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Executive Intelligence Review

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EIR

From the Managing Editor

In a message to Citibank's Chairman Walter Wriston featured in this week's Economics section, *EIR* founder Lyndon H. LaRouche, Jr. encapsulates the fundamental truth about the world today: The international financial system is bankrupt; the so-called solution of the International Monetary Fund does not exist; and the only choice for American bankers, or anyone else, for that matter, is between giant defaults and chain-reaction collapse on the one hand, or the LaRouche-proposed gold-backed monetary system, low-interest-rate debt reorganization, and American System dirigist policies for large-scale industrial infrastructural projects worldwide.

With the Sept. 1 bank nationalization and exchange controls, Mexico went almost as far as any one nation can go in bringing about LaRouche's proposals—to the great enhancement of President José López Portillo's standing with the business, peasant, and labor sectors of the Mexican population, as we document in our Special Report. Mexico's move to extricate itself from the IMF's debt trap has prompted important moves from the rest of Ibero-America's leadership toward the next step: the continent-wide Common Market proposed by Lyndon H. LaRouche. In the words of Brazilian Planning Minister Delfim Netto, one of the most powerful officials in Ibero-America's largest and most populous country, Brazil and its credit-poor neighbors will prosper and develop if they adopt the strategy of "putting their crises together" and striking, for example, oil-for-capital-goods swap agreements between Mexico and Brazil.

An effort to mount a counterstrategy has been under way since the early-September IMF meeting in Toronto, and we document this faction's policy maneuvers with reports on three major conferences: those of the Mont Pelerin Society, Le Cercle, and Georgetown University's CSIS think tank. Next week we plan to publish a dossier on Mont Pelerin and its best-known member, Milton Friedman.

Susan Johnson

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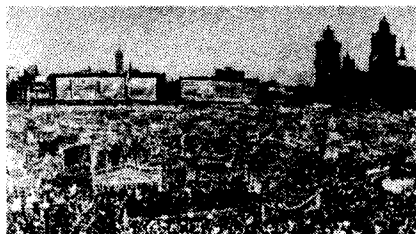
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Correction: In the *EIR* of Sept. 28 in the article "Japan Debates Its Response to the Ibero-American Debt Crisis," the years are mismarked on Figure 3, "Japanese Overseas Loans and Investments Mushroom." The years indicated by the bar diagram should be 1977, 1979, and 1981. They are mislabeled 1977, 1978, and 1979.

In the National section of our Sept. 28 issue, we incorrectly reported that Minnesota's Democratic-Farmer-Labor party had endorsed marijuana decriminalization at its last convention.

Wharton Econometrics tries forecasting hoax

by Lyndon H. LaRouche, Jr.

Spokesmen for the *Executive Intelligence Review* may have lessened the danger of international financial chaos Sept. 23, by discovering and exposing a hoax circulated by the U.S. forecasting service, Wharton Econometrics, Inc.

Through parallel, high-level meetings with officials of several nations Sept. 23, *EIR* executives simultaneously uncovered the conduiting of dangerous financial-economic disinformation by Wharton. If such disinformation were to influence policies of debtor nations' financial planning and creditor financial institutions, an added degree of chaos would inevitably be introduced to the present international financial crisis.

Discovery of the widespread Wharton hoax come in reactions obtained to the latest data on the rising, double-digit-percentile rate of collapse of U.S. investment in goods-production. Wharton's widely circulated recommendations to various developing-sector-nation clients and to others, had willfully falsified U.S. data, to show a reported "slight economic recovery."

On this basis, Wharton had indicated to developing-sector-nation clients a rate of export earnings from primary-commodities sales far above the actual levels consistent with present, worsening U.S. and Western Europe trends. If such lies had continued to be believed by such nations and their foreign bankers, a dangerously aggravated situation in international financial markets would have been caused.

The exact nature of this danger is highlighted by the content of other discussions, background discussions which *EIR* executives have been holding with Swiss and other fi-

ancial spokesmen during the recent days.

Excepting fanatics, such as the "Chicago School" variety of monetarists, and such as Fabian Society spokesman Friedrich von Hayek's Mont Pelerin Society, it is generally understood that it is now physically impossible to save the International Monetary Fund and World Bank in their present form. It is agreed, in the overwhelming majority of leading financier circles, that there is no possibility that "IMF conditionalities" and related measures could "roll over" approximately \$1 trillion worth of international debt threatened with default during the months immediately ahead.

It is also the consensus among competent financial authorities, that the only alternative to a general collapse of the world's financial structures would be a comprehensive debt reorganization. This, it is understood, would have to be an "across-the-board" rescheduling of outstanding debt—especially Third World debt—at interest rates of approximately 2 percent per annum.

Lies such as the Wharton hoax have the practical effect of encouraging governments and lower-level banking circles in the delusion that the recent financial crisis might be successfully managed with a combination of "increased IMF authorities" and "case-by-case" negotiation of "IMF conditionalities" with key debtor nations. Fostering such delusions means that it becomes more difficult, if not impossible, to undertake the kind of "across-the-board" debt reorganization needed to forestall an imminent general financial collapse.

More narrowly, if debtor nations and their bankers were to be hoodwinked into accepting Wharton's lies about "on-



Jerry Frank/United Nations

Brazilian sugar-cane harvest. Third World policy-makers are being lied to about commodity-export prospects.

going U.S. economic recovery," those bankers and debtors would be encouraged to enter into the kind of agreements which would catch both parties unprepared for unexpected, but inevitable major defaults during as early as the coming weeks.

The continuing U.S. depression

In December 1981, the quarterly forecast I and my associates issue warned of a 7 percent rate of decline of tangible-goods output in the U.S. economy during 1982; since December, the industrial production index for the U.S. economy has fallen at a 6.7 percent annual rate. All other computer-based forecasts foresaw a several-percentage-point rise in industrial output. This highly-accurate forecast was premised on the continuing effects of the insane Volcker monetary policy on U.S. industry.

However, we also warned that a general financial crisis would ultimately follow upon the Volcker policy, resulting in much faster rates of economic decline. Present indications are that the rate of economic decline stands to accelerate, not recover. The 4 percent drop in durable-goods orders in August, and the thirteenth consecutive fall in the order backlog of industry, brought to public attention what was obvious from close scrutiny of the data: the entire capital-goods sector of industry has collapsed, led by the machine-tools sector, whose present order backlog is half of last year's, and steel, whose capacity utilization rate in September was 39.8 percent, the lowest since 1936, and half of that of September 1981. Consumption of steel by the heavy-equipment sector

is now 30 percent below last year's, indicating that capital goods manufacturers are working off their final orders, without renewing raw materials orders.

What rules out any prospect of recovery is that interest rates paid by manufacturing corporations and farms have not declined, despite the sharp drop in the ultimate investment of flight capital, U.S. short-term Treasury securities. Fear of a general banking crisis has dried up normal sources of banks' funds, and American banks now must pay Eurodollar interest rates 6 percent higher than the Treasury bill rate to obtain funds; with a prime rate still at 13½ percent, barely higher than the banks' own real cost of funds, the effective borrowing charge for most U.S. credit users is over 15 percent. Since the depression has wiped out corporations' ability to raise prices to compensate for debt-service cost, the interest burden remains the highest since Volcker took office.

Wharton forecasts generally

Wharton users generally are somewhat like the fellow who discovered that his wife was really an orangutan after 25 years of happily married life. Finally convinced of the fact by experts, the husband shook his head slowly, "She may not be a real woman, but I'm sort of used to her. What you say is probably right, but I'd rather just keep the marriage the way it is."

Since U.S. Federal Reserve Chairman Paul A. Volcker first introduced what he labeled "controlled disintegration of the economy," during October 1979, Wharton Econometrics, Chase Econometrics, Data Resources, and U.S. governmental forecasting agencies have consistently produced absurd forecasts for the U.S. economy, each and every quarter. Nonetheless, these forecasts continue to be widely accepted, on the apparent assumption that they "may be incompetent, but we still view them as authoritative."

Intensive studies of all these econometric forecasts by a team of scientists and economists has shown why econometrics is intrinsically incompetent for dealing with anything but very short-term, limited-scope applications. Even those conditional successes demand relatively stable trends in the economy and markets generally. Under high rates of economic growth, or rapid economic contraction, econometric methods become worse than useless.

The complicating factor in published private and governmental econometric forecasts is the fact that all such reports are heavily doctored. Dr. Lawrence F. Klein, the "father" of the Wharton model, describes the massive doctoring of computer print-outs as "tender loving care," in his book on the subject. The only significant difference among the Wharton, Chase and Data Resources forecasts is the slight difference in emphasis in the manner the producers "doctor" the computer output for publication.

In the recent case, Wharton Econometrics went way beyond the usual degree of "doctoring" of data output. It has resorted to massive, politically motivated fraud, and has been just caught red-handed by several governments in the act.

Will Venezuela follow Mexico?

David Goldman, Economics Editor, reports on his recent trip to Caracas and the choices facing the Herrera Campins government.

Venezuela's Christian Democratic President Herrera Campins, despite \$14 billion in flight capital from the oil rich country in the past two years, has rejected plans offered him from a number of quarters to impose exchange controls in imitation of Mexico, whose controls program of Sept. 1 has eliminated 90 percent of Mexico's flight capital and permitted a sharp lowering of interest rates. Venezuela's failure to obtain a \$3.5 billion "jumbo" credit, scuttled on the Euro-markets in the wake of the Mexican measures, and, more fundamentally, the predicted effects of economic depression on oil earnings, have heightened the outflow of capital.

Despite the half-century record of stability in the Venezuelan bolivar's parity with the dollar, a major devaluation is inevitable before year-end should the government maintain its stoic posture on exchange controls. The question is not whether Venezuela will impose controls, but whether it will do so after a shattering devaluation—as Mexico did—and whether its leaders will be able to pick up the pieces afterwards, as Mexico's leaders have shown they can.

Only the most forward-looking and the most backward-looking individuals inside the Venezuelan government understand that the brewing crisis has less to do with whatever short-term measures it takes than with a basic crisis in the international banking system. A few are looking towards a Mexican-type program applied to the entire Ibero-American continent, that is, an Ibero-American Common Market; Planning Minister Maritza Izaguirre's interview with *EIR* in September at the Toronto IMF meeting, expressing support for Mexico against international pressures, reflects the President's own viewpoint and that of most of his government. Some well-placed government officials, however, flatly predict that Venezuela will be ground up in the crisis.

But the government has yet to come to grips with the fact that the superficially encouraging monetary situation—the lowest inflation rate and the most stable currency on the continent—was bought at the expense of precisely those industrial and technological resources which might equip Venezuela to withstand the crisis almost at hand. Former President Carlos Andres Pérez, whose Social Democratic government gave way to the conservatives under Herrera Campins in 1979, had begun a broad, but formless, campaign of industrialization. Under the impetus of the Venezuelan central

bank, the continent's most monetarist outside Chile, the new government raised interest rates and reduced industrial investment, reducing industrial production by roughly half in the last three years. But the central bank's stringency did not apply to the eye-popping levels of speculation on the Caracas real estate market, where condominium prices rival those in New York, or other wild excesses.

Central bank takes first defeat

The Herrera Campins government last month bucked the central bank for the first time since taking office, approving a \$2.2 billion steel and coal mine project in Western Venezuela. The project is not merely important for Venezuelan industry; metallurgical coal, which the continent has in abundance, remains an undeveloped resource. Although the Ibero-American countries can not smelt enough steel to meet their entire requirements, they still must import 6 million tons of metallurgical coal, the only significant trade dependency in the entire area of industrial materials. Like a similar project underway in Colombia, the Zulia coal and steel project would represent a strategic step towards continental self-sufficiency, a baseline requirement for the ultimate success of a Common Market that might have to stand up against virtual total trade war from the United States and perhaps other industrial nations. The project will include a mine producing 4 million metric tons per year by 1992—a target year capable of moving forward—potentially meeting two-thirds of continental requirements, as well as a 480,000 ton flat rolling mill.

Especially significant in the long-delayed decision to advance the project is that it was taken in the face of bitter, open opposition by central bank president Leopold Díaz Brazual, who called it "unnecessary and costly." It is a very tentative move: Two-thirds of the project depends on foreign finance that will likely not be available in present market conditions, and the government has yet to propose how to finance the external infrastructure required to provide access to the plant. Nonetheless it is as much an indication of re-thinking inside the Venezuelan government as the unqualified support for Mexico's sovereign decisions expressed for the public record by Planning Minister Izaguirre, and reiterated to this writer in private conversations with a number of senior officials.

The government's attention is still consumed in a comic-opera debate over the state of the present budget, in which the administration has coyly resisted central bank demands for austerity. Capital continues to flow out of the country, adding to the \$14 billion in private assets abroad of Venezuelan citizens—\$900 for every citizen of the country! Without exception, Venezuela among the leading Ibero-American countries has the least capacity to resist external pressures, and therefore depends most for its own future on the prospects for a regional Common Market. It has already vastly reduced industrial and related imports. Its present import structure is overwhelmingly oriented towards consumer goods, including food, more than half of which is imported. The import dependencies are astonishing; Venezuelan television features translations of U.S. commercials for dishwashing liquid, shampoo, and canned fruit!

A combination of balking by Venezuela's creditors, virtually certain as the confrontation between Mexico and the International Monetary Fund dominates Ibero-American debt questions, and further softening of world oil trade could throw the apparently stable economy into chaos overnight. The country's biggest problem is that only 1 in 40 of its citizens is an industrial worker, against 1 in 12 in the United States, and 1 in 6 in the Soviet Union, the latter two at much higher levels of productivity. Thirty percent of the population is rural, cut off by bad infrastructure from the cities, and largely excluded from the money economy. It is vastly overweight in terms of real estate, financial, retail, governmental, and other services, supported by oil revenues which have already dropped 20 percent over the past year.

Although Venezuela, until recently, was able to obtain the best terms of any Ibero-American nation on the Euromarket, the debate over the size of the country's debt was a hint that a submerged problem may surface in an unpleasant fashion very quickly indeed. The Finance Ministry last week disputed the claim that the total debt, estimated by another governmental agency, was \$34 billion, rather than the \$28 billion the Finance Ministry cited. In fact, the total debt, including the highly sensitive interbank market obligations of Venezuelan private banks, is probably closer to \$40 billion; if the private dollar debts of Venezuelan citizens were included, e.g., billions of dollars of mortgage debt against American real estate, the total would be even higher.

American bankers' biggest immediate worry with respect to Ibero-America is an uncalculated sum of short-term interbank loans, believed to total \$10 to \$15 billion, excluding Mexico; the Venezuelan portion is at least \$4 billion and perhaps \$6 billion. New York branches and agencies of Venezuelan, Brazilian, Colombian, and Argentine banks have booked interbank, i.e., federal funds, credit lines to most of the big New York banks and also foreign institutions' branches in New York, of \$5 to \$15 million apiece. In addition, their Caribbean outlets have borrowed heavily on the interbank deposit market. New York banks are now scrambling to transform these short-term loans into straight commercial

lines, under the control of their country-lending departments; but the possibility of a chain-reaction drawdown of such interbank lines haunts bankers, who fear a repetition of the Banco Ambrosiano's recent repudiation of the \$400 million obligations of its Luxemburg subsidiary.

Odd thinking at national oil company

The odd plan of General Rafael Alfonzo Ravard, president of the national oil company *Petroleos de Venezuela*, to divert 500,000 barrels a day, more than one-sixth of the country's production, to a special debt-amortization fund, will not be put into effect, because the country is moving into a situation where it can afford no such thing. But the thinking at the national oil company runs in jarring contrast to the Ibero-American perspective germinating elsewhere in the country. Its adviser, R. A. Irving Jahn, a Venezuelan-born Englishman who speaks Spanish with an accent resembling actor Robert Morley's, waved off the idea that Venezuela's problem was lack of industrial technology. "You can always find a mercenary engineer," he said in a Sept. 16 discussion at the oil company's Caracas headquarters. "The problem is administration. Small societies like Venezuela's are good at putting large numbers of blue-collar workers to breaking rocks, because you can whip them if they don't work hard enough; but they are very bad at putting large teams of white-collar people to administering large programs, because whipping an architect or engineer doesn't make them produce better. They have no motivation or training, and are mainly interested in making a great deal of money quickly."

Irving does not believe the International Monetary Fund will have much more success in dealing with Venezuela than it has had recently with Mexico. "The United States and the IMF are living outside the real world," he said. "They don't understand the force of nationalism. This means a breakup of the American imperial power; to understand this you must read Gibbon. And that is perhaps a good thing." But left-wing "Castroism" and right-wing reaction are, Irving concluded, the "upper and nether millstones" between which Venezuela would be ground up.

That alternative Mexican President Jose López Portillo averted, by breaking the back of the political forces who would contribute to such a conflict through the bank nationalization of Sept. 1. It is not excluded that Venezuela may become what Mexico refused to become: the hideous example to the rest of the continent that Irving described. And the errors of Mexican policy are magnified several times over in the Venezuelan case, i.e., neglect of infrastructure, industry, and agricultural productivity in favor of an import-based consumer boom with the durability of a paper boat in a tropical storm. At least in context of a mutual support program, of the sort that Venezuelan Minister Izaguirre suggested in her Sept. 7 interview with *EIR*, Venezuela may turn in time to avert the worst consequences of its past mistakes. But much will depend on what the Herrera government does in the immediate weeks ahead.

U.S. energy producers swallow the Aspen Institute's shutdown plan

by Paul Gallagher

A strange scenario is being circulated for the United States electric power industry, by a certain grouping of the anglophilic financial oligarchy particularly concerned with energy technology matters. These include Harlan Cleveland and Robert O. Anderson of the Aspen Institute, a post-industrial society control center, and circles backing the corporatist "Reconstruction Finance Bank" of Lazard Freres' Felix Rohatyn, which overlaps the notorious "Nuclear [Investors'] Club of Wall Street." Having organized and funded the environmentalist rampage against nuclear energy and then pronounced it economically dead through such investment counsellors as Merrill-Lynch, Lazard Freres, and Salomon Brothers, the Aspen post-industrial mafia is now forecasting a revival of nuclear construction and electric power demand at the end of the 1980s.

The signal for this new line—the carrot by which Wall Street is keeping the suckers, particularly institutional pension funds, invested in electric utility stocks—was the surprising decision in June, of the Edison Electric Institute (EEI), the utility companies' lobby, to circulate and promote nationally a report on the future of the industry by the Aspen Institute. The report advised utilities to take the following triple dose of hemlock.

- cut consumer demand (more conservation)
- postpone capital construction as long as possible, and
- fight for more rapid electric rate increases.

The Aspen report alleges that this strategy will promote a "long-term" revival of capital construction and nuclear power! But during such a five to six year "hiatus" for nuclear and other large electric capital construction, the current collapse in electric demand, until now caused by Federal Reserve usury against the economy, would become self-feeding.

The toleration of such a "strategy" itself indicates that the spectre of bankruptcy of even publicly regulated utility monopolies, still only whispered, is clearly already terrifying a lot of utility managements. These utilities, the largest single sector of capital spending in the U.S. economy, are being restructured, under organized investor pressure and Federal Reserve usury, to *avoid all further capital expenditure*. Because the chief victim to date has been *future* nuclear and coal construction plans, utility rate-payers and the general population have no idea of the long-term stakes. Consumers are being organized by Naderite groups to stop new plant

construction to "keep rate increases down;" but the Wall Street bond houses are telling utilities that new plant cancellations must be *linked to large rate increases* to keep up the utilities' book values and their "creditworthiness."

Volcker's usury threatens energy supplies

The slowdown of capital investment in the utilities sector due to Fed high interest rates is already having catastrophic effects on the national energy supply.

Since 1980, the National Electric Reliability Council has forecast an "inevitable shortfall of electric-generating capacity" in the nation's electricity grid by the mid-1980s, due to the sudden tripling (during the 1970s) of construction times for new electric plants. At the time of the first NERC warning, 53 nuclear plant orders had been cancelled in five years, against 13 new orders placed. Since that warning, new coal-fired plant construction has also stopped dead. In the four year period since 1978, 80 coal-plant orders were cancelled, nearly matching the 84 nuclear cancellations. New nuclear plant "commitments" to the year 2000 have dropped from 250,000 MW electric to 93,000 MWe today; but new coal construction commitments since 1979 are also virtually nil. Oil-fired capacity additions are, of course, not contemplated by utilities because of fuel price factors.

The cost, earnings, and capital problems of the nation's utilities during the 1970s show the Nixon, Ford, and Carter administrations deliberately allowing the oil crisis to destroy the electric power industry, in contrast to the policy interventions of the other major nuclear-producing nations. U.S. utilities' fuel and fixed costs rose from 15 percent to 33 percent of operating revenues during the 1970s; earnings as a portion of revenues dropped from 15 percent to 6 percent. As this was occurring construction costs for an average new plant—coal or nuclear—increased from \$120 to \$160 per kilowatt in 1969, to \$1,000-\$1,100 per kilowatt in 1980, a rise of almost 1,000 percent.

Since 1976, as capital plant cancellations multiplied under the "energy conservation" regime, national-average electric rates for both industry and households have risen continuously, ending 40 years of steady declines. Yet utilities were granted only 52 percent of requested rate increases since 1976, compared to 72 percent prior to that.

This catastrophic regression in rates was *not* the result of oil price increases. France, which has aggressively accelerated nuclear plant construction from the 1974 oil shock on, has continued to realize reductions in national electric-rate averages, through the May, 1982 figures released by Electricité de France. Rather, the U.S. electric rate regression is the result of allowing professional "interveners" stretch new plant construction times to 12-15 years, just as the cost of running older plants suddenly rose due to costlier fuels.

Destruction of power grid

The ongoing destruction of the nation's utility-centered "central station power grid," which provides not only electricity but also steam and process heat to industry, transportation, and residences, can be seen by looking more closely at the current capital construction pattern.

Utilities currently have three groups of nuclear plants in construction and planning to the year 2000, with additional figures for coal-fired plants very similar both in numbers and proportion among the categories.

First, there are about 50 to 55 nuclear plants now due for completion and startup during the next four years. These were planned before or during the 1973-74 oil shocks. Completion of all of these plants was considered certain until May 1982 when outgoing "environmentalist" Nuclear Regulatory Commissioner Peter Bradford made a prediction of abandonment of partly-built plants, which targeted several in the 40 to 70 percent complete category, including Philadelphia Electric's Limerick 2, and WPPSS' Unit 3. Nonetheless, utilities are pushing desperately to get these 50 to 55 plants on line. Interference with operating licenses for these plants is the current first trench of battle for reviving nuclear energy in the United States; these late-stage delays are forcing utilities to keep obsolete oil-fired plants on line well past their planned retirement dates. *Fusion* magazine in September 1981 estimated that delays to this group of plants alone would cost \$35 billion nationally by 1986.

The second category consists of 15 to 20 nuclear plants ordered after the oil crisis and now targeted for completion near the end of this decade. Three-quarters of this "generation" of nuclear plant orders has already been cancelled, as have nearly as many coal-plant orders. Since the Volcker depression hit in full force in late 1981, these cancellations have, for the first time, included plants already 10 to 25 percent complete. Another 15 to 20 plants are planned for completion during the 1990s. These plants, and a similar number of "1990s" coal-fired plants, were all stretched out from original completion dates no later than 1985. They exist "on hold," waiting to be cancelled under "investor pressure."

Utility plans would mean zero growth

The utilities' current plans, squeezed by usury and "electric rate farming" organized by certain investment houses, would force the entire U.S. economy into a long-term zero-growth strait jacket during the 1980s. At current rates, utili-

ties' capital construction will replace only about 15 percent (120,000 MWe) of U.S. electric-power capacity between now and 1990, during which time 20 to 25 percent of that capacity will pass obsolescence. This is a formula for collapse of the electricity grid. Because the power-plant fabrication industry is producing at less than one-quarter of capacity, and has virtually no orders from abroad, this production collapse would become irreversible by the time of the mythical late-1980s "demand revival."

The effect upon utilities themselves is already close to disaster. They fell \$7 billion short of their capital-raising plans for 1981. Average return on utilities' common equity had fallen from 11 percent to 5 percent over a decade of sabotage of construction times and costs.

During that period most state Public Utility Commissions, under Naderite pressure, have disallowed utilities from charging construction work in progress to their rate base. They are constrained to wait 12 to 15 years for return on investments made with bonds whose interest charges rose astronomically during that decade. The utilities have responded by a bookkeeping device, adding a yearly Allowance for Funds Used in Construction (AFC) to their return on equity.

This purely paper addition to book value, in anticipation of long-delayed cash flow increase to come at a plant's startup and addition to the rate base, is, in effect, borrowing by the utilities of their future rate revenues—not just their capital costs—from their investors. This is usury right out of the pages of 14th century history, "rate farming" by investment banks representing panicky pension funds and other investors.

Emergency credit needed

To revive the utilities financially, the entire 90,000 MWe of nuclear (and equal amount of coal capacity) currently "committed by 2000" can be treated as a single, urgently needed power package to be added as rapidly as possible—that is, by 1987-88, with additional new starts for completion by 1990. If federal government "participation credits" for this package, at 3 to 4 percent interest rates, were made available to utilities in the needed amounts, those utilities could carry temporary net excesses in capacity as standby reserve, while waiting for demand to catch up, as they have done in the past. If the same approach were taken to the far larger real demand overseas (the Third World energy deficit), the power-plant fabrication industry could be revived as well, toward its actual *short-term* capacity of 20-25 units of nuclear per year.

The cost of the total nuclear component of this construction, some 150,000 MWe by 1990, would not exceed \$200 billion. The savings in rates from reduced fuel cost would exceed \$200 billion. The savings to the U.S. Treasury from the creation of 1 million new skilled jobs directly in plant construction would approximate another \$200 billion.

Paul Gallagher is Executive Director of the Fusion Energy Foundation.

A visit to India's granary: Parson Malthus refuted

by Susan Brady, Agriculture Editor

The most advanced outpost of modern agriculture in India lies in the states of Punjab, Haryana, and western Uttar Pradesh, located in the area in northern India between the Pakistan border and the Himalayan mountain range. During a visit this summer I had the opportunity to see the region, talk with state agriculture officials and officials at the agricultural university, and meet with specialists in various disciplines at the Indian Agricultural Research Institute in New Delhi; I gained some insights into how the world's most populous democracy gained basic food self-sufficiency.

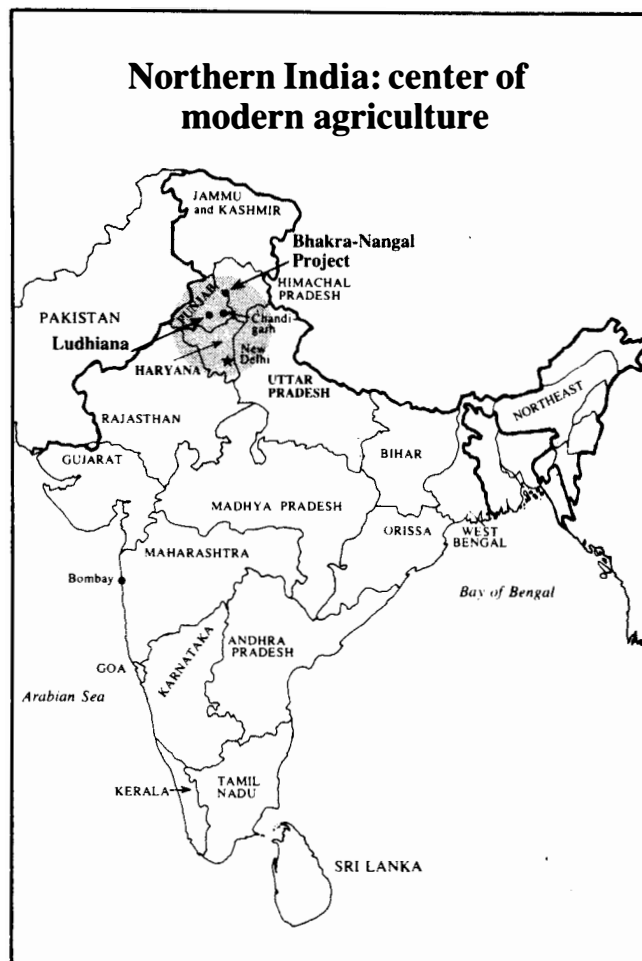
What I found shatters several important myths, first and foremost that of the inevitable "basket-case" condition of developing nations. India's agricultural modernization, a program premised on industrialization and agricultural science, is a model for every developing nation today. Were it reported on more widely and honestly, India's achievement since Independence would have contributed mightily to discrediting zero-growth and anti-technology advocates who have blocked progress in both the advanced and developing sectors.

There is another myth associated with such magical images as "miracle seeds" and "green revolution." As any American farm-producer knows and as I saw demonstrated plainly in India, there is in reality no miracle in the "miracle seeds"—the hybrid and high-yielding varieties. The individual farmer must have both the knowledge and the industrial technical resources to make them work. That in turn requires the kind of planned industry-vectored economic and social development that the World Bank-IMF strategists and the free-marketeers have teamed up to outlaw in developing nations.

The lay of the land

The road from New Delhi to Chandigarh and Ludhiana where Punjab Agricultural University, one of the three keystone "land-grant colleges" of India, is located, is lined with small, neatly tended fields that stretch across the flat land as far as one can see. Paddy transplanting of the rice crop was in progress as we drove through, and many of the fields were inundated.

As nowhere else in India, more than 85 percent of Punjab's cultivated land is under irrigation. The myriad canals, part of the old 19th-century Upper Ganga Canal System and the modern, post-Independence Bhakra-Nangal Project (the spectacular multi-purpose dam India's first Prime Minister Jawaharlal Nehru called India's "Temple of Progress" when he dedicated it in 1963), are supplemented massively with



plentiful groundwater supplies that lie just 35 feet below the surface.

The fields on either side of the road are dotted with tiny pump houses, which with a couple of trees form shady hubs, centers of activity and work, at intervals across the terrain. Most of the pump houses have electric lines running to them; a tractor is usually nearby, and when the electric power is cut, the farmer hooks up the diesel tractor engine to the pump. Not infrequently one also sees ancient bullock-powered water-lifting devices. All around the carefully fashioned paddy plots, the soil is parched and lying fallow in the 110-degree dry heat, waiting for the monsoon rains that were almost a month late at the time of our visit.

The Kharif campaign

In Punjab every crop is approached as a campaign, an organized mobilization to reach a set of goals. The Kharif Crop Campaign had just been launched, and despite the late monsoon, no one was predicting disaster. (Though there are three-and four-crop annual cropping patterns, *rabi* and *kharif* are the two main crops, analogous to winter and spring crops in the United States, and featuring predominantly wheat and rice respectively.)

During the preceding kharif season, rice production in Punjab had reached a new high of nearly 4 million tons. Once again, Punjab was the largest contributor to the National Food Reserve, an 18-million-ton stockpile the Indian government maintains, contributing 50 percent of the rice from the entire country. The newly harvested rabi wheat crop was expected to set a new record at 8.5 million tons, despite damaging unseasonal rains in April and May.

This was all outlined in the kharif campaign packet Punjab Agriculture Director Mukhtiar Singh gave us. "Massive Kharif Campaign Launched," the packet, which goes to every farmer and agriculture worker in the state, was headlined. The aim: to put nearly 1.2 million hectares in Punjab under high-yielding varieties of paddy, and make an all-out effort to boost per-unit productivity to maintain the nearly 4-million-ton production levels of 1981. As the written campaign materials detailed, plans had been made to assure the provision of sufficient quantities of fertilizers and pesticides, as well as diesel power and canal water, during the growing season. A system of short-term crop loans had been arranged to help farmers procure inputs. The Punjab State Seed Corporation had marketed a record amount of certified paddy seed, as well as maize, cotton, and pulse seed. The latter had increased threefold over a year earlier, in line with the government's push to bring down the country's edible-oil import bill.

We had a chance to spend some time with Mukhtiar Singh, a turbaned Sikh with a full white beard and commanding presence. How does it work? we asked him.

Education, backed up with a package of inputs—including everything from seed to fertilizer, pesticide, water, and credit, Director Singh told us, is the key to Punjab's agricul-

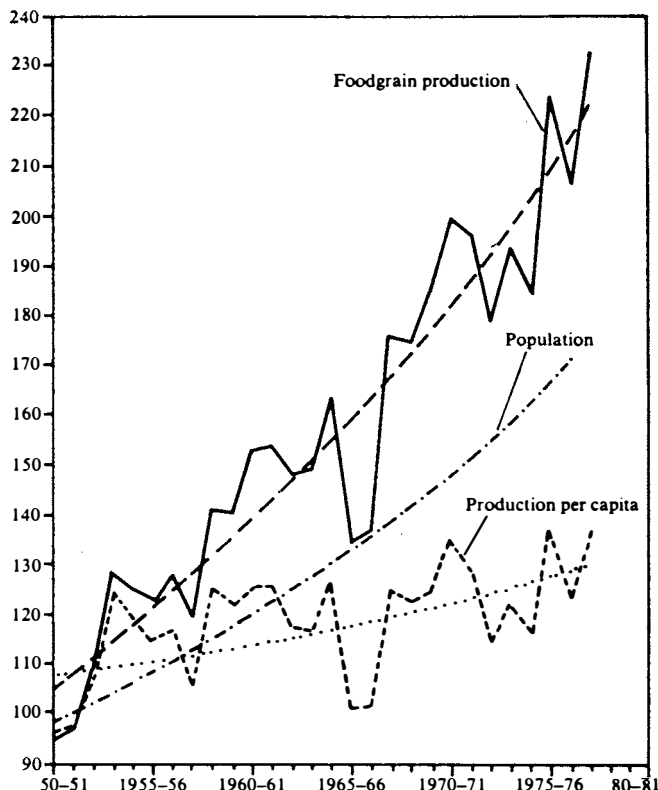
tural success. The Department operates a very active and far-flung extension program. Agents and organization are provided at the district and even block level, and, with the collaboration of the Punjab Agricultural University, constant contact and consultation are maintained with the individual farmer.

Each crop campaign is organized around a program that specifies targets for the crops, as well as projections of production cost and income, so that farmers can plan their individual planting pattern. Kits lay out the latest recommendations and techniques for most effectively raising each particular crop. During a campaign, before and during planting, a series of educational meetings draws in farmers, first at the district and then the block and even village level: the program is outlined, the latest research results are presented for practical application, plans and approaches are discussed, and problems identified.

The leadership abilities of state officials, and the effectiveness of their coordination with the university researchers

Figure 1
Major economic indices for India,
1950-51 to 1977-78

1950-51 to 1952-53 = 100



Source: *Food Trends and Prospects in India*, Fred H. Sanderson and Shyamal Roy, The Brookings Institution, 1979.

and farmers, stand out as a determining factor in whether production breakthroughs will be made and how fast. Director Singh continues a strong tradition in this regard, established by Punjab's first Chief Minister, Pratap Singh Kairon. It was Kairon who led "East Punjab," deprived of its best lands and most of the water-resource development by the 1947 British Partition, from a ravaged and food-short area to one of the pillars of the independent Indian nation. An engineer by training, Kairon had visited California and carefully observed the American system of agriculture. He worked closely with Jawaharlal Nehru to establish the land reform and lay the institutional and industrial basis for the tremendous strides Punjab took once the modernization policy was adopted in New Delhi in the early 1960s. In the 20 years from Independence until 1971, wheat yields in "East Punjab" tripled, while in Pakistan's "West Punjab" they remained stagnant.

Not everything is perfect in India's showcase granary. Power is the major concern, Director Singh told us, describing the status of Punjab's several-year-old request for a nuclear power plant in this mineral-resource-poor state. The overall power shortage, despite the fact that Punjab has the highest per capita energy consumption of any state in India

at 314 kilowatt hours per year, and the immediate needs of agriculture continue to force a complete shutdown of industries in some parts of the state, and power shutdowns for industry lasting 8 to 10 hours a day in other parts. Forced stagnation or decline in the industrial sector will quickly undermine agricultural production itself. The news, while we were there, that the power shortage had brought two fertilizer plants to a grinding halt is a case in point of the potentially disastrous longer-term consequences of short-term "adjustments."

Punjab's power crisis highlights the intimate interdependence between agriculture and industry. As IARI Director Dr. H. K. Jain explains in an interview published in *EIR* last week, *modern agriculture is essentially the extension of industry*, a fact obfuscated by ruralists in India and the rest of the world who intend to enforce the backwardness of traditional agriculture. As Dr. Jain emphasized to me, he is often surprised at the extent to which this is ignored or perhaps forgotten even in America, widely hailed as the epitome of "modern agriculture."

India's approach to marketing and pricing

The connection between agriculture and industry, which American System economist Henry Carey had insisted upon in the 1850s against Britain's proponents of "ground-rent" economics, came up again in a surprising context: farm prices. Knowing the severe problems American producers face in the below-parity prices of the so-called free market, I was curious about how India handled marketing and pricing.

What I found is that in the tradition of the early "American System," the Indian government takes responsibility for ensuring orderly marketing of farm products at fair prices. The major buyer is the Food Corporation of India (FCI), which stocks the National Food Reserve and runs "fair price shops" to ensure full distribution of grain supplies throughout the country as a whole. A small margin of grain is handled at premium prices through private trade, but the private traders are only interested in superior-quality grains. FCI enforces the prices set for the major crops by the Agricultural Price Commission on the basis of cost-of-production estimates and related considerations. Farmers think the prices are too low, and most agriculture officials agree, viewing the problem as a result of the slowed overall pace of industrialization in the country, a slowdown which has correspondingly slowed market expansion.

The first boost to Indian agriculture—long before the "miracle seeds" were brought from Mexico in 1963—was the commitment to build up basic industry and infrastructure as rapidly as possible established in the Second Five-Year Plan. It was attacked at the time by World Bank circles as "biased against agriculture." But since Independence, food production has increased steadily—from 50 million tons in 1950, to 100 million tons in 1970, and to the record 134 million tons in 1980 (see Figure 1).

In 1950, India produced 39,000 tons of nitrogenous fer-

Figure 2
Average yield trends, wheat and paddy, 1961-77

	1961-65 (Kg per hectare)	1977-78
Wheat		
World	1,205	1,600
Canada	1,379	1,822
Mexico	2,085	3,757
Argentina	1,534	1,477
China	882	1,270
Pakistan	833	1,475
Australia	1,227	881
U.S.S.R.	964	1,429
U.S.A.	1,700	2,046
India	835	1,394
Punjab	1,238	2,537
Paddy (unhusked)		
World	2,035	2,443
China	2,780	3,325
Japan	5,012	6,166
Burma	1,642	1,839
Bangladesh	1,680	1,796
India	1,480	1,873
Punjab	1,500	4,365

Source: *Punjab Agriculture*, Punjab Public Relations Department, November 1979.

tilizers; by 1970, fertilizer production had increased sixfold to 1.24 million tons, while consumption jumped eightfold to 2.56 million tons. Today, both production and consumption have more than doubled once more, and India has emerged as the world's fourth largest producer and consumer of nitrogenous fertilizer.

Moreover, from 1956 to 1971, the number of tractors in India doubled. In terms of the other critical input for modernization—water—in 1950, a total of 22.6 million hectares were under irrigation, mainly by surface water. By 1980, more than 50 million hectares had been brought under irrigation; surface water irrigation nearly doubled, and groundwater irrigation nearly quadrupled.

Even in the worst years for Indian agriculture, when India was forced to import grains in some quantity, at no time did grain imports ever amount to more than 5 percent of the country's food supplies. But while the overall production achievements correlate with scientific and industrial benchmarks, the process of agricultural modernization has been uneven across the country.

The states of Punjab and Haryana (and, to a much lesser extent, western Uttar Pradesh) supply all the surplus food grains for government procurement. No other state produces an appreciable marketable surplus. Crop yields in Punjab are uniformly at least double the all-India average, and rank favorably on an international scale (see Figure 2). Fertilizer use per hectare in Punjab is the highest of any state, at an average of 113 kilograms per hectare as of 1980-81. Next in line is Haryana, whose fertilizer consumption corresponds to the all-India average, at about one-third of the Punjab level. At the other end of the scale is Rajasthan, at about 11 kg. per hectare.

Similarly, Punjab has the most extensive irrigation, with the highest percentage of net irrigated area to net cultivated area of any state, and more than three times the all-India average of 27 percent. With Haryana, Punjab has the highest percentage of area under high-yielding varieties of wheat and rice. Likewise, doubling of tractorization in India between 1956 and 1971 was most accounted for by the expansion of tractor use in these two states

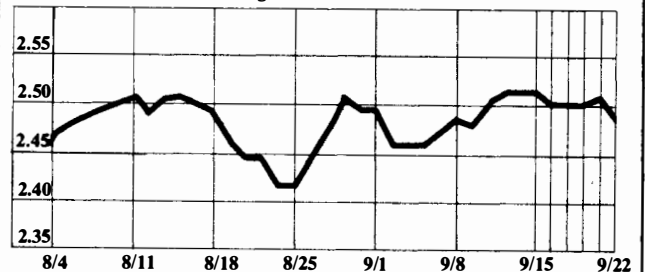
India could feed the world

The basis for extending the achievements won in Punjab and Haryana has been carefully laid in the research and extension infrastructure in each state, and as Dr. Jain emphasized, significant progress is already being made. In some cases major capital investments are underway or in the planning stage. The vast Gangetic Plain of Uttar Pradesh, now menaced by problems of flood control and climatic instability is potentially capable of feeding the entire world. In the west, the great Rajasthan Desert awaits greening with the completion of the huge Rajasthan Canal Project. The canal, one of the largest of its kind in the world, was initiated in 1958 and when completed, will bring more than 1 million hectares of land under irrigation.

Currency Rates

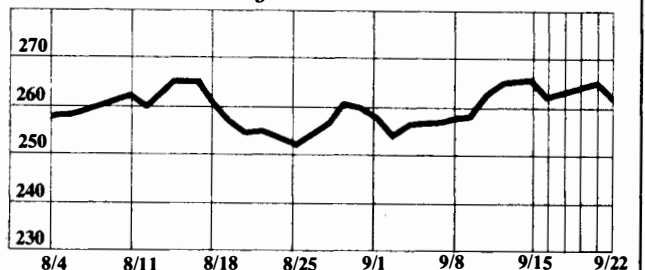
The dollar in deutschemarks

New York late afternoon fixing



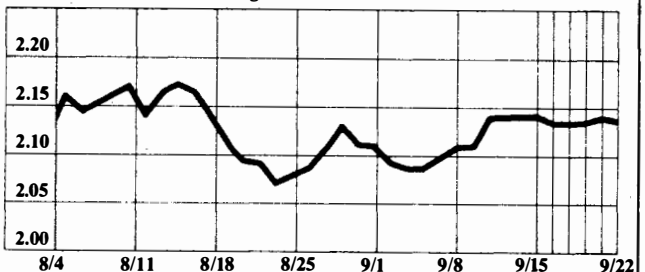
The dollar in yen

New York late afternoon fixing



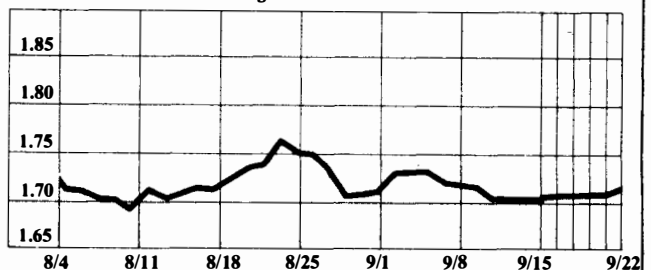
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



An open letter to Walter Wriston

by Lyndon H. LaRouche, Jr.

Leading British press are currently echoing the privately expressed opinion among leading financial authorities throughout Europe. A group of leading U.S. commercial banks, including Citibank, Chase Manhattan, Manufacturers Hanover, and Continental Illinois, are at the verge of collapse.

I do not rejoice at this news. Although the officials of these banks ordinarily judge themselves to be my adversaries, in some cases my avowed enemies, I am obliged to attempt to save these commercial banks for the sake of our nation and its vulnerable ordinary citizens.

Walter Wriston, I appeal to you and others of the banking community to come to your senses on this matter, before irreparable damage occurs.

As you already know, the danger to the U.S. commercial banks comes less from the unpleasant condition of portfolios and accounts, than from the wicked determination of irredeemably evil asses, such as Henry Kissinger, to bring upon the world that sort of chaos which Kissinger praised during his recent public address at San Antonio. Some mad Nietzschean fool in influential positions in Switzerland, Liechtenstein, Venice, or London, might just make that proverbial telephone-call at any moment, which brings the whole shebang crashing down.

I have communicated to you bankers, and to appropriate institutions in our nation's capital, repeatedly, that the present world financial crisis can be successfully managed. I restate the point again, here.

There is no difficulty in preventing a chain-reaction collapse of that trillion dollars of imminently worthless debt about to crush Western civilization. All that is required to stop the financial collapse is, broadly described, this.

- 1) A general reorganization of international debt and interest-rates simultaneously "across the board," converting imperilled short-term debt into long-term debt at two-percent interest rates.

- 2) The use of powers of government to freeze imperilled paper, to the effect that a period of short-term or medium-term non-payment on such obligations does not create a condition of legal default in holdings of such paper as assets by banking institutions.

Those who insist, fanatically, that the IMF can handle

such problems successfully, on a "case-by-case basis," are behaving as dangerous fools. The international portion of the debt-rollover problem during the weeks and months immediately ahead is in the order of \$700 billion. At Toronto, the IMF could not muster a mere \$100 to \$120 billion. The "IMF solution" is a suicidal pipe-dream.

This is not only my opinion. Olivetti Chairman de Benedetti, who is certainly no political ally of mine, says pretty much the same thing about this silly "IMF solution." So do many other leading financial specialists in Europe.

Otherwise, many among the leading international financial specialists agree that my proposed solution would work as indicated, and also agree that it is the only sane alternative to a general, chain-reaction collapse throughout most of the world during the weeks and months immediately ahead.

The difficulty, they insist to my representatives, is "What comes next?" The indicated sort of financial-paper reorganization can stop the collapse, but, they emphasize, what measures are needed to develop the levels of productive output required to ensure payment of the reorganized debt?

Some fellows in London and elsewhere are thinking in the proper direction. They say, albeit with pained reluctance, that the world must be put through a period of renewed economic growth in basic agriculture, industry and infrastructure, otherwise even the reorganized debts could not be paid. That is what must "come next."

The crucial problem is political, not economic. It is the ideological commitment to what is called "free-market economy" which has caused the present depression and imminent financial crash. It is stubborn insistence on hoping for a magical sort of "free-market economy" solution which blocks any competent action from our government and other influential institutions.

What we must do is to draw up lists of investment-projects. These must all be technologically-progressive investments in rebuilding agriculture, industry and basic economic infrastructure in both scale and rate of goods-output per capita. All credit-creation must be directed almost entirely into medium-term and long-term investments in such domestic and foreign projects. We must shut down all flows of newly generated credit into other categories of investment.

This requires a controlled flow of massive issues of gold-reserve-denominated U.S. Treasury currency-notes for loan-participation through the private banking-system. This loan-participation, restricted to approved categories of investments, is the mechanism for making the holdings of reorganized debt discountable for lending, and thus "live assets."

The "free-market economy" ideologues are now forced to choose between the only two available alternatives: they have no choice but either to accept the "dirigistic" policies I have indicated, or to accept the imminence of the greatest general financial collapse in modern history.

I suggest you accept my proposal quickly; some gentlemen in Switzerland might make that certain telephone call any day now.

Interbank market dangers rise

Despite talk of calming on the international markets, the temperature on the interbank market is still 106°.

The benchmark rate for the international money markets, the six-month LIBOR (London Interbank Offering Rate), was a shade below 13 percent Sept. 21, almost 2 percent higher than the comparable six-month Certificate of Deposit rate in New York. This highly unusual spread between what are, after all, comparable borrowing rates by major banks, is a signal that a crisis of confidence on the interbank market remains in sway, two months after the failure of the Luxemburg subsidiary of Italy's Banco Ambrosiano marked the first big interbank market failure since the 1974 Herstatt events.

However, even the higher, interbank market rate is less than a true measure of banks' cost of funds, since the majority of banks are paying 1 to 2 percent above LIBOR for money at the moment under a "tiering" system that has emerged in the past eight weeks. On average, the actual cost of funds is at least 1 percent above LIBOR, or roughly 14 percent, acting as the "reference rate" for a few, top American banks.

What has happened to the lower Certificate of Deposit rate, meanwhile, is that it is rapidly losing significance as a measure of banks' cost of funds. After the Drysdale, Lombard-Wall, Penn Square, Braniff, GHR, and other recent failures—let alone the continuing fear of Mexican default—several top American banks dare not issue CD's. Chase Manhattan, the nation's number three commercial bank, has not only ceased issuing CD's during the past month; it

is buying its outstanding CD's from the market to support their price, in order to prevent them from trading at an embarrassing premium. As money market fund managers told the *New York Times* Sept. 21, "The fear is that the money fund's investors might withdraw their money if they see that the fund is holding a CD of a bank that had recently encountered problems."

Chase is funding these purchases into its own CD's by borrowing at or near LIBOR on the Euromarkets (where interbank transactions are private between banks), that is, at 13 percent or higher. Its cost of funds have little to do with either the 10 percent-plus Federal Funds rate or the 11 percent-plus CD rate. The margin between LIBOR and the present 13½ percent prime rate, which banks are charging their top customers, is pretty thin. This is creating pressure for a prime rate change—in the upwards, as opposed to downwards direction.

For developing-country borrowers also there has been no interest rate decline. The cost of funds for these borrowers is now at 14 percent (average interbank cost) plus a 1 to 2 percent spread, that is, 15 to 16 percent. This is hardly less than the 17 to 18 percent charge of a few months ago, particularly since raw materials prices, a chief source of foreign exchange earnings in the Third World, have continued to fall.

Since January, Brazil, the second-largest borrower worldwide, has been paying a 2-2.5 percent spread on new loans. Banks are now refusing to refinance the debts of many Third World

countries, such as Venezuela, unless they agree to come up to this Brazilian level.

In effect, the banks, across the board, are trying as much as possible, to dump interbank market pressures onto major sovereign borrowers. Leading banks are also poised for a Darwinian showdown for "survival of the fittest." American banks, traditional funders of foreign banks on the Eurodollar market, are attempting to wind down their positions to banks from other "industrialized" countries, again raising charges on loans to do so. French and Canadian banks, for example, have been told by their U.S. counterparts that they have hit their "borrowing limit" in absolute terms. The mounting pressure on non-U.S. banks to repay dollar assets had turned into a major source of weakness for European currencies, points out economist Ronald Liesching of Chase Manhattan Bank, since banks must convert local deposits into dollars in order to repay their dollar-denominated loans.

In sum, the effective cost of funds for all borrowers, domestic and foreign, is still above 15 percent, despite what is widely being heralded as an interest rate drop which is supposed to spur a "recovery." Specifically, this lingering effective high rate works out to be 7 to 8 percentage points above the rate at which corporations or exporters may increase prices in order to compensate for borrowing costs. Due to the global depression of industry and output growth, price rises on this scale are practically speaking excluded. The 4 percent drop in durable goods orders in the United States in August is one such indication that a rise either in volume or prices in international trade to finance borrowing costs is nearly impossible to engineer in a depression.

Business Briefs

Banking

Swiss, British gloat over U.S. crisis

Leading British and Swiss are bragging that big American banks will suffer the worst consequences of what the chairman of the Swiss bankers' association called "a collapse of the entire international credit system," leaving them as the gloating survivors.

In an analysis of the U.S. banking situation, the London *Daily Telegraph* warned Sept. 20 of the "coming bankruptcy of major American banks," citing the recent chain-reaction of major loan losses and financial-sector bankruptcies, which have already brought the bad loans of some major American banks dangerously close to the total value of their shareholders' equity. "The entire U.S. banking system is very precarious," wrote the London paper, which is ideologically allied to the Thatcher government. In especially bad shape, the *Telegraph* added, are Chase Manhattan, Citibank, Continental Illinois, and Manufacturers Hanover Trust.

More direct were the remarks of the chairman of the Swiss Banking Federation in a speech Sept. 18. "The Swiss banks have not made the same questionable loans that other banks have; they have maintained the best liquidity position and capital coverage of any major group of banks, and are prepared for extremely hard blows," the Swiss banker said. "In the event of a collapse of the entire world credit system, the Swiss banks would not be adversely affected."

Agriculture

Bankers have no solution for U.S. crisis

Members of the National Agricultural Credit Committee, which represents the Farm Credit Administration, insurance companies, the Farmers Home Administration, and other government agencies, gathered in Chicago Sept. 20 to hear news of the worst crisis in the American farm sector since the last great depression.

The committee, a group of bankers and farm lenders constituted as an information-

sharing committee linked to the American Bankers Association, was informed that from 3 to 5 percent of all private agricultural borrowers will become unable to stay in farming past the end of 1982; either they will leave voluntarily, or be forced out by creditors calling in their debt. Most lenders to agricultural clients have experienced a deterioration of their loan portfolios, due to farm non-repayments and delinquencies. And, according to reports to the committee meeting, the farm fiscal situation will be worsened, rather than helped by this year's bumper crop, the second in a row.

Sentiment at the meeting ran in favor of Federal Reserve Chairman Paul Volcker's policies, with only token support for lower interest rates. Increased U.S. farm exports were pronounced untenable.

Perhaps the most Malthusian response, however, came from an American Bankers Association spokesman. U.S. food supplies must be weakened by voluntary movement of farmers out of production, he said. "This will help the over-production by having fewer farmers."

France

'End of great ambition of growth and progress'

During the week that led up to the Olof Palme victory in Sweden and the collapse of the Schmidt government in West Germany, the French government announced the end of the socialist dream, the end of the "great ambition of growth, progress and social justice," in the words of Prime Minister Pierre Mauroy. The true face of the solidarism the Socialist government has been pushing has been shown: sharing the poverty.

Mauroy announced in mid-September that the era of "rigor" had begun, and would be lasting through 1984. Mauroy did what no government in the history of the Fifth Republic had even dared to suggest: he declared that the policy of keeping wage increases in the public sector at a par with the rate of inflation would be ended.

The government is preparing to "lift" the wage-price freeze imposed three months ago, but Mauroy also made it clear that wages would not be allowed to increase by more than 3 percent in the immediate future, and

that only in a few cases.

The Planning Commission which is to establish the Five-year Plan covering 1984-89 has been set up under Michel Rocard. The commission will include representatives of groups like Friends of the Earth and Family Planning. Rocard has stated that the policy of reducing the working hours of the population—a cornerstone of the government's program—must be accompanied by corresponding cuts in wages.

Mexico

President rallies labor behind nationalizations

The powerful Mexican teachers' union, the SNTE, held a rally Sept. 22 with more than 700,000 teachers in Mexico City in support of President López Portillo's banking nationalization and exchange controls. Appearing at the rally, the President called on the teachers to explain in their respective regions of the country the origin, extent, and meaning of the Sept. 1 decrees.

After the rally the Mexican President went to the headquarters of the telephone workers, where he attacked "the cynical confidence of those who complain that there is no confidence, because they have lost their freedom to continue plundering the nation."

Conference Report

EIR holds seminar in Mexico City

An executive seminar on the LaRouche-Riemann model and Lyndon LaRouche's program to revive the world economy, sponsored by *EIR*, drew 20 participants in Mexico City Sept. 21. Representatives attended from four of Mexico's now-nationalized banks, six embassies, private-sector associations, the Interior Ministry, and the PRI party think tank, IEPES.

The keynote presentation was given by a national executive committee member of the International Caucus of Labor Committees, Tony Papert, who tore apart the Hayek-Friedman cult, demonstrating how the U.S. economy had been destroyed and why

the commercial banks and the IMF are bankrupt. He reviewed the "Operation Juárez" proposals of Lyndon LaRouche.

The second presentation was by Cecilia Soto de Estévez, head of the Mexican Association for Fusion Energy (AMEF), and an executive committee member of the Mexican Labor Party. Mrs. Estévez elaborated further on the Operation Juárez concept, outlining the debt situation of Ibero-America and the projects required for a successful continental Common Market.

A press conference before the event drew representatives of 10 newspapers and TV stations. Papert began the briefing by announcing his support, "as an economist, a U.S. citizen, and a patriot," for the Sept. 1 actions of López Portillo.

A journalist asked if Papert was proposing the nationalization of the American banking system. He replied that there were two separate though interrelated aspects of what López Portillo did: 1) nationalize the Bank of Mexico and 2) nationalize the private banks. The key question for the U.S. was nationalizing the Federal Reserve, he stated. The main accomplishment of the Mexican measures is that it became the first country to control its own credit and currency, as every country must do. *Diario de Mexico* gave the press conference front-page coverage.

U.S. Corporations

New wave of billion-dollar bankruptcies

A new wave of bankruptcies, marked by a \$750 million failure in oil equipment (and an \$850 million failure in Canadian real estate), began in late September, amidst reports of major difficulties among commercial banks in obtaining funds from normal channels.

A Texas oil-equipment producer, GHR, failed Sept. 20, leaving banks with \$750 million in debt, and at least 20 other oil-equipment producers, some of the biggest borrowers of the past three years, are in danger, according to a *Business Week* cover story. The collapse of the oil boom, characterized by a 40 percent drop in drilling over the past year, has left highly indebted equipment producers vulnerable to a domino-series collapse.

Much more dangerous for the U.S. banking system, however, is the expected failure of International Harvester, with more than \$4 billion in debts.

Fiscal Conservatism

'Hitler lives in Chicago,' says Argentine magazine

"No, it is not science fiction. The evil Führer of Nazi Germany has decided to take up comfortable residence in the City of Chicago, adopting the cover of a tranquil university professor of economics. . . . He calls himself Milton Friedman."

The above comes from the current issue of the influential Argentine magazine *Búsqueda*. (In August, *Búsqueda* also published a favorable review of "The Ugly Truth About Milton Friedman," the 1980 book-length exposé authored by Lyndon LaRouche and *EIR* Economics Editor David Goldman.)

The magazine notes that Friedman/Hitler has not abandoned his ambition of world domination, "and of abolishing more than half of humanity. The only thing that he changed was the mustache . . . perhaps to disguise the ferociousness of an economic theory that is more deadly than 1,000 Auschwitz-style concentration camps." The *Búsqueda* article, written under the pseudonym "Cándido Juglar," continues: "Instead of Panzer divisions, he now sends in economic ministers with a full array of whiz kids, who are specialists in the most 'efficient' way of systematically destroying all that was created to produce."

The new Führer, states *Búsqueda*, controls the economic systems of countries like Great Britain, Argentina, Bolivia, and "no less than that of the United States through Federal Reserve Chairman Paul Volcker." Friedman, British and American bankers, and the Trilateral Commission, have decided that the underdeveloped countries should not grow any more, states the magazine. "They have determined that the poor will be subjected to euthanasia because they believe that human beings do not have the capacity to overcome the supposed scarcity of food and space to take care of great numbers of developing people. Thus, they reject man's intelligent creation, and the content of the papal encyclicals of John Paul II."

Briefly

● **MIGUEL DE LA** Madrid, President Elect of Mexico, gave his total support Sept. 22 to López Portillo's bill to incorporate the banking nationalizations enacted Sept. 1 into the Mexican Constitution. Praising the action as "patriotic and revolutionary," de la Madrid said it strengthens the role of the Mexican state as the guide of national development, putting the banking system in congruence with the economic goals dictated by the state for the benefit of the nation. De la Madrid's unequivocal announcement sweeps away a wave of rumors that he was not happy with the measures.

● **U.S. INDUSTRIAL** production from December 1981 to August 1982 fell at a 6.7 percent annual rate; *EIR*'s LaRouche-Riemann model had forecast 7 percent, where other forecasters saw a substantial growth rate.

● **VENEZUELA'S** central bank is withdrawing government deposits from private banks to squeeze banks into repatriating some of the \$18 billion in Venezuelan citizens' flight capital accounts abroad, government sources say.

● **OLIVETTI** Chairman Carlo De Benedetti warned Sept. 17 in an interview with *La Repubblica* of a \$1 trillion wipeout of bank assets. "Bankers will never have the courage to act before a crash," he added.

● **IMF** board members declare there is "no chance at all" that the IMF would soften the extreme terms it is demanding from Mexico in return for a \$4 billion, three-year credit, even if this provoked Mexico to declare a debt moratorium.

● **A RIDER** on the U.S. reconciliation budget established a 50¢ tax per hundredweight on manufactured milk. The revenue will finance a new surplus program of the Commodities Credit Corporation. The tax increases to \$1 if the surplus tops 7.5 billion by next April, thus slashing dairy parity prices from \$13.10 to \$12.10 over one year.

Mexico defends the industrial capitalist system

by Fernando Quijano, President, *EIR* Research, Inc.

Hardly 30 days after the Sept. 1 Mexican measures nationalizing the banks and imposing exchange controls, the two most widely spread lies being bandied about the measures have met a violent death. One of them was that the measures had been taken in order to facilitate Mexico's acceptance of International Monetary Fund conditionalities—that one was being spread by the Federal Reserve. The other one was that the measures were "socialist," and that Mexico would now go toward a "siege" economy—that one was being spread by Kissinger Associates, Inc. Of course, idiots in high places repeated these. Some of them even repeated them simultaneously!

The facts are now clear, as can be seen by President López Portillo's speech to the North American Governors' Association on Sept. 19, which we publish in full as part of this Special Report. The measures were taken because Mexico could not maintain its economy and its institutions unless it openly challenged the criminal policies of the current international monetary system, as exemplified by the IMF.

The next step López Portillo will take is to bring Mexico's battle with the IMF to the United Nations on Oct. 1. As he stated in a press conference on Sept. 24, there he will call on the world to realize that if the world economic collapse is not reversed, "the deterioration of the South will bring down the countries of the North" and that the world is "brutally linked . . . such that either everything goes well for us all, or nothing goes well for anyone."

Putting these statements together with previous speeches, it becomes clear that Mexico is saying that unless there is a New World Economic Order, Mexico will not pay its debts. Of course the truth of the matter is that even if Mexico tried to pay its debts it could not do so—that also being the case for the rest of the Third World.

Preceding López Portillo at the U.N. on Sept. 27 will be the Brazilian President General Figueiredo (no one could possibly accuse the Brazilian military leadership of being "socialist"), who is also expected to deliver a "hard-line" demand for a New World Economic Order.

Not only will the Brazilians talk on this matter. Now they are also taking



Courtesy of the Government of Mexico

Mexican President José López Portillo (c) greeting the crowds with PRI party officials at the Sept. 2 Mexico City demonstration in his support.

action, according to our Latin American Editor Dennis Small and Contributing Editor Uwe Parpart, who are ending a two-week visit to Brazil. After meeting with Planning Minister Delfim Netto and lecturing at the prestigious *Escuela Superior de Guerra* (Superior War College), Small and Parpart point to a speech by Delfim Netto at the same institution on Sept. 16 (we publish excerpts in this Special Report) which calls for Third World countries to begin a barter arrangement. In the face of the overall crisis, says Netto, such arrangements would be the way for the Third World to achieve prosperity.

This type of trade, now actively being sought in Brazil by Petrobras state oil company head Shigeaki Ueki on his current trip to Venezuela and Mexico, also challenges the very root of the IMF system. Under GATT (the General Agreement on Tariffs and Trade), an integral part of the IMF system, this type of trade is strictly prohibited. Although it may be some time before such trade patterns become widespread, the Brazilian action signals the *de facto* founding of an Ibero-American Common Market.

EIR analysts also foresee, given this kind of Common Market approach and of Mexico's attitude on Third World debt, that Ibero-America's big four debtors—Mexico, Brazil, Argentina, and Venezuela—will come to an agreement that will set forth a series of conditions under which debt renegotiations will be carried out. In short, Ibero-America will seek to impose conditionalities on the IMF, and in that way open the way for prosperity for both the Third World and the OECD countries.

Although President Reagan's official response to these developments is not known, the experts now making policy

for him in this area, Treasury Secretary Donald Regan, Secretary of State Charles Shultz, and Henry Kissinger, have decided on the following course of action:

Kissinger strategy

1) Have case by case negotiations and avoid all bloc negotiations;

2) Maintain "flexibility," as opposed to the IMF's rigidity—in that way trying to convince Brazil to drop its "Third Worldist" course;

3) Try to wait out Mexico until President-elect Miguel de la Madrid takes office on Dec. 1. By that time Kissinger and his cronies hope to have created a credible threat of a split in Mexico's ruling PRI party, so as to force de la Madrid to change the policy by López Portillo. In this way they hope to make Mexico the first spectacular victim of the IMF in 1983;

4) As set forth by Kissinger at the recent CSIS conference, the Reagan administration, in cooperation with the British Foreign Office, will try to promote and create as many border conflicts as possible in Ibero-America, with a Chilean-Argentina conflict first on the agenda in South America and Guatemala versus Mexico first in Central America;

5) Launch an all-out destabilization of Venezuela modeled on the one that finally forced Mexico to take the measures it took, hoping that in the Venezuelan case there won't be the leadership to carry out Mexican-like measures.

Whether the Regan-Shultz-Kissinger policies or the Ibero-American Common Market and coordinated debt-renegotiation policies will predominate at this point looks to be a matter of which side moves the fastest.

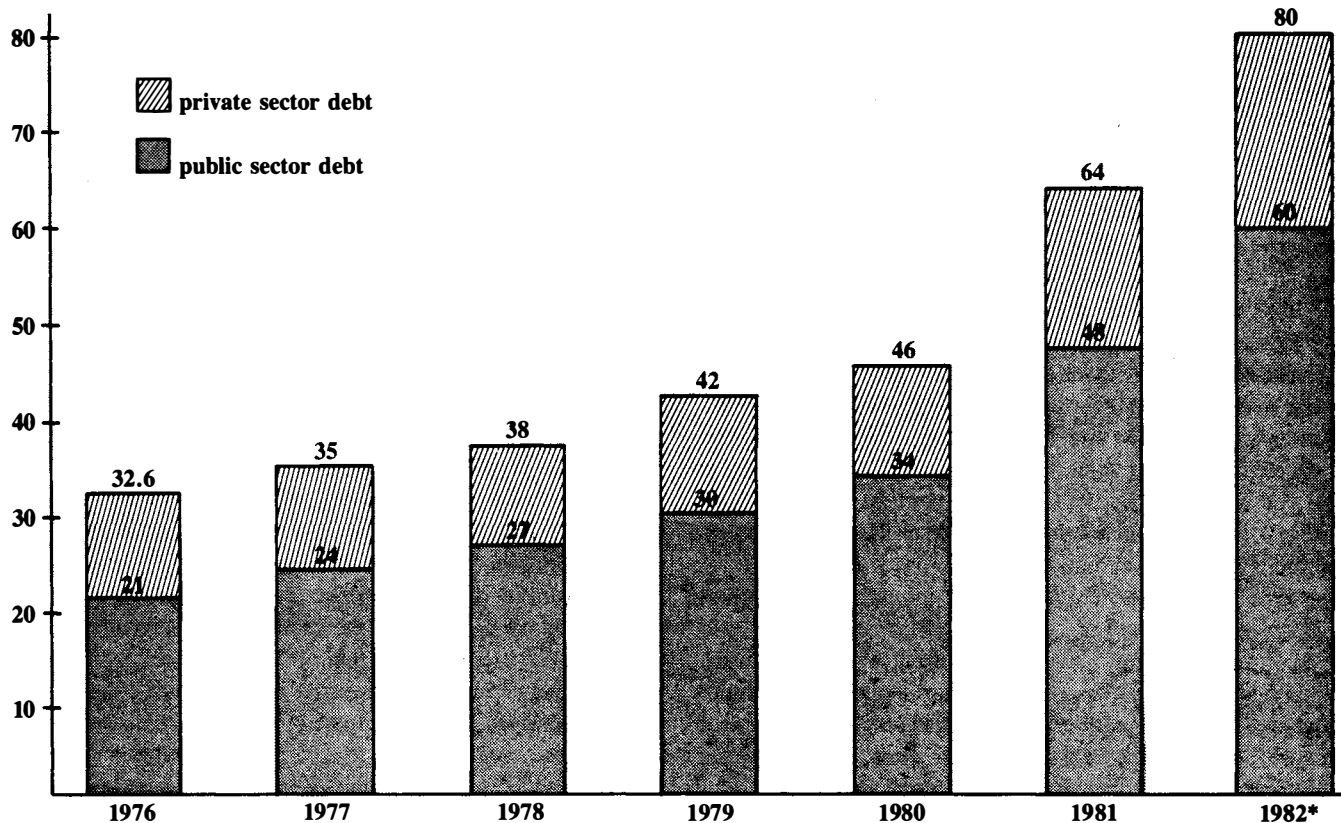
How the International Monetary Fund's debt trap was sprung against Mexico

by Timothy Rush

You would have to be a hermit in Alaska not to have heard or read that Mexico brought its current financial crisis on itself. "Mexico mismanaged its oil wealth," intone the major media of the United States, Britain, and much of continental Europe. "It attempted unrealistic growth goals and built a welfare state laced with corruption. Now it is paying the price: the largest foreign debt in the developing sector, over \$80 billion, and inflation close to 100 percent per year."

To understand the viciousness of these lies, imagine U.S. Fed chief Paul Volcker approaching an industrialist whose newly expanded factory has just been foreclosed due to sky high interest rates and declining demand, or a homeowner out on the street after losing a job and not meeting his mortgage payments. "Buddy, you mismanaged your personal finances," says Volcker, flicking some ashes from his cigar in the victim's face. "Now you have to pay the piper." Mexico's

Figure 1:
Growth of Mexican foreign debt, 1976-82



Sources: Bank of Mexico; EIR estimates

* Jan.-Aug. estimate

problem was not that it grew too fast. In fact, *it did not grow fast enough* in those critical areas that define a “take-off” toward advanced industrial capabilities, such as those of Japan and West Germany, and the formerly industrialized United States.

Mexico did make some serious mistakes as it attempted to invest its oil wealth after 1977. It leaned too much on “import substitution,” the policy of developing its consumer goods-producing sector, instead of concentrating on developing capital goods and heavy industry to the maximum. Compare the 1977-1981 cumulative investment in the oil sector (including petrochemical) of \$27 billion, against the \$3.8 billion invested in capital goods production, either completed 1977-1981, or to be completed 1981-1985.

However, going into 1982, Mexico presented an economic picture that put the United States and most other developed countries to shame in basic categories of increase in tangible goods production, fixed investment, and new job creation. Overall, Mexico GDP growth was 8.1 percent, manufacturing slightly higher. Over the 1977-1981 period, as López Portillo justly noted with pride in his Sept. 1 *Informe* (State of the Union address), this growth rate was 60 percent higher than the world average and 100 percent higher than that of the developed sector. The 1981 rate was eight times the world average.

Fixed capital investment in 1981 rose 15.1 percent, surpassing 1980's level of 14.9 percent. Purchases of domestically produced capital goods rose 14.2 percent on the year, as against 10.3 percent in 1980. Purchases of machinery and equipment from abroad increased 25.8 percent, as against 30.4 percent in 1980. Investment in capital-goods production increased 21.4 percent, and imports of capital goods for the production of capital goods soared 92.7 percent. For the third straight year, job creation surpassed 800,000 new jobs—approximately 40 percent more than the number of new entrants into the job market.

The debt balloon is blown up

How then did Mexico get \$80 billion into hock and the Mexican peso lose two-thirds of its value “overnight” in the first eight months of this year?

The answer is twofold: first, much of the debt is fictitious in real productive terms, and second, the peso was destroyed through politically motivated flight capital operations.

From 1976, when the combined public and private foreign debt stood at roughly \$30 billion, until the end of 1980, when it had risen to a combined total of some \$46 billion, the debt situation was under control (Figure 1). The average new indebtedness of \$3-\$4 billion per year corresponded in large measure to increased imports for expanding production at home. Because of the high overall economic growth of 8 percent per year, and the surge in oil exports, foreign debt was *shrinking* relative to other measures of the economy, such as GDP.

It was in 1981 that the debt suddenly exploded. From a

Figure 2
Mexico's foreign exchange accounts
(in billions of dollars)

	1980	1981
Current account	-6.8	-11.7
Exports.....	15.3	19.4
Imports.....	18.5	23.1
Foreign financial payments.....	5.9	8.9
a) remittances of profits.....	0.5	0.7
b) interest/public debt.....	4.0	5.5
c) other interest.....	1.5	2.7
Capital account	9.8	18.2
Long-term (net).....	6.5	14.1
Short-term.....	3.3	4.1
Errors and omissions.....	-2.0	-5.5

When all sub-categories in the current account are redistributed into “goods” and “services,” the figures show:

	1980	1981	Percentage change
Total deficit.....	-6.8	-11.7	73.1
Goods.....	-4.1	-4.8	16.7
Services.....	-2.6	-6.9	161.3
a) financial.....	-5.0	-7.6	53.5
b) financial*.....	+2.3	+0.7	-69.3

*Includes tourism, border transactions, gold and silver, etc.

total \$46 billion, it shot up to \$64 billion, a leap of almost 40 percent, in one year. In 1982 it kept rising at the same dizzying pace, clearing \$80 billion before Mexico imposed a de facto debt moratorium in late August.

Did Mexico go on a buying spree, as the conventional press characterizations imply? Not at all. The 1981 Bank of Mexico figures (Figure 2) show a devastating picture of a healthy economy torn to shreds by international monetary and economic warfare. Mexico was hit by a triple whammy of 1) the direct effects of Volcker's interest rates, 2) the indirect effects of Volcker's policies, in depressing Mexico's oil markets, and 3) an unprecedented flight of capital orchestrated by partisans of Volcker's usurious world order inside Mexico, the money streaming out to the tune of \$22 billion for speculative windfalls in the United States and Switzerland.

In Figure 2, taken from the 1981 Bank of Mexico annual report, three things emerge clearly:

1) The trade deficit increased a moderate 15 percent, rising to \$3.7 billion from \$3.2 billion. As a percentage of total trade, it declined. If the minimum \$5 billion, that Mexico lost due to a mid-year cut-off of its oil contracts and pressures on its prices, is calculated in, Mexico would have had a trade surplus.

2) The ballooning in the current-account deficit was pri-

Figure 3
Mexican foreign trade
 (billions of dollars)

	1981 (Jan.-July)	1982 (Jan.-July)	Difference
Imports	14.4	10.2	4.2
Exports	11.4	11.1	0.3
Balance	- 3.0	+ 0.9	

Source: Mexican Ministry of Programming and the Budget (SPP)

marily due to a huge 161 percent increase in the deficit on services. The largest single item here was the leap of \$3.0 billion in interest-rate payments, over an already inflated \$5.9 billion level in 1980, the first full year of worldwide Volcker usury. For comparison, 1978 interest payments on public and private debt were \$2.6 billion.

3) "Errors and omissions" is where the flight capital shows up, \$5.5 billion of it in 1981.

Add to this picture the fact that international banks were willing to cover Mexico's resulting deficit only with short-term money, at least \$10 billion of it in the last six months of 1981, all of it coming due at various points in 1982. Again for comparison, total public short-term debt as of the end of 1980 was \$1.5 billion.

As Mexico went into 1982, its foreign debt had been turned from an instrument for industrial growth to a cancerous condition in which all new debt was going into debt service on the old. In fact, as 1982 proceeded and imports were slashed to conform to an austerity program (see Figure 3), the balance-of-trade figures turned *positive*. The additional \$16 billion run up on the total debt in the first 8 months was pure financial bubble, the largest part of it interest charges that were being built back into the debt through rollovers.

Flight capital and inflation

During the same short period, the peso was devalued twice, losing 70 percent of its value before being stabilized by the President Sept. 1. No one disputes that flight capital played the decisive role in forcing through these devaluations. But many say this was a "natural response" to inflation which was "out of control." The facts prove otherwise.

Inflation in 1980 was approximately 30 percent. In 1981, despite official figures juggled to make it look like there had been a one point decline, there was in fact a small increase. Labor and business put it roughly at 34 percent. Built into the situation were artificially depressed prices for such basic items as gasoline. Long-deferred increases in gasoline and bottled gas were finally put through in late December 1981, leading to a 5 percent increase in inflation in January 1982—some two points higher than the monthly average for the year before. There was undeniably an inflationary tendency within the economy, which seemed headed for a yearly rate of per-

haps 40 percent.

These rates of inflation, however, do not provoke an outflow of several tens of billions of dollars of flight capital, especially when domestic interest rates are well above the differential between internal and external rates of interest.

The government's strategy to deal with the inflation problem was to "produce its way out." This was one of the major reasons for the government's decision to resort to masses of new short-term debt in the second half of 1981, when world economic conditions began to close in: large numbers of productive investments were close to coming on stream, with significant depressive effects on inflation.

The flight of capital from the country represented precisely the margin of investible surplus which could have maintained this anti-inflation strategy, without resorting to levels of foreign indebtedness as high as the last period of 1981.

As *EIR* has previously documented, the decision to "pull the plug" on the peso was taken by oligarchic banking interests, largely in Europe in January 1982, and communicated to complicit Mexican circles at the Atalaya '82 Banamex conference in Guadalajara, among other channels. The result was the 40 percent devaluation of Feb. 17. This was the event which pushed inflation immediately into the 60 percent per year range. Gloating over this success, the same speculative, oligarchic interests then used the surge in inflation to justify even more flight capital, and by the end of August the situation was precisely the "vicious circle" of "capital flight, devaluation, inflation, more capital flight" which López Portillo denounced in his State of the Union address. The preliminary figures of the 1980-1982 flight capital spree, considered conservative by many knowledgeable analysts are: \$14 billion in foreign bank accounts, \$8.5 billion in payments on U.S. real estate, another \$20 billion imminently due in further real estate payments, and \$12 billion in domestic dollar accounts, effectively out of government reach until the August dollar freeze. More details are expected shortly, as a mission of Mexican investigators returns from examination of bank and other records in Los Angeles, Houston, New York, and elsewhere.

The fruits of the unrestrained flight capital are bitter indeed. The "free market" rate for the peso at the height of the madness soared well over 100 pesos to the dollar, up from 27 to the dollar before the February devaluation. At the new, stabilized, preferential rate of 50 to the dollar and general rate of 70 to the dollar, the peso is still one of the world's most undervalued currencies in terms of real economic potential. Inflation, according to the latest economic figures from the Bank of Mexico, was running at 54.3 percent for the first 8 months of the year. August inflation alone was 11.2 percent, due to extraordinary rises in basic food items and gasoline. If the remaining four months of the year keep to the average of the first eight months, inflation for the year will be a minimum of 80 percent—fully double the worst-case projection before the flight capital operation leaped into high gear "due to the inflation."

Two strategies

There are two ways to look at a situation in which foreign debt is manifestly out of proportion to the immediate repayment capabilities of the underlying productive economy. The International Monetary Fund and rentier banking circles call for maintaining the debt at the expense of the real economy. The Mexican government, after a period of acquiescence to an "IMF without the IMF" program, is now fighting for the contrary policy: keep production going and freeze the debt.

Mexico could not have waited much longer before deciding to stand and fight. The standard banker line is that Mexico made only half-hearted efforts at austerity in the first half of the year and now has to really take the plunge. The truth is that the Mexican economy has already gone through a hideous depressive shock. Any IMF program of the traditional variety now would create a virtually irreversible collapse, with grave economic and security implications for the United States.

As early as mid-May, after just two months of government austerity programs, Finance Minister Silva Herzog an-

nounced that growth rates would be zero percent for the April 1982 to April 1983 period. The possibility is strong that Mexico will in fact face zero growth for the 1982 calendar year—negative growth in the second half counterbalancing the positive 5 percent growth of the first quarter, a carry-forward from 1981's dynamism.

The sharpest index of the austerity is the foreign trade account (see Figure 3). Over the January-July period, imports were down 29 percent, \$4.2 billion in absolute terms. The programmed reduction in imports announced in an April 20 austerity package was 25 percent, or \$6 billion shaved from 1981's \$24 billion. As of the first seven months of the year, this draconian goal was being met ahead of schedule.

With this tremendous deceleration of the economy, unemployment is now cutting deeply into skilled layers of the work force as well as masses of the unskilled. Total figures are unavailable, but the picture can be pieced together from scattered reports. In late July, the state-owned truck and bus manufacturer, DINA, announced a one-third cutback in production and similar levels of layoffs. In late August GM

A lever which could restart the U.S. economy

Seventy cents of every dollar of lending or other income to Mexico that Mexico puts to productive use—mainly in high-technology imports—rather than for debt payment, comes back to the United States as its share of those orders. That is the principle of how a healthy Mexican economy helps restore the health of the U.S. economy.

In 1981, this arrangement meant \$18 billion in orders for the United States. For the previous three years, growth in this market averaged over 30 percent per year. With debt moratorium, return of flight capital, and a dose of new, long-term credit, Mexico could rapidly resume that rate of growth in imports.

This is good news for U.S. factory owners, and for U.S. farmers looking for a reopening of a Mexican market now shut off. It is good news for the banks, too, who would find their domestic loans suddenly moving off the "sour" list and back into the "performing" category.

What is the U.S.A. now losing due to the bankers' policy of chopping up Mexico's productive economy in order to pay the debt? In first-approximation, it is roughly \$4 billion, the two-thirds U.S. share of the \$6 billion in imports Mexico is axing this year. Of course, if Mexico's economy were healthy, it's foreign orders would quickly surpass last year's \$24 billion in imports. The U.S. is losing even more because a number of U.S. firms, hit by

the U.S. depression, have been relying on direct exports to Mexico or remittances of new investment in Mexico to offset losses elsewhere. The loss of the Mexican "margin" can mean the collapse of the firm as a whole.

Among the hardest hit industries:

- *Oil equipment, centered in Texas.* As of March 1982, the Pemex purchasing office in Houston, the largest in the world outside Mexico, had cut orders 50 percent. A June Pemex announcement of six cancelled petrochemical plants translated into \$66 million in cuts of previously contracted equipment and services.

- *Nuclear.* The contract for Mexico's next nuclear plants, cancelled in early June, could have meant some \$2 billion in orders for any of the three U.S. companies included among the seven bidders, General Electric, Westinghouse, and Combustion Engineering.

- *Auto.* Mexico imports over \$2 billion in auto parts per year from the U.S.A. Typical of the casualties here: the VAM company in Mexico, which had been importing 120 jeep components units every week from an Ohio-based supplier. Zero imports are planned for the rest of the year.

- *Agribusiness.* U.S. farmers who had cashed in during the bonanza years of 1979-1981, when Mexican imports soared to 8 million tons of grain a year, are eagerly looking for reopened markets. Black bean producers in Nebraska report prices per hundredweight are half what they were two years ago before the shrinking of the Mexican market. Good crops have been a major factor cutting U.S. sales—but as 1982 has progressed, it's been increasingly Mexico's financial pinch.

announced a two-month shutdown of its Ramos Arizpe plant in Coahuila, idling 1,200. The same week GM's Mexico City plant laid off 1,500. In the construction industry, where several hundred thousand unskilled laborers were released early on, the unemployment is now affecting skilled layers. In August, it was revealed that ICA, the largest construction firm in the country, was planning lay-offs of 7,500 construction workers, executives, and engineers. Some one-third of Alfa's 49,000 workforce, including large numbers of white-collar workers, are looking for work. Pemex laid off 4,000 temporary workers in late June.

Perhaps most serious is the erosion of investment in the special development projects in the country which represent the foundation for a return to growth in the future:

- In June the entirety of the next stage of the nuclear program was scrapped. Existing nuclear construction at Laguna Verde has slowed to a crawl.

- In mid-June Pemex announced 18-month delays for completing petrochemical plants at two of the four giant industrial-port complexes being built by the government, Altamira and Laguna del Ostion. Alfa has already pulled out of its commitments to build a steel mill at Altamira. A refinery at the third of the ports, Lazaro Cardenas, is indefinitely postponed.

- Two extensions of the Mexico City subway are postponed, electrification of the trunk rail lines suspended after a first trial program was completed.

Mexico's three-phase program

Mexico is now proceeding with a three-phase program to reverse this process of collapse. So far it is a program too intelligent for any banker to publicly embrace.

First, Mexico is moving toward instituting a debt moratorium. It has arranged a suspension of payments on the principal component of its foreign debt until December and is reportedly seeking an extension until the end of 1983. Since early August, it has also de facto declared a moratorium on interest payments, though it continues to pledge an early resumption of payment.

Mexico's second tactic, as outlined by President López Portillo on Sept. 1, is to get the flight capital back home. He called on U.S. officials and congressmen to meet with his government to get that money back to Mexico, or to work out some other equivalent "recycling" mechanism.

Thirdly, Mexico has lowered internal interest rates and is directing credit to priority productive use.

If you put these measures together, the Mexican "nightmare" vanishes, as one would expect for an economy with Mexico's fundamental economic health. With a moratorium, virtually 100 percent of Mexico's balance of payments deficit vanishes. "Operation repatriation," even if only half successful, brings \$16 billion back into productive use within Mexico. And the tightened internal dirigistic system makes sure these funds go where they are needed and not back into speculation. Mexico becomes a growth economy once again.

López Portillo tells the our healthy symbiosis

What follows is the text, in unofficial translation, of the speech by Mexican President Jose López Portillo at third annual meeting of Border State Governors, Tijuana, Sept. 19, 1982.

Our border region is suffering problems which did not begin in it. Therefore, many of the questions have to be solved outside the border area; but most require the good will and understanding of good neighbors, of millions of human beings who have already learned to live together in this most interesting symbiosis which is the Mexico-U.S. border, a phenomenon unique in the world, and of which Tijuana is perhaps the most representative example. It has more crossings than any other border in the world. Therefore, it is vital that we understand what the problem is. . . .

What's going on in Mexico? Why are we in this situation? I am going to give you enough facts and numbers to show you.

When I began my presidential term, Mexico also was in a crisis, although not as severe as this one. We solved that one largely by means of the oil boom. Giving priority to oil was one of the main planks of my administration; and we turned ourselves from an oil importer into the fourth largest exporter in the world.

Based on oil, we advanced our economy so that for three years running we achieved growth rates over 8 percent. During these years, we have been able to support ourselves with a system of development financing. But, 1981 arrived; and, the two blades of the scissors cut off our development: on the one hand, raw materials prices fell in a way they hadn't for countless years, harming all the developing countries. The price of oil fell and the price of money rose as never before in the civilized history of man.

In 1981, the combined effects of the drop in oil and raw materials prices with the increases in interest rate cost Mexico \$10 billion. This took place while we were in the midst of crucial programs which we cannot interrupt. . . . We made reasonable budget reductions; but it was not enough. We already had a \$10 billion income shortfall, which poisoned our development financing. We therefore were forced to stretch things out to be able to find reasonable answers. But, if that had been the whole of it, the Mexican economy would have known how to handle it.

border governors: can be restored

The consequences of capital flight

What we couldn't handle was the attack on our peso, an attack which came from within the country from the rich Mexicans themselves. They didn't act in solidarity with the country which had made them rich. Using the country's freedoms, they abused them. They abused an absolute freedom of exchange which permitted them to protect their personal security. I have stressed that they did nothing to violate the law, but everything to violate national solidarity.

No country could withstand such a capital flight. Betting against the peso became the best business there was. It had no risk; and it was certain such speculation would be profitable. Our entire struggle to bring in foreign exchange slipped away from us in what I call true economic drama.

We need dollars to buy outside what we lack inside and to pay our debts. But, for every dollar which came into Mexico, a dollar left through speculative flight.

The time came when we almost ran out of exchange, due to the world economic disorder and due to the lack of solidarity of our citizens, we were left without marbles. We can't play any more. That is my country's problem. It is a liquidity problem, a financing problem. Those of the numbers of what we faced before Sept. 1.

We have made unprecedented efforts to adjust public expenditures, to end our deficit, to adjust our balance of payments, to increase our exports. But we have been left without any chips. That was the moment in which we had to accept one of the severest challenges which a country can face: to enforce exchange controls face-to-face with the owner of all the dollars in the world.

With 3,000 kilometers of borders, with millions of human beings who trade goods and services over that border, people who during their entire lifetimes have been accustomed to taking from the two economies the best conditions, we had to take back the banking services to make the exchange controls work, to reorder our economy and to increase its potential.

How Mexico's private banks failed

Mexican banking is a public service which originally belonged to the state, but was given on concession to private

entities. But the private banks stopped serving their social function, and the state took back one of its elemental functions. That's where we are, my friends.

I want to give you, honorable North American governors, an exact measure of our reality, to get out of the U.S.'s mind the idea that we are going to you for aid that it is going to cost the U.S. Taxpayers, to get rid of the idea that Mexico is a beggar country which is asking the U.S. taxpayer to solve its problem.

We are coming to negotiate with the United States because you are our top client and also our top creditor. It is up to the United States to determine how effective the negotiations to solve Mexico's temporary liquidity shortage will be.

We have to understand that if we need dollars, it is to pay debts and to buy things in the United States, to understand that health means a reciprocal flow of interests; that an economy cannot be imbalanced to the extreme degree that the Mexican has been, because when such an imbalance occurs, the relation becomes diseased, and the disease is good for no one.

The Mexican economy is healthy

Mexico wants to recover its economic health, as never before in its history, its industrial base remains intact, twice as big as it was in 1977. Immense oil potentials are still in the pipeline; but, if our liquidity problems are not solved soon, we will not be able to pay debts nor buy things in the United States, and, I ask, is it anybody's good that we push the thing to that extreme?

That is why it is important for me to talk with you, honorable governors of North America, to give you the scope of our problem. The resources with which Mexico could solve its liquidity problems are in the United States, but belong to Mexicans.

I invite you to study together the possibilities of setting up some system linking our economies. . . . to restore that symbiosis which was so splendid in the past. That was one of the most interesting borders in the world, in many respects prosperous and exemplary. It has diseased us; and this is not good for either side.

Those, my friends, are the facts, without rhetoric nor reproach. A dry example of North-South relations.

I know that the solution is no longer in the border, and no longer in the United States. I know that the whole world is involved, and precisely for that reason Mexico convoked the Cancun meeting: so that before the things which now have happened to Mexico would happen, it would be proposed that the only forum man has ever created to solve the problems of man, would deal with them; to understand that only global solutions could provide solutions to the representative case of Mexico, a country which was emerging, which was taking off, and which it is in humanity's interest that its development problems be solved, but which, abruptly, had its potential cut by a scissors.

The world has the next word. Thank you.

The Mexican population rallies behind the government's measures

by Elsa Ennis

López Portillo's historic measures to stop speculation have brought about a dramatic transformation of Mexico's internal political configuration. From a defensive, demoralized position in the face of the International Monetary Fund and other international monetarist agencies' pressures to halt economic government and impose austerity, Mexico's nationalist and growth-oriented forces have rapidly passed to a position of strength which enables them to continue their fight for economic growth.

Leading this mobilization is the labor sector of the PRI ruling party, in close alliance with the peasant sector and the nationalist "intelligentsia" circles of that party.

Most remarkable is the re-emergence of López Portillo as a strong and highly popular President. From a demoralized President scorned almost daily by the London and U.S. liberal press, an exuberant López Portillo is now struggling to keep up with a full schedule of public ceremonies in support of the bank nationalization decrees and "town meetings" with multitudes of political, civic, and business groups. As Congressman Jesús Salazar Toledano put it in a public ceremony Sept. 13, the bank nationalization and imposition of full exchange controls "have transformed the Republic's profile with a single act of political will."

The 'comeback' of the peasant sector

A mobilization of the peasant sector of the PRI, the CNC confederation, the week before López Portillo's State of the Union address Sept. 1, strongly suggested that a measure of the first importance requiring a popular mobilization was soon to be taken by the government. On Aug. 27, the CNC held a highly unusual ceremony to pay homage to Fidel Velásquez, the powerful head of the PRI labor confederation, the CTM. The CNC leader, Cervero Pacheco, told the press that the two confederations, were unifying to fight the "fascist rumors," including rumors of a coup d'état, which the foreign press and some business sectors had unleashed to destabilize the national institutions.

The meeting was most unusual, because the peasant sector—which had taken a high political profile in the early 1970s under nationalist President Luis Echeverría—had almost disappeared from Mexico's political arena in recent years. Cervero's speech in support of López Portillo this time

clearly showed that a new deal had been struck between the President and the millions of members of the CNC.

Since the bank nationalization, the CNC has been a key component of the numerous rallies and meetings in support of the measures. In a meeting with the leadership of the CNC Sept. 14, López Portillo explained that it was the vicious cycle of capital flight which hits Mexico at the end of each presidential term which led him to impose exchange controls and nationalize the banks. "We could not consent anymore to be terrorized and paralyzed by the blackmail of the flight of capital at the end of each presidential term," he told the peasant representatives.

The CNC leaders answered by offering their full support and blasting the "usurious" practices of the private banks.

Labor refuses IMF conditionalities

Mexico's powerful CTM labor confederation—the backbone of the PRI—has been at the center of the mobilization in support of López Portillo's decrees and is now the key bulwark of resistance to the IMF's "conditionalities."

In addition to their public show of alliance with the CNC, when CTM leaders from the entire country gathered for their annual convention Aug. 31, the meeting produced an outstanding program calling for total exchange controls, reduction of interest rates, a stop to speculative activities and a renewed emphasis on productive activities.

On Sept. 10, CTM leader Fidel Velásquez called the press to send a message to an IMF delegation then visiting Mexico City: labor will accept neither unrestrained price increases on basic items nor a ceiling on salaries. Although the IMF has not yet published its "conditionalities," both these measures would unquestionably be at the core of the IMF's austerity package.

The renewed political strength of Mexican labor is the nationalists' answer to the demands which the British press was putting out in August to dismantle the highly centralized command of the CTM over labor into multiple powerless "independent" unions. Now not only is the CTM the main speaker for pro-growth forces. Soon the federation will have its ranks strengthened by a newly formed union of bank employees which until Sept. 1 had been adamantly opposed by the private banks.

The PRI nationalists

The nationalization had also enormously strengthened the PRI's nationalist circles formed by politicians, government officials, and professional layers. Exemplary of this is the enthusiastic support which the measures have aroused from the National Association of Economists, the association of lawyers, public accountants, and other groups.

Exemplary of these groups' strength is the high profile taken recently by the president of the PRI, Pedro Ojeda Paulada, a staunch nationalist who held cabinet posts in both the López Portillo and Echeverría governments. On Sept. 7, these forces organized the national Senate to unanimously approve the nationalization decrees and send a message to López Portillo expressing "full support for the economic policy and the patriotic decision taken by the government which you deservedly lead."

Left and right tail government

The country's vociferous "Marxist-Leninist" opposition groups have seen their appeal to the labor and peasant sectors greatly diminished. Groups such as the PSUM left alliance, the radical PST party, the Trotskyist PRT, and others are now struggling to maintain at least a place in the last wagon of the government-led nationalist mobilization. PSUM leaders are concentrated on trying to claim the nationalization decrees as a "communist" victory. The population has every reason to think the opposite. On Sept. 3, the PSUM organized a rally in Mexico City in support of the measures parallel to a PRI rally. It was only when a PSUM leader finally mentioned López Portillo that the audience erupted in enthusiastic applause. Similar pro-government sympathies are now giving headaches to the leaders of radical "independent" unions.

The low-profile response recently taken by such right-wing parties as the PAN is also a witness to the strength of the nationalist sectors. On Sept. 9, a PAN spokesman had decided that the nationalist decrees were a "fait accompli" against which they could do little. The party therefore will limit itself to warnings on the dangers of a greater state intervention, the spokesman said.

Since then, Mexico City's political press columns have reported on fissures plaguing the PAN. Since the pro-Falangist PAN had opportunistically run a populist anti-government campaign during the July 4 elections, it has not been easy for its leaders to spearhead the defense of the not-very-popular private banks.

Nonetheless, hard-line leaders such as the PAN presidential candidate Pablo Emilio Madero are insisting on promoting the anti-state campaign. On Sept. 19, Madero broke a prolonged silence by putting out a release to blast those who have opted for "total capitulation before the system." Madero has announced intentions to stir up anti-government sentiment by spreading the story that other business sectors will be expropriated by the state.

On Sept. 19, the heads of several business associations, led by the head of the CCE business umbrella and "free

enterprise" ideologue Manuel Clouthier, announced that, a Sept. 24 meeting to plan opposition to the government measures had been cancelled due to lack of support. A Sept. 8 national strike of storeowners and other businesses organized by Clouthier was also suspended for the same reason.

Business splitting

The failure of Mexico's "Friedmanite" oligarchical circles to counterorganize against the government's nationalization measures is primarily the result of the steady support which the government is gaining among productive sectors. The split in the business sectors started two days after the bank nationalization, when the government announced a dirigist credit system which would lower interest rates, channel credit only to productive sectors, and punish speculation.

Days before the cancelled business meeting, the head of the National Chamber of the Clothing Industry, Bulmaro Jiménez, expressed the small and medium industries' repudiation of Clouthier's conspiratorial meetings. The organizers of that meeting, Jiménez charged, had always represented "big business" anyway. "Fortunately," he told the press, "the state expropriated the private banks . . . [which] never treated us well. Now with this necessary measure, there are more possibilities to have access to cheap credits."

On Sept. 6, the President of the Chamber of Commerce of the city of Ciudad Juarez on the U.S. border had expressed similar sentiments: "The government is giving us what we had asked for. It would be stupid to protest because they are lowering interest rates for us."

The powerful confederation of manufacturing industries, Canacindra, an association which has traditionally collaborated with the government in development programs, has also agreed to collaborate with the government in a national effort to increase industrial productivity. On Sept. 12, Canacindra presented the government with an "operational plan for industrial development."

Not that all these nationalist sectors are thrilled with a greater state intervention in the economy. Nonetheless, most of the country's productive sectors do not have serious problems recognizing that the private banks were essentially an oppressive hindrance to capitalist development.

The de la Madrid camp

The future President, who will be inaugurated Dec. 1, has taken a remarkably low profile during and after the historic Sept. 1 measures. He appeared once in the national Senate during September to see his election ratified. There, de la Madrid said that he fully supported the nationalization and exchange control measures.

It is not known, therefore, what de la Madrid's position was before the decrees and the IMF pressure. One thing is clear nonetheless: The objective configuration in the country strongly favors an anti-austerity, pro-growth movement and this will definitely have an influence on the next administration.

American System economics and the roots of Mexican republicanism

by Luis Vásquez

This article was translated and adapted by Margaret Bardwell from a presentation by Mexican Labor Party member Luis Vásquez before the International Caucus of Labor Committees conference on July 6, 1982.

Mexico could not have survived into the twentieth century as a republican nation-state without the efforts of men who, in the 19th century, devoted themselves to realizing in Mexico a political and economic system that followed in the footsteps of Leibniz, Colbert, Chaptal, Dupin, List, Henry Carey, and Alexander Hamilton. These men, including Francisco García Salinas, Estevan de Antuñano, and Carlos de Olaguibel, fought to free Mexico from the taint of British "utilitarianism" exemplified by Jeremy Bentham, and instead to found a republic that took its inspiration from the American System of economic development, and from the tradition of Colbert in France.

These republican ideas first began to be diffused and gained wide support following Mexico's independence in 1821. Such ideas had first been introduced in Mexico in the 17th century, under the reign of Spanish King Charles III, whose explicit policies promoted the rapid diffusion of scientific thought from the Iberian peninsula into New Spain, largely through the writings of such mercantilist thinkers and economists of Bourbon Spain as Pedro Rodríguez de Campomanes and Count Floridablanca, both of whom were known for their attacks on British free-traders such as Adam Smith, the author of *The Wealth of Nations*.

Alzate and the Bascongadas Societies

One of the foremost proponents of the ideas of the Spanish mercantilists was the Mexican humanist and scientist, José Antonio Alzate, who was himself a disciple of Benjamin Franklin. Alzate was the correspondent of the Bascongadas Societies, which edited and published in Mexico editions in Spanish of economic and philosophic literature, including writings by Campomanes on the grain trade which were a devastating attack on British free-trade ideas.

The Bascongadas Societies also set up "Patriotic Schools" similar to the German *Kameralist* schools. These were dedicated to educating Mexico's future leaders, and to training the people who would be running Mexico's economy. The introduction to the Mexican edition of the policy document on the Patriotic Schools, published in 1776, possibly written

by Alzate himself, stated:

You must try to establish industry in all its different branches and forms. You must try to give agriculture a new appearance by adopting methods and machines that facilitate work. . . . The worker must be guided, supported. . . . You must try to erect new manufactures, to improve those already established, to encourage the poor but industrious artisan. . . . You must educate the citizen in a completely new and great manner.

The Patriotic Schools project spearheaded a drive in Mexico to establish schools, and buildings to house collections of models, machines, books, writings, and paintings "for the perfection of society." But Mexico's political independence was not consolidated until 1821. Mexico, like the rest of the Latin American colonies, had been a source of raw materials to be looted, and a victim of international financial usury. Only in the example of the fledgling United States could Mexico see the opposite economic programs. Defenders of the British utilitarians had begun to promote their ideas for Mexico as early as 1811, when works of Jeremy Bentham were published in Mexico. But after the 1821 independence, the American model had become sufficiently well established that one of the first ceremonies conducted by the Mexican Constitutional Congress of 1824 was to hang the portrait of George Washington among its gallery of heroes.

Francisco García Salinas: industrializing Zacatecas

One of the first men who was able to carry out Hamiltonian political-economic ideas in Mexico was Francisco García Salinas, governor of the state of Zacatecas from 1828 to 1835. García Salinas was the first governor to promote a policy of protectionism and to establish Zacatecas as an industrial marketplace. The city of Jérez became one of the most important textile centers in the country; mining and related industries flourished when García contracted with Belgian technicians to bring machines and technology that revolutionized the methods of mineral extraction. García also established a militia that became the backbone of the Mexican army, introduced new methods of agricultural cultivation, irrigation using aqueducts and artesian wells, and created a state bank to endow land and establish ironworks.

In his writings, García heavily attacked British free trade. In his *Exposition on the Dictum of the Treasury Commission Concerning the Prohibition of Certain Manufactures and Effects Abroad*, written in 1823, García had argued that the free-traders would promote unemployment and capital flight.

Unfortunately, García Salinas was driven from office in 1835 by the anti-constitutional government of General Santa Anna, whose army invaded Zacatecas and deposed García on the pretext of enforcing a law that eliminated civilian militias. General Santa Anna proceeded to destroy almost all of the carefully built up industrial infrastructure.

The Mexican Industrial Weekly

The *Mexican Industrial Weekly* was published between 1840 and 1842. It was sponsored by a group of industrialists headed by Estevan de Antuñano, who were seriously attempting to turn Mexico into an industrial power. In its short, but fruitful existence, the *Weekly* published Colbert's writings, as well as the Spanish mercantilists Campomanes and Floridablanca. It was the forum for nationalist defenders of Mexico, who cited frequently the names of Chaptal, Dupin, Hamilton, and Carey. And the *Weekly* was resolute in combatting the utilitarians, with the central point of their polemic the need for industrializing Mexico. In its edition of June 15, 1841, the *Weekly* said:

The principal argument used against factories is reduced to this: "A country rich in minerals and located in the tropics must limit itself to taking into account its geographic position, and cultivate the fruits of the equinoxial regions; exporting precious metals, and those fruits that cannot be produced in Europe, in exchange for all the manufactured goods, for the use of machines has been a sort of privilege enjoyed by the old continent." This does not take into account the rapid steps taken by the United States in its industrial career. . . .

From its first issue, the *Weekly* reiterated the idea that industrialization for Mexico must be the basis for an economic program to consolidate Mexico as a republic. It warned of an "anti-national" campaign to destroy the nascent industry:

To list all the ways that the enemies of industry agitate against it would take a long time. They use the mask of necessities of the treasury in favor of commerce, and the good of the consumer classes to: sow division, incite envy, foster lack of confidence. . . .

The destruction of industry is always that of the population, which grows and increases in proportion to its means of subsistence.

Under Antuñano's impetus, the *Weekly* undertook a campaign to promote dirigist policies for Mexico, arguing for a state strong enough to generate the necessary environment for effective development of the creative powers of the population.

Antuñano's program contained the following points:

- The introduction and construction of machinery to take advantage of modern industrial procedures.
- Intervention of the state in industry based on creation of Banks for Industrial Development, protective tariffs, state-run enterprises dedicated to industrial production, and incentives for those who had dedicated themselves to Mexico's industry.
- A policy of welcoming foreign industries and the extension of capital to attract foreign industry to the country.
- A program of generalized education for workers.

Antuñano's *Weekly* argued in favor of the introduction of modern machinery as a means of increasing employment; the workers would be able to increase consumption of goods, and thus, the production of goods. The *Weekly* also argued against the British monopoly on machinery, arguing that this is an undue restriction on the right to industrialize.

The type of state intervention proposed by the *Weekly* was decidedly Colbertist in nature:

One of the means that governments have frequently adopted in planning a new branch of industry has been that of funding nationalized establishments. . . . France has been noted for its use of these businesses. The recognized principle is that the state . . . is richer and can take charge of new operations . . . and give them more direction. Monopolies are always better in the hands of the government, because they direct them with greater moderation. . . .

This last proposal was not enacted until the Revolution of 1910. At that same time, another program first proposed by the *Weekly* was also enacted: Banks for Industrial Development run by the state to foster investment in industry. According to the *Weekly*, the proposed Mexican Banks for Industrial Development had their antecedent in Banks for Mining Development that had been created by Charles III, to provide credit for equipment and raw materials, together with protective tariffs. One of the main purposes of these banks was to attract both foreign capital and foreign skilled workers.

In the 1840s, Mexico's greatest danger was anti-Mexican interests, led by the British Crown, who virulently opposed programs such as those proposed by the *Mexican Industrial Weekly*. Lord Palmerston himself, in the House of Commons on May 18, 1841, declared: "[Mexico] has reclaimed for itself the protection of industry and production of their country. . . . Every year they reduce the amount of products of our manufacture. . . . Every year, they export articles with which we protect the manufactures of other nations. Every year our capital emigrates to establish factories in foreign countries where they believe they will earn more. If we continue thus, we will remain reduced, in a short period of time, to the export of machines, which we will send to foreign countries, so they can manufacture for themselves the things that before we apportioned to them. . . ."

LaRouche's plan for a Common Market

Four weeks before the historic Mexican banking nationalization, EIR founder Lyndon H. LaRouche, Jr. issued a private policy memorandum to selected Ibero-American leaders, urging that they immediately adopt dirigist, Hamiltonian measures to defend their economies from the International Monetary Fund and associated institutions. LaRouche's policy proposal Operation Juarez, featured his call for cooperative Ibero-American debt moratoria, the exploding of a "debt bomb" that could bankrupt the holders of the continent's foreign debt.

A second proposal was the creation of an Ibero-American common market, which, LaRouche noted, would be capable of withstanding financial and trade warfare by assembling "one of the most powerful economies in the world from an array of individually weak powers." We excerpt here sections of LaRouche's specifications for the formation of such a common market, whose potentials are now the subject of an EIR study using the LaRouche-Rieman econometric model.

We propose that, within the Organization of American States, such republics as may choose to do so, should form an Ibero-American "common market." This "common market" would be based chiefly upon these institutional features:

(1) Bringing their respective, internal institutions of credit, currency and banking into order, as specified here, earlier.

(2) Establishing a common banking institution to facilitate exchange of credit, currency and trade among them, and as an institution of common defense of the financial and economic interests of the member-nations and the continent as a whole.

(3) To make more effective use of the limited resources at their common disposal, to the equitable advantage of each and all.

Taken as a whole, Ibero-America represents a spectrum of existing and potentially-existing capabilities of natural resources, agriculture, capital-goods industries, and other economic resources. What is not immediately at the disposal of the republics taken individually, is in large part at the disposal of those republics taken as a whole. Given the limited means for creating technologically advanced industries of each and all, the attempt of the republics to meet their needs in parallel represents a costly duplication of invest-

ment, by comparison with the better use of limited resources if a rational division of labor were to be developed among those republics.

What is required is: (1) Agreement to prefer to trade within the community, rather than trade without it; (2) Medium-term and long-term trading agreements, through which it will specialize for export to members of the community, thus assuring a medium- to long-term market for products produced by a corresponding investment. A nest of reciprocal, multi-national trading-agreements of this sort, are intended to foster the most efficient use of the limited capital and credit available to each and all. (3) Fair-pricing agreements, combined with cohering tariff agreements, which have the effect of establishing a customs union among the members of the agreement.

If a sufficient portion of the Ibero-American nations enter into such an agreement, *the result is the assembly of one of the most powerful economies in the world from an array of individually weak powers.*

Although the proposed customs union would develop quickly some of the same advantages as the European Common Market enjoyed prior to the electoral defeat of President Valery Giscard d'Estaing, the proposed customs union is not modeled on the principles of design which informed the European Market.

The keystone institution of the proposed customs union is the inter-republic bank. This bank is established by treaty, to function as the common facility of the national banks of the participating sovereign republics. Its functions are, categorically, inclusively, these:

1. Inter-republic banking functions: (a) To serve as a central clearing-bank among the participating republics' national banks; (b) To mediate exchange of credit and currency among the national banks; (c) To act as a clearing institution for settlement of multi-national agreements among members respecting tariffs and trade.

2. Monetary functions more generally: To facilitate maintenance of parity exchange-values among the currencies of the member republics, and to defend those currencies as a bloc against external manipulations.

3. A development bank (investment bank): The bank serves as a coordinating agency for planning investments and trade-expansion among the member-republics. To aid in implementation of such agreements, the bank coordinates the mobilization of money-capital needed to ensure that all aspects of the agreed programs are adequately supplied with investment-development capital.

There are two principal sources of money-capital for expansion: intra-system, and foreign.

We have specified a monopoly for creation of money-credit by sovereign governments, denying this power (e.g., outlawing the "Keynesian multiplier") to any private agency. We have thus ensured that the otherwise idled, salable goods, goods-producing capacity, and labor of each and all nations shall be adequately employed, insofar as performance-wor-

thy borrowers-entrepreneurs are willing to borrow at low interest-rates, to put those idle resources to work in a manner consistent with national priorities for categories of development.

The establishment of a customs union of the type proposed, means that the currency-notes of each republic can be issued as medium-term to long-term export-loans-capital to fund exports of its capital-goods production with the customs union. We have eliminated the need for a third-party lender among those republics. We have established a greatly enlarged autarkical development-potential among the members of the customs union.

This system of intra-bloc medium-term to long-term capital-goods-export lending will operate soundly, on condition that the payments for such loans are predefined in terms of the importing nations' repayment through earnings from its own capital-goods or other exports within the bloc. There is, therefore, an underlying, medium-term to long-term barter basis for these agreements.

Furthermore, for this and related reasons, it is desirable that the member-republics should prefer to purchase their imports from within the bloc, rather than from without it. A sharp and growing reduction in relative volumes of imports from outside the bloc should occur relative to existing categories of imports. The extra-bloc purchasing and borrowing potential of the bloc's member-republics should be concentrated for purchases of high-technology capital goods.

This is not a dilution of the sovereignty of the member-republics. In negotiations for lines of medium-term to long-term credit, to implement multi-member-republic projects, the representatives of each republic will negotiate sovereignly, but with backing from the common banking institution, and, thus, implicit backing from other member-republics of the bloc.

However, respecting financial relations with nations outside the bloc, the sovereign member-republics seek to negotiate loans for capital-goods through the facilities of the common bank, and to clear payments against such loans through that same common bank. This strengthens the bank's power to maintain a common defense of the currencies and credit of the member-republics. Not only are the members better defended, but the creditworthiness of each nation is increased; the creditworthiness of each and every nation of the customs union is greater than it could be outside that customs union.

To aid this, a common currency of account should be established for the customs union. Loans negotiated through the common bank will be denominated for payment in this common currency of account.

However, the bank will not be responsible for the debt of sovereign republics. Rather, the sovereign republic will settle its debt through its account with that common bank, and will settle in denominations of the common currency of account.

This bank will soon become one of the most powerful financial institutions in the world, especially in the opinion of capital-goods exporting nations.

Brazil's Delfim Netto: 'We can solve crisis together'

What follows are excerpts of a translation of the speech by Brazilian Finance Minister Delfim Netto given before the Escola de Guerra Naval (part of the Escola Superior de Guerra), on Thursday, Sept. 16.

We have, therefore, all the conditions necessary to achieve our development. We are, today, at a critical moment, a decisive moment of our history, one in which the world is afraid. It is not we who are afraid. The world bankers are afraid. Companies are afraid. When we see Telefunken go bankrupt, Dome in Canada go bankrupt, tens of firms that seemed to be unbreakable go bankrupt—things that appeared six, eight, or ten months ago to be absolutely impossible—then we are seeing that we are really in a difficult world. But we also know that there is a narrow path for us to get through, one we are taking. More than that: we know that we have a system of navigation that will lead to the desired result. It is necessary to understand this. I feel it is necessary that we free ourselves of certain fears, of the idea that all this is very simple, that all that was necessary was for me to pull a card from my sleeve for everything to be taken care of.

For certain, there will be millions of extremely intelligent people, as yet unrecognized, who will suddenly discover some way of getting the world out of this situation. I feel there is only one way. That is, to add up all the crises. If each of us clings egotistically to our own crisis, the crisis has no solution. But if we exchange our crises, they do have solutions.

Take, for example, the case of Mexico and Brazil. If we could convince Mexico—as we are trying to now—we can trade our crises. There is no way to get money anymore. For example, I have an enormous capital goods industry. I give you credit for \$2 billion. You extend me credit for \$2 billion. I sell you my equipment, I give jobs to my Brazilians. You sell me your oil, and give jobs to your Mexicans.

If we put our crises together, they turn into prosperity. If we then are able to convince Nigeria that we can put our crises together, each of us will be able to rise.

Now, it is difficult to explain to people that the sum of our crises produces prosperity. This is the great truth that President Figueiredo has tried to demonstrate to our [trading] partners during his recent trips: to show that the world only has a way out if it adds up its crises. It only has a way out if each is capable of thinking about the problem of the other and realizing that his own problem is one piece of the problem of the other, and that, as if by some extraordinary effect, putting them together, the whole problem disappears.

Will the U.S. and Israel change policy tracks?

by Thierry Lalevée, Middle East Editor

It may be only a matter of weeks until Israeli Prime Minister Menachem Begin and Defense Minister Ariel Sharon are forced to step down and be replaced by a Labour Party-dominated coalition or even a National Salvation government, as some have already advocated. This will be the ultimate consequence of the September massacre of more than a thousand Palestinian women and children in the camp of Chatila in Beirut which has led not only to a crisis between Washington and Israel, but also a crisis between Israel and the Jewish communities in Western Europe and the United States.

The role played by the Israeli government in that horrendous massacre—which can only be compared to the Second World War activities of the Brandenburg division of the German Abwehr's Abteilung II on the Eastern Front—was followed by the Israeli government's refusal to even consider the creation of a commission of inquiry. The Reagan administration which, until now, had still considered Israel's Begin and Sharon as its best allies in the Middle East, now must insist that "heads have to roll" if it wants to maintain its credibility not only in the Middle East but worldwide. It has to impose the removal at least of Ariel Sharon, the man who together with Chief of Staff Rafael Eytan, "knew or should have known," and who are considered the masterminds behind both the assassination of Lebanese President-elect Bashir Gemayel, and the massacre less than 24 hours later.

This massacre had no other purpose than to spark anew the seven-year-old Lebanese civil war. Just as Bashir's murder gave Sharon the pretext to swiftly occupy western Beirut, a new outbreak of civil strife would have given him the ultimate pretext to impose the presence of Israeli troops all

over Lebanon, de facto partitioning that country. If a civil war had started following the news of the massacre, Lebanon could well have ceased to exist already; and if steps are not taken against those responsible, the crisis may well engulf the entire Middle East.

Sharon and the massacre

There is no doubt that one of Sharon's main targets over the past few weeks has been President Reagan and the U.S. administration, whose ill-fated "peace plan" was seen as running counter to Sharon's aspirations to a de facto Israeli empire in which the partition of Lebanon was to be the first step toward the overthrow of the Hashemite dynasty of Jordan and the establishment of a puppet "Palestinian state" there, sparking a wave of terror and of social upheaval in the rest of the Arab world. Judea and Samaria would become permanent parts of Eretz Israel.

Sharon's plan in giving the green light for a Palestinian massacre was to create a situation in which the United States, would have had no choice but to support Israel as the only stabilizing factor in Lebanon, among the numerous warring factions. Indeed, this nearly worked out: until Saturday evening, Sept. 18, the Reagan administration was still convinced that Israel's drive into western Beirut had been "prompted by attacks from leftist militia" against Israeli forces—a rationale that even the Israelis, who knew better, didn't utilize.

This quickly fell through as it became clear that the massacre had been a cold-blooded operation. Sharon's miscalculation, as Lebanese sources have pointed out, was to have moved too late. Should such a massacre have occurred on the night the death of Bashir Gemayel was announced, it could

have been represented as an emotional vendetta organized by "uncontrolled elements." Twenty-four hours later, no such excuse could be mounted. As reports later indicated, in Israel and elsewhere, the operation had been the work of Israeli-controlled forces of Major Haddad—his personal participation being still a question mark—and of Israeli-controlled breakaway factions of the Falangist Party headed by militia leader Dib Anastase. Anastase, the deputy commander of the Falangist security force, has since been arrested for having been involved in the actual murder of Bashir Gemayel.

The massacre began on the night of Sept. 15, a few hours after Israeli troops had moved into western Beirut and imposed a curfew on the whole area to "avoid bloodshed." That afternoon, scores of militiamen had been airlifted in Israeli helicopters to Beirut airport, then loaded into trucks and dispatched to the Palestinian refugee camps. During the early evening, the first massacres occurred. A few hours later, as reported by the Israeli newspaper *Haaretz*, Israeli soldiers guarding the camp were told by Palestinian women about the butchery inside. Making their reports to their commanders, the soldiers were instructed "not to worry, everything is under control." Israel's army was meanwhile launching flares to illuminate the camp and facilitate the work of the militia.

At the latest by Thursday morning, Sept. 16, most of Israel's senior commanders, including Eytan, were perfectly aware of what had happened the night before, and what was still happening. Israeli military reports during that period described them as a "joint operation to seek out terrorists" in the camps. By the morning of Sept. 17, *Haaretz's* military correspondent Schiff had himself informed Transport Minister Zippori that something horrendous was happening in Beirut. Zippori also informed Israeli Foreign Minister Shamir, who later was to claim that as of Friday, he had received no confirmation of such events. Indeed until midday of Sept. 18, Israeli officials claimed to "be aware of nothing particular," a statement which provoked an uproar. Later, it was stated that "something was known on Friday," that "Israeli troops tried to prevent what was happening," and had killed three militiamen in retaliation!

Speaking in the Knesset on Sept. 22, a week later, Defense Minister Sharon acknowledged that 1) the Israelis allowed the militiamen into the camps; 2) that these troops were assigned to seek out terrorists; 3) that Israel could not predict that these troops would engage in a massacre; and that 4) Israeli troops had intervened as soon as it was known that something was going on (two days later). Finally, what Sharon considered his most important argument: 5) "We used the militias because we wanted to spare Israeli blood"—an explanation which stands without further comment.

To cover any Israeli responsibilities into this massacre, Sharon as well as other ministers insisted that Major Haddad's troops were *not* involved. Sharon didn't hesitate to blame the Lebanese Falangists, an accusation aimed at breaking the fragile national unity created around the presidential election of Amin Gemayel a few days later.

A moral revolt

The Israeli population now faces its gravest decisions since Independence. As news of the massacre spread by Sept. 18, crowds of demonstrators gathered in front of Begin's office, denouncing him as a "Nazi" and a "murderer"—an unprecedented scene which, far from being the work of a radical minority, has received nationwide support as the news media one after another began to unveil the truth, and began to call for Begin and Sharon to resign. If Begin wants to remain Prime Minister, wrote both the *Haaretz* and *Yedioth Ahronoth*, he has no choice but to immediately sack Sharon and Chief of Staff Eytan.

To this moral revolt inside Israel was soon added a revolt by the worldwide Jewish communities, who, in the words of one leading British Jew, accused Begin of having "tarnished the proud name of the Jewish people. For that we shall never forgive you." On Sept. 20, the American Jewish Congress called for an immediate break between Israel and Major Haddad's force, or else, it stated, "Israel will lose all moral credibility to denounce the PLO as terrorist." Only a few days before, Diaspora Jews had protested the meeting between Arafat and the Pope, only to find a few days later that, in the words of the conservative American Sen. Barry Goldwater, "Begin makes Arafat look like a Boy Scout."

On the West Bank and in East Jerusalem, from Sept. 20 on, a general strike was organized by shopkeepers. Israeli Arabs followed suit, roads were blocked, and fights with the police occurred. By Sept. 22, the Begin government was forced to accept an emergency debate in the Knesset on two resolutions: one calling for Sharon's immediate resignation, another calling for the immediate establishment of a commission of inquiry, a demand made worldwide by individuals, organizations, and governments alike.

Begin succeeded in rejecting both demands, only to concede that in the upcoming two to three weeks, an investigation may occur, but not by a full-fledged commission. Modai, a former energy minister, screamed to Radio Jerusalem that "the establishment of such a commission is a hint that Israelis may have been involved. That hint is criminal!" As of this writing, new defections from within the ruling coalition are under way. Following the Knesset vote, Energy Minister Berman resigned in protest and took with him two other members of the Knesset "liberal" faction of the Likud. They are expected to form a new Center Party under the leadership of former Defense Minister Ezer Weizmann. The National Religious Party, the most important party of the coalition, is threatening to resign, too, under the leadership of Interior Minister Burg and of Education Minister Hammer, who both want a commission of inquiry. Even the ultra-right-wing Takhya Party of Yuval Neeman, like rats leaving a sinking ship, advocates the creation of such a commission.

The battle will not be easy; both Begin and Sharon are reported to intend to stay in power by any means. Begin waited 28 years to become Prime Minister, and he will not relinquish that office easily. Sharon and Eytan are reportedly

maneuvering to crush all opposition. With an army 95 percent of whose officers corps is composed of members of Kibbutzim, Sharon has no chance—even if he was thinking about it—to use the army as his power base, but he still has the capability to create new military crises. In turn the army may well have to move one day, against Sharon.

The question of Camp David

The ball is in the camp of the Reagan administration and in the hands of President Reagan himself. Duped for several months by Sharon, he reacted with great anger at the revelations of the massacre and went on American television on Sept. 20 to announce that, together with France and Italy, the United States was sending its Marines back to Beirut to secure the situation as well as to ensure a speedy Israeli withdrawal from the city altogether—and not merely the western part of it. One of the American Marines' tasks will be to promote a quick restoration of the powers of the Lebanese armed forces in the region. And coupled with the diplomatic process engineered by "special envoy" Habib, an overall Israeli withdrawal from the country should be secured while Washington is already mooted its own "American plan for Lebanon."

But the task is enormous and requires political steps that Reagan has thus far refused to consider. It requires a total review of America's Middle East policy and of the inheritance left by the Carter administration—the so-called Camp David Peace Treaty. Lebanon's present agony is a direct product of that treaty, based as it is on some kind of interim peace agreement between Israel and Egypt, as former Secretary of State Henry Kissinger advocated years ago.

As necessary as it is for the American administration to support demands for the removal of Ariel Sharon, it is equally necessary to sweep out the Kissinger network in Washington which has been drafting Reagan's recent Middle East proposals. As a matter of fact the Reagan plan was nothing but a formula written by Kissinger himself and sold to Reagan via George Shultz and his adviser Joseph Sisco. The new "Kissinger Plan," as *EIR* has reported, has no other purpose than to enlarge Camp David, but ran counter to Begin and Sharon's plans, since they have no intent of making any compromise on the issue of the West Bank. Indeed while Begin and Sharon are out to destroy the Arab states to the extent possible, Kissinger et al. think it is better to reinforce their own control over such states and their eventual dismemberment—hence the need for some kind of compromise and "interim solution." So long as President Reagan doesn't break with such policies, the reconstruction of Lebanon will never happen, the United States—having sent its troops into Lebanon—may be led into the same quagmire as the Israelis. Mr. Reagan's only solution is to go for a comprehensive settlement stabilizing the entire Middle East, including a settlement between Israel and the PLO, whose chairman, Yasser Arafat has now received—partly thanks to Sharon—an increasing recognition. After his meetings with the Pope, he is expected to soon meet with French President Mitterrand

and Chancellor Schmidt in West Germany. To Kissinger's recent call for a "new order to emerge out of chaos," Reagan should respond with a categorical refusal to play the card of chaos, and encourage those Israeli political forces which have risen above the present crisis to constitute a real leadership. Israel's President Navon, bypassing his merely ceremonial role, has been intervening repeatedly into the situation, to call for a commission of inquiry to be forced in Israel as well as in Lebanon, and making unprecedented overtures to the Israeli Arabs. Expected to resign soon from his post as President, Navon would be the best Prime Minister Israel has had for some time. President Reagan should also secure closer relations with Egyptian President Mubarak—and stop those in Washington who want to overthrow him in favor of Defense Minister Abu Ghazala. A comprehensive American initiative should include an all-out effort to foster the economic development of the region through high technology and infrastructural investment. As *EIR* founder Lyndon LaRouche has put it, Reagan should break with the "blood and soil" diplomacy established in the Middle East by more than a decade of Kissinger's step-by-step diplomacy, and look to the example of President Dwight Eisenhower, who, when he confronted an Israeli government in the 1956 crisis, also had a comprehensive economic development package for the region.

A final chance for Lebanese politics

by Thierry Lalevée

The assassination of a president-elect, and the massacre of more than a thousand Palestinian refugees in the Chatila camp, have not succeeded in reducing Lebanon to civil war once again. On the contrary, the general horror provoked by these events has had the effect of strengthening what little potential for national unity Lebanon had. Bashir's brother, Amin Gemayel, was chosen by the parliament in a 77 to 30 vote to succeed the slain Bashir; he was sworn in Sept. 23 at a ceremony attended by foreign dignitaries including Reagan envoy Philip Habib, a ceremony that passed without incident.

This was an incredible show of national unity and restraint under the circumstances. It is far from ensuring Lebanon's future as a sovereign state, however.

Israeli and Syrian designs on Lebanon notwithstanding, the immediate threat comes from the numerous political and sectarian elements that have repeatedly reduced the nation to civil war in the past seven years. Most of these forces, however, have foreign backing of one sort or another, a fact once again proven not only in the assassination of Bashir, but in the ensuing massacre.

The legacy of Bashir's murder

Lebanon's immediate problem is a faction fight inside Amin Gemayel's Falangist or Kataeb party, created by his Hitler-supporting father after attending the Berlin Olympics in 1936. Lebanese sources say that the Falange is divided into no less than five factions, ranging from an ultra-right wing, for whom *Mein Kampf* is a bedside book, to genuine Lebanese nationalists who view Israel's Defense Minister Ariel Sharon and Henry Kissinger as the evils which must be fought to ensure an independent and sovereign Lebanese state.

The murder of Bashir Gemayel is viewed as a direct expression of the splits inside the Falange; Lebanon faces only disaster if the neo-Nazi factions are not ruthlessly rooted out.

Investigations have established that Bashir's murder was accomplished under the direction of a certain Dib Anastase, the number-two man in the Gemayel Falange's Deuxieme Bureau. A Greek-Lebanese who often served as Bashir's bodyguard, Anastase is an expert in explosives, and is said to have activated four remote-control devices from a building 150 yards from the Falange headquarters—one of the devices on the roof, another under Bashir's chair, and another under the table at which Bashir and others were seated. A fourth bomb was located in a car parked in western Beirut, exploded simultaneously to spread chaos and confusion. It was the same Anastase, one day later, who led his militias together with those of Major Haddad into the Palestinian refugee camps.

Anastase and Haddad represent the same thing inside the Christian movement, carrying out the orders of the Israeli faction of Ariel Sharon, and its dedication to a partition of Lebanon. In short, Anastase and Haddad and Sharon represent Henry Kissinger's policy.

Anastase and Haddad are products of an ideological school in Junieh called the "Kaslik Group," led by Maronite priests like Father Mouhannes and Sherbel Kassis. The group has been working for years to create a new cult outlook for Lebanon, attacking the country's connections to the rest of the world in favor of a Lebanese exclusivity and "Phoenician fundamentalism" of sorts, based on resurrection of the ancient Tyrean god, Baal. Lebanon as "Phoenicia" is historically to be associated with the "House of Israel" against the Arab world.

This was the substance of what Mouhannes had to say during a recent trip to Israel, where he called for "not only a peace treaty, but a full-fledged friendship alliance between the two countries." Mouhannes was supported by an extremist group closely associated with Sherbel Kassis, the so-called "Order of the Guardians of the Cedars," a half-religious sect led by Abu Arz. Arz, in Israel, recently declared: "We are ready to offer the Palestinians a homeland: six feet under the ground we have plenty of room."

These "Christian" circles issued horrible sounds during the meeting between Pope John Paul II and Yasser Arafat.

They wait impatiently for the pretext which would allow their split from the Vatican to create an independent church. In addition to the support represented by Sharon and Kissinger, they have an ally in the Falange-mafioso leader Camille Chamoun. It was Chamoun's "tiger militias" that touched off Lebanon's 1975 civil war, when they murdered Christian fishermen who had refused to "modernize" their practices by using exclusively Chamounist ships. Chamoun disguised the murders as a "Muslim crime," and seven years of civil war followed. (The civil war brought good business for Chamoun, who controls the sale of windows in Beirut!)

National unity, for how long?

Hence the decision by most of the Lebanese Muslim community to rally to the support of Christian leader Amin Gemayel. It is a Christian-Muslim unity based more on expediency and fear, than a fundamental belief in the ability of "Mr. Two Percent," as Amin is known for his deals with East bloc airline companies. Under the present circumstances, Amin Gemayel may change, however, rising to the challenge posed by his presidency.

There remains the danger that he will suffer the same fate as his brother, whose murder followed upon Israeli-Falangist factions' disappointed that he did not immediately intend to sign a peace treaty and form an alliance with Israel. Amin, in his first speech, emphasized the need to restore close relations with the Arab countries, not mentioning Israel once. Unless he takes the decision to crush the nest of snakes within his own movement who authored the murder of his brother, he can be nothing more than an interim president, pending his assassination, or capitulation to his brother's murderers.

Gemayel's immediate task is two-fold. First, he must ensure the withdrawal of all foreign forces from the country. There is evidence that his call for relations with the Arabs was intended to obtain a more rapid Syrian withdrawal, based on the presumption that the Americans would enforce an Israeli withdrawal.

Second, what kind of new government is to be formed? What policies will it follow for Lebanon and toward the rest of the Middle East? Amin is confronted with the key issue of rebuilding the economy. Will Lebanon be reconstructed only to become a haven for Chamounist mafiosi and fiscal fraud, a paradise for bankers of dubious intent, laundering dirty monies for the region's drug trade? Or will Lebanon face up to the basic task of constructing an economy based on productive agriculture and industry? Only a broad national unity could accomplish that, as emphasized by Roger Edde, nephew of former presidential candidate Raymond Edde, in discussions with *EIR*.

Lebanon, for such a course, needs U.S. guarantees of its national independence. But that will not come, emphasized Edde, unless the Reagan administration were to be purged of its Siscos, Eagleburgers, and other Kissingerites, who have worked for Lebanon's partition, not its unity and national reconstruction.

Khomeini panicked over opposition

by Mary Lalevée, Wiesbaden Bureau

There are increasing reports on internal dissatisfaction and rebellions inside Iran. In the last week alone, there have been reports on rebellions in the cities of Isfahan and Meshad, brutally repressed by the Iranian authorities, of bombings against government buildings and representatives, and increasing revolt by the various tribal groups which make up Iran's population. The Kurds are being treated with great harshness: after an amnesty had been declared for Kurdish guerrillas who gave themselves up, those who actually did so were executed. There are also reports of mass imprisonments and banishment of entire Kurdish families.

Faced with the disintegration of support for his mullah regime, Khomeini is on a "flight forward" in an attempt to turn the attention of the population away from food shortages and repression. One indication of this was the execution Sept. 15 of Sadegh Ghotbzadeh, one of the architects of the Iranian "revolution." Thus far the government has refrained from moving against religious leader Shariat Madari, whom Ghotbzadeh had implicated in the attempted overthrow of Khomeini. Fear of the reaction of Shariat Madari's Azerbaijani supporters is one reason. Another is the government's unwillingness to have information published concerning Shariat Madari's links with Turkey, which is reported to have supplied money and weapons for the plotters. The Iranian government is presently negotiating a big economic package with Turkey, and the Iranians need the deal too much to jeopardize it with the embarrassing publication of these facts now.

Iraqi war another diversion

Khomeini is also using the war with Iraq to turn the population's attention away from hardship. The second anniversary of the war, which began on Sept. 22, 1980, was marked in Teheran by a military parade, with Iraqi prisoners of war forced to carry pictures of Khomeini. Khomeini has announced that the "final phase" of the war had begun, and there have been repeated reports in the last two weeks that the Iranians are preparing a major offensive against the Iraqi port of Basra. Some say that as many as 50,000 Iranian troops are massed on the border in preparation.

Iraq announced yesterday that its airforce had attacked military targets in five cities in Iran, and that this was a

"warning" to the Iranian regime not to launch an offensive. A military communiqué said that "Iraq is ready to deal a deadly blow to the enemy, if they dare to attack."

Iraq now has the advantage of being backed—verbally at least—by the other Arab states. The recent Arab League meeting at Fez agreed unanimously to support Iraq if its territory was invaded by Iran. Even Syria, ally of Khomeini, was forced to agree, albeit reluctantly.

Former American ambassador to Saudi Arabia James Akins told a conference in London earlier this week that if the next Iranian offensive against Iraq were repulsed, it could mean the end of the Khomeini regime, leading to a takeover by the military in Iran. He said that the upcoming battle could well decide the Gulf War finally, as Iran was fast running out of manpower for its human wave assaults. While Iraq is reported to have lost as many as 50,000 troops in the two-year war, Iran is said to have lost three times that many.

Akins warned of the consequences of an Iranian victory, and called for Western support for Iraq. He said that if the Iranians did defeat Iraq, Iran would simply absorb at least part of Iraq, and Saudi Arabia would have to become politically deferential to Iran. He stressed that the regime in Iran had at most the support of 15 percent of the population and that a new revolution is inevitable.

Tribal-based opposition grows

Opposition is coming increasingly from tribal-based groups, rather than from political opposition. One of the reasons for this is that the Khomeini regime has simply eliminated the leadership and members of many political organizations. Executions without trial are commonplace. Even with a trial, the recent government decision to appoint students at Islamic schools judges means there will be little hope of justice for opponents of the regime. Reports now say as many as 19 people per day on average are executed by the Iranian regime.

One report speaks of the recent capture and killing of a large group of the opposition Mujahedin e Khalq, in the Khuzestan province, where they were accused of planning the killings of leading military and government officials.

One exile source said that "something could be organized around the tribal groups," which he described as "fiercely nationalistic," and "not at all oriented to the mosques."

These nomadic groups are reported to have links to the British, as well as earlier to the Germans, dating back to World War I, when members of the Kashgai tribe, for instance, fought with the Germans against the British.

The leader of the Kashgai tribe, Khoshrow, was imprisoned some time ago by the Iranian authorities, obviously fearing an organized revolt by his tribe. They hesitated to execute him, however, fearing equally much a reaction by the Kashgai. However, two days ago, it was reported that he had been executed. This is yet further evidence of Khomeini's flight forward, and the fact that the regime does not care about the possibility of such a revolt.

Vietnamese foreign minister: 'Sihanouk has come to the end of his political life'

The United Nations General Assembly will go through its annual ritual of voting on who represents Kampuchea (Cambodia) in the international body, probably the week of Sept. 27. Since 1979, when Vietnamese-backed national liberation forces overthrew the genocidal Pol Pot regime, the U.N. has persisted in seating Pol Pot as the representative of the so-called Democratic Kampuchea "government".

It has not been lost on the governments and peoples of the world that this is the moral equivalent of seating Adolf Hitler as the representative of Germany. It is precisely for that reason that this year an attempt is being made by Pol Pot's sponsors in Peking, Washington, and Southeast Asia, to paper over the bloody atrocities of their puppet's regime with a "coalition government" headed by the clownish Prince Sihanouk, who now spends his time shuttling between a villa in Peking and one in the North Korean capital of Pyongyang. The coalition includes former Premier Son Sann's tiny group, and Pol Pot's Khmer Rouge.

It is expected that the presence of Sihanouk in the coalition will give world governments a handy excuse to vote for genocide again, although none of those governments has any illusions that Sihanouk's presence is any more than a temporary diplomatic figleaf.

EIR's Asia Editor Daniel Sneider talked with Vietnam's Foreign Minister (and Poliburo member) Nguyen Co Thach at the United Nations on Sept. 21, before the vote. He found him relaxed and unconcerned about the diplomatic games going on in the United Nations. Thach's focus was optimistically on the possibilities, which he perused recently in a tour of Southeast Asia, for a real political negotiation and agreement between the Indochinese countries of Laos, Vietnam, and Kampuchea and the ASEAN countries of Malaysia, Thailand, Singapore, Indonesia, and the Philippines. He revealed for the first time, exclusively, a Laotian-led Indochinese initiative for a new round of ASEAN-Indochina talks at this U.N. General Assembly.

Foreign Minister Thach had visited Malaysia, Thailand and Singapore in August and will go to the Philippines and Indonesia in late October and November. While these visits are not expected to produce any immediate breakthroughs, there is a clear sense of a process of dialogue which is underway. The relatively low key tone taken by Thach in our

interview towards ASEAN, despite its continued promotion of Pol Pot at the U.N., is evidence that the Vietnamese are going to ignore provocations and pursue negotiations.

Within ASEAN there are clear differences of opinion about how to respond to the Vietnamese overtures. Singapore, headed by the anglophilic Chinese leader Lee Kuan Yew, continues to take the hard line against Vietnam. Lee's latest maneuver was to float a statement which suggested that ASEAN members might hold joint military exercises, an idea contrary to the ASEAN stand against making the regional association a military bloc. Lee is a backer of the U.S.-China alliance which he portrays as a necessary defense against Soviet presence in the region.

A less harsh tone can be heard from Indonesia and the Philippines. Indonesian Foreign Minister Mokhtar Kusumaatmaja, in an interview with the *Bangkok Nation Review* on Sept. 6, downplayed the view of Vietnam as a military threat to the region. "As for Vietnam," the Indonesian official said, "I don't think she is a threat now." When the Thai journal questioned this view, Mokhtar rhetorically responded: "If the Vietnamese are dangerous, they would have attacked [Thailand] long ago. Why have they waited so long?"

All this indicates that the events at the U.N. continue to be a sideshow to the realities working in Southeast Asia. It is there that things will be decided, not in the empty speeches and votes of the U.N.

The full text of our interview with Foreign Minister Nguyen Co Thach follows:

Sneider: The vote is this week [at the U.N.] for the seating of the Kampuchean delegation. All the predictions are that the Pol Pot regime will retain its seat. What is the significance of that in your mind?

Thach: What concerns [us] mostly is to see, to watch the people who are professing for human rights, how they vote—they vote for human rights or against human rights.

During our struggle we were always out of the United Nations and I think the votes in the United Nations are only to show the policies of the governments in the world. But it cannot reverse the revival of the Kampuchean people.

Sneider: But is this a diplomatic setback for you?

Thach: No. In this problem, from 1979 up till now, who are backing Pol Pot? You have China, the United States, and some other countries, for instance ASEAN countries—they were always against us, against the Indochinese countries. And some other countries, they say, for political reasons, that it is only for “technical” reasons that they vote for Pol Pot, that it is not a question of political significance.

So it is not a setback or a victory for us or for them to have Pol Pot seated there. But I think it could be a very embarrassing problem for the people who are voting for Pol Pot in the United Nations.

Sneider: Do you think the presence of Prince Sihanouk changes anything in any way?

Thach: Sihanouk has declared many times that cooperation between Sihanouk and the Khmer Rouge could be “political suicide” for Sihanouk. It is the reality, because Sihanouk is only [being] used as a cosmetic for Pol Pot.

Sneider: I am recalling that Sihanouk had a similar coalition with the Khmer Rouge during the years that he was in exile in Peking from 1970-75. The results of that alliance we know quite well. I have a question in my mind as to why anyone should believe that the results will be any different now than they were then.

Thach: I think that the coalition before, against Lon Nol, is another coalition, different from this one. Because now all the Cambodian people, they are afraid and they have a profound hatred against Pol Pot. And now Sihanouk is colluding with Pol Pot. He is now at the end of his political life.

Sneider: When you undertook your recent tour of several of the ASEAN countries [Malaysia, Thailand and Singapore], which was following the formation of the coalition government and following the announcement of the partial withdrawal of Vietnamese forces from Cambodia—did you detect during that visit any change in the attitude of ASEAN towards the question of direct negotiations between the ASEAN countries and the Indochinese countries?

Thach: Yes. I have recognized that there is change in their attitude—not on the problem of Kampuchea but on the principles for peaceful solution of the problem in Southeast Asia. Before they would like to impose on us a one-sided [solution] . . . they were concerned only for their own interests. They did not care about our interests.

Now we have agreed, when I was in Malaysia and Thailand—they have agreed with us that there are two principles for dialogue, for negotiation. First, both sides must respect the legitimate interests of the other. I think this is very good. For instance, regarding the total withdrawal of Vietnamese forces from Kampuchea: We respect their concern but they must respect also our concern, that is the cessation of the threat from China. So we can agree.

The second principle is we must have agreement and not impose the will of one side against the other side. For in-

stance, the international conference—we would like to have consultations and have agreement between ASEAN countries and Indochinese countries on the membership of the conference, the participants; on the agenda of the conference; for instance, on the place of the conference; on the date of the conference. All these things must be agreed upon by two sides. After that we will have the conference—that means “two hands clapping” and before the [ASEAN-proposed—D.S.] U.N. Conference on Kampuchea was “one hand clapping.”

Sneider: Are you saying that ASEAN is in agreement, or you think they will be in agreement, with the idea of holding an international conference rather than the U.N. conference idea?

Thach: We have not yet discussed in detail what matters—for instance, the international conference or not. But we have agreed on the principles facing us in Southeast Asia: one, respect for the legitimate interests of both sides; second, equality, that means not to impose. We must have agreement between the two sides. I think this is the fundamental, the basic element for a dialogue.

Sneider: In October and November you are going to the Philippines and Indonesia.

Thach: I must tell you that recently the Laotian Foreign Minister had sent a letter to the ASEAN Foreign Ministers to explain to them what are our proposals, what we are thinking in our proposals [made] at Ho Chi Minh City [the Indochinese Foreign Ministers conference earlier this year—DS] and how we dealt with these things. He had proposed to have a meeting or discussion with the ASEAN countries in U.N. headquarters during the General Assembly.

Sneider: Have you received any response to the proposal?

Thach: They have just sent the letter.

Sneider: The sense I am getting from what you are saying is that this Sihanouk game at the U.N. is basically irrelevant to the process of negotiations between ASEAN and the Indochinese countries.

Thach: Not irrelevant because it shows ASEAN is still trying to impose [solutions] on us.

Sneider: Do you feel there are differences of opinion within ASEAN on the question of imposing a solution?

Thach: There are.

Sneider: Do you think that no matter what happens at the vote in this session that that is not going to affect in any way your attitude or ASEAN’s attitude towards negotiations?

Thach: No.

Sneider: You don’t think it might convince ASEAN that they don’t have to pursue such discussions with you?

Thach: I don’t think so, but if they continue such confron-

tation, confrontation is going on for three years already and there is no conclusion, it could not help [them].

Sneider: There are a lot of predictions that the Vietnamese forces in Cambodia will launch a big dry-season offensive [against the Khmer Rouge].

Thach: It is not necessary. If you compare this rainy season with last year's, this rainy season there is less hostilities than before. So they say [the Khmer Rouge] they will launch a big offensive so as to have more credibility regarding their ability, their strength—it is not correct.

Sneider: Which means that the formation of this coalition has done nothing to change the strength of the guerrilla, the Khmer Rouge forces?

Thach: No. Sometimes it is contrary. There are some desertions from the Khmer Rouge to Sihanouk—that means these armed people, they would prefer to have a black market than fighting (laughs).

Sneider: Would you say that ASEAN's major motivation in promoting this coalition was essentially to improve their bargaining position for negotiations?

Thach: I think first it is to maintain Pol Pot in the United Nations and secondly they would like to have a trick, to have Sihanouk and Son Sann in the government and then to drop Pol Pot after[wards].

I think it is too naive. The Khmer Rouge are like a goat and Son Sann and Sihanouk are like a cabbage. The cabbage cannot swallow the goat—it is the goat who will swallow the cabbage.

Sneider: On the question of China. What is your perception of the results of the 12th party congress in China and do you see any change in Chinese foreign policy in the near future, either towards the Soviet Union, or Vietnam, or in the area as a whole?

Thach: I think it is the same policy from 1981 up till now. They have had some readjustments from 1981 since Reagan came to power. I think this [the party congress] is to reaffirm what they have done since 1981. That means continuing collusion with the United States, but slowing down, not as strong as the years of 1979 and 1980. And lowering the tone with the Soviet Union but continuing the policy of anti-Sovietism. It is "less of the same" and with the United States, "less of the same." Not "more of the same" but "less of the same."

Sneider: Do you think there is any change in terms of the internal balance within China? There are forces which are opposed to Deng Xiaoping's "Opening to the West."

Thach: There is a strengthening of Deng Xiaoping on the top but not yet in the army and on the provincial level. It is still a very tough fight within these [past] three years. It is not easy.

SWEDEN

Who has returned to power with Palme?

by William Engdahl from Stockholm

The Sept. 19 electoral victory of Olof Palme's Swedish Social Democratic Party (SAP) was a surprise to most seasoned political observers here. Following six years out of power, and after two successive electoral defeats nationally, Palme was considered by many to be all but dead. Instead, the Swedish Socialist International spokesman has been accredited 45.6 percent of the vote. By a "strange bedfellows" arrangement, he will be able to form a majority with the tacit support of the Swedish Communist Party, the VPK, which was credited with 5.6 percent.

For the first time in his entire 13-year electoral career, Palme came up with an actual increase in votes. In every successive previous vote, he had lost his party a larger and larger percentage of the SAP's once unchallenged dominance of national politics. Palme reported a gain this time of 2.7 percent, small in real terms, but hailed by the Palme press as a "landslide." In parliamentary arithmetic, the election translated into 166 seats for the SAP, 20 for the VPK, and 163 for the non-socialist parties.

Ominously, Olof Palme rode back to power on sheer demagoguery. He promised no alternative to the previous government's domestic austerity programs. The day after the election, he emphasized that he feels no constituency pressure to find a "positive solution" to the worst economic crisis of the postwar period. "This is a time of very severe international crisis," he told reporters Sept. 20. "We can have no illusions of better times."

The National Wage-Earners' Fund

Palme's campaign, as well as that of his opposition, centered around the issue of his call for a National Wage-Earners' Fund. The Wage Fund idea, which was endorsed by the social-democratic trade union bureaucracy, the LO (Sweden's equivalent of the AFL-CIO), is a Mussolini-modeled corporatist program which would use a tax imposed on every firm's profits as well as every individual and church. The fund would grow rapidly into the largest capital pool in the country and would buy shares in Sweden's private steel, nuclear, shipbuilding, and other industries.

Per Engdahl, aging leader of the Swedish Nazi Party and Hitler's wartime friend, openly praised both Palme and his Wage Fund in an interview last spring (*EIR*, May 25, 1982). He stated approvingly that Palme's economic program is

“exactly what Adolf Hitler proposed. Nobody seems to realize this. We have always found our ideas are implemented more successfully by the social-democratic left than the right.”

However, Olof Palme’s Wage-Earners’ Fund proposal, which may take several years to push through parliamentary debate, is merely a detail.

Sloganeering and fraud

Palme successfully gambled everything on the unpopularity of *any* incumbent government during the unraveling global economic crisis, to enhance his chances as the most visible “opposition.” Days before his election, Europe saw a social-democratic government fall for the first time since the war in neighboring Denmark. Then the Schmidt coalition in West Germany split apart. Both times, a collapsing economy and austerity policy were the impetus. Palme ran on the slogan, “The opposition parties had six years. Now it’s our turn.” This appeared on billboards emblazoned with the countercultural red rose symbol of the Socialist International.

Then Palme got a boost one week before the vote from the release of new unemployment statistics. Real joblessness is officially 11 percent, despite the large army of public works employees raking leaves and painting fences. Palme blamed his moderate opponents for the depression.

For their part, the three opposition parties that had led an uneasy minority coalition waged a lackluster campaign. Banking their entire campaign strategy on Palme’s personal unpopularity plus a well-financed campaign labelling the Wage Fund as “socialist,” they attempted to keep election debate confined to that issue. In a country which has had socialist governments for 44 of the last 50 years, the word “socialist” seemed to have little scare value—even though polls showed that almost 60 percent of the voters disapproved of the fund idea.

There are many hints that a faction in the Soviet Union, specifically the grouping around Georgii Arbatov of the U.S.A.-Canada Institute in Moscow, might have pulled strings to help Palme win his slim margin of victory.

The European Labor Party, which led the only programmatic opposition to Palme, notes that Swedish election procedures, instituted as a “democratic” reform under Palme’s previous tenure, are among the most fraud-susceptible in Europe. The Communist VPK, whose abstention will allow Palme to rule, got an official 5.6 percent of the vote, although the entire press and political punditry of the country had predicted that the party might well disappear below the minimum 4 percent threshold for parliamentary representation.

Yet Palme is as “black” as the cited endorsement by unreconstructed Nazi Per Engdahl implies. On election eve, he pledged to a rally of 20,000 frenzied supporters that he would wipe out the last vestiges of opposition to himself and his policies. Watching Palme’s followers pelt peaceful demonstrators from the European Labor Party with eggs, observers were reminded of the mass rallies Hitler used to hold at

Nuremberg as he consolidated total power.

Palme’s Sweden: an Orwellian nightmare

Palme is the son of a mother who is old Latvian nobility. His father’s father founded what is now Scandia Insurance Company and ran a pre-World War I “salon” frequented by the proto-Nazi playwright Strindberg and the geopolitician Sven Hedin, later intimate with Hitler and Goering. Palme’s own career in office has been coherent with such “roots.” Starting as education minister in the 1960s and then as Prime Minister of Sweden from 1969 to 1976, Palme facilitated the most advanced transformation in the world of a pseudo-democracy (to this day, Sweden is a monarchy) into an Orwellian totalitarian state.

Palme’s education “reforms” instituted during the 1970s constituted a conscious war against the teaching of history, science and the classical curriculum which since the 19th century had allowed Swedish industry to become one of the world’s most advanced. This was replaced with emphasis on “solidarism.” According to official SAP propaganda, it is more important that “children learn to have solidarity with each other” than to have schooling create “intellectual egoism and elitism.”

The same process was applied to the media. Largely as a result of earlier Palme policies and personnel, the Swedish media are perhaps the most controlled in the world. Students are admitted to journalism school—the prerequisite for a career in journalism—on the basis of a “psychological test.” More than one convicted drug criminal has risen to prominence as a result—and one of these became a friend of Palme’s. The press is self-policed by the National Board of Psychological Defense. Palme passed a law which further tightens the noose by creating state financial aid for private press. Recently, *Svenska Dagbladet*, the leading conservative paper, actually refused a statement critical of Palme because, as their attorney put it, “We have to think of life *after* the election.” Palme could bankrupt the paper by withdrawing the subsidy!

Under Palme, Swedish libel laws are such that to name someone for criminal activity, even if he has been convicted, is deemed libelous. This standard has been used to keep the facts of a major scandal involving Palme’s aide Carl Tomas Edam, from breaking into the press. Edam has been convicted for narcotics crimes. He was one of ten top Palme “magister” or “inner council” members.

Palme has transformed the traditional base of the party, namely the organized labor movement, into an instrument of conformity to official policy. He has systematically purged opposition and put hand-picked stooges in its place. One powerful opponent, Hasse Ericsson, head of the transport union, was framed up three years ago on false charges. Ericsson had come out openly against Palme’s Wage Fund proposal; he had committed the crime of “nonsolidaric” behavior.

Le Cercle mobilizes 'conservatives' on behalf of international chaos

by Scott Thompson

Since the International Monetary Fund meeting in Toronto in September, where secondary levels of the financier elite realized that a collapse of the international banking system was imminent, and that a debtors' bloc of Third World nations had emerged to challenge the IMF's genocidal austerity "conditionalities," there has been a round of high-level meetings to place the entire Anglo-American elite and its continental oligarchical allies on a war footing. Beginning with a meeting of the "Friedmanite" fascist Mont Pelerin Society in Berlin, these included meetings of the International Institute of Strategic Studies in Paris, and others leading up to a conference Sept. 20-21 of the Quadrangle Group at Georgetown University's Center for Strategic and International Studies in Washington, D.C., keynoted by former Secretary of State Henry Kissinger (see National).

Behind the planning of each individual event in this spate of meetings are two umbrella groupings of the oligarchy: the Bilderberg Society, and the so-called Le Cercle, whose history and activities we shall examine more closely here. Founded by SS officer Prince Bernhard of The Netherlands, the Bilderberg Society unites Anglo-American-Dutch-Scandinavian-North German rentier-financier oligarchic interests. Members of the Scandinavian nobility, who hosted the last formal meeting of the Bilderberg Society, toured Washington and New York during the second week of September. Their trip was organized by two board members of Henry Kissinger's new "consulting firm," Kissinger Associates: Robert O. Anderson, the chairman of ARCO and of the Kissinger-allied Aspen Institute; and, Pehr Gyllenhammar, the chairman of Volvo and an Aspen Trustee. One of the main topics of private discussions was reported to be how to preserve oligarchic rule in a depression. These discussions coincided with a two-day meeting in New York City between Henry Kissinger and another member of Kissinger Associates board, Britain's Lord Carrington.

Le Cercle

Le Cercle was founded to unite Anglo-American-French-Spanish-Southern German oligarchic interests. At the direction of Queen Elizabeth, sources report, Lord Carrington assigned Lord Nicholas Bethell and Sir Julien Amery to represent British interests with this southern tier of the continental oligarchy.

Lord Bethell is a key coordinator between British intelligence and the network anchored in the Soviet Union by KGB General Harold "Kim" Philby and the wedded KGB-IMEMO think tank of Soviet Central Committee member Boris Ponomarev. Lord Bethell has coordinated Western fundraising for the Solidarity movement in Poland, especially the Trotskyite KOR organization; fundraising and arms shipments to Afghani rebels grouped around Pir Sayd Gailani, and, the religious-minorities destabilizations underway in Yugoslavia through events like those at Kosovo. Sir Julian Amery, a member of the Queen's Privy Council and Tory Party member of Parliament holding posts in the Foreign and Air Ministries, has been an important deployable to such groups as Le Cercle and the British Secret Intelligence Service's Heritage Foundation front in Washington, D.C., which sources report paid for certain members of the U.S. government to attend the last Le Cercle meeting.

Sources also report that during stays in New York City and Washington, D.C. last May by Lord Carrington, "rump meetings" were held of both the Bilderberg Society and Le Cercle. One result of these meetings, it was reported, was Lord Carrington's assignment to Henry Kissinger to carry out a new round of destabilizations of the Middle East, Mexico, and India on behalf of the British crown.

The German weekly magazine *Der Spiegel*, in a Sept. 13 article entitled "Victory for Strauss," reprints memos from the former Chief of Security for the Bavarian Interior Ministry, Hans Langemann, which report on participants at two Le Cercle meetings. Reportedly present at a Dec. 1, 1979 gathering at the Madison Hotel in Washington (from which the Amery/Heritage-linked Madison group of congressional aides takes its name) were: Sir Julian Amery; former CIA Director William Colby; Federal Reserve Bank Chairman Paul Volcker; Heritage Foundation President Ed Feulner; and Finance Minister Pandolfi. A meeting of the Le Cercle "executive" took place in Zurich, Switzerland in Jan. 5-6, 1980, Langemann reports, which brought together Hans Graf Huyn of the German Bundestag; Brian Crozier, a joint asset of British SIS and the CIA; Nicholas Elliott, the former SIS Division Chief who deliberately fumbled the debriefing of Kim Philby, allowing him to flee from Britain to the Soviet Union as a "double", conducting policy to British SIS's secret KGB-IMEMO allies; and General Stillwell, whom Lange-

mann names as linked to the Defense Intelligence Agency, and who is now U.S. Undersecretary of Defense for Security.

Other highly placed sources report that regular participants at Le Cercle also include: former Secretary of State Henry Kissinger; Chase Manhattan Bank Chairman David Rockefeller; former State Department Counselor Helmut Sonnenfeldt; Archduke Otto von Hapsburg, pretender to the throne of the defunct Austro-Hungarian Empire; and Prince Turki ben Faisal, former head of Saudi intelligence. According to Hans Langemann, General Reinhard Gehlen, chief of Abwehr intelligence on the Eastern front and later chief of the West German federal police, the BND, conduited funds to support Le Cercle, which also enjoyed close relations with British, French, Swiss, and U.S. intelligence.

Target: Chancellor Schmidt's government

Participants at Le Cercle meetings report that a major issue has been how to bring about the demise of West German Chancellor Helmut Schmidt's government. This issue dominated the last biannual meeting of Le Cercle that was hosted by the Hans Seidel Foundation, the official think tank of opposition leader Franz Josef Strauss's Christian Social Union, in Munich last May. Le Cercle's participants have been able to carry out an inside-outside job to destroy the Schmidt coalition government since then. While Strauss's CSU carried out a heavy-handed wrecking job that included an implicit alliance with the Strasserite fascist Green Party, sources report that Helmut Sonnenfeldt and Henry Kissinger took the inside track since the ouster of Secretary of State Alexander Haig, threatening, cajoling, and misleading Schmidt into his disastrous pragmatic political course.

Transnational Security Organization

In order to carry out its role in destabilizing the Schmidt government, Langemann reports in another memo that Le Cercle executive Brian Crozier formed a Transnational Security Organization (TSO) with offices "under suitable cover" in London, Washington, Paris, Munich, Madrid. This group was allegedly formed after private meetings among Crozier, Nicholas Elliott, British SIS chief "Dickie" Franks, and British Prime Minister Margaret Thatcher, who was opposition leader at the time.

Langemann reprints a planning document for that TSO's "Victory for Strauss" project as follows: "V-1. Specific goals in this general sphere are: effect changes in government (a) in the U.K. [accomplished—ed.] and (b) in West Germany, in order to defend free enterprise and combat all forms of subversion. . . . VI-A. Contributions from certain well known journalists in Britain, the United States, and other countries . . . Formation of a lobby in influential circles, directly or through middlemen . . . The use of intelligence and security agencies to provide and be given intelligence . . . [and for] covert financing for political goals."

In addition to Crozier's close friends and associates Frank and Elliott, Langemann names the following as linked to this

TSO project:

- **Robert Moss**, a British SIS disinformation agent as former editor of *Foreign Reports* (the privately circulated journal of Eveylyn de Rothschild's *Economist*), a columnist for the *Daily Telegraph*, a contributor to the Heritage Foundation's *Policy Review*, and, co-author with Arnaud de Borchgrave of the best-selling novel about international terrorism, *The Spike*. Moss and his fellow *Spike* disinformation agents, including Claire Sterling and Michael Ledeen, have consistently covered up the role of British and continental oligarchic interests behind "Red" and "Black" terrorism.

Moss is a member of The Committee for the Free World—a rebirth of the American Committee for Cultural Freedom founded by British SIS assets John Dewey and Walter Lippmann—that joins the *Spike* crowd with right-wing Social Democratic leaders of such groups as the Social Democrats U.S.A. and Arch Puddington's League for Industrial Democracy.

- **Dr. Kux**, an officer of Swiss intelligence, who is a member both of Le Cercle and the European branch of the Committee for the Free World headed by Prince Nicholas von Lobkowitz.

- **Comte de Marenche**, the former head of the French SEDCE ("CIA") and a close relative and friend of Arnaud de Borchgrave, the Belgian nobleman who runs the *Spike* disinformation network. De Marenche and de Borchgrave both cultivated close ties to the KGB-linked Socialist International of Willy Brandt, Olof Palme, and others from which he admits obtaining information on terrorism.

- **Fred Luchsinger**, editor-in-chief of the prestigious Swiss *Neue Zürcher Zeitung*.

- **Gerhard Löwenthal**, a *Spike* disinformation agent working as a moderator for ZDF-TV in West Germany.

Shortly after founding the TSO, Crozier was cut loose from his post as head of the Institute for the Study of Conflict, which specializes in disinformation on terrorism of the *Spike* variety for use by governments and thinktanks such as British SIS's Heritage Foundation. The institute's board in Britain and the United States includes such figures as: Adm. Sir Louis Le Bailly, Director General of Intelligence at the Ministry of Defence; Sir Edward Peck, former chairman of the Joint Intelligence Committee; and, George Ball, former Undersecretary of State and current chairman of Lehman Brothers International.

Crozier is also a columnist for *National Review*, which was founded by Henry Kissinger's close friend, Tory conservative chameleon William F. Buckley and a host of British SIS-linked former leaders of the Comintern and Trotskyites. Through the TSO, the intelligence services of Britain, the United States, and other nations, as well as such private groups as the Heritage Foundation, the Committee for the Free World, and the Buckleyite *National Review* crowd, have been implicated in destabilizing the German government, and otherwise implicated in the oligarchy's global gameplan to destroy sovereign nation-states.

The Mont Pelerin Society's Nazis plot the end of constitutional states

by Kathy Burdman

The Sept. 7-9 annual meeting of the Swiss-based Mont Pelerin Society, in West Berlin, drew together the crowd of bankers, oligarchs, and economists who put Hitler into power during the 1930s, and their lineal descendents, who today carry on the traditions of the Nazi International. No wonder, for this group, led by Bavarian Prince Max von Thurn und Taxis, Mont Pelerin permanent Secretary, is the power elite behind the Sept. 17 toppling of the democratic government of West German Chancellor Helmut Schmidt. Sources close to the conference said this week they planned after a suitable period of chaos, to replace him with a "new strongman" government—a new Hitler.

The theme of the meeting, according to exclusive interviews granted *EIR* by attendees, was "The Decay of the Rechtsstaat," the end, in chaos, of the constitutional states of Europe. The end of the Schmidt government was discussed in one panel, "Germany as a Testing Ground," sources said, but all of Europe is to receive this treatment.

The theme of the meeting, according to exclusive interviews granted *EIR* by attendees, was "The Decay of the Rechtsstaat," the end, in chaos, of the constitutional states of Europe. The end of the Schmidt government was discussed in one panel, "Germany as a Testing Ground," sources said, but all of Europe is to receive this treatment.

Mont Pelerin Honorary President and founding member Friedrich von Hayek, in his keynote speech, called for a "liberal revolution" against every nation-state in Europe, "an anti-government backlash against governments everywhere who have tried to spend their way out of the present crisis and failed."

Von Hayek predicted a "new Renaissance" of the Black European oligarchy, the "Mont Pelerin Party" in Europe. The Nazi "Liberals" will succeed after a period of chaos in taking power everywhere and imposing "painful austerity" programs upon populations fed up with the anarchy, said the sources, who, as is customary for Mont Pelerin members, spoke only for non-attribution.

Days after Von Hayek spoke, the constitutional government of West Germany lay in the dust, brought down by the Free Democratic Party's Count Otto von Lambsdorff, hailed by one Mont Pelerin member as "a leader of Mont Pelerin thought." Lambsdorff was said to be in close contact with Mont Pelerin founding member, Sir Karl Popper, at the London School of Economics, who with British banking interests gave the "okay" for the toppling of Helmut Schmidt.

The London, Swiss, and New York bankers whose predecessors bankrolled Hitler's rise were predicting "a new Weimar chaos" in Germany. "The new West German government is only transitional, and there will be nothing but chaos in Germany," a top Federal Reserve economist told *EIR*.

Mont Pelerin leader Herbert Giersch, head of the Kiel Economic Research Institute, even issued a report Sept. 17 predicting Germany is heading for a "depression comparable to that of 1930."

What is Mont Pelerin?

The Mont Pelerin Society, founded in 1947 by Prince Thurn und Taxis, Hapsburg pretender Count Otto von Hapsburg, and their house economist Friedrich von Hayek, is the vehicle to continue the work of the Nazi International after the demise of Hitler. It is ostensibly a society of economists and bankers dedicated to the "idea of the free market." But this "liberalism," or libertarianism, is in fact an ideology bankrolled by the black oligarchy of Europe, led by Thurn und Taxis, Von Hapsburg, the Italian House of Savoy, the British House of Windsor.

Its major function, publicly, is to promote the "ideology of freedom from the state" among the masses of the populations of Europe and America, one attendee said, to convince people to hate their constitutional governments. Privately, Mont Pelerin plots to replace the states with a new "supranational" world government, outlined by von Hayek in his 1947 founding speech, which would rule Europe as proposed under Count Hapsburg's plan for a "Pan European Union."

The leading participants at this year's meeting, in addition to Thurn und Taxis, Von Hayek, and Von Hapsburg, were:

- Lord Ralph Harris of High Cross, incoming President;
- Milton Friedman of the Hoover Institute;
- Dr. Glenn Campbell, head of the Hoover Institute;
- Chiaki Nishiyama of Japan, outgoing President;
- Herbert Giersch, Director, Kiel Institute;
- Armin Gutowski, Director, Hamburg World Institute;
- Alan Peacock, advisor to Britain's Thatcher government;
- Edwin Fuelner, Director of the Heritage Foundation;
- Martin Anderson, former adviser to Ronald Reagan;
- Paul Craig Roberts, former U.S. Assistant Secretary of State;
- Jan Tumlir, chief economist of GATT.

Leading right and libertarian politicians from across Europe were rumored to be present, including the German Free Democratic leader Count Otto von Lambsdorff, his British collaborator Sir Karl Popper—the London School of Eco-

nomics professor who helped Von Hayek found the Society—and other libertarians from France, Italy, and Britain.

Another German experiment?

“Germany is the model for governments across Europe,” said one attendee; the Schmidt government was only the first to be toppled by Mont Pelerin’s “liberal revolution.”

Mont Pelerin was a center for oligarchical discussion of when and how to bring down the Social Democratic government of Helmut Schmidt, the source said. When Mont Pelerin asset Count Lambsdorff finally issued his demand for a severe austerity program, which Helmut Schmidt could never carry out, it was applauded at the meeting, he stated. “Across the board, bankers and high level people I spoke with indicated that Schmidt would fall apart,” he said.

“I’ll tell you what will happen next,” he said, “The new government will fail. It will be a transitional government, with the present Christian Democrats and Free Democrats, because they cannot put together a new austerity program for the economy, to cut social spending.

“First, there must be a period of confusion, and a realignment of the parties, in Germany,” he said. The source stated that the Mont Pelerin group believes that Germany will be “polarized” to the left and right, as the radical left wing of Schmidt’s Social Democrats takes over that party. The center of the Social Democrats will join the Free Democrats, he said, and eventually both the Free Democrats and Christian Democrats will “polarize to the right” and be strengthened.

“This will take time,” however, he stated. “In the meantime, the present Kohl government will be *paralyzed* and will not be able to cut the huge budget deficit, the ballooning of which was the main reason for Schmidt’s demise.”

Germany will be plunged into economic crisis, said another source. “The finances of Germany will go to pieces,” he stated. “If the budget is not cut, the deficit will rise, and the German mark will collapse. The German banks will start to go under, if this is not stopped,” he added. “Commerzbank, Dresdner Bank, the BFG Bank, they’re all bankrupt already.” “The German banks have made bad loans to Poland, to Romania, countries which are really bankrupt. These countries have in fact no economic future,” he said, and that is the rumor that Mont Pelerin members are spreading against Germany, to further the crisis.

“There was an elite meeting of Mont Pelerin members and Free Democratic politicians during the meeting,” said another attendee, “and they are already preparing for the worst. They all have diversified portfolios of investments outside Germany. When it becomes clear the transitional Kohl government can’t handle the budget, we’ll see major capital flight out of the German mark” as recently experienced by Mexico, he stated.

“This is going to happen *all across Europe*,” he stated. “It is true of Holland, of Denmark, which is totally bankrupt, of Belgium, of France, which now has to borrow abroad to keep afloat. There are no policies. All governments are par-

alyzed. All of Europe is drifting into continuous financial disaster and permanent unemployment.”

Nazi revolution

In the ensuing chaos, Prince Thurn und Taxis, Von Hapsburg, and Von Hayek hope to create a “mass movement” for a “liberal revolution” across Europe, in which the population is so fed up with the chaos that it demands “strong man” government on the model of Adolf Hitler. The centralized state, such as the Schmidt government in West Germany, which used its constitution to protect citizens’ living standards, foster heavy industrial growth, and spend money on education, the old, the unemployed, and other “welfare” programs, is “finished,” one attendee said.

At the conference, Mont Pelerin outgoing President Chiaki Nishiyama all but called for the creation of a mass-based fascist movement such as that behind Hitler. “Radical changes, like the rolling back of the state, are revolutionary developments of a particular kind, which also involve broad layers of the population,” he said in his speech. “This is Von Hayek’s idea of the ‘Liberal Revolution,’ ” a participant told *EIR*, “to create a popular movement against government spending.”

“There is already a groundswell for liberal [free market—ed.] policies,” he stated. “In Europe, now, as well as the movement in the United States which elected President Ronald Reagan. People will call for the economics of Europe to be restructured. The fact that we had 600 people at a Mont Pelerin meeting is an indicator that people across Europe are fed up with the welfare state, and ready to cut whatever is necessary to get the house in order.”

The Mont Pelerin economist described a new economic order which is technically *fascist*—one in which heavy industry would be shut down, and workers relocated en masse. “Europe must get out of steel, auto, and other heavy industry,” he said, “which have been supported by the state. Max Von Thurn und Taxis, von Hayek, and Giersch are leaders of this movement,” he added. Not the low-level environmentalists, but the highest levels of the oligarchy, seek to return Europe to the middle ages. “These industries are dead,” he stated, “and must be shut down. This will be very painful. Companies must be shut, plants closed, jobs relocated. Nothing must exist which has been supported by the state. All social programs must be eliminated.”

In the view of Mont Pelerin, the populations of Europe will soon be ready to cry for the new oligarchical order, now that Schmidt and other leaders have failed to lead. “Look at Britain, 2 million unemployed, Germany, very high unemployment, the U.S. 10 percent unemployment,” said the participant. “And no one is screaming! Where are the calls for the welfare spending, for a Roosevelt program to bail out the depression, where are the protests? No one is protesting, because people have had enough of the welfare state. People have become quite *stoic*. They are willing to undergo a total restructuring, regardless of how painful, because old solutions have failed.”

Argentines battle over economic policy

by Cynthia Rush

Numerous bankers have confessed to *EIR* that Argentina is giving them more headaches than they ever expected. It is not just the fact that Argentina is in arrears on its debt payment by a figure that could be as high as \$5 billion, that upsets the banking community. They also understand that it is impossible to impose on Argentina the “discipline”—i.e. harsh conditionalities—required by an International Monetary Fund stabilization program.

Argentina’s President Reynaldo Bignone and Finance Minister Jorge Wehbe have tried to be a source of comfort to the country’s creditors. At the IMF meeting in Toronto, Wehbe promised U.S. and British representatives that Argentina would agree to unfreeze British financial assets in Buenos Aires as a precondition for the renegotiation of its foreign debt. And President Bignone did the necessary arm-twisting in Buenos Aires to get the reluctant commanders-in-chief of the three branches of the armed forces to agree with the measures. Wehbe announced that Argentina would consider seeking an IMF standby loan for \$1.2 billion, although no formal request has been made to the IMF. The first two members of an IMF “exploratory” mission reportedly arrived in Buenos Aires during the last week of September.

But the policies that Bignone and Wehbe have been forced to authorize domestically belie their promises of cooperation with the IMF. In the face of an increasingly vocal trade union protest over the 400 percent inflation rate, and price increases that have led to rationing of meat and fuel, Bignone approved an emergency package on Sept. 15 which set ceilings on the prices of basic food staples such as bread and milk, and also established a price-control mechanism for the 500 leading companies. On Sept. 23, the government also announced the granting of a 600,000-peso wage increase, on top of the 1 million granted at the beginning of the month.

Such measures may provide the government some breathing room to attempt to negotiate an arrangement with the IMF. But the pressures it faces from within the armed forces suggest otherwise.

The officer corps of all three branches of the armed forces has been rife with discontent since the end of the Malvinas War. Middle-level and some higher-level officers are enraged at the way the war was handled, and demand that those

responsible for Argentina’s defeat be punished or removed. They are also disturbed over the depth of the economic crisis and aren’t willing to compromise national sovereignty to please foreign creditors or the IMF.

The strategy of the high command to date has been to try to keep the lid on such discontent. When Army General Ricardo Flouret publicly denounced the policies of the high command in August, specifically singling out the haste of certain factions to restore relations with the United States and Britain, he was unceremoniously dumped and punished. Similar treatment was accorded Navy Admiral Horacio Zaratégui who issued a 17-point statement on Sept. 20 indicting the Navy command for “grave errors” during the war, and demanding full investigation and punishment of those responsible.

Efforts to portray these as isolated incidents have only exacerbated the crisis, and rumors that President Bignone may soon be removed from office are now circulating in Buenos Aires. The depth of chaos is characterized by the evaluation of many analysts who say simply that “there is no government” in Buenos Aires.

What lies ahead?

The question that remains is whether any political force, military or civilian, can emerge to provide leadership to the country and to link up with those forces in the rest of Ibero-America that are organizing for a New World Economic Order.

Henry Kissinger’s associates in Argentina, chief among them the British agent and former Finance Minister (1976-81) José Martínez de Hoz, are confident that they can use the crisis to their own advantage. They are attempting to bludgeon and weaken nationalists within the armed forces with the fact that certain of their members such as former Navy commander Emilio Massera belong to the fascist Masonic Lodge, Propaganda-2, and have committed serious crimes. They also want to blackmail nationalist military with the fact that many who now make up the top command of all three branches of the armed forces participated in the “dirty war” against subversion, which in the mid-1970s was responsible for the torture and “disappearance” of some 30,000 Argentines.

The weapon nationalist forces have at their disposal, however, is the fact that both Henry Kissinger and Martínez de Hoz ran the “dirty war” from the top in order to enforce the Friedmanite economic policy that dismantled Argentina’s industry and agriculture during that period. Both are also part of the international oligarchy whose P-2 Lodge coordinates drug- and gun-smuggling internationally and directs terrorists of both the left and the right. Reliable sources in Mexico City have revealed that one of Martínez de Hoz’s chief responsibilities as Finance Minister included choosing the military commander of Buenos Aires province who would be sufficiently brutal in repressing the population in the “fight against subversion.”

'A new tragedy can be prevented'

Their support for a new world economic order will derail the rise of a new Hitler, Helga Zepp-LaRouche has told her countrymen.

After the liberal Free Democratic Party toppled the coalition government of West German Chancellor Helmut Schmidt Sept. 17, European Labor Party Chairwoman Helga Zepp-LaRouche issued a statement urging a national mobilization to prevent a "new German tragedy." Zepp-LaRouche heads a slate of 35 candidates in the Sept. 26 state parliament elections.

After the Hesse results are in, the Christian Democratic Union, Christian Social Union, and Free Democratic Party leaders have agreed to carry out Oct. 1 a "constructive vote of no confidence" in the Schmidt government.

The three conservative parties have pledged to support the election of CDU Chairman Helmut Kohl as a "transitional" Chancellor, with new elections to be held March 6. But at press time none of this looked certain, as CSU strongman Franz-Josef Strauss began to say that elections should be held immediately, allowing the discredited Free Democrats to be ousted from the new coalition. Neither Kohl nor the FDP Chairman Hans-Dietrich Genscher are receptive to this idea.

The Free Democrats are now so widely discredited by their opportunist maneuvering that an opinion poll dated Sept. 22 predicted no more than 2.3 percent of the vote for the FDP if national elections were held now.

Kohl announced the first round of austerity measures he will take if elected Chancellor, in a press conference Sept. 20—"Brüning"-style aus-

terity policies which Schmidt had refused to accept. (Heinrich Brüning was the early 1930s chancellor whose austerity measures and "emergency decrees" helped pave the way for Hitler.)

Kohl said that the 1983 state budget would be scrapped and a new one submitted, including cuts in social spending of 8 percent; wage increases for public workers limited to 2 percent (a decline in real terms); subsidies to students eliminated; and unemployment checks reduced.

But under conditions of full economic collapse, a weak Kohl government will not be enough, and a "new Hitler" could emerge—a role which Franz-Josef Strauss might play. Strauss is being promoted by an international grouping known as "Le Cercle," which at its latest meeting in Washington discussed the need to install Strauss quickly (see page 42).

The text of Mrs. Zepp-LaRouche's statement, titled "How Can We Prevent a Tragedy?" follows:

"For the second time, it is the Liberals who are to blame. The first time was in 1930, when they toppled the Social Democratic government of Hermann Müller—over the same issue that they used this time around, austerity policies—and thereby opened up the way for catastrophe.

"And Kohl? Kohl's will be a second Brüning government, but this time repeated as farce. In fewer than five months, Kohl will be the most hated man in the Federal Republic of Germany. This is the moment Strauss has

been waiting for. If Kohl's government falls, Strauss will be ready.

"We are now in the midst of a world economic crisis. We are faced with the collapse of the world monetary system, just as in 1931-33. There can be no purely domestic political solutions. Only if the genocidal austerity of the International Monetary Fund and related institutions can be immediately stopped can a way out be found. The policies of the United States must be reversed, otherwise the development toward fascism there will propel the whole world toward the abyss.

"The only forces which are consistently countering this are the European Labor Party [EAP] and its international sister organizations in the United States, Europe, and particularly in the Third World, the forces which are organizing for a new world economic order. Mexico has taken up the fight for a new world economic order, and now all of Ibero-America is moving in this direction. The majority of the developing countries, that is to say the major part of mankind, is in agreement with what we are demanding.

"Worldwide fascism or a new world economic order—these are the two alternatives before us. Therefore I would like to ask you to consider these problems thoroughly and not to worry only about issues of domestic political survival.

"The Federal Republic is faced with the prospect of its destruction, and no purely domestic solutions exist. Vote on Sept. 26 for the European Labor Party, to strengthen the party fighting for a new world economic order since 1975, and to implement those measures which alone can be effective, if carried out in time.

"The German tragedy must not be repeated! Help me realize the new world economic order!"

He who casts the first stone

López Portillo's Sept. 1 measures were a body blow against corruption. But the "anti-corruption" lobby is shrieking.

A secret hidden from foreign readers about Mexico is that the "anti-corruption" fighters who have stoked the international rumor circuits with extravagant accounts of private aggrandizement by Mexican government officials—including the story that President López Portillo himself "has \$2.5 billion salted away outside the country"—are among the most corrupt businessmen and politicians in the country.

Take the famous case of Mauricio González de la Garza, the homosexual newspaper columnist in the pay of Mexico City Mayor Carlos Hank González. In early 1981, Mauricio wrote a best-selling "exposé" of corruption in the government and the family circles of López Portillo, titled *The Last Call*.

There was a curious omission in Mauricio's hyper-moralistic tract. Nowhere was the name of Hank González mentioned—though no case of corruption is more notorious.

Hank's fortune, one of the two or three largest in Mexico, is based entirely on trading political favors for lucrative business opportunities.

Hank's corruption is so vast, in fact, that when international circles close to Lord Caradon and former CIA chief William Colby decided that an "anti-corruption" campaign was just the thing to finish off the legitimacy of López Portillo's leadership, they launched the campaign by publicizing the fact that their friend Hank had invested some \$1 million of his flight

capital in a mansion in Connecticut.

Most recently we have the curious case of Julio Scherer García, editor of the left-Jesuit magazine, *Proceso*. Scherer García, a product of "solidarist" rightist Christian Democrat circles in Monterrey in the early 1960s, went to bat for his flight-capital friends with a sudden splashy personal attack on the President right after the bank nationalization and exchange control decrees of Sept. 1.

The irony is that López Portillo's measures are the biggest anti-corruption drive launched in Mexico in years. Not only do they put the usurious private bankers out of business, returning credit flows to productive, not speculative, uses: politically, the measures delivered a body blow to the empire of Mexico's Mr. Corruption, former president Miguel Alemán, and his circle.

Here one finds the intersection of the flight-capital and dirty money channels first uncovered by Italian magistrates in 1981; Far East, Mexican, and South American dope dealers; the jet set scams of Alemán's "Acapulco crowd"; and real-estate speculation across Mexico.

The case of Alemán's regional empire in Baja California shows this corruption jumps the border into the United States—with national-security implications.

Gov. Bobby de la Madrid of Baja California has long warmed Alemán's heart with calls for re-opening Mexico to casino gambling and all the prosti-

tution and money-laundering that goes with it. Mafioso Johnny Alessio is his partner in this effort. Associated with both is the Bustamante family, one of the filthiest "business" groups of Baja, which raked in \$10 million on overcharges for natural-gas contracts from California in the 1976-79 period, according to grand-jury investigations of the time, and channeled millions in flight capital into California real estate.

That particular line of corruption goes right up to one of Ronald Reagan's circle of intimates, California Republican Party chairman Tirso del Junco. Del Junco is a business partner of Bustamante's, according to reliable sources here. He has been bending Reagan's ear with diatribes about Mexico ever since López Portillo's exchange-control measures shut down the flight-capital game.

EIR founder Lyndon LaRouche had some useful observations on how to effectively clean up corruption in his recent *EIR* policy study *Operation Juárez*. His suggestions parallel the López Portillo program now under way.

"Admittedly, the great problem in administering governmental functions of auditing, export-import controls, capital controls, exchange controls, is corruption of governmental officials," LaRouche writes.

But "the effective control of such problems lies not in investigating each matter case by case, but, directly the opposite, by considering the pattern of decisions shown on record. . . . The problem becomes acute, if the government itself has no clear policy—no clear, dirigistic policy. Then, in such case, by what criteria as to pattern of decisions can an official be judged? . . . There is no greater root of corruption of governmental officials than a lack of dirigism in national-economic policy."

International Intelligence

Argentina, Brazil endorse Mexican-Venezuela plan

Argentina and Brazil both endorsed the proposal for peace in Central America issued jointly Sept. 16 by Mexican President José López Portillo, and his Venezuelan counterpart, Luis Herrera Campins. The endorsements, announced Sept. 21 and 22, respectively, demonstrate the continued organizing activity of both Mexico and Venezuela to cool the smoldering conflict between Nicaragua and Honduras by offering to mediate the dispute between the two Central American nations.

While Nicaragua has welcomed the initiative, Honduras called upon Mexico and Venezuela to concentrate their efforts on the Nicaraguans, claiming that it is not the Hondurans who are the aggressors.

The stridency of the statement reflects the current weakness of the civilian Honduran government in relation to the U.S.-backed military.

The government's stability is now more precarious as a result of a virtual state of siege in San Pedro Sula caused by the Sept. 17 taking of 80 top Honduran businessmen as hostages by terrorists. The Hondurans have been unsuccessful in their attempts to negotiate release of the hostages, among whom are the country's finance and economic ministers.

Strike in Britain called 'futile' by Thatcher

When millions of British public workers, joined by thousands of industrial workers, held a job action Sept. 22 in sympathy with 600,000 striking health-service workers, Prime Minister Thatcher, who had just returned from a trip to China and Japan, said the "Day of Action" was "utterly futile" and would be "very, very damaging." Thatcher claimed that the job stoppage would undo her efforts to drum up Japanese business interest in investing in new factories in Britain.

Reports of how many workers participated in the nationwide work stoppage vary,

but some trade-union leaders say it was the largest show of union solidarity since the bitter year of 1926.

All but 40 of the country's 197 coal mines were affected by the strike, and across the country bus and subway workers, ambulance drivers, newspaper and other workers walked off the job for several hours.

Workers in the National Health Service, which includes nurses and hospital workers, have been deadlocked since April in pay negotiations with the British government.

The employees are asking for a 12 percent wage increase, but have only been offered a 7.5 percent increase for nurses, and 6 percent for all other categories of health workers.

Public sentiment is said to be in favor of the health-service workers because the official unemployment rate has reached 14 percent.

In addition, the striking workers are generally considered to be grossly underpaid. 400,000 health employees earn less than Britain's official poverty level of \$145 a week.

Mrs. Gandhi begins Moscow state visit

Indian Prime Minister Indira Gandhi was greeted warmly by Soviet officials at the start of her seven-day visit to the Soviet Union Sept. 20.

Soviet President Leonid Brezhnev broke protocol to receive the Indian leader at the Moscow airport, and the two reviewed an honor guard. Their motorcade, which included Prime Minister Tikhonov and Foreign Minister Gromyko, traveled to the Kremlin through streets lined with cheering Muscovites waving Soviet and Indian flags.

The primary subject of Mrs. Gandhi's first meeting with President Brezhnev was: the world must be saved from the danger of nuclear war. Mrs. Gandhi spoke of the long-term friendship between India and the Soviet Union, and said, "World peace needs two countries like ours" so that a joint population of 1 billion people "become involved in establishing peace and stability in the world."

The two leaders also discussed the inter-

national economic crisis.

Following their meeting, President Brezhnev and Prime Minister Gandhi issued a joint communiqué on the Middle East in which the two leaders condemned Israel's "criminal aggression—encouraged from outside." They demanded an immediate and unconditional withdrawal of Israeli troops from Lebanon.

Mexico condemns Lebanon massacre

Mexico's Foreign Relations Ministry issued a communiqué Sept. 21 strongly condemning the massacre of hundreds of Palestinians and Moslems by Falangist armies in Beirut over the Sept. 17-19 weekend.

"In the face of the criminal actions . . . which caused the death of innumerable defenseless civilians, the government of Mexico expresses its strongest condemnation of these barbarian acts," the communiqué reads. The communiqué included a "condemnation of the occupation of West Beirut by Israeli forces."

Several members of Mexico's Senate had already issued independent condemnations, on Sept. 20, of the Beirut massacre and proposed "reforms" in Mexico's relations with Israel, including a threatened suspension of shipments of Mexican oil to Israel.

Sri Lanka on road to dictatorship?

Sri Lanka's President Jayewardene has issued a dictatorial proclamation seeking reelection for the second term. President Jayewardene, a close friend of Socialist International member Lee Kuan Yew of Singapore, called for elections to be held Oct. 20, two years before the next scheduled election, on the advice of Sir Lanka's World Bank and International Monetary Fund creditors.

It is unlikely that the opposition will be able to sponsor a strong candidate so soon before the early elections. The opposition party, led by former Prime Minister Mrs. Sirimavo Bandaranaike, has been thrown

Briefly

● **A ROME TRIBUNAL** has announced that it will pursue the evidence in the legal brief submitted by Fiorella Operto, Secretary-General of the European Labor Party in Italy, on Henry Kissinger's implication in the 1978 assassination of former Prime Minister Aldo Moro. It is highly unusual for such a brief to be handed to a judge for investigation. The criteria are the importance of the contents and the quality of documentation. The brief was translated in the Sept. 21 issue of *EIR*.

● **WILLIAM PERRY**, a Latin America hand at Georgetown's Center for Strategic and International Studies, was asked at a Sept. 23 conference there if Honduras, whose government is backed by Washington, had committed aggression against Nicaragua. "I think there is some inclination in this government to up the stakes on Nicaragua," the Kissinger aide said, adding that Undersecretary of State Thomas Enders is "not averse to a little action on the border to keep the Nicaraguans thinking. . . ." Two days earlier, the DOS had termed Nicaragua solely responsible for unrest in the border area.

● **ANDRÉ FONTAINE**, after attending CSIS sessions on a new authoritarian age, directed the French daily *Le Monde* to ponder whether "democracies are ungovernable." The pro-Socialist newspaper editorialized Sept. 22 that "German conservatives" should recognize this ungovernability and point the way for the rest of Europe. Fontaine is *Le Monde's* Editor-in-Chief.

● **IZVESTIA** ran a psychological profile of Henry Kissinger on Sept. 20 which comments on his opposition to East-West trade: "To gratify the most ragtag politicians, he is found on the scene in the most unattractive negligee." Was *Izvestia* simply calling him a spiritual prostitute, or pointing to a psychosexual defect?

into disarray since Jayewardene took away Mrs. Bandaranaike's civil rights and began to frame her on corruption charges.

Another opposition leader, Colvin de Silva, told the press: "the President is placed in a near-dictatorial position. Very little change is needed for a President to formalize himself into a full-fledged dictator in law and in fact."

The main reason behind the call for an early election is that World Bank, the IMF, and U.S. State Department Agency for International Development sources had reportedly advised the Sri Lanka government that foreign investors and financial institutions—on whom Sri Lanka heavily depends—would continue their support only if Jayewardene is re-elected.

Last July, Finance Minister Ronnie de Mel told the parliament: "Our total revenue is approximately \$700 million. Our total expenditure is running at \$1.5 billion—more than twice our revenue. Only by the foreign aid we receive, can we carry on."

A threat to the Nigerian constitution

The Progressive Party Alliance (PGA) in Nigeria is working out a plan to wrest power from President Shehu Shagari and the National Party of Nigeria (NPN) and revert to a British-modeled parliamentary system, according to a newspaper in Kaduna, Nigeria.

The PGA is an alliance of opposition parties, each primarily regionally based, which lost the 1979 presidential election to Shagari's non-regional NPN. Chief Obafemi Awolowo, whose base is in Western Nigeria, is the leading spokesman for the PGA, and is using the alliance as a vehicle to get control of Nigeria.

The plan presently being mooted calls for Awolowo to be the presidential candidate of the PGA in the 1983 elections. If he wins, according to the report, Awolowo intends to push through an amendment of the constitution, creating a position of prime minister.

Awolowo would then resign as President, allow Nnamdi Azikiwe, leader of another regional party, to become President as

his payoff for supporting Awolowo's plan, while Awolowo would run the country from the position of Prime Minister.

Prior to the 1979 election, the Nigerian constitution was drawn up as the basis for the transition to civilian rule, and was modeled explicitly on the American constitution in order to provide the proper framework for transforming Nigeria, with its large population and growth potential, into an industrial republic.

Italians call for Gelli's extradition

The Italian government has delivered papers to Swiss authorities demanding the extradition of Licio Gelli, the head of the secret Propaganda-2 (P-2) Freemasonic lodge who was arrested in Switzerland Sept. 13. Italian judges had issued orders to arrest Gelli, based on new evidence linking him to the bankrupting of Banco Ambrosiano.

It is widely reported in Italy that Gelli had been passing funds from Ambrosiano, which had links to the Vatican, into P-2's numbered Swiss bank accounts.

One report claims that Ambrosiano funds held by Gelli and his associate, Flavio Carboni, amounted to as much as \$400-\$700 million, which were later reported "missing" from the bank. This figure would account for one-third to one-half of the missing funds which led to Ambrosiano's bankruptcy.

The Sept. 20 edition of the Italian daily *Paese Sera* reports that the money withdrawn by Gelli from a numbered Swiss account was the same that Roberto Calvi "had caused to disappear from the coffers of the Ambrosiano before his death." Calvi's suspicious death—he was found hanged at the London Bridge—was officially declared "suicide."

It is further reported that the missing money had been channeled from Latin American branches of Ambrosiano, including Peru's Banco Andino, through a dummy corporation known as "Manic." Manic was able to secure collateral from Banco Andino by using Ambrosiano's name among several firms' executives to get them to make deposits to take out shares.

Kissinger ponders 'intractable situations'

by Stanley Ezrol, Washington Correspondent

A political organizing drive for "painful adjustments" in the international social, political, and economic order was launched at a two-day conference of high-level right-wing oligarchical strategists in Washington on Sept. 20 and 21. The conference, appropriately titled, "Threats to the Industrial Democracies in the 1980s," the fifth in the international oligarchy's nine-year old "Quadrangle Series" was hosted by the solidarist Georgetown University Center for Strategic and International Studies think tank and sponsored by that institution in conjuncture with the Paul-Henri Spaak Foundation of Belgium. It was attended by 250 leading corporate executives, academics, think-tankers, parliamentarians, diplomats, and government executives from three continents.

It was chaired by U.S. Special Trade Representative William Brock, a former chairman of the Republican National Committee and a member of Reagan's cabinet, in conjunction with European Community Commission Vice President Etienne Davignon, author of the notorious "Davignon Plan" for dismantling the European steel industry; Edward Lumley, Canada's Minister of State for Trade; and a former Japanese finance minister, economic adviser to the People's Republic of China, and leading member of the international neo-fascist Club of Rome cult, Saburo Okita.

In addition to Brock, President Reagan was represented at the conference by Secretary of Defense Caspar Weinberger, and Deputy Secretary of State Walter Stoessel, who spoke at conference panels; and National Security Council Chairman William Clark and United States International Communications Agency Director Charles Z. Wick, who

both delivered personal greetings to the conference from Reagan. Clark concluded the conference by announcing, "I am not speaking for myself, I am speaking for my boss, the President. I want to commend the Center for Strategic and International Studies, and this conference. We need you, your analyses, and the organization that brings you together here today." He then requested the audience to give a standing ovation to CSIS's President, David Abshire, who is widely rumored to be under consideration as Clark's replacement.

The conference speakers and attendants comprised one of the most important concentrations of internationally significant political operatives to assemble in Washington in the recent period.

Some of the more prominent panelists were former Secretary of State Henry Kissinger; Brian Beedham, foreign editor of the London *Economist*; Dieter Spethmann, Chairman of the Board of Thyssen A.G.; Peter Flanigan, Managing Director of Dillon, Reed & Co.; Robert Hormats, until recently Assistant Secretary of State and the organizer of the U.S. position at each of the last eight advanced sector economic summit meetings; former Chairman of the Democratic National Committee and current leader in Averell Harriman's faction of the Democratic Party, Robert Strauss; former Ambassador to Great Britain and current chairman of the President's Foreign Intelligence Advisory Board Anne Armstrong; Leo Cherne, Vice-Chairman and former chairman of the FIAB and reputed mentor of Director of Central Intelligence William Casey; Sen. Charles Percy (R-Ill.); Chairman of the Senate Foreign Relations Committee, Sen. John Glenn

(D-Ohio); Sen. Sam Nunn (D-Georgia); Federal Reserve Board Governor Henry Wallich; Willard C. Butcher, Chairman of the Board of Chase Manhattan Bank; Otmar Emminger, former President of the central bank of the Federal Republic of Germany; and André Fontaine, editor-in-chief of the leading French newspaper, *Le Monde*.

'A new order under the heavens'

The conference keynote address was delivered by international Freemasonic leader Dr. Henry Kissinger, who placed the entire conference discussion in the context of the mystical belief, common in oriental and pagan cults, as described in Lyndon H. LaRouche's latest book, *The Toynbee Factor in British Grand Strategy*, that the world is now about to shift from a period of chaos to a period of order, as it has done in inexorable, cyclical fashion from the beginning of time. Kissinger opened his speech with a Chinese cult slogan, associated in the modern period with Mao Tse-tung, "There is turmoil under the heavens, but the situation is excellent."

In the course of his address, he described how the international situation, region by region, was deteriorating markedly. He described the Middle East situation, calling the recently revealed massacre of Palestinians by Falangist troops "deplorable," but announced that, "despite all of this," he thought there was the best opportunity ever to force Jordan and others to adopt the U.S. approach, as elaborated by President Reagan on Sept. 1, to establish a new order in the region. He described the conflict in U.S.-European relations over how to handle trade and credit policy toward the Soviet Union. Acknowledging the difficulties caused for the Western alliance, he said, "Now it must be seen . . . whether we can use the pipeline crisis to develop a fundamental agreement among the industrial democracies. . . ."

Turning to the question of Latin America, Dr. Kissinger asserted, "Of all the areas of the world, this is the one that may present us with the most intractable situation. . . . We have seen in Mexico the impact of the economic crisis on the policy orientation of a country and the temptation to use foreign opponents as a means of rallying opinion. . . . In the wake of the Falklands Islands situation, many Latin American countries are undergoing a re-examination of their orientations. . ." He noted with alarm that this was true in all political circles including the military and both moderate and radical civilian circles.

Kissinger then explained his view of the overall question of North-South economic relations, saying, "Few people invite me to speak about economic problems, to their great loss. . . . I think that the confusion of domestic debt with foreign debt is going to prevent any serious examination of the problem. . . . The argument that foreign countries can be made creditworthy by austerity measures of the type you might ask of a domestic borrower misunderstands the nature of many developing countries. . . . The imposition of International Monetary Fund conditionalities may be a cure worse than the disease. . . . They may bring about instabili-

ties. . . . They may bring about revolutionary conditions, or they may create a kind of cynicism in which the conditions are accepted and never carried out. . . ."

Dr. Kissinger confessed that he had no solution to this problem, but announced, "I do know that some kind of new financial structure, something like the Bretton Woods understanding, must emerge. . . . If this does not happen, it will lead, sooner or later, to an unmanageable loss of confidence. . . ."

A carrot and stick routine

Several conference participants, including the recently retired director of Her Majesty Queen Elizabeth II's diplomatic corps, Sir Michael Palliser, and former Bundesbank head Otmar Emminger took strong public exception to this suggestion, but Dr. Kissinger's position is based on the age-old "carrot and stick" strategy for manipulating Third World and advanced sector forces into the same basic sort of international austerity regime which the ardent supporters of the IMF wish to impose. The only unique element in this "frank dispute" between Dr. Kissinger and his associates is that in this situation, after several visits to Latin America over this past spring and summer, he is offering himself as the soft carrot to be nibbled on and allowing his friends, Henry Wallich of the Federal Reserve and Otmar Emminger, formerly of the Bundesbank, to beat his adversaries with sticks while Willard Butcher, the Chairman of Chase Manhattan Bank snaps wet towels at them.

The nature of Kissinger's concern was revealed several days later by CSIS "expert" on Brazil, William Perry, speaking at another CSIS conference. Asked by this reporter about the possibility of the formation of a Latin American "debtors' cartel" against the IMF, Perry, who is reputed to have organized Kissinger's recent trip to Brazil and acts as his intermediary with certain political circles there, answered, "The Brazilians, who would be needed to make that work, are reluctant to enter that. . . . They would like to be in a position to benefit from what credit might be available. . . ."

Thus, Kissinger opposes overly harsh IMF conditionalities as a bribe to attempt to prevent the potential coalescence of a solid block of Third World opposition to the IMF.

Kissinger concluded his address with a second oriental quote, attributed to his dear friend, Lee Kuan Yew, the Prime Minister of the British opium-smuggling outpost, Singapore. "If there is turmoil under the heavens, little problems are dealt with as if they are big problems and big problems are not dealt with at all. When there is order under the heavens, big problems can be dealt with and little problems are viewed in their proper perspective. At this moment, I would suggest, we have a unique chance to create order under the heavens."

In the sequel to this article, we will present details on presentations by Henry Wallich, Otmar Emminger, Willard Butcher, and others on the debate over the tactics to be used in establishing this proposed "New Order."

The U.S. is no longer immune to international terrorism

by Jeffrey Steinberg, Counterintelligence Editor

When a Turkish military attaché in Ottawa was gunned down in a parking lot near the consulate in August, law enforcement and intelligence agents throughout the United States quietly braced themselves for the worst. Plans for the assassination, down to the general identification of the target and even the probable location of the attack, had been known within intelligence circles for at least a month before the hit as the result of penetration of Armenian terrorist support circles in at least three cities in the United States and Canada. Despite that foreknowledge, the terrorist hit team, associated with the Armenian Secret Army for the Liberation of Armenia (AS-ALA), carried out the killing and escaped without a trace.

The incident in Ottawa has once again raised the question: is the United States still immune to the kind of broad terrorist activation that has destabilized the European continent? To answer that question, it is necessary to review the toll that was taken during the four-year period of the Carter presidency, under the Trilateral Commission apparatus.

According to officials of the U.S. Immigration and Naturalization Service, during the Carter administration, the country was in effect flooded with Libyan and Iranian "students" who rapidly constituted the nucleus of a terrorist underground structure that has now blossomed in such unlikely locations as Birmingham, Alabama; Atlanta, Georgia; Houston, Texas; Plainfield, Indiana; Washington, D.C.; and Los Angeles, California.

It was this protected apparatus that carried out the July 1980 assassination in Washington of Ali Tabatabai, an active opponent of the Khomeini regime. That hit was carried out by an American national, David Belfield, who was recruited into the service of the Iranian secret service, Savama, by a Washington based "rug merchant" whose store functioned as a front and a money-laundering base for Khomeini-sponsored terrorist operations. The owner of that store, Bahram Nahidian, still walks the streets of Washington, untouched by the immense evidence compiled against him for orchestrating the hit and the subsequent flight of the assassin to Iran.

In November 1981, less than six weeks after Muslim Brotherhood killers assassinated Egyptian President Anwar Sadat, a Brotherhood clique was convened in Houston under the sponsorship of Mme. Dominique de Menil and the Rothko Chapel. Among the premier participants at that conference were the former President of Algeria, Ahmed Ben Bella, and

Saudi Prince Mohammad al Faisal. Both Ben Bella and Prince Faisal (a graduate of Pennsylvania's prestigious Swarthmore College) have been recently identified by *EIR* as leading sponsors of the current bloody wave of European terrorism financed in large part by a resurfaced neo-Nazi apparatus centered out of Lausanne and Geneva, Switzerland. In early August, Ben Bella was reportedly the chairman of a semi-secret conclave in Paris sponsored by the Muslim Brotherhood that planned out a celebration of the 50th anniversary of Hitler's rise to power.

According to intelligence specialists in the United States and Western Europe, the de Menil-Schlumberger family which runs the Chapel is presently at the center of the higher levels of support for radical Arab terrorist operations, among other terrorist efforts. These sources have identified the Schlumberger Corporation of Houston, the world's largest oil-diagnostic equipment sales and leasing company, as a vehicle for the recruitment and placement of a worldwide apparatus of radical Palestinians, providing logistical and technical support for hard-core terrorist deployments.

The Schlumberger family, which was among the guests of honor at a state banquet last year in honor of French President and Socialist International Vice-President François Mitterrand, has a history of association with high-level terrorism that spans the most dramatic incidents of political violence of recent decades. It was Jean de Menil, the husband of Dominique Schlumberger de Menil, who was among the cited board members of the Permindex Corporation, the Montreal-based "industrial exhibits" firm that was implicated by both a New Orleans grand jury and by Charles de Gaulle's SDECE intelligence service in the assassination of President John F. Kennedy and the over 30 unsuccessful attempts on the life of de Gaulle. There is good reason to believe that the Schlumberger Corporation today serves as a principal cover for the deployment and protection of a range of terrorist groupings. Are these groups in place awaiting the proper moment to enter an "active phase?"

The core of the U.S. apparatus

During the summer, FBI Joint Terror Task Force Director Kenneth Walton of the bureau's New York City office issued a widely publicized press statement acknowledging a fact that *EIR* and its counterintelligence bulletin *Investigative*

Leads had been broadcasting for 18 months. Walton admitted that the terrorist infrastructure behind the December 1981 Nyack, New York Brink's truck robbery attempt, involving the Black Liberation Army, the Weatherunderground (now known principally as the May 19th Communist Organization), and the FALN, had been largely reconstituted into an active nationwide core of more than 200 individuals spread out in nearly 20 cities from coast to coast.

That terrorist infrastructure has not been idle over the past half decade of apparent inaction. As the result of the pardons of over 20 hard-core jailed or fugitive terrorists during the reign of President Carter and his Attorney General Benjamin Civiletti, the climate was created for the resurfacing of a network that never really went out of business. Law-enforcement agencies throughout the United States are now recognizing that a broad-based pattern of violent criminal actions, including a string of bank robberies and possible kidnappings, has been the work of veterans of the early 1970s terrorist apparatus. That apparatus, like its not-so-distant European cousins, has diversified its activities into such lucrative ventures as drug trafficking.

More recently, this U.S.-based radical "veterans" terrorist apparatus has forged alliances with foreign terrorist and support groups. Among the most frequent convergence points is the Caribbean island of Granada, the recent recipient of heavy financing from the Qaddafi government.

Another major source of funds for the domestic terrorist apparatus is Prince Mohammad al Faisal. One year ago, the Prince followed his appearance at Rothko Chapel with a visit to Philadelphia, where he was joined by representatives of Chase Manhattan Bank, the bank of the Trilateral Commission's North American branch. Faisal and friends mapped out an "urban-development" program that has seen a reported half billion dollars socked into "urban renewal" projects in cities like Chicago, New York, and Philadelphia. In Chicago, the redevelopment centered around the founding of East-West University, a radical pseudo-Muslim center that has sought to recruit American blacks into Khomeiniac sects. At a spring 1982 meeting in Chicago of one such group, headed by Libyan-financed "Black Muslim" Louis Farakkan, a call was issued from the podium of the lakefront Hilton Hotel for the 2,000 plus attendees to launch a "jihad" against America's urban centers.

Many law-enforcement professionals are aware of at least part of this picture. In the following interview, Juval Aviv, a leading anti-terrorist intelligence specialist, concurs that the same apparatus that was used in the last decade's continent-wide European terrorist upsurge, is now being activated in the United States. The sense is that the United States is a time bomb. Neither the underlying issues nor the professional infrastructure behind the terrorist apparatus has been placed under the spotlight of public exposure, much less dismantled. Until such actions are taken—beginning with the known "citizens above suspicion" who give protection to terrorist capabilities—that bomb will remain on a short fuse.

Interview: Juval Aviv

Counterterror expert cites the dangers

The Western intelligence community has long recognized the special expertise of Israeli Defense Force anti-terrorist units. Friend and foe agencies alike have acknowledged that from both a counterintelligence and an operational standpoint, Israeli Intelligence has amassed an impressive expertise and knowledge regarding terrorist activities on a worldwide scale. In 1967-74, Juval Aviv was a unit commander in the Israeli Defense Force, stationed in Western Europe for much of that time. Now an American citizen living and working in the New York City area, Aviv has founded a private security consulting firm, Interfor, Inc. which services a range of U.S. corporations. While formally retired from government service, Aviv remains a consultant to a number of Western intelligence services. Mr. Aviv agreed to "come out of the cold" to grant the following exclusive interview with EIR Counterintelligence Editor Jeffrey Steinberg on Sept. 15.

Steinberg: I understand that you have a number of years of experience working of behalf of the Israeli government around the world as a counter-terrorist intelligence agent. Can you tell me about your background and what it represents for your present capabilities?

Aviv: I have to start in 1968-69, which was the period when terrorism began to be an effective weapon in Europe. Israel at that time was the only country which had begun to research the right methods to counter terrorism. This was because we were the major targets at the time: El Al Airlines, our shipping companies, and, I would say, any Israeli or Jewish company around the world was a target. Israeli intelligence put some of the best minds in anti-terrorist tactics into the field, drawn primarily from veteran command groups, as was I, experienced to function as lean, hard, resourceful attack units using our tiny numbers to infiltrate and overwhelm heavily manned enemy installations. Through the late 1960s and early 1970s, we came up with some very effective ideas.

The theme of our anti-terrorist measures was that we would not give up to any threats. We would not negotiate to any terrorist groups, we were fighting back. This was the key. Psychologically, you could see the effect of this policy all along. I can give you an example.

There has never been an attack on a Russian embassy anywhere in the world. The reason is not that those embassies are invulnerable or that they could not be taken by terrorists.

The reason is that you do not fool around with the Russians.

It's a myth. I don't know how the Russians are going to react if their embassy is taken in Geneva or Rome. But it is common knowledge that you do not fool around with them. But American and other embassies have been taken over right and left everywhere around the world.

Israel did not want to be another America or other Western nation that could be taken easily. Right from the beginning, the idea was to be strong, and to create that same myth about our ability to handle situations, so that we would not be challenged every second day.

Those basic ideas have been taken from the army. The entire idea behind the Israeli army is that when and if we have to fight, we immediately have a very short war, preferably in the enemy's country, not ours. It has to be quick and short, and to the point, so that we can prove, again and again, that you do not fool around with us. It will cost you many lives and a lot of money every time you try to fool around with us.

When I left the Israeli government, and moved to New York and opened my own company, I adopted the same philosophy. I am trying to teach major corporations; the Fortune 500, and smaller companies, that you have to establish some guidelines for how you will react to stress situations. Those guidelines should be put together, as the Bible of the company. This is not only to deal with terrorism; it will be guidelines for what you do in any emergency. Who might be captured, who is going to respond to what situation, do we negotiate a kidnapping, do we pay ransom.

You cannot wait and react to situations; you have to think ahead and prevent them. I adapted those techniques, Israeli counter-terrorist techniques, to private industry.

Steinberg: The key to aggressive counter-terror efforts is intelligence. You were operating in Europe, in active government service during and immediately following the Black September massacre of the Israeli Olympics team in Munich in 1972. From that experience, what would be your intelligence assessment of the security situation confronted by the U.S. corporate sector today. After the Israeli actions in Lebanon, following the PLO withdrawal from Beirut and diaspora around the Mideast, what is your estimate of the situation faced by prominent American Jewish business leaders and Israeli officials active in the United States and Europe?

Aviv: Before I discuss the present situation, I should go back and describe the development of those terrorist organizations in Europe and around the world. This will give you a good idea of what will occur in North America in the next few months.

I would say that America today is as vulnerable as Europe was in the early 1970s. I remember at that time that the only country that really had an effective anti-terrorism program was Israel. We sealed our borders. El Al, the Israeli airline, was sealed. I would say that you virtually could not hijack an Israeli aircraft.

But if you go back to the Lod Airport massacre, where a

few terrorists took an Air France plane and ended up in Lod, this proved to us that no other airline or nation was taking precautions.

We kept warning Europe that Israel would not be the only target, that the situation would move into Europe, once Israel was sealed. Once terrorists cannot penetrate Israeli territory, they are going to try and attack Israeli Jewish and non-Jewish corporations and other entities in Europe, because Europe is wide open.

No one listened at the time. They were all convinced that they knew what they were doing in their own countries. Actually, they did not know the answers, and these countries were embarrassed about this.

Soon enough, England began to have a problem with the Irish terrorists, and they called Israel, I remember, to ask about our experience, and to learn our counter-terrorist techniques. They had to start from scratch....

Then came the Baader-Meinhof in Germany, and the Red Brigades in Italy. Those countries were not ready. I would say that Italy is not ready even yet. They are getting better at counter-terrorism, but it is like a drop in a bucket.

However, I must say that Europe has become tight today. It has been tightened mostly by Germany, which came out with very tight check controls on the borders and quick response to terrorist attacks within Germany. The Baader-Meinhof had a very rough time operating in Germany, which is why they began moving out and branching out in coordination with other groups who work in other countries, in 1978.

The reason that I am going back to those years is that America is wide open now. At this time, Israel is tight, and Europe is tightened up. But America, South America, and Canada are wide open.

In New York alone, you have the headquarters of most of the major corporations. You have embassies of all the great nations. You have the United Nations. You have diplomats all over New York, and New York is not ready.

You could hit somebody in New York and just disappear. You would not even have to leave the city; you just move to another street and nobody will catch you, or it will be hard to find you.

America is naive about the future. American law enforcement has been warned and is aware of the potential of terrorism in this country, but whether or not they are equipped to deal with it, and have the funds, is another question. I would not say that America does not have the knowledge. America could, under pressure, come up with a good answer to terrorism. But everyone believes that it will never happen in their home, but only in the other courtyard.

I would say that, based on my experience and the network of informers I have in Europe, that terrorism is being shifted, and it will be shifted to America. . . .

Steinberg: Could you give me an idea of what your company has to offer in this area of corporate counter-terrorist

risk analysis, that other companies you are competing with cannot offer?

Aviv: I would say that the answer is that most security counter-terrorist companies obtained their expertise out of books and seminars. Their experts have never countered terrorism, because this country has never experienced terrorism per se. These companies do not have the field experience. Thus, I do not compete with corporate security directors or standard firms, I supplement them as consultant.

I bring in years of experience from the streets, not seminars. You have to be a terrorist yourself to understand the terrorist mind. I'm not suggesting that I have been a terrorist. But in my work for the Israeli government in the past, I often had to work undercover for months. I have even been accepted as a colleague and "cleared" by certain terrorist groups, the Baader-Meinhof and the Red Brigades, in order to learn their way of thinking, their minds, and how they move in Europe. Where they get their money, their weapons, and their phony identities and papers; how they have been able to move about for so many years in Europe, where every local police force is after them, these were the questions. These groups had succeeded in doing these things very well. The lessons we learned directed our operations.

After several years under cover in Europe, I can quickly recognize their methods and develop counter methods. I know how they think, how they would act, how they negotiate, and possibly, by recognizing some of the names and backgrounds, I could know how far they are going to go in a given situation. I know some of those people personally.

I have met Carlos personally on several occasions, while resting in safehouses undercover. I spend many hours talking to him, about general things, about his view of the current world situation. It is interesting to know how those people think.

In answer to your next question, *no*, I would not risk taking him. It would have jeopardized my operation, my networks, and people. Also, other units may have been also onto him, watching for movement. The rule is: 'you don't act without orders from control, even to seize such an opportunity.'

The difference between my company and others is that you have to be out in the street, meet the people and work with them to know how to deal with them. That is a good rule for anything you do in the security field.

Steinberg: There have been books published documenting that the Israeli government, and the Mossad, the Israeli intelligence service, developed a terror operation against terrorism after Munich. Again, I emphasize the question of intelligence. You described penetration of networks of terrorists that goes back to this post-Munich period in Europe.

Do you still maintain what you would consider current up-to-the-minute channels of intelligence, monitoring positions within these networks? Can you actually speak on the basis of current capabilities as opposed to past experiences?

Aviv: You have to understand that once you are involved in those organizations, in working with terrorists, and informers, it is a job that never ends. You cannot stop doing that.

Israel definitely maintains those capabilities. I would say, without tipping off too much, that definitely I am still connected with those in the Israeli government who have the capability of those information sources, and I have my own networks. Part of the ability I had while I was undercover in Europe was to establish my own network, and I have transferred those capabilities to my own business.

I am using those situations and resources to protect my clients' operations, as opposed to government installations.

Steinberg: I understand that both in the course of your official career with the Israeli government, and since you set up your private security business in New York, you have done a great deal of work concerning organized crime and international drug-running operations. I also understand that recently this has developed as another area of specialty for your capabilities.

Aviv: You must remember that terrorist groups have to finance their activity. Most of them were financed in part directly or indirectly by Russia, proven again by evidence such as documents recently obtained from captured PLO training sites in Lebanon. This was obtained during the recent crisis, and it can prove, without any doubt, the connections of Russia to organized crime and international terrorism.

However, in the early stages of terrorist activity, and even now, there is not enough money; there is never enough money for operations. Most of the terrorist organizations have adopted the drug idea, and are among the biggest pushers in drug trafficking to raise funds.

To be really effective, the terrorist groups did not want to get involved in another area that attracts the greatest attention of the local authorities and the intelligence networks. So they now operate in conjunction with organized crime figures in the United States.

The terrorists would traffic the drugs from the Far East or South America through their networks, and bring the drugs to a center point, where organized crime picked up and distributed the drugs. The terrorists are not the ones doing the distributing; that is organized crime.

So we have a conjunction of organized crime and the terrorist international in trafficking drugs for money. It has been very effective, and it has been very hard to beat. These forces have tremendous amounts of funds, they are well armed, well trained, and have a lot of connections. Through the efforts to combat terrorism, we have touched organized crime, and I would say that we have been very successful. I remember the date when Meyer Lansky was in Israel. We have always monitored visitors to Israel, and we watched those who came to seek his advice and his connections. We got a very good picture of who is who in the organized crime world, and their connections to drug trafficking and to other white-collar crime mainly in the United States.

Congressman Bill Chappell challenged by zero-growth Democratic candidate

by Susan Kokinda, Washington Correspondent

A fourteen-year veteran of the U.S. Congress, Democratic Congressman Bill Chappell of Florida, is facing his strongest challenge ever in an Oct. 5 Democratic primary run-off against multi-millionaire challenger Reid Hughes. Chappell is the latest target of political forces within the Democratic Party associated with Democratic National Committee Chairman Charles "Banker" Manatt, who have been targeting traditional Democrats around the country for political elimination. An earlier victim of this political gaggle, which has been frustrated and forced to go slow in its attempts to impose total party discipline within the House of Representatives, was maverick Ohio Congressman Ron Mottl, an adamant opponent of Federal Reserve Board Chairman Paul Volcker and his high interest rates. Mottl ostensibly had the support of the DNC and the House Democratic leadership of Speaker Tip O'Neill in his race, only to see O'Neill pronounce his defeat a "lesson" to Democrats with ideas independent of his own.

Chappell faces the Oct. 5 primary run-off after falling short of a majority of the votes in the regular Sept. 7 primary in a three-way race. Chappell garnered 47.3 percent to 45.1 percent for Hughes, David Lee Davis, a former Daytona Beach city policeman, polled 7.6 percent. While Davis has officially thrown his support behind Chappell, the danger is that a low voter turnout could put Hughes, who is backed by a number of single-issue activist groups like the environmentalists, over the top.

A sharp contrast on economics

Chappell and Hughes present a sharp contrast in economic and philosophical orientation. Chappell, who has been a staunch supporter of programs fostering agricultural progress, advanced energy development, infrastructural investments such as water management and transportation, and the promotion of capital-goods exports, is a spokesman for programs crucial to substantive economic growth and development, an instinctive supporter of "American System" or nation-building economics. Serving on the House Appropriations Committee where he has assignments to the Subcommittees on Energy and Water, Defense, and Military Construction, Chappell has received ratings from the National Democratic Policy Committee (NDPC) of 100 percent on

crucial energy votes such as nuclear and fusion energy, and 100 percent on key water development and infrastructure votes. Besides supporting a strong national defense, Chappell is a supporter of advanced weapons systems that maintain the "science driver" aspect of military spending crucial to productivity growth in the civilian economy.

Like many Democrats caught up into attacking budget deficits as a major cause of our economic ills, however, Chappell has shown weakness in this area as evidenced by his support for the balanced-budget amendment. Unlike many others however, he understands the problem with the credit policies of the Federal Reserve and has cosponsored H.R.228, (to get credit out of speculative investment), and H.R.211 (addressed to getting interest rates down). While he has insisted behind the scenes that interest rates must drop, a weakness with voters is that he has not carried this effort forth publicly.

Hughes a proclaimed Malthusian

Hughes on the other hand is an epitome of the rottenness of those sections of the Democratic Party promoting an explicit Malthusian or zero-growth outlook, population control policies, environmentalism, and an increasing shift of our economy into the post-industrial society service sector employment. Hughes is a promoter of the political line of the "Paul Volcker Protection Squad" in the Congress—that budget deficits are the cause of high interest rates.

According to Hughes's aide, Geoff Ely, Hughes is an explicit Malthusian. "If you're asking whether he believes in the Malthusian view," Ely said to *EIR*, "I guess he believes that would probably be the trend unless we can learn to limit population ourselves." Hughes stated to *EIR* that "My philosophy is we must control world population." This outlook converges with his plan for jobs creation in "new areas of endeavor" including "the service-oriented industries" which is where Hughes made his money: commercial leasing, shopping centers, convenience stores, self-service oil distribution, etc. While Hughes has the AFL-CIO endorsement, this post-industrial-society orientation has reinforced the effort of some of the building trades unions to quietly work for Chappell.

One of the striking features of the race has been the Hughes campaign tactics. Hughes has made an issue of Chappell's accepting PAC contributions for his race. Yet Hughes, a multi-millionaire through Hughes Developments has personally financed almost his entire campaign effort, with a few contributions from Texas oil-related interests thrown in.

Hughes has also insinuated that Chappell is for nuclear holocaust because of his support for the "Broomfield resolution" which passed the House, endorsing the achievement of nuclear weapons parity between the United States and Soviet Union before implementing a nuclear weapons freeze. The alternative called for an immediate freeze. Hughes outlines, to *EIR*, his support for 15 percent cuts in advanced weapons systems and a conventional warfare buildup "so we can fight a conventional war which we can't do today." This orientation not only eliminates the "science driver benefit" of military spending, but has been condemned by the NDPC as oriented toward fighting genocidal wars against the developing sector nations.

Who's supported by 'big business'?

Hughes, while claiming that the DNC is "technically" neutral in his race, refers to the destruction of Mottl to *EIR* as having been "we" who "got him." Aside from employing regular DNC pollster Pat Caddell as his own, Hughes is explicit on his business connections and professional associations with the notorious Charter Oil Co. Charter Oil was intimately involved in the organized crime, drug, and dirty money networks involving Billy Carter and Libyan madman Muammar Qaddafi.

It is one of the ironies of this race that while Hughes is accusing Chappell of being supported by "big business," Hughes is being backed by the ultimate "big business," the international financial and political networks currently controlling the DNC who are promoting policies that will end the role of the United States as a world power, and are leading to the deaths of hundreds of millions of people in the developing world.

Interview: Opponent Reid Hughes

'We must control world population'

From an interview with Reid Hughes, challenger to incumbent Rep. Bill Chappell (D-Fla.) in the Oct. 5 Democratic primary runoff in the Fifth Congressional District, which includes part of Jacksonville and the area to the south of it:

EIR October 5, 1982

EIR: Your campaign reminds me a bit of the campaign won against Ron Mottl in Cleveland some months back. You have AFL-CIO support, backing of three major newspapers. . . .

Hughes: From the National Education Association, the Sierra Club, League of Conservation Voters. . . . This will be the first boll weevil in the South to be defeated. Mottl wasn't really a full-blown boll weevil at the time we got him.

EIR: How is the Democratic National Committee orienting toward your campaign?

Hughes: Neutral.

EIR: You have Pat Caddell as your pollster.

Hughes: Right.

EIR: That would tend to indicate they're not exactly neutral.

Hughes: I'd say they're technically neutral.

EIR: One of the issues you are interested in is education.

Hughes: Right. Education, the economy, the environment, social security, and senior citizens' protection.

EIR: What do you see as the biggest need in education?

Hughes: First of all, restoration of education cuts. And secondly, some innovative concepts including the emergence in the training of technical skills as well as languages and other skills that would provide people the opportunity to get into new areas of endeavor.

EIR: Do you mean areas like computer technology?

Hughes: The technological as well as the service-oriented industries.

EIR: Do you say that because that is the way the economy is shifting?

Hughes: Sure. I think we're having a change into the new era of service, technological orientation in industry.

EIR: Have you addressed interest rates?

Hughes: We think interest rates are obviously directly attuned to the huge deficits and we're proposing deficit reductions through plugging the tax loopholes that benefit higher incomes and corporate entities, as well as reduction of the nuclear controversial hardware thrust in the military budget.

EIR: There have been several initiatives over the last year that criticize Paul Volcker directly for the interest rate problem. Would you endorse that type of action?

Hughes: Yes, I would.

EIR: What do you think Volcker should be doing that he's not?

Hughes: I think Volcker has made statements that he is

totally autonomous, that he's not working in concert with the administration and the Congress and I think that is obviously not a good policy . . . and that's not a way to be responsive not only to the economy but to the needs of the American monetary system.

EIR: You mentioned defense spending. What do you propose?

Hughes: I would recommend a 15 percent cut in some of the more sophisticated controversial and unproven weaponry and a reinforcement of our conventional warfare: smaller warheads, smaller tanks so we can fight a conventional war which we can't do today.

EIR: That sounds like the military reform caucus in the Congress. Are you familiar with that?

Hughes: Right. A modified version.

EIR: Have you discussed this with Senator Hart?

Hughes: Yes. I have his position papers and subscribe more or less to Gary Hart's positions.

EIR: How do you view abortion, birth control and the broader question of population?

Hughes: I'm pro-choice. . . . Of course, I look with a great deal of caution on making a blanket statement on how you control population growth. We obviously have a worldwide problem of family and population control which I think is being addressed in many countries. I don't know that the congress could do a whole lot in that respect. My philosophy is we must control world population.

EIR: Are there any particular associations or institutions that could be supported?

Hughes: At this point I don't have a position on that.

EIR: The Carter administration did draft a specific policy. . . .

Hughes: I'm aware of that and I'm not at this point in a position to other than philosophically endorse that proposal.

EIR: But you do see that as a significant problem?

Hughes: Absolutely. No question about that.

EIR: I'd like to ask you about your business career. . . . You started your business back in 1954, now I understand that that business did not succeed.

Hughes: It did succeed. . . . I've always been successful.

EIR: I understood that you abandoned that business and went out to California for a number of years. . . .

Hughes: No, untrue. I've always been in the oil business. I've been successful in other business ventures; I've had financial reversals but nothing significant. If you do enough things you're going to have ups and downs.

EIR: What other types of business ventures have you been involved in?

Hughes: We've been in commercial development, shipping centers, hotels, grocery business, car wash business.

EIR: Is that through a particular entity?

Hughes: Investments through our corporate entities. Hughes Developments . . . these are development businesses, commercial leasing . . . shopping centers, Country Convenience, Inc.; Self-Service Oil Marketers, Inc.

EIR: Have you ever had any business connection to Charter Oil?

Hughes: I bought supplies from them, I buy from about 14 suppliers. Of course, I know Raymond Mason very well. We served on the board of the Development Commission, come to speak of governmental experience. In the early 1960s I served on the Florida Development Commission.

EIR: Have you had prominent individuals come into the state to campaign for you?

Hughes: As far as supporters? . . . former speaker of the House . . . I have others but we'll leave it there.

EIR: How about prominent supporters from the Democratic Party nationally?

Hughes: Since this is a Democratic Primary most want to remain anonymous. You know how that goes.

EIR: Is there any move in Florida to legalize gambling?

Hughes: Oh there are moves, nothing significant.

EIR: Would you support that?

Hughes: No, I would not, I'm opposed to any additional legalized gambling.

EIR: What do you see as the most important priorities for development in the state?

Hughes: Industrial development and preservation of the ecology.

EIR: You mean industrial development along the lines you described earlier?

Hughes: Right.

EIR: What's your prognosis for the election? Have you taken any polls lately?

Hughes: I think we're ahead. And will be elected.

EIR: What was your most recent poll?

Hughes: This week, middle of the week.

EIR: Do you have the results?

Hughes: Yeah. Favorable. I'm not going to give you the percentages.

'Social science' at the public trough

It is common wisdom in certain circles, including those surrounding President Reagan, that the billions of dollars poured into both foreign aid and domestic 'social services' has done little to alleviate poverty, social disruption, or the proliferation of criminal mentality. On the foundation of this common wisdom, a philosophy variously called 'The New Federalism,' 'Subsidiarity,' 'Mediating Structures,' 'Participatory Democracy,' and 'Community Control,' has been constructed. Its content is that big institutions, like the federal government, cannot do anything useful for little people.

The reality is that the U.S. government has been spending hundreds of millions of dollars, and perhaps billions or tens of billions of dollars per year, to *purchase* poverty, social and economic disruptions, and the proliferation of criminal mentality.

Uselessness guaranteed

AID, the so-called Agency for International Development, is spending tens of millions on various agricultural research projects, although it is AID policy *not* to finance the large-scale energy, irrigation, transportation, or other infrastructural projects, which are the components of major increases in agricultural productivity. Many of the agricultural research projects funded by AID, are attempts to figure out how to obtain marginal increases in agricultural productivity without ir-

rigation, fertilizers, transportation infrastructure, or any of the other inputs for modern agro-industry.

There is every reason to believe that tens of millions of dollars of AID funding may have gone into the terrorist ethnic and tribal separatist movements which have plagued the underdeveloped world for decades. Suspicious studies funded include \$38,343 for a "pilot socio-linguistic study" of Haiti granted to the "Indiana University Foundation," \$45,000 granted to Stanford University for the Jamaica Broadcasting Corporation, and millions of dollars granted by the State Department and AID to known terrorist-linked organizations including the World Council of Churches and the American Friends Service Committee, "refugees in areas of civil strife," including Kampuchea and the Afghanistan-Pakistan border region.

'Women and heroin'

Preliminary investigation of the activities of the Department of Health and Human Services, previously the Department of HEW indicates that that department, at least as of Fiscal 1980, was operating on the assumption that the use of narcotic, psychotropic, and psychedelic drugs was becoming the most important aspect of mental life in the United States. An examination of the \$150 million awarded in research grants by HHS's Alcohol, Drug Abuse, and Mental Health Administration reveals tens of millions of dollars, at least, for research projects whose only practical application can be in the deliberate use of drugs for purposes of social control.

Included in this category are \$70,000 to Arizona State University for a study of "Opiate-Involved Life Styles and Couple Relationships"; \$66,000 for the University of Arizona to develop a "New Model of Marijuana Psychoactivity"; and \$175,000

for the Chicano Pinto Research Project, Inc., of California, to study "Women and Heroin in Chicano Communities."

Other ADAMHA research projects reflect the belief that psychological and social pathologies are caused by membership in non-Anglo-Saxon ethnic or racial groups. Millions of dollars are spent for these race theory studies, including \$269,000 for "Mental Health Treatment of Pacific/Asian Americans"; \$36,000 for "The Course of Schizophrenia among Mexican Americans"; \$214,000 for "Black Family Mental Health and Teenage Pregnancy"; \$53,000 for "Drinking Patterns among American Indian Women"; and \$71,000 for "Coping Styles of Black Adolescent Families."

\$69,000 has been spent to bring "Alcohol in the lives of some Indian women." It is rumored that HHS is negotiating a sequel, "Women in the Lives of some Indian Alcoholics."

Sex and violence

Also, millions of dollars are spent for hundreds of voyeuristic studies on the impact of sexual and other crimes of violence on individuals. Rather than list dozens of names of these studies, I simply report that the Delancey Street Foundation of San Francisco, California was paid \$174,159 by HHS for "Sexual Assault of Prostitutes."

Although details are not available on the ways in which HHS and other departments have squandered money after Ronald Reagan's assumption of control for fiscal 1982, I have been assured by experts in several areas that there has been little radical change. One complicating factor is the fact that the "block grant" approach adopted at the behest of the Reaganite "New Federalists" will make it almost impossible to control the uses to which federal funds for such things as community mental health services are put.

Tuition tax credits sped through committee

After months of languishing in committee, and all but abandoned for passage this session of Congress, the Senate version of a bill, already passed in the house, to grant tuition tax credits to parents who send their children to non-public schools, was reported out of the Senate Finance Committee on Sept. 16. The concept of tuition tax credits has been supported by President Reagan but has drawn fire from the American Federation of Teachers (AFT) and other defenders of the public school system. Opponents believe that with severe cuts in federal funding, the diversion of federal monies to support private school attendance represents a potentially fatal attack on public education.

The AFT had earlier taken issue with the proposal, announcing that they would not support candidates for office who supported the bill. This brought them head-to-head with New York Democratic Sen. Daniel Patrick Moynihan, who, although the representative of one of the highest concentrations of AFT members, has been the leading proponent of the bill. Earlier this summer, the AFT confronted Moynihan regarding his position and received indication that, pressed by a fall re-election bid, he would abandon the bill; before the August recess, the bill was stalled in committee apparently due to the Senator's efforts.

But during the week of Sept. 13, the issues that had bogged down the legislation—anti-discrimination provisions, income eligibility, and financing—were tackled and the bill marked up, with Moynihan playing a prominent role. Contacted just before the markup, a press spokesman for the AFT in Washington, D.C. was livid

about Moynihan's actions. Curiously, however, the following Sunday, Sept. 19, in his weekly column in the *New York Times*, AFT president Albert Shanker urged readers to vote against candidates such as Utah Sen. Orrin Hatch and New York Mayor Ed Koch, who support tuition tax credits, yet somehow omitted Moynihan's name.

The bill is expected to be filed on Sept. 23, and could reach the Senate floor as early as Sept. 27.

Cut European troops, says Senate subcommittee

By a 12-1 vote, the Defense Subcommittee of the Senate Appropriations Committee Sept. 22 called for reducing U.S. troop strength in Europe from 355,045 to 331,705. Led by Majority Whip and Subcommittee chairman Ted Stevens (R-Ark.), who has frequently advocated the use of the troop pull-back threat as a bludgeon against Europe, the vote also reflected the fiscal squeeze on Congress to find cuts in the military budget now that President Reagan and Defense Secretary Weinberger have refused to submit to Congress a list of possible defense cuts.

Sen. Jake Garn (R-Utah) described the vote as sending Europe a message that "we're tired of being your lackey." Others who voted for the resolution included Senators Weicker (R-Ct.), Schmitt (R-N.M.), Kasten (R-Wisc.), D'Amato (R-N.Y.), Rudman (R-N.H.), Proxmire (D-Wisc.), Inouye (D-Ha.), Hollings (D-S.C.), Johnston (D-La.), and Huddleston (D-Ky.). The only opposing vote came from Sen. John Stennis (D-Miss.), who said that the resolution would weaken the United States in arms negotiations with the Soviets and comes at a time of instability in West Germany.

Senate convenes hearings on Youth Corps bill

A bill to create a Nazi-style youth corps was promoted during hearings of the Public Lands subcommittee of the Senate Energy and Natural Resources Committee on Sept. 22. The bill, S.2061, introduced into the Senate last February by Daniel Moynihan (D-N.Y.), and *Global 2000* depopulation plan sponsor Charles Mathias (R-Md.), would found an American Conservation Corps which would send unemployed citizens under 25 to rural work camps.

Testifying for the bill, in addition to Moynihan and Mathias, were Sen. Jennings Randolph (D-W.Va.), Rep. Ralph Regula (R-Ohio), Rep. Douglas Bereuter (R-Neb.), television actor Raymond Burr, and former football player Calvin Hill. John Capozzi, a spokesman for the AFL-CIO youth group, Front Lash, also spoke for the bill.

The legislation specifically calls for the creation of "labor-intensive" jobs in cleaning parks, energy conservation, cleaning monuments, etc. for youths between 16 and 25. Participants would live in barracks and would have their rooms and board automatically subtracted from the federal minimum wage they receive—leaving less than \$1 per hour. In Germany in the 1920s this kind of program moved unemployed youth into camps and subsequently into the Nazi movement.

An identical bill to S.2061 was introduced into the House by Rep. John Sieberling (D-Ohio) last October. In December, Moynihan sought out Mathias in order to make a bipartisan effort in the Senate. Moynihan's bill seemed to peter out after its introduction in February; however, the companion legislation passed the House in

June by a 291-102 vote.

Subcommittee chairman Malcolm Wallop (R-Wyo.), cousin to the Queen of England, prefers that participants be given below minimum wage, or better, that they work as "volunteers." Wallop was optimistic that a more "cost-efficient" proposal would come out of recent hearings. To date, the Reagan administration is opposing the bill, primarily also for fiscal considerations.

Bill "Bailout" Bradley does it again

Bill Bradley, the Democratic Senator from New Jersey, took the floor of the Senate on Sept. 20 to warn again of the dangers of international financial calamity and to call for a U.S. bailout of the monetary system.

Several days later, on Sept. 23, the International Economic Policy Subcommittee of the Senate Foreign Relations Committee, chaired by *Global 2000* advocate Charles Mathias (R-Md.), held an unusual closed-door hearing on the world debt situation. The subcommittee, whose chief staff members recently returned from the IMF's Toronto conference, was briefed by the CIA, and it is expected to hold open hearings on the same topic before the Senate recesses in early October.

Bradley's floor speech, entitled "Lending Risks in the Developing World," singled out Mexico, Brazil, and Argentina as countries worthy of special concern in the world debt situation. True to the hardened image of a "neo-liberal," Bradley advocates ferocious IMF dictates as the solution to Latin America's debt problem, and attacks the "labor, leftist and nationalist groups [who] are likely to oppose

both the outside interference and the austerity of the necessary policies."

Bradley reiterates four proposals from his earlier speeches. He proposes that central banks become "lenders of last resort" for illiquid financial entities, in essence calling for the Federal Reserve Board to bail out the \$1.7 trillion Eurodollar market. Secondly, he calls for the Bank for International Settlements or the IMF to provide the mechanism for that bailout, in exchange for imposing conditions on future bank lending to the developing sector. The U.S. and other nations, he says, should significantly augment their contributions to the IMF to create a special emergency fund to bail out Western banks at the same time that further conditionalities are imposed on Third World nations in exchange for a trickle of future lending.

Harrimanites propose fascist restructuring

Under the delphic title of "The Rebuilding America Act of 1982," Senators Moynihan (D-N.Y.) and Gary Hart, Bill Bradley (D-N.J.), Alan Cranston and Ted Kennedy (D-Mass.) have introduced legislation which would establish the mechanism for top-down control over the American economy through the triage and restructuring of American infrastructure. Similar legislation has been introduced in the House by Bob Edgar (D-Pa.), the chairman of the Northeast-Midwest Congressional Coalition and Congress's leading opponent of water development, along with Tip O'Neill (D-Mass.), and Jack Kemp (R-N.Y.).

The legislation has the dual function of furthering the destruction of Congress by taking "pork-barrel"

infrastructure out of constituency-controlled hands and ultimately establishing a Third Reich-like apparatus which will ration infrastructure spending.

The "neo-liberals" and "Atari Democrats" are gravitating toward variations of this proposal, under the "buzzwords" of "capital budgeting"—separating capital expenses from operating expenses. But behind the systems-analysis jargon stands its true genocidal content. A July *New York Times* article quotes one proponent who explained why central control over infrastructure was needed: "When the New York City government suggested that it could no longer afford to maintain basic facilities in the South Bronx, where many buildings have been abandoned, there was a storm of protest and the suggestion was dropped."

Should this effort succeed, it would represent consummation of the cutoffs of essential infrastructural spending begun by the Carter administration and continued by the Reagan OMB. Rather than introducing a real "development plan," it would simply end Congress's ability even to fund basic needed infrastructure on a case-by-case basis.

An opening shot in this fight was sounded on the floor of the House on Sept. 23, when Bob Edgar objected to passage of the continuing resolution (which maintains federal funding until various appropriations bills are passed) because he and his Malthusian colleagues would not be able to offer amendments to kill the Tennessee-Tombigbee water project and the Clinch River breeder reactor. While beaten back at present, Edgar and allies have promised to make this year's fight over Clinch River and Tenn-Tom a major test.

National News

Double-digit vote tallies for NDPC in New York

Two New York candidates of the National Democratic Policy Committee, the section of the party built and led by *EIR* founder Lyndon LaRouche, received 16 percent and 13 percent of the vote in Sept. 23 Democratic primary elections. Mel Klenetsky received 16 percent, a much higher percentage among minority voters, in a battle for the U.S. Senate against incumbent racist and "population control" advocate Daniel Patrick Moynihan. Fernando Oliver ran for Congress in New York's 18th District in the South Bronx, and was credited with 13 percent in the official returns, against incumbent Raymond Garcia, known for his sponsorship of "free enterprise zones" legislation.

While many observers view these results as a credible showing, given a barrage of press slanders and the total press blackout thrown against the LaRouche Democrats, there was also much evidence of fraud. The Oliver campaign has already announced that it will challenge the results in court, calling them ridiculously low for the popular Hispanic-American, and charging widespread voter-intimidation and fraud at the polls. Klenetsky spokesmen similarly express their belief that their candidate probably received 25-30 percent, not 16 percent as officially reported—for example, he was credited with the most votes in Suffolk County, Long Island, where he had never campaigned—but they say they will not challenge in court. They will, however, investigate thoroughly to determine the truth about the numbers and sources of his support, to determine the focus of future organizing work. Both campaigns have built a machine, a machine that they intend to make a formidable political force in foreseeable circumstances of the future, to aid the efforts of LaRouche's NDPC to wrest control of the party away from the genocide-oriented control of the Harriman family and its circle of retainers like Moynihan.

Both Klenetsky and Oliver campaigned on the four-point program formulated by LaRouche for a "new world economic or-

der," specifying a new, gold-reserve-based monetary system, to provide low-interest credit for production and export of high technology capital-goods to developing Third World nations, ending the current depression with a production boom at home and abroad.

The New York election results, although tainted by evidence of fraud, "represent a victory for the new world economic order," declared NDPC chairman Warren Hamerman at an election-night festivity. "Even according to official returns, nearly 200,000 citizens of New York, educated by these campaigns, voted for a new world economic order and against the genocidal 'population control' policies of Averell Harriman's senator, Pat Moynihan."

The returns indicate that the NDPC's New York machine is very similar to the FDR-type coalition being rebuilt by LaRouche forces across the country. In all-black Harlem, Klenetsky, a white Jewish American, received an absolute 60 percent of the vote in some locations; he received 25-40 percent in Bedford Stuyvesant ghetto areas, and between 25- and 30 percent among Jewish Brighton Beach voters in New York City.

LaRouche-backed candidates have received steadily increasing vote totals in all parts of the country over recent months. An NDPC Baltimore congressional candidate, Debra Freeman, received 23 percent of the vote in a primary race against incumbent Barbara Mikulski; the NDPC's Steve Douglas got 25 percent state-wide, and 35 percent in Philadelphia, in that state's May gubernatorial primary. In Minnesota Sept. 10, the NDPC's Pat O'Reilly, who received only 4,000 votes in an election two years ago, received 20,000 in his bid for Congress against a Harrimanite machine incumbent, for 38 percent of the total votes cast.

Luce calls for racist immigration policy

Clare Boothe Luce, publisher of *Time* magazine since the 1940s and personal associate of the Buckley and Dulles families, called

for the United States to adopt racist immigration policies to prevent it from going the way of the barbaric Roman Empire in an interview with *Geo* magazine the week of Sept. 20.

Mrs. Luce, a member of the Foreign Intelligence Advisory Board which counsels the joint intelligence agencies of the federal government, warned that there would soon be as many Hispanics "as there are natives" in Texas, New Mexico, Arizona, and Florida. "A vast majority are illegal . . . They come in with wives and sisters and nieces who get pregnant immediately because they can then become American citizens and go on relief. I do not know how much more we can absorb."

Although the United States was able to absorb 40 million immigrants in the last century these were "of a fundamental culture . . . not black or brown or yellow," Luce stated. "Today we have this curious idea that we must tolerate to the maximum all the diversities. I am not sure that we are not heading for the fate of ancient Rome, which in its latter days had far fewer Romans than immigrants. . . . Rome collapsed under the weight of the barbarians. But in truth Rome collapsed because the people within lost all desire to coalesce and defend it."

This argument, that Rome's fall was caused by the dilution of its original racial stock, espoused earlier in the 20th century by Adolf Hitler in *Mein Kampf*.

Pamela Harriman begs for GOP help

Pamela Churchill Harriman, is begging the Republican Party to help keep her in business. In a Sept. 19 *New York Times* op-ed, recapping a speech she gave to the Wall Street Club, Pamela bemoans the lack of funds coming into the party, and appeals to the GOP to unite with the Democrats to eliminate the "third-party movements and splinter candidacies" that are picking up the party's funds.

Despite the thousands upon thousands of dollars Harriman has personally given to chosen Democratic campaigns, there is no

Briefly

competing with the GOP. The Democratic Party has historically been supported by funds from large constituencies—since the party has abandoned them in recent years, its fundraising base has steadily shrunk. Now Mrs. Harriman wants a deal with the Republican Party to return to the situation in England at the end of the 19th century, when there were two parties—the Liberals and the Conservatives—that dished out policies to the British population, with no constituency organizations to get in the way. With growing evidence that constituencies do exist—and that these constituents hate the Harrimanites—these Democrats have become upset.

N. Y. Medical Society: 'no emergency resuscitation'

The Medical Society of the State of New York has become the fourth in the nation to approve guidelines for withholding emergency resuscitation from hospital patients. The guidelines, passed Sept. 9, allow a supervising physician, the patient, or the patient's family to decide to withhold resuscitation in the event of cardiac or respiratory arrest, even if the patient has been receiving vigorous medical therapy.

The other states with such guidelines are Minnesota, Alabama, and North Carolina. Numerous private hospitals have them as well. LaGuardia Hospital in Queens, currently under grand-jury investigation regarding the deaths of two elderly patients who were denied resuscitation, claims, according to its executive vice-president Arnold Rosenblum, that it was only following "accepted medical practices."

Dr. S. David Pomrinse, president of the Greater New York Hospital Association, argues, according to the Sept. 20 *New York Times*, that certain patients are being resuscitated "unnecessarily." Pomrinse is urging the state Department of Health to back up the Medical Society's guidelines with the force of law. However, to date there are no plans to make the guidelines regulations, according to State Commissioner of Health Dr. David Axelrod.

LaRouche warns of neo-Nazi insurgency

In an urgent appeal to the Jewish community of the United States, *EIR* founder Lyndon H. LaRouche issued a statement Sept. 20 warning of the danger of a rapid rise of neo-Nazism in many parts of the world.

The term "neo-Nazi" means just that, said LaRouche.

The leading centers for radiating neo-Nazi influence within the United States are Roy Cohn's New York East Side Conservative Club and the "conservative" organizations of William F. Buckley, as documented in detail by Armin Mohler, a former member of the Swiss SS and current head of the Siemens Foundation in Bavaria, in his authoritative book on international neo-Nazism, *The Conservative Revolution*.

The Cohn and Buckley crowd's links to Hitler's Nazis are more than ideological. LaRouche describes how, through agreements between SS leaders and Allen Dulles and Winston Churchill, a hard core of the Nazi SS was protected after the end of World War II and reconstituted as an organization around Swiss Nazi headquarters in Lausanne, Switzerland. The hard core of today's neo-Nazi mass base is built around the remains of the "minorities" division of Admiral Canaris's section of the Abwehr and of the SS itself. LaRouche specifies that the mass-based organizations of this Lausanne center are located in the overlap between the international network of separatist organizations and international terrorism, including the Muslim Brotherhood, the Falange in Lebanon and Syria and the various separatist movements.

The key to the anti-Semitism of these groups is the hatred of their ideologues, going back to Houston Stewart Chamberlain and Friedrich Nietzsche, for Judeo-Christian principles. These are the Book of Genesis injunction that man be "fruitful and multiply," and the consubstantiality principle which recognizes the divine potential of each individual. These principles, which distinguish man from beasts, are what the neo-Nazis are out to destroy, warns LaRouche.

● **HULAN E. JACK**, borough president of Manhattan from 1954 to 1960 and a leader today in the National Democratic Policy Committee, has completed his autobiography, which is scheduled for publication this fall by the New Benjamin Franklin House Publishing Company. Under the headline *Fifty Years a Democrat*, Jack, who was the target of a 1960 Abscam-style scandal led by the reform faction in the Democratic Party, reveals how Averell Harriman's post-war reform movement destroyed the constituency-based Democratic Party machine built under President Franklin Delano Roosevelt.

● **GEORGETOWN** University's Center for Strategic and International Studies is issuing a guidebook titled "Diplomats and Terrorists: What Works and What Doesn't." Advertised at a \$5 cover price, the handbook is being promoted as a short course in how to recognize "premonitions and forewarnings" of a pending terrorist attack and "how to survive as a hostage." The CSIS booklet should be quite informative, as CSIS directors Henry Kissinger and Michael Ledeen have been linked to the terrorist attacks of the Red Brigades gang against the Italian Republic.

● **EUGENICS** is the topic of a conference to be held Sept. 23, at New York City's Museum of Philosophy. Officially titled "Sperm Bank for Geniuses: Artificial Insemination, Ethnics, and Genetics" conference advertisements quote Sir Francis Galton, founder of the International Eugenics Society around the turn of the century, Galton's cousin Charles Darwin, and H. J. Muller, a eugenicist who participated in the 1932 third International Congress of Eugenics sponsored by Averell Harriman and his mother.

Just in time: the Club of Life

Between Sept. 17 and 19 two European governments fell, marking the culminating phase of a long-ripening plan by the British and European oligarchy to sweep away every institution committed to industrial progress on the European continent. First came the collapse of Chancellor Helmut Schmidt's 13-year-old ruling coalition in West Germany, the victim of a combination of the anti-nuclear "Green" fascists and their "neo-conservative" friends around the candidacy of Franz-Josef Strauss, with the aid of the Liberals.

Two days later, the Swedish national elections brought back to power former Socialist Prime Minister Olof Palme, the man whose intimate friendships span the gamut from Iran's Khomeinists to the "peace" crowd in Moscow to such unreconstructed Nazis as Per Engdahl, and whose program calls for the tearing down of Sweden's nuclear industry, one of the most advanced in the world.

Fortunately that third week in September also saw the announcement of the founding conference of the Club of Life, an international association born of the efforts of Helga Zepp-LaRouche, which will take place in Rome, Italy on Oct. 20 and 21.

If the events in Sweden and West Germany mark the end of the fight for industrial progress at the *national* level, the upcoming conference in Rome marks the creation of the key *international* institution that can carry forward that battle and win it. If the defeat of Schmidt and the lackluster conservative coalition in Sweden damns the political method of "pragmatism," as an experiment in impotence that has no need to be repeated, the launching of the Club of Life will outline the philosophical outlook and programmatic perspective that are required to halt the deepening depression and chart the course toward economic growth.

The Club of Life is counterposed to that particular concentration of institutional evil known as the Club of Rome, which is now preparing to celebrate its tenth anniversary. For behind the combination of old Nazis and environmentalists which mobilized on Britain's orders to topple first President Giscard of France in

1981 and his ally Chancellor Schmidt in 1982, and which has conspired to bring the pro-fascist Socialist International to rule in Sweden and probably soon in Spain, is the spread of Malthusian ideology—the idea of limits to growth—by the Club of Rome.

In her call for a Club of Life in January 1982, Helga Zepp-LaRouche addressed men and women of good will from among political figures, religious leaders, scientists, engineers, trade unionists, minority groups, industrialists and educators from the developing sector countries as well as Europe and North America. Mrs. LaRouche, who has been leading in the fight for technology transfer from the industrialized sector to the underdeveloped countries for eight years, warned that world war could result from the international economic collapse.

"Never before has the human species found itself in as fundamental a crisis as today. We are confronted with the possibility of the annihilation of all life through a global atomic war. We are situated in the midst of a world economic crisis, which in its full range of effects, could cost billions of human lives above all in the developing sector. In broad sections of the world human society is threatening to slip back into the dark age. The most worrisome aspect, however, is that in the so-called developed countries, in particular, cultural pessimism is beginning to take hold, which has begun to diminish if not to outright deny the value and worthiness of human life.

"In contrast to this is the enormous will for development in many countries of the so-called Third World, an enormous desire for development and progress whose realization is being prevented through unjust economic and monetary arrangements, and through the effects of an unbridled liberal philosophy."

Among the founding members of the Club of Life are representatives of the United States, Mexico, Colombia, France, Sweden, West Germany, Italy, Vatican City, India, Africa, and the Middle East. We applaud the founding of the Club of Life, and *EIR* pledges to aid in any way possible in assuring its success.

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