, only a single operator to align the lasers, position the target, and prepare the diagnostics. It can be fired once an hour, generating three or four times as much data as any previous large laser.

The results that Yamanaka's group presented at the Göteborg meeting were as interesting as the machine itself. In the six months since the first two arms of the laser were put into operation, the Osaka team has generated precise confirmation of past results on wavelength dependence, compression properties, and thermal transport. More interesting, they have investigated a new target design, the "Osaka Cannonball," which has achieved records for compression and absorption efficiencies. The research plan for this machine in the next six months includes research on these exotic targets as well as the so-called direct targets (in which the laser directly interacts with the fuel mixture) and radiation targets (a classified target design in which the laser energy is first converted to X-rays before it interacts with the fuel).

The only other growing fusion program in the world today is in India. One and a half years ago a group of Indian plasma physicists, working in both India and the United States, drew up a proposal for an Indian plasma physics research program. This proposal, which was strongly lobbied for in India by the U.S.-based Fusion Energy Foundation, received funding this year. It is now the basis for a rapidly growing experimental and theoretical effort. The Indians' traditional strength in

mathematical physics has already given them a firm foundation for this research (in many ways a better theoretical foundation than that of the Japanese); and the collaboration of a group of the best experimental plasma physicists ensures that the Indian program will start with the expertise that only long experience can provide. The Indian delegation at the Göteborg meeting was one of the largest, exceeded only by the U.S. and Japanese representation.

Slowdown in the U.S. program

The American nuclear fusion program labored in the shadow of the larger Soviet program until the middle 1970s, when the American program's funding caught up with the Soviet investment, and superior U.S. engineering and industrial capabilities paid off in the rapid construction of a generation of spectacularly successful machines. This generation includes all the large machines now operating in the United States: the Alcator series, which holds the world's record for density of fuel confinement and stability of plasma; the Princeton Large Torus (PLT), which holds the world's record for temperature of plasma achieved in a magnetic confinement machine; and the Impurities Control Experiment (ISX) at Oak Ridge National Laboratory, which has made major advances in scientific understanding of the atomic and radiative processes in a tokamak plasma.

However, funding for the U.S. fusion program has declined steadily since the late 1970s, and stands today at approximately 75 percent of its 1978 value (in real dollars). The combination of Jimmy Carter's opposition to advanced energy research and David Stockman's austerity policies has deprived the U.S. program of any new machines for experimentation in the last two years; has indefinitely deferred the construction of the major non-tokamak machine (the mirror fusion test facility, originally scheduled to be completed in 1984 and now functioning with a continuing delay in construction funds); and has completely destroyed the major engineering research projects (the most important being the Hanford Fusion Materials Irradiation Test). Even more serious, the U.S. laser fusion program has been cut by 40 percent for 1983 alone, with the official policy being that a "civilian laser fusion program" is unnecessary.

The result of this downturn in American-sponsored fusion research in all areas was obvious at the Göteborg meeting, where the U.S. group presented almost no new experimental results in the fusion field. Researchers are in a holding pattern, waiting for construction to be completed on the current generation of larger machines, especially the tokamak fusion test reactor (TFTR) at Princeton, the Mirror Fusion Test Facility (MFTF),

and the Nova laser at Livermore Laboratory.

The groups of fusion researchers at Princeton and Brookhaven National Laboratories were responsible for a major new theoretical proposal for fusion development. Although they did not deliver a paper on the subject at the Göteborg meeting, the subject was widely discussed by conference participants informally. This group proposed the use of magnetically polarized fusion fuel (fuel with the magnetic moments, or spins, of the fuel nuclei aligned).

They pointed out that polarized fuel so relaxes the requirements for ignition of fusion that current tokamaks have already reached breakeven conditions for polarized fuel. Estimates by these researchers are that conventional fuels (deuterium and tritium) could be ignited in machines like the PLT, and that larger reactors could be used for the more difficult, but much more benign in engineering terms, cycles using deuterium and helium-three.

This development, still a theoretical insight and requiring experimental tests of its viability in a plasma environment, portends a profound reorientation of plasma engineering. The nuclear properties of the fuel are now opening up the possibilities of a new family of "nuclear-spin technologies."

The only other new results reported by the American researchers were in the exciting new field of astrophysical laboratory plasma physics. This field has come into its own only with the results from the Voyager probes to Saturn and Jupiter:

1) **The reconnection of magnetic field lines.** This process is the dominant physical mechanism responsible for the generation of intense particle beams, intense electric fields, and for shock-wave formation in both solar and stellar and solar system plasmas. For the first time, scientists at the Göteborg meeting reported detailed experimental results on the dynamics of a reconnecting field, both in laboratory simulations, and in measurements from satellite probes. Especially spectacular were the precise measurements of the phenomena made at the University of California by Rainer Stenzel and Robert Gekelman, results which shed much light on the same processes as measured on spatial scales millions of times greater in the magnetosphere of Jupiter.

2) **Generation of plasma radiation.** The richness of wave phenomena in plasmas continues to astound plasma physicists, and the appearance of the same waves in interstellar plasmas, with densities less than one-billionth those of laboratory plasmas, was a striking feature of the experimental results reported at the meeting.

In an introductory lecture on the importance of the new data in astrophysical plasmas, Hannes Alfvén, the Nobel Laureate plasma physicist from Sweden, predict-

ed a revolution in astrophysics over the next 10 years, as astrophysicists found out that *most interesting phenomena could only be explained on the basis of plasma physics, rather than gravitational effects or radiation effects.* Alfvén said: "The theory of the big bang itself will not withstand the onslaught of plasma physics."

Redirection of the Soviet fusion program

For a long time the Soviet Union has realized the strategic significance of its fusion research program, which has always been conducted in close collaboration with military research and with an eye to its spin-offs in other areas of the economy.

In the early stages of the Soviet program, this symbiotic relationship between the military and civilian fusion programs tremendously benefited the civilian program. Financial and manpower resources that were essentially military in nature were devoted to research in pulsed MHD, beam generation, materials development, and laser technologies in the civilian energy research programs. However, in approximately 1977, a major shift of these resources back into classified military research areas took place. The result for the civilian fusion program has been disastrous.

The priority given to military research by the Soviets for the past five years is felt most intensely in the unavailability of essential advanced technological capabilities. It is *not*, as some observers would like to believe, that the Soviets are unable to manufacture the computers, the automated control systems, or the sophisticated diagnostics required for fusion research.

Rather, their relatively sparse industrial elaboration means that these technologies are available only on a small scale, and this limited capability is devoted to military applications rather than fusion research. As one Soviet physicist pointed out in a private conversation, "With the new generation of big machines now being constructed, the Soviet Union is at a real disadvantage because industry cannot supply technologically advanced components to both the military and the fusion program." At this point, it is the fusion program that takes second place.

The results presented by the Soviet groups at the conference were confined largely to reports from their broad small laboratory program and theoretical results from their prestigious mathematical physics institutes. However, the lack of an aggressive engineering-directed program has had a major effect on the vitality and dynamism of these "scientific" programs. The research reported at the Göteborg meeting by the Soviet groups which had been the world's leaders in theoretical plasma physics was, for this reason, quite disappointing. The results were not new, and to this observer, they lacked the spark of originality which has in the past characterized the Soviet contribution.

The New York Waterfront Commission: a command center for organized crime

by J. F. Cooper

When Sen. Harrison Williams put up a courageous fight against his frameup by the FBI's Abscam earlier this year, it allowed Americans to take a close look at a particularly ugly aspect of what the postwar United States has become. The fact that in the Abscam sting operation, the tail—professional con-man Mel Weinberg—could wag the dog of the FBI was only possible because for at least the last 40 years the main “organizer” of organized crime in the United States has been a section of the U.S. government itself. The FBI, the Williams hearings showed, had no effective control over Weinberg. The reason is that the Bureau does not merely use such criminal garbage, it *makes alliances* with it. Each partner in this “special relationship” has his own dirty end; the only common denominator is the history of how British intelligence and American anglophile networks shaped U.S. law enforcement.

An early chapter in this story is the Office of Naval Intelligence's Operation Underworld, the ostensible purpose of which was to employ the Sicilian Mafia for protection against sabotage during World War II and in the invasion of Italy (see *EIR*, April 20, 1982). One of the fruits of this collaboration was the New York-New Jersey Waterfront Commission.

The Waterfront Commission came to the public's attention most recently on May 22 in a *New York Post* editorial which urged the New York State Legislature to watch a re-run of the 30-year-old film *On the Waterfront*, that they might recall the “pervasive corruption and gangsterism that long dominated the New York-New Jersey waterfront under the joint auspices of the mob-ridden International Longshoremen's Association and shipping interests,” and not succumb to the latest annual effort of the “unholy ILA-industry combine” to shut down the Waterfront Commission. The pro-British, Rupert Murdoch-owned *Post* went on to recommend that the ILA and the New York Shipping Association bring their proposals to the Commission itself, and lauded the latter for “curbing” organized crime on the waterfront.

Were the truth about the Commission known, the public would join the ILA/industry campaign to shut it down.

The history of this operation—along with much else that *EIR* will detail in future articles—begins with the first big success of “crimebuster” Thomas E. Dewey in

the prosecution of Salvatore “Lucky” Luciano on prostitution charges in 1936. Although Luciano was worse than anything that these charges might imply, Dewey's case was a thoroughly synthetic frameup complete with hired floozies who were packed off to Europe after testifying against him. The two major results of the case were to make the political reputation of Thomas Dewey, and leave Luciano's good friend Meyer Lansky in control of the Eastern syndicate.

Dewey and Lansky are connected through a lawyer named George Z. Medalie. Dewey was the protégé of Medalie, who also had worked for Lansky's mentor in crime Arnold Rothstein. The nascent alliance they represented—between an East Coast anglophile power elite and organized crime—was put on a firmer footing during World War II.

When Operation Underworld was launched, Dewey fished Luciano out of the Dannemora, New York penitentiary for the project. A special unit of the Office of Naval Intelligence (ONI) called B-3, was created to run the project. ONI recruited Dewey's “crimebuster” staff into the B-3 unit. Meyer Lansky, along with his lawyer Moses Polaskoff, served as the interface between the B-3 unit and the Eastern syndicate, handling all liaison between the government and the imprisoned Luciano as well. This placed Lansky in an unprecedented position vis-à-vis the government and the mob.

Modern times

In the changing character of organized crime in the post World War II period, “business genius” Meyer Lansky played a major role. While not precisely an equal-opportunity employer, the syndicate became much more professional in matters of investment and finance, and joined Uncle Sam in a number of limited partnerships. Improved money-laundering techniques enabled the mob to systematically integrate its operations with legitimate businesses as well as trade unions.

Lansky extended his legitimate gambling enterprises beyond Cuba in the Caribbean into the development of the Bahamas as a gambling capital. The flagship effort in the Bahamas was the creation of Paradise Island, owned by Resorts International. The parent company to Resorts was the Mary Carter Paint Company—in which Thomas E. Dewey was a major stockholder.

Lansky in particular directed the Eastern syndicates into gambling and narcotics; those families are today identified with the so-called Sicilian Connection responsible for bringing into the United States the bulk of the heroin affecting the Eastern seaboard and the Midwest. The waterfront and the airports became crucial transshipment points along the international heroin trail.

On the waterfront

Dewey, meanwhile, had not remained inactive on the "law enforcement" side of the partnership. In the late 1940s a major campaign had been led by Father John M. Corridan, S.J., to expose the horrors of New York waterfront operations. The media lent their voices. This paved the way for the establishment of the New York State Crime Commission by then-Gov. Thomas Dewey. The Crime Commission was to investigate allegations of degrading work conditions, union corruption, and the impact of millions of dollars in pilfering on the New York-New Jersey economies.

The Crime Commission's investigation concluded in 1953. As expected, it recommended the creation of an agency to license and regulate dock labor and to continue investigation into union corruption and organized crime activities in the bi-state ports. According to the Waterfront Commission's first annual report, Dewey's Crime Commission also concluded that a continuation of waterfront crime threatened a "catastrophe" to the port's economic supremacy, which would be a "crippling" blow to the New York-New Jersey metropolitan area and in fact the entire Eastern seaboard. The Waterfront Commission of New York and New Jersey was signed into law by President Eisenhower on Aug. 12, 1953.

The Commission was given the power of life and death over every man and agency that worked on the waterfront, for in order to work or operate a company on the docks it was necessary to hold a license from the Commission. The Commission was armed with the power to hold licensing hearings, grant witness immunity, conduct criminal investigations, compile intelligence files, and exercise police powers in both states.

The staff of the Waterfront Commission was drawn extensively from the Crime Commission itself, which in turn had absorbed not only the ONI's B-3 unit but also the remnants of Dewey's special "racket-busting" squads in the District Attorney's office, as well as their files and informant networks.

Crimefighters

Despite its high-powered crew of crime-fighters, the Commission's record has been dismal. With the continuing collaboration of New York and New Jersey law enforcement agencies, district attorneys, federal agencies such as the FBI, Customs, and the Coast Guard,

the Commission's targets have been primarily low-level union officials.

The Commission appears to be more interested in union-busting than crime-busting. The agency's efforts increased noticeably when it was officially incorporated into the Justice Department's Organized Crime Strike Force. The Commission is credited with having lent invaluable assistance to the FBI's Unirac ("union-racketeering") investigation which later branched out into Brilab. The Commission is said to have provided intelligence on criminal activities along the entire Atlantic seaboard and in the Gulf ports!

Grab for metropolitan airports

In 1970, the Waterfront Commission attempted to extend its jurisdiction to include the metropolitan airports in the bi-state area. The move was made based on the Commission's assertion that it could do for the airports what it claimed to have done for the docks: eliminate organized crime. The Commission's grab for the airports was accompanied by a press campaign concerning mob-domination of predominantly Teamster unions at the airports. Although the legislation enabling the takeover was passed in both states, the Airport Compact remains stalled in the U.S. Congress, where it is considered an issue "too hot to handle."

In a strange twist of events, the man credited with putting the Airport Compact on hold was assistant to the executive director of the Waterfront Commission, James J. Davitt. Davitt testified just one day before the close of the congressional hearings because, he said, "many pressures both subtle and blatant would have been exerted" on him.

Davitt's testimony was a shock to all. He had been one of the four-man team from the Commission which wrote the enabling legislation. Davitt claimed that he had "lost faith" with the Waterfront Commission; he charged that of 100 major theft cases, "not one had been solved." He accused then-Commissioner Joseph Kaitz of conflict of interest for practicing law while at the same time being a law enforcement agent. Davitt testified that the Commission had "naively" helped a Mafioso obtain a Certificate of Good Conduct from the New York State Parole Board, thus enabling the convicted criminal to hold union office.

Ironically, Davitt's charges led then-Rep. Edward Koch (D-N.Y.) to tell his congressional colleagues that it was "clear that unless and until the present executive director William Sirignano and Commissioner Joseph Kaitz are removed, we cannot expect the New York-New Jersey Waterfront Commission to do an adequate job."

Since becoming Mayor of New York City, however, Koch has had precious little to say on the subject, and, not surprisingly, has done even less.

A rogue's gallery of Dewey operatives

The roster of officials and associates of the New York-New Jersey Waterfront Commission tells much about the "special relationship" between federal agencies, the Commission, and organized crime:

- **"Mr. Waterfront" Joseph Kaitz.** More than any other member of the Waterfront Commission, Joseph Kaitz represented the Dewey-ONI-mob alliance transition from wartime into a new civilian vehicle. Known as "Mr. Waterfront," Kaitz served for five consecutive terms (1962-1978) as the New York commissioner of the agency.

He began his career in 1936 as an investigator under New York City Special Rackets Prosecutor Thomas E. Dewey, helping to put Lucky Luciano behind bars. Kaitz then worked with Dewey in the District Attorney's office until 1942 when he, like so many others in the Dewey staff, joined the ONI. Until his discharge in 1946, Kaitz was in the B-3 unit functioning as the case officer and liaison to Meyer Lansky lieutenant Joe Adonis. He later served as a confidential investigator in occupied Germany.

After the war, Kaitz was appointed Deputy Commissioner of the New York State Liquor Authority and then served as assistant director of the state's civil defense commission. Once Dewey was able to establish the Crime Commission, Kaitz was brought on as its chief investigator, and quickly reassembled the key operatives from the old B-3 unit into the Crime Commission, and thence into the Waterfront Commission. Accompanying Kaitz were:

- **Paul Alfieri**, an early B-3 operative who specialized in "black-bag" jobs and handled the delicate on-line coordination between government agents and waterfront mobsters;
- **William Sirignano**, who served under both Dewey and Frank Hogan in the District Attorney's office;
- **Thomas Jones**, who left the Federal Bureau of Investigation—along with several others—to join Alfieri and Kaitz at the Commission.

In addition to the Dewey-Dulles "spooks" network, were the political hatchetmen for whom the Commission was a stepping stone or safehouse between deployments. These included:

- **Justin Finger**, assistant counsel to the Waterfront Commission in its early years, now head of the Anti-Defamation League's Civil Rights Division.

- **Whitman Knapp**, who prior to joining the Commission as a special consultant, was a deputy assistant D.A. in New York City and then joined the law firm of Donovan, Leisure, Newton and Lombard. Knapp was also a member of the D.A.'s staff from 1942-50 and as such undoubtedly had dealings with the ONI's B-3 group. Following his stint with the Commission, he was a member of the state commission revising penal and criminal codes and then became the chairman of the Knapp Commission to Investigate Allegations of Police Corruption in New York City. The Knapp Commission "reformed" the New York Police Department, primarily by crippling its ability to engage in traditional law enforcement.

- **Whitney North Seymour**, partner in the law firm of Simpson, Thatcher, and Bartlett, Seymour served as a special consultant to the New York State Attorney General during the waterfront controversy in the 1950s and provided advice to the Commission in its early years. He is a board member of the cold-war-promoting Freedom House, the oligarchic cult-society the Order of St. John of Jerusalem, and was appointed U.S. Attorney for New York during the Nixon administration. From the post he effectively blocked investigations into the Lansky-Dewey-Resorts International gambling operations in the Bahamas.

- **Myles Ambrose**, executive director of the Commission in the early 1950s, Ambrose later became the head of the Office of Drug Abuse Law Enforcement, which is credited with more botched narcotics cases than any other agency. He had also served as U.S. Commissioner of Customs and is rumored to have been a political angel to the careers of Abscam prosecutor Thomas Puccio and John Fallon. The latter was forced to resign from the DEA's regional office after being implicated in a number of heroin shipments smuggled through Kennedy International Airport.

- **Nicholas Scoppetta**, presently the New York representative to the Commission, formerly the assistant New York City D.A., Scoppetta made his reputation when as associate counsel to the Knapp Commission, he successfully "turned" Detective Robert Leuci to set up his fellow police officers and then testify against them. As a reward Scoppetta was made special assistant U.S. Attorney, then Commissioner of Investigations for the City of New York under two mayors and the Deputy Mayor of New York City Criminal Justice. He is currently a professor at the New York University School of Law and Executive Director of the Institute of Judicial Administration.

National News

Behind the latest airline disaster

The world's most successful economic forecaster, Democratic Party figure Lyndon H. LaRouche, Jr., describes the July 9 Pan-American commercial airliner tragedy as "the latest in a pattern of increased fatalities which began just after the inauguration of Jimmy Carter."

Larouche isn't joking about what he calls the "Trilateral Factor" in the worsening plight of the air-traffic industry. "It is the problem airline pilots and many other categories of professionals have been attempting to pound into the heads of Congress for years. It is what is sometimes called the 'factors of increased risk,'" he said.

The two principal factors of increased risk added by the Carter administration itself, Larouche emphasizes, have been "Carter's lunatic obsession in pushing through air-traffic deregulation" and Carter's support for the policies of Federal Reserve Chairman Paul A. Volcker. "These factors hit an air-traffic industry already savagely weakened by the after-effects of the 1973 petroleum crisis. It is also significant that environmentalists' pressures and budgetary pressures almost killed off urgently needed improvements in airports and the air traffic control system."

LaRouche supporter to oppose Wallop

Richard Redland, Jr., a cattle and sheep rancher and a supporter of *EIR* founder Lyndon Larouche, announced his candidacy July 13 for the Republican nomination for U.S. Senate from Wyoming, against incumbent Malcolm Wallop, sixth cousin to the Queen of England.

Redland is challenging Wallop to a debate. Redland stated that he will make Wallop's role on the Senate Ethics Committee, which forced the resignation of Abscam victim Sen. Harrison Williams of New Jersey, a major campaign issue,

because of the implications of attacks on the constitutional government of the United States.

Wallop is also a supporter of Federal Reserve Chairman Paul Volcker's high-interest-rates policy, which is destroying American agriculture.

Redland will make support for the continent-wide water development program North American Water and Power Alliance a major campaign plank, due to the fact that British-connected financial interests are attempting to "lock up" control of the West's resources.

'Restore science to Natural History Museum'

Mel Klenetsky, Democratic candidate in New York for the U.S. Senate, has announced that he is initiating a "commission to restore science" to the American Museum of Natural History in New York City. Klenetsky, who is backed by the National Democratic Policy Committee, made the announcement July 15 after he led a fact-finding team, including specialists in anthropology, through the museum to investigate charges of racialism in the exhibits.

Before World War II, Klenetsky said, the museum had functioned as a center for the dissemination of race-science tracts directed against admitting Jews and Eastern and Southern Europeans into the United States. It was also a headquarters for outright pro-Nazi propaganda through the Eugenics Congress meetings held there in 1921 and 1932.

"What we found today convinced us that such racism has persisted," Klenetsky said. "To give just a couple of examples: All the exhibits on the evolution of man portray primitive man with Negro features while modern man—*homo sapiens*—is shown with 'Nordic' features. In fact, what Neanderthal Man looked like cannot be determined from skulls and fossils. But the museum shows him as negroid, perpetuating the idea that black equals primitive.

"None of the great city-building and world-trading cultures of Africa are por-

trayed in the large Africa exhibit—just primitive tribes. The bestial Aztec civilization is glorified as a cultural high point, instead of the destruction of formerly high-level Mexican civilization."

Klenetsky also noted the bias of current exhibits showing man as a "polluter" rather than an improver of nature. He is running in the Sept. 23 Democratic primary against Sen. Daniel Patrick Moynihan, a protégé of the Harriman family, which inspired many of the museum's pro-Nazi activities during the past 50 years.

Mazzoli bares bill's eugenic intent

Congressman Romano Mazzoli (D-N.Y.), cosponsor of the Simpson-Mazzoli immigration-restriction bill, told the European Parliament in Strasbourg June 23 that his bill, while drastically cutting Mexican immigration, would facilitate access to the United States by Western Europeans. The London *Times* reported that Mazzoli claimed his bill would drop all visa requirements for entry into the United States by citizens of any Western European nation but Portugal.

Conceived by the Citizens Commission for Immigration Reform headed by Pamela Harriman, wife of Averell Harriman; Father Theodore Hesburgh of Notre Dame University; former World Bank president Robert McNamara; and AFL-CIO head Lane Kirkland, the Simpson-Mazzoli bill would require all American employees to carry work cards. That policy was pioneered in Nazi Germany.

By explicitly trying to restrict only non-European immigrants, Mazzoli has demonstrated that his bill is identical in intent to the racist immigration bills sponsored by the Harriman family in the 1920s. Those bills, which excluded non-"Nordics" from entering the United States, prevented over 3 million Jews from entering the United States of America after those Jews fled Nazi Germany and Nazi-occupied parts of Europe.

On June 28, the San Francisco Board of Supervisors went on record as oppos-

ing the Simpson-Mazzoli bill, by a 7 to 2 vote. The Board cited the bill's potential adverse impact on family reunification, labor, and due-process rights. The Board of Supervisors of Alameda County recently took similar action against the bill.

Psychiatrists penetrate the Secret Service

A reorganization of the U.S. Secret Service is currently being carried out by a committee of psychiatrists, the Task Force on Behavioral Sciences and the Secret Service, which has direct connections to the fascist Propaganda-2 Freemasonic Lodge of Italy (see page 35).

The task force has established access to Secret Service files on the basis of its "external committee," formed to advise the Secret Service on how to evaluate its intelligence and train its agents according to "behavioral" and "management" specifications. Members of the task force had access to the files before the attempted assassination of the President by John Hinckley, Jr. last May.

Dr. Marvin B. Wolfgang of the University of Pennsylvania's Department of Law and Sociology, a specialist on terrorism, and a participant in the task force, has urged the Secret Service to upgrade its monitoring of so-called ideological, European-style terrorists, a necessary step, but also to limit monitoring of what are in fact domestic "Manchurian Candidates" like Hinckley. Investigations of the network of psychiatrists at the Evergreen Associates in Evergreen, Colorado, where Hinckley received extensive behavior-modification treatments, are thus being diverted by the task force.

Wolfgang is a long-term associate of Dr. Franco Ferracuti of Rome, a member of Propaganda-2 and at one point a consultant to the Italian government on terrorist groups including the Red Brigades and "lone assassins." It is possible that Ferracuti may now have access to Secret Service files as well.

Wolfgang and Ferracuti are also collaborators of Dr. John MacDonald, an

expert on "presidential assassination syndromes" and a leading figure in Colorado psychiatric networks.

Congress misses the boat on Volcker issue

Senate introduction of an "Interest Rate Reduction Act" on July 13, coupled with House Banking Committee hearings on renewal of the Credit Control Act during the same week, exposed the weaknesses of the congressional fight against high interest rates. As administration and Fed witnesses admitted at the House hearing, purely domestic approaches to high interest rates ignore the overriding impact of the inflation-generating, currently uncontrolled Eurodollar market.

The Interest Rate Reduction Act (S.2726), introduced by Sen. James Sasser (D-Tenn.), would establish a "dual-prime-rate" policy to be put into effect by Federal Reserve member banks. Commercial banks would be encouraged to voluntarily offer a "small-business prime rate," that is, a lower rate on loans to small businesses, farmers, and home buyers who do not have access to national financial markets as larger corporations do. Sasser cites a 1974 effort by the Federal Reserve Board under Arthur Burns as his model. The legislation would also mandate a major loosening of credit by the Fed by changing its target for money growth from the current range of 2.5 percent to 5.5 percent to a range of 9 percent to 10 percent for 1982.

Sasser's legislation would likely have the opposite effect than intended. When Burns tried this same tactic in 1974, banks simply stopped lending to the smaller, "less desirable customers" rather than giving them lower interest rates.

Larger customers continued to have access to loans or turned to unregulated markets such as the Eurodollar market.

This same point was made by Federal Reserve Board Vice-Chairman Preston Martin and Treasury spokesman Manual Johnson in the House Banking Committee hearings, in which they argued against the reinstatement of credit controls.

Briefly

● **CLEMENT ZABLOCKI**, Chairman of the House Foreign Affairs Committee, has called for U.S. arms sales to Iraq, by way of the Gulf states, to stop Iran. This is the first breach in so-called U.S. neutrality toward the war.

● **MICHAEL LIEBIG**, one of *EIR*'s senior European correspondents, and *EIR* Washington Bureau Chief Richard Cohen gave a briefing in Washington July 15 on "Why the U.S. is Not Responsible for Eurodollars." In attendance were representatives of the Controller of the Currency's Office, the ICA, the GAO, private financial consultants, and diplomats from 10 countries. The United States, they reported is only responsible for dollar-denominated credits issued under U.S. regulatory control.

● **ALFRED BLOOMINGDALE** has received a memorandum warning him of the risks of retaining mob lawyer Roy Cohn as one of his attorneys in his "palimony" case, according to reliable sources. One of Cohn's specialties is urging his divorce clients to give him full "dossiers" on their spouses' financial and other connections, information Cohn has been known to subsequently reveal to the media.

● **CLAIBORNE PELL** (R-R.I.), the only Club of Rome member in the Senate, asked Secretary of State nominee George Shultz during confirmation hearings July 14 whether it wouldn't be an excellent idea to bring teams of psychiatrists on all negotiating meetings with the Soviets. Senator Pell, when attending a meeting of the United Nations Institute for Training and Research (UNITAR) in 1980 in New York City, told an *EIR* reporter that he was "too spaced out to talk." He proceeded to walk into a wall.

Editorial

The Buckley loyalists to Khomeini

State Department Councillor and recent Assistant Secretary of State for Security Assistance James Buckley is a problem. He was one of those Haig appointees who first got clearance from the Israeli Embassy in Washington before his name was placed on the nomination lists. The purpose of initial appointment was to continue the same disastrous foreign-policy projects which made the Carter administration look like the Roman Empire under the reign of Caligula's horse.

Look, for instance, at the current Iranian offensive against Iraq and the tremors registered in every pro-U.S. government throughout the Gulf. Khomeini's current offensive would not have been possible were it not for a bunch of traitors in Washington who, for lack of a more derogatory term, shall be referred to as "Buckleyites." These Buckleyites are guilty of at least two major crimes with respect to the current Khomeini assault against U.S. interests in the Gulf area. First, they have been responsible for permitting the almost continuous shipment of weapons from the United States into the hands of the Khomeini regime for the last two years. Second, they are telling the President that the United States should keep away from supporting Iraq against Iran.

The ranks of the Buckleyites include the Swiss-born and -trained Mr. Fred Iklé at the Defense Department, Michael Deaver in the White House, and William Casey of the CIA. Persons in the administration who subscribe to the Heritage Foundation's brand of "conservatism," or who receive counsel from Haig's erstwhile English teacher, William Safire of the *New York Times*, generally fall under the category of "Buckleyite."

To make a long story short, we refer the reader to earlier documentation supplied by *EIR* on what is involved in this insane support for the Khomeini card within the U.S. government. When Haig was Commander-in-Chief of NATO, in arrangement with Zbigniew Brzezinski he sent Gen. Robert Huyser to Teheran for the purpose of ordering the Shah's General Staff not to employ military means against the Khomeini revolt. Within days of Huyser's departure from Teheran, Khomeini had been installed in power.

The installation of Khomeini was a major British

intelligence project carried out with the active prodding of Israeli intelligence and significant but secondary participation of the Soviet KGB. It is well known that most KGB assets in the Middle East for most of the post-World War II era have been British intelligence assets "on loan" to the KGB. The "loan" is symbolized by the notorious H. A. R. "Kim" Philby, the British intelligence "triple agent" who now serves with the rank of general in the KGB.

This old story brings us back to the ironies of the present crisis: James Buckley, Fred Iklé, Bill Casey, the British Tory government, the Israeli government, and the Andropov-KGB circles in Moscow all agree that the United States must not and cannot oppose Khomeini's assault against Iraq. Also, Buckley, Iklé, Casey, the British and Israeli governments, and the Andropov-KGB circles are all agreed in their hysterical howls that the United States must not send any forces to rescue the tormented nation of Lebanon from its present misery.

This marvelous agreement among so many seemingly diverse rascals is not surprising. If you wish, dear reader, to locate the secret of this harmony, you must dig deep to discover what hides behind the murder by hanging of a prominent Italian banker, Roberto Calvi, under the Blackfriars Bridge in the City of London in mid-June. That death was the result of a ritual murder ordered and carried out by a Freemasonic lodge with which Alexander Haig has been associated at least since the time of his tenure as Commander-in-Chief of NATO. That lodge, the Grand Lodge of London, whose head is the Duke of Kent, spawned an operation in Italy called the Propaganda-2 Lodge, for specialized warfare against the Pope's influence within the Vatican.

Haig, Buckley, Casey, and others share the common distinction (together with Brzezinski) of belonging to a very distinct Catholic opposition to the Pope; they are members of the Jesuit-inspired "American heresy" cult which, in alliance with the Anglican Church, headed by the Queen of England, has been fashioning policies for the use of religious fanaticism in the service of reshaping the political map of the world. Hence their loyalty to Khomeini.

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