

EIR

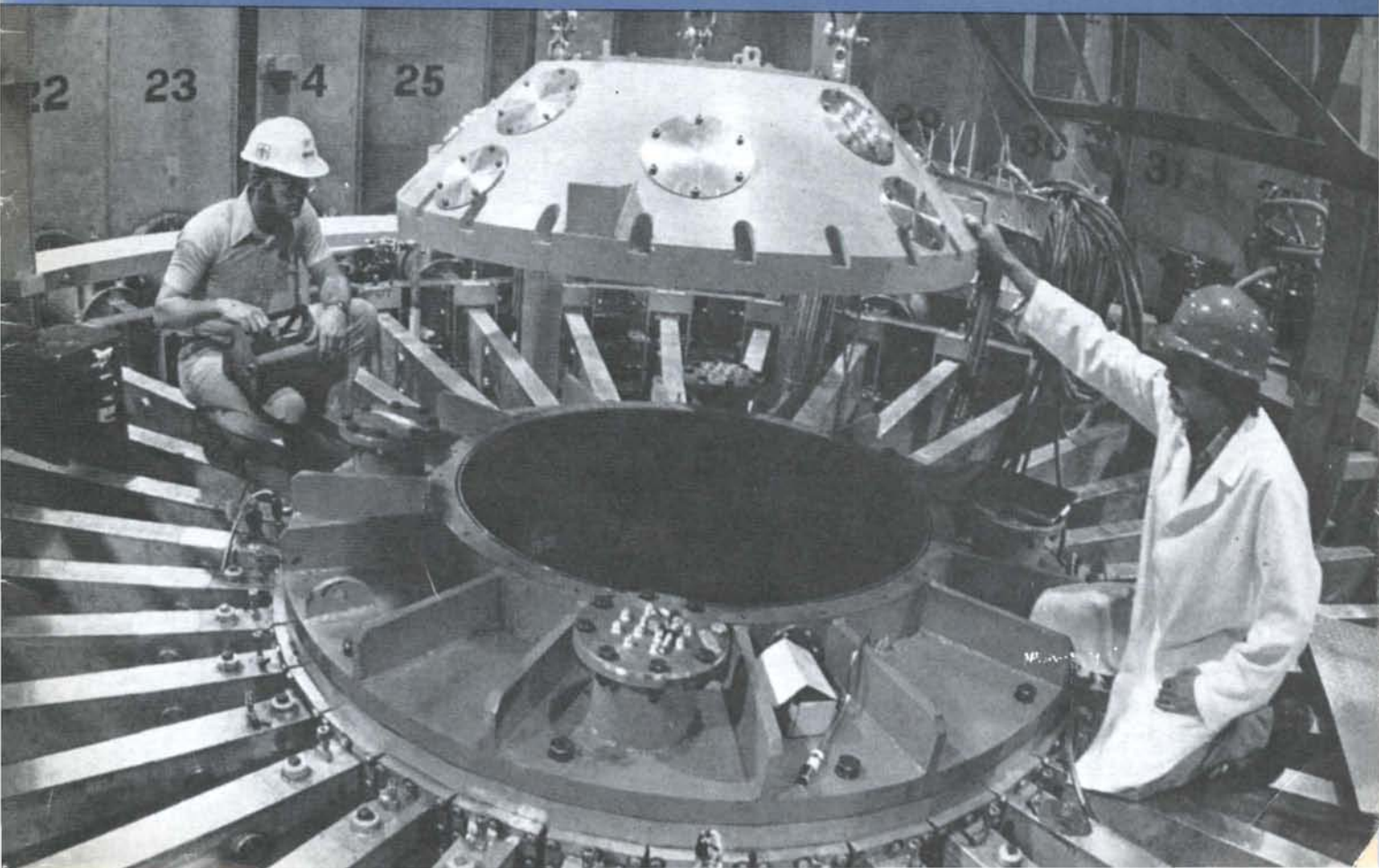
Executive Intelligence Review

December 28, 1982

\$10.00

Brazilian crisis rattles world credit markets
Morgenthau covers for New York's dirtiest bank
KGB, British run Western Europe's peace movement

**Beam-weapon development: the
boost for America's productivity**



EIR

The special reports listed below,
prepared by the EIR staff, are now available.

1. What is the Trilateral Commission?

The most complete analysis of the background, origins, and goals of this much-talked-about organization. Demonstrates the role of the Commission in the Carter administration's *Global 2000* and *Global Futures* reports on mass population reduction; in the Propaganda-2 Freemasonic scandal that collapsed the Italian government in 1981; and in the Federal Reserve's high interest-rate policy. Details the Commission's influence in the Reagan administration. Includes complete membership list. \$100.

2. The Global 2000 Report: Blueprint for Extinction

A scientific and political refutation of the Carter administration's *Global 2000 Report*. Includes a review of the report's contents, demonstrating that upwards of 2 billion people will die if its recommendations are followed; a detailed presentation of the organizations and individuals responsible for authorship of the report; analysis of how the report's "population-control" policies were applied in the Vietnam war and the destruction of Cambodia, El Salvador, and Africa; analysis of environmentalist effort to "re-interpret" the Bible in line with the report. \$100.

3. The Club of Rome in the Middle East

A dossier on the role played by the Club of Rome in promoting "Islamic fundamentalism." Focusing on two organizations, the Arab Thought Forum and Islam and the West, both of which are intimately tied to the Club of Rome, the report shows how the Club uses "Islamic fundamentalism" as a political tool to promote neo-Malthusian, anti-development ideas throughout the Middle East. \$250.

4. Mexico After the Devaluation

One of the most-discussed documents circulating in Mexico, this report describes in detail the role played by the U.S. Federal Reserve Chairman Paul Volcker and the Swiss-based Bank for International Settlements in organizing a credit cut-off against Mexico. Describes

the demands being made by the International Monetary Fund for economic "reforms" in Mexico, and why these demands are being resisted. Much information on Mexico's economic conditions and political factions is included. \$250.

5. Who Controls Environmentalism?

A history and detailed grid of the environmentalist movement in the United States. Analyzes sources of funding, political command structure, and future plans. \$50.

6. U.S. Policy Toward Africa

A case study of the "new" North-South policy of the Reagan administration, showing how economic policy toward Africa is being shaped according to the anti-technology, zero-growth guidelines of the Carter administration's *Global 2000 Report*. Discusses in detail the role being played by the AID and World Bank in implementing this policy, under directions primarily from Henry Kissinger, David Rockefeller, and the Ford Foundation. Includes profiles of the administration's top ten policy-makers for Africa. \$250.

7. Kissinger's Drive to Take Over the Reagan Administration

Full analysis of Henry Kissinger's attempt to consolidate control over the administration for the Trilateral Commission wing of the Republican Party; and the implications for U.S. foreign and domestic policy. Presents profiles of Kissinger's collaborators inside the administration, including recent administration appointees. \$250.

8. Outlook for U.S.-Japan Economic Relations

Detailed analysis of why U.S.-Japan economic frictions are likely to escalate in the coming months unless U.S. economic policy is changed. Features a strategic analysis of the U.S.-Japan relationship; analysis of the five key areas that friction will increase; evaluation of the political intent behind "Hitachi spy case"; and interviews on U.S.-Japan relations with leading Reagan administration officials. \$250.

EXECUTIVE INTELLIGENCE REVIEW

I would like to receive these EIR Special Reports:

Order Number(s) _____

Bill me for \$ _____ Enclosed is \$ _____

Please charge to my VISA Master Charge

Card No. _____

Signature _____ Exp. Date _____

Name _____

Title _____

Company _____

Address _____

City _____ State _____ Zip _____

Telephone (_____) _____
area code

Make checks payable to:

Executive Intelligence Review, Dept. MC-1, 304 West 58th Street, 5th floor, New York, N.Y. 10019 (212) 247-8820.

Founder and Contributing Editor:

Lyndon H. LaRouche, Jr.

Editor-in-chief: *Criton Zoakos*

Editor: *Nora Hamerman*

Managing Editor: *Susan Johnson*

Features Editor: *Christina Nelson Huth*

Art Director: *Martha Zoller*

Contributing Editors: *Uwe Parpart,*

Nancy Spannaus, Christopher White

Special Services: *Peter Ennis*

INTELLIGENCE DIRECTORS:

Africa: *Douglas DeGroot*

Agriculture: *Susan Brady*

Asia: *Daniel Sneider*

Counterintelligence: *Jeffrey Steinberg*

Economics: *David Goldman*

European Economics: *Laurent Murawiec*

Energy: *William Engdahl*

Europe: *Vivian Freyre Zoakos*

Ibero-America: *Robyn Quijano,*

Dennis Small

Law: *Edward Spannaus*

Middle East: *Thierry Lalevée*

Military Strategy: *Steven Bardwell*

Science and Technology:

Marsha Freeman

Soviet Union and Eastern Europe:

Rachel Douglas

United States: *Graham Lowry*

INTERNATIONAL BUREAUS:

Bogotá: *Carlos Cota Meza*

Bonn: *George Gregory, Rainer Apel*

Chicago: *Paul Greenberg*

Copenhagen: *Leni Thomsen*

Houston: *Harley Schlanger,*

Nicholas F. Benton

Los Angeles: *Theodore Andromidas*

Mexico City: *Josefina Menéndez*

Milan: *Marco Fanini, Stefania Sacchi*

Monterrey: *M. Luisa de Castro*

New Delhi: *Paul Zykofsky*

Paris: *Katherine Kanter,*

Sophie Tanapura

Rome: *Leonardo Servadio*

Stockholm: *Clifford Gaddy*

United Nations: *Peter Ennis*

Washington, D.C.: *Richard Cohen,*

Laura Chasen, Susan Kokinda

Wiesbaden: *Philip Golub, Mary Lalevée,*

Barbara Spahn

Executive Intelligence Review

(ISSN 0273-6314)

is published weekly (50 issues) except for the second

week of July and first week of January by

New Solidarity International Press Service

304 W. 58th Street, New York, N.Y. 10019

In Europe: Executive Intelligence Review

Nachrichtenagentur GmbH, Postfach 2308,

Dotzheimerstrasse 164, 62 Wiesbaden.

Tel. (06121) 44-90-31.

Executive Directors: Anno Hellenbroich,

Michael Liebig

In Mexico: EIR, Francisco Dias Covarrubias 54 A-3

Colonia San Rafael, Mexico DF. Tel: 592-0424.

Japan subscription sales:

O.T.O. Research Corporation, Takeuchi Bldg.,

1-34-12 Takatanobaba, Shinjuku-Ku, Tokyo 160.

Tel: (03) 208-7821

Brazil subscription sales:

International Knowledge Information System Imp.

Rua Afonso de Freitas 125, 04006 Sao Paulo Ltda.

Tel: (011) 289-1833

Copyright © 1982 New Solidarity

International Press Service

All rights reserved. Reproduction in whole or

in part without permission strictly prohibited.

Second-class postage paid at New York.

New York and at additional mailing offices.

3 months—\$125. 6 months—\$225.

1 year—\$396. Single issue—\$10

Academic library rate: \$245 per year

EIR

From the Managing Editor

This week's Special Report sets out to demonstrate the economic benefits of developing space-based relativistic-beam technology as a weapons system. A LaRouche-Riemann econometric team under the direction of Economics Editor David Goldman presents the evidence that, as the 1960s NASA program did, such a defense effort would not only produce thousands of specific technological spin-offs for civilian application, but push the U.S. economy as a whole back toward the high-technology capital-intensive track, and accelerate progress toward the next stage of nuclear energy: cheap, clean, limitless fusion energy, which can be used to create entire new arrays of "natural resources."

The beam-weapons program, we are happy to report, has been brought to Western Europe by the scientific advisers to *EIR* founder Lyndon H. LaRouche, Jr. In Paris, *EIR* Contributing Editor Uwe Parpart, research director of the Fusion Energy Foundation, gave a presentation Dec. 14 on the subject to the Ecole Polytechnique, France's leading scientific institute, and held meetings on beam weaponry with members of the nation's administrative and scientific leadership. In Rome that week, U.S. State Department operatives had sworn that a beam-weapons forum by Dr. Jonathan Tennenbaum would be completely boycotted; instead, it drew 57 Italian military, government, business, scientific, and media representatives. In the United States, university campuses are showing more signs of real intellectual life than at any time in the past 35 years or so, as the potential for beam weapons—whose function is to destroy nuclear-armed ballistic missiles—redefines the peace debate.

In our National section, we call to your attention the first part of an exposé of one of the world's dirtiest financial entities, the now-defunct American Bank & Trust, and how the sweeping criminal operations of its international controllers were covered up by the man who used to be called "Mr. Clean," Manhattan District Attorney Robert Morgenthau. Far-reaching results are expected from these revelations.

Susan Johnson

EIR Contents

Interview

8 **Leonardo Montiel Ortega**

The Director of Technical Economic Studies of the Universidad de Santa Maria of Caracas, who advises the Venezuelan Federation of Labor, on the aftermath of the Malvinas war and the need for Ibero-America to seek collective economic policies.

Departments

49 **Dateline Mexico**

How long will Reyes Heróles last?

60 **Congressional Closeup**

64 **Editorial**

A sense of urgency.

Notes: Due to an error at our bindery, some subscribers received copies of the Dec. 21 issue of *EIR* which contained duplicate pages of sections of the issue, and omitted others. Please notify our Subscription Department if you need a replacement for a defective copy.

The next issue of *EIR*, Volume 10, Number 1, will be a special "Year In Review Issue." The following week, as is our usual practice, we will not publish an issue.

Economics

4 **Brazilian debt crisis rattles credit markets**

This month two near-bankruptcies of Brazil nearly started a chain reaction. Brazil has now signed an accord with the International Monetary Fund—which will solve nothing.

6 **Mexico's economic balancing act**

11 **German industry looks to makework plans as export markets collapse**

Last week, George Gregory reported on the Federal Republic's disastrous steel policies; this is the rest of the picture.

13 **Swedish business embraces Olof Palme's Schachtian policy for trade and labor**

Discussions with policymakers in Stockholm and Göteborg.

15 **Price-support deal a first step in the total deregulation of U.S. dairy output**

16 **How Benjamin Franklin organized American industrial growth**

The second and final installment of Donald Phau's article.

18 **Armand Hammer's East-West coal flurry**

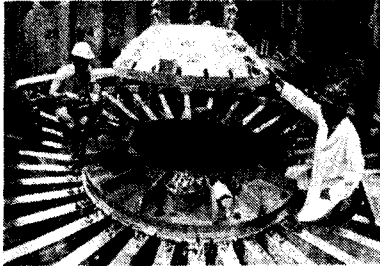
19 **Corporate Strategy**

The dirty takeover of Texas GRE.

20 **Trade Review**

22 **Business Briefs**

Special Report



The development of high-energy strategic beam weapons entails an entire "Age of Plasma" in energy applications. Above, a particle beam accelerator used in U.S. nuclear fusion experiments.

Courtesy of Sandia National Laboratories

24 **Beam-weapon program: boost to productivity**

Presaging "The Plasma Age."

26 **A 'great enterprise' in NASA's tradition**

New technologies within immediate reach.

28 **Artificial heart shows breakthrough potential**

A case study.

29 **How beam weapons would spur recovery**

LaRouche-Riemann econometric projections. **Documentation:** Sixteen computer graphics.

International

34 **The peace movement, the KGB, and the Anglo-Italian axis**

British pundits often claim the U.S.S.R. runs the disarmament movement. What they don't say is that the animal in question is an East bloc faction deeply intertwined with British-supervised international terrorism. Here we present new material on "the Bulgarian connection."

36 **Deng Xiaoping reaches an unstable truce with the army-industry faction**

Involving partial efforts to rebuild heavy-industrial sectors.

39 **Indonesia emerges from the shadows: a first-hand report**

Asia Editor Daniel Sneider's profile of a nation with great political and economic potential.

44 **Leonardo da Vinci's scientific genius is rescued from Windsor Castle**

A conference in Milan this month challenged the British Royal Family's control over da Vinci archives, and drew a ferocious attack from Italy's Socialist Party.

50 **International Intelligence**

National

52 **Manhattan's D.A. Morgenthau covered up the drug and terror ties of American Bank & Trust**

Names, dates, places, and *cui bono* questions on a far bigger affair than the Banco Ambrosiano scandal—which it intersects. This is the same Robert Morgenthau who is attempting an inquisition against LaRouche and his associates.

57 **Post-Kennedy fight in the Democratic Party**

Who's backing whom: John Glenn, Walter Mondale, and *EIR* founder LaRouche take the lead as probable contenders for the presidential nomination.

58 **'Hot spots' multiply on Zia's American tour**

In San Francisco, official participation in welcoming festivities for the Pakistani dictator was curtailed. In Quebec, the opposition to Zia got more drastic results.

62 **National News**

Brazilian debt crisis rattles credit markets

by Timothy Rush and Dennis Small

Connoisseurs of three-card monte and other street skills got the treat of their lives this month from watching the way the International Monetary Fund and the elite of the international financial community handled Brazil's explosive monetary crisis with pyramids of worthless paper and sleight of hand.

The state-controlled Banco do Brasil, Brazil's largest commercial bank, has gone bankrupt, not once, but twice. On Tuesday, Dec. 7, the New York branch first sent up S.O.S. signals that it could not meet \$175 million in immediate foreign currency obligations. The New York Federal Reserve Bank, faced with the prospect that such a default would instantly bring down the entire \$200 billion-per-day CHIPS international banking clearinghouse system, preferred to step in with an emergency injection of funds to the Banco do Brasil. But the very next day the troubled bank was again bankrupt. This time, a group of five leading New York commercial banks stepped in with the needed emergency cash.

The Banco do Brasil is normally backstopped by the Brazilian government itself. But the Brazilian government is *also* bankrupt, struggling on a day-by-day basis to pull in enough cash to keep its head above water and meet its payments on its huge \$89 billion foreign debt.

Only a week before the Banco do Brasil rescue operation, the U.S. Treasury used the occasion of President Reagan's trip to Ibero-America to announce a special, emergency \$1.2 billion "bridge loan" designed to "solve" Brazil's crisis that week. What the Treasury didn't mention was the fact that the \$1.2 billion had actually been disbursed to Brazil *six weeks earlier*, and that it was long past spent. Two weeks before that, another \$600 million was coughed up by six big New

York banks to avoid a Brazilian default at that point.

Even as the Fed and the commercial banks were bailing out the Banco do Brasil, U.S. Treasury Secretary Donald Regan and Secretary of State George Shultz were criss-crossing Europe to try to pull together yet another \$1 billion-plus "bridge loan" for Brazil—this one to come from the central banks of West Germany, France, and Great Britain.

All these actions are being billed as "bridge loans" until a Brazilian deal with the IMF comes through. At that point, the IMF money is supposed to repay the interim lenders.

There could be no greater demonstration of the financial genius of the managers of the IMF system. The IMF deal, expected to be initialed Dec. 17 and ratified in early February, would release only \$2.0 billion in its first year. The "bridge loans" exceed by at least 50 percent the amount of money waiting at the other end of the "bridge." Furthermore, the Executive Director of the IMF, Jacques de Larosière, has announced that his institution will *not* shell out the promised money to Brazil—unless Brazil's principal commercial bank creditors agree to substantially increase *their* lending to Brazil. Not surprisingly, the banks aren't tripping over each other to throw more money at Brazil, given that the country has twice demonstrated that it was in effective bankruptcy.

Failure at Kronberg

What makes this farce tragic is the fact that the story of Brazil is the story of a half dozen other major Third World creditor nations—Mexico, Argentina, Yugoslavia, and Chile included. There is no conceivable way these nations can continue to meet their inflated debt-service payments while world trade and economic activity continue to spiral down-



Carlos Namba

An IMF team leaving Brazil's Presidential Palace in November.

ward. But rather than address that underlying problem, the international financial elite has chosen to throw huge sums of money at problems, to firefight as each crisis explodes. The money is of course never seen by the "recipient" countries, but is simply recycled back into the bankrupt world monetary system. Such a game cannot long continue.

The finance ministers of the big five Western nations met Dec. 8-9 at the Schloss Kronberg near Frankfurt, West Germany, to "solve the crisis." The meeting was a failure, as even its participants are now admitting, and served principally to hammer out the details of the latest and biggest "bridge loan" to Brazil.

The only broader approaches even under consideration are:

1) to increase the size of the industrial nations' joint checking account, the General Agreement to Borrow, from the present size of \$8 billion to between \$15 and \$20 billion. Most of those additional funds, however, would be drawn by non-Third World countries like Spain, Sweden, Italy, and Denmark; and

2) to raise the present \$60 billion quotas members contribute to the IMF by 50 percent. But of the \$30 billion "new" money, only \$17 billion would be in hard currencies and therefore lendable.

Even combined, these two "solutions" don't come close to being able to cover the magnitude of financing that Third World debtors require to keep current. The prognosis is for a growing wave of defaults from most debtor nations, and for the world financial system to tremble, and possibly come down in pieces as a result.

When Brazil began formal negotiations with the IMF on

Nov. 28, Planning Minister Delfim Netto gave assurances that the Fund would simply give its approval to his existing austerity plan for 1983, with no abrogation of Brazil's national sovereignty. Two weeks later, Brazil's business daily *Gazeta Mercantil* reported that Brazilians were surprised to find it had become "crystal clear the Fund is participating in changing economic policy, making suggestions and approving measures."

Brazil signs with IMF

Brazil hurriedly signed a letter of intent with the Fund Dec. 15. The contents are secret. Conditions agreed upon reportedly include a 16 percent cut in total state investment from this year's budget, in which the nuclear and hydroelectric sectors may be worst affected, but not the one-shot devaluation the IMF had been demanding.

"There is no motive for panic, since we are only discussing our balance of payments," pleaded Sen. José Sarney, president of the ruling Democratic Social Party. But the IMF accord has compounded the despair of Brazilian businessmen already hit in November by record bankruptcies. The London *Financial Times* headline Dec. 17 was "Brazil Industry to Bear Brunt of IMF Accord."

Further de facto conditionalities include:

- *Wage cuts:* The IMF is demanding changes in Brazil's wage-indexing system to reduce real wages by a third. This is so sensitive that no Brazilian official will admit the coming changes in the wage system were forced by the IMF. The result will be social upheaval next year.

- *Oil imports:* After talking to the IMF, the government promised it would make as many added cuts in oil imports next year as necessary to achieve their promised overall \$6 billion trade surplus—a figure most observers admit is impossible to achieve in the current climate of world-trade collapse.

The government did not consult with the opposition forces, which won 61 percent of the vote in the Nov. 15 elections, on going to the IMF. In a concise statement, the moderate major party of the opposition (Brazilian Democratic Movement Party—PMDB) warned that "extremely damaging agreements" with the IMF would bring "unbearable social costs falling on a population which already lacks even the essentials for survival. Among its irreparable blows will be increased unemployment, growing inflation, more sacrifices for workers, and ruinous taxes on small and medium-sized Brazilian firms."

The PMDB party, which got more votes than the regime's own party, concluded: "The current problems of Brazil's foreign debt will not be solved under the joint tutelage of the IMF and the U.S. Treasury Department. Recession, unemployment, and greater denationalization of the Brazilian economy, despite its extremely high social cost, will not provide the foreign exchange needed to put our payments in balance.

Mexico's economic 'balancing act'

by Elsa Ennis

A Few days after taking power Dec. 1, Mexican President Miguel de la Madrid sent the National Congress a 7 trillion peso 1983 government budget proposal. One of the main objectives of the budget, a preamble to the proposal said, is "to diminish support for the industrial sector."

The budget indeed tries to accomplish that. Of the 7 trillion pesos total, 2.8 trillion will go to domestic and foreign debt payments, a whopping 100 percent increase over last year's debt service. (The official exchange rate is 707 pesos to the dollar, although the dollar has been trading for 120-150 pesos in the black market.)

Even financial outlets for the International Monetary Fund and other proponents of monetarism have expressed shock over the new Mexican government's promise to direct 10 percent of next year's gross domestic product to debt servicing alone.

These figures contrast with the sluggish 1.9 trillion pesos (a 29 percent increase over this year's budget) in the midst of a 100 percent inflation rate, allocated for the state-owned companies. Through their monopoly over oil, steel, and other strategic sectors, these companies have long been the engine of the Mexican economy.

The PIRE

The goal of "cleaning up the country's finances," has been the rationale behind the budget and a flurry of other economic measures packaged by the government as "Immediate Program for Economic Reordering" (known as PIRE, its Spanish acronym).

The program is basically aimed at meeting a series of austerity demands stipulated by the International Monetary Fund in a letter of intent signed last month. The accord, which would give Mexico a \$3.8 billion credit over three years, calls for reducing the budget deficit from 17 to 8.5 as a percentage of the domestic gross product.

Members of the "economic cabinet" including Secretary of Finances Jesus Silva Herzog, Secretary of Planning and Budget Carlos Salinas de Gortari, and Banco de Mexico head Miguel Mancera, have gone to the Congress and the press to report on the PIRE's details.

On Dec. 11, Secretary Silva presented congressmen with a carefully balanced foreign-exchange income and expenditures plan. In 1983, he said, Mexico expects to get \$25 billion in foreign revenues, \$20 billion of which will come from exports, tourism services, and commercial operations on the U.S. border. The other \$5 billion will come in the form of foreign "fresh loans."

According to the Finance Minister's bookkeeping calculations, the government will keep tight control over this \$25 billion to then ship them out again from the country. Fourteen billion will pay for interest on foreign public and private debt and 11 billion for essential goods and service imports. A large portion of this latter allocation will pay for the 10 million tons of grain Mexico is expected to buy abroad next year. The figure marks a drastic cut-back from the \$24 billion import total of 1981 and \$18 billion of 1982, with capital goods and other industrial goods expected to be most affected.

Even with these cutbacks, it will be difficult to meet this balance, given Mexico's heavy dependency on oil exports to get foreign exchange. Mexican and foreign sources point to the fact that a further drop in international oil prices could blow apart the income-expenditures balance and the complicated negotiations with Mexico's international creditors.

Service of the principal on foreign debt is not included in the balance, because Mexico simply can't pay it and has de facto declared it in moratorium. Silva Herzog has requested the country's 1,400 or so foreign creditors to reschedule principal payments falling due from Aug. 23, 1982 to Dec. 31, 1984, calculated to total 10 billion dollars.

Nor is there an arrangement yet in place for Mexico to be able to repay its private-sector foreign debt. The managing director of the International Monetary Fund, Jacques de Larosière, has been threatening banks that he won't give the green light to the IMF Mexican loan until they agree to such a rescheduling and extend a \$5 billion "fresh loan" to cover Mexico's financial needs next year. As of this writing, the word is that bankers have consented.

In tune with the IMF demands, the government has also announced a dual exchange system for the peso. On Dec. 10, Banco de Mexico head Miguel Mancera told the press that a controlled rate (expected to be set on Dec. 20 at 70 pesos to the dollar) will be used for essential imports, payment of foreign debts, and expenditures by assembly plants on the border, as well as by Mexican officials in the foreign service and for a few other operations. A "free-market" rate will be used for any other transactions.

The "freedom" of this rate is nonetheless highly questionable. Since the government expects to keep tight control over its \$25 billion foreign-exchange income budget, the free-market rate will affect the relatively few dollars which will come to the country through other channels.

Mancera further said that actual dollar bills would be delivered only at border exchange houses and airport booths. Banks in other parts of the country, however, will deliver only dollar-denominated travelers checks, money orders, and

other such documents.

Other measures to attract revenues include a peso futures market to be opened soon and a drastic increase in interest rates on bank deposits, coinciding with stratospheric interest rates on loans. Like U.S. Federal Reserve Chairman Paul Volcker, the PIRE authors argue that such hikes will "discourage excessive lending and financial populism." The same ministers have avoided congressmen's questions as to the inflationary effects high interest rates will have on the budget and the economy in general.

The "economic cabinet" also expects to build up the treasury through a fiscal reform which will increase sale taxes on all consumer goods, especially luxury items. There is a 10 percent income tax increase for high-salary brackets, including public officials. Charges for state-controlled goods and services such as trains, buses, the Mexico City subway, gasoline, and other oil products have also been raised.

The political background

Although the main components of the Mexican political system, including politicians and congressmen from the ruling PRI party, labor and peasant leaders, and pro-government journalists, have, as tradition demands, given the new President a chance to establish himself as chief of the powerful executive power, signs of protests against the PIRE's austerity demands are already showing up.

Leaders of the Congreso del Trabajo labor umbrella group Dec. 9 called on their millions of workers base to strengthen the presidential-labor alliance which has secured Mexico's stability for the last 50 years. They nonetheless appointed a commission to study each of the PIRE demands in detail. On Dec. 14, after a meeting with labor-backed congressmen, the head of the Mexican Workers Confederation (CTM) and key figure in the Congreso del Trabajo, Fidel Velázquez, called the press to state that workers will oppose any tax on basic goods and services such as water, medicine, transportation, education, and others.

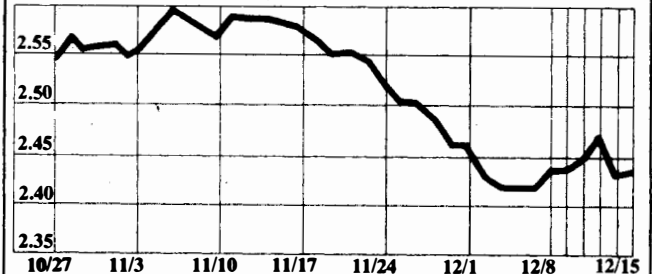
PRI and left-wing congressmen have also incisively questioned the "economic cabinet" over the social consequences the demands for austerity will have. PRI congressman Oscar Cantón Zetina won front-page headlines Dec. 13 when he asked Planning and Budget Secretary Salinas de Gortari whether he had contingency plans to "respond to the protest demonstrations which will arise." Salinas also had to explain that the PIRE is not a Chilean-style "shock treatment," as some congressmen and journalists have said, because "it protects the lower-income strata."

Despite the publicity which has surrounded the economic announcements, there is a sense throughout the country that the measures cannot really be applied. Mexican sources have told this news service that if the country has not seen more protests, it is only because political forces are now "in a sort of year-end truce." They emphasize that "in the first months of the year you may be seeing a million and a half workers opposing the government."

Currency Rates

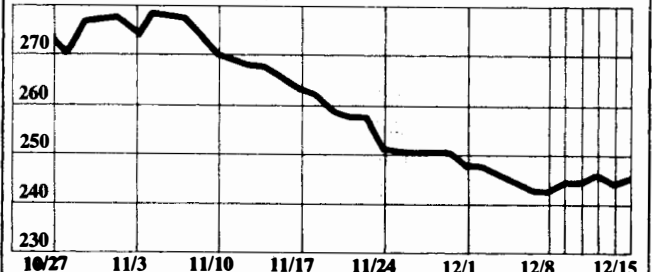
The dollar in deutschemarks

New York late afternoon fixing



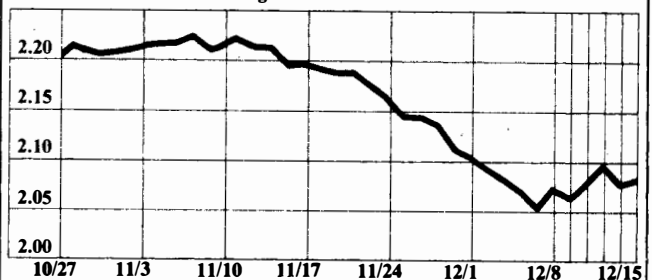
The dollar in yen

New York late afternoon fixing



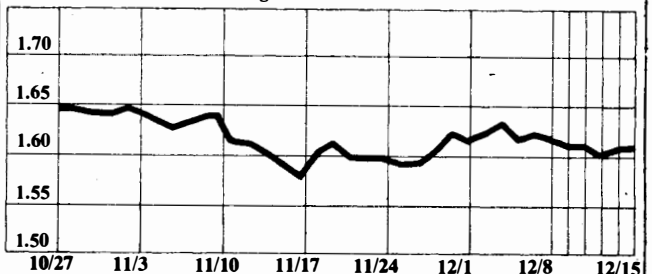
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



Venezuelan labor adviser: 'Will Latin America defend itself?'

Venezuela has recently joined the list of Ibero-American nations whose difficulties in meeting short-term financing needs, and tremors in the national banking system receive daily attention from nervous bankers. For the past weeks, talks of an imminent devaluation of the bolivar has grown.

Capital flight, which had been running around \$70 million a day, zoomed in the last two weeks after government intervention into one of the country's largest private banks, the Workers Bank, provoked talk of "banking panic." Capital flight has so drained the treasury's resources that in the month of September alone, reserves plummeted by \$1.2 billion down to \$4.3 billion—a 50 percent decline over the first three quarters from \$8.6 billion at the start of 1982.

The situation assumed crisis proportions on Dec. 6 when financiers in southern Florida, who had been trading the bolivar at 4.9 and 5.0 (the official fixed rate is 4.3 to the dollar—and has been for close to 20 years), stopped taking the currency altogether, telling their clients that either a devaluation or exchange controls were expected imminently.

Venezuelan President Luis Herrera Campins charged three days later that the refusal to trade bolivars by the Miami-based "speculators" was a maneuver to "artificially give the impression that we are about to devalue the bolivar." The President reiterated that the bolivar is sound, Venezuelan democracy is sound and capable of dealing with the crisis, and people should stop looking for a devaluation.

Certain circles in Venezuela have gone to drastic lengths to maintain an air of creditworthiness, to put distance between Venezuela and the rest of Ibero-America and to slow down capital flight with "technical solutions" (interest rates in Caracas are 5 to 6 points higher than those prevailing in the United States). The fact that none of this has even dented the dollar outflow underscores the political nature of the current crisis.

Those "talking down" the bolivar have a lot more in their arsenal at this moment, than the government of Venezuela

has equipped itself with for the defense of the country's finances and economic health. Merely "talking up" the bolivar will not return psychological confidence in the currency, when the free convertibility of the bolivar allows international bankers and Venezuela's self-centered *nouveaux riches* to bleed the country at will.

Chicago School monetarism, the basic policies followed by the Herrera Campins government for most of its administration, is under growing attack from labor and business sectors in the country. The first victim of this anger was Finance Minister Luis Ugueto, who lost his job last week as the government attempted to ease the pressure against it. His replacement, banker Arturo Sosa, Jr., has spent no little effort in the past weeks to profile himself as more "pro-industry" than Ugueto.

A national debate has begun over what happens next, a debate much hotter in private than anything yet to reach print, *EIR* Ibero-American Editor Robyn Quijano reported from Caracas Dec. 16 after a series of meetings.

The following interview with Leonaldo Montiel Ortega, conducted in *EIR*'s New York offices Dec. 11 by Ibero-American Editor Dennis Small, reflects one part of that debate. Montiel Ortega, the Director of Technical Economic Studies of the Universidad de Santa Maria of Caracas, an economic adviser to the Venezuelan Federation of Labor (CTV), and a leading opposition politician, launched several broadsides against monetarism and the International Monetary Fund in the Caracas press during recent weeks.

Small: What do you think the Malvinas episode meant, and what is the nature of the situation that came about after the Malvinas?

Montiel Ortega: Fundamentally, it is a shock. I speak specifically of the open support for England by the United States. Together they formed a type of column that can identify itself with a bellicose NATO policy against an underdeveloped

Latin American country, that, for better or for worse, was trying to realize a claim it had sustained for more than 100 years over a territory that in my opinion, belongs to it.

It was a shock because the United States, which has made much of being pro-Pan American and pro-hemisphere, did not take such a position. And its position, contrary to the interests of the hemisphere in which it exists—the area, in my opinion, which is the most important part of its international policy—was truly mean-spirited, distasteful to any Latin American who considered the United States a brother country.

I want to make it clear that for us, the problem was not Argentina per se, but is centered on the existence of Latin America itself. If Latin America could not come to agreement amongst itself in that moment, in a situation involving national sovereignty, Latin America would have become worse than an entelechy; a completely empty term.

Latin America after the Malvinas has begun talking of the possibility of transforming itself into a type of geographic zone with relative unity and common objectives. This is important. But there is no doubt that the history of Latin America can be divided into two parts: before Malvinas and after Malvinas.

There is one sector or economic factor that is overshadowing everything else: the fact that Latin America is a large debtor to the economic centers of power, and they are debts that be paid in their entirety only with difficulty. The Brazilian, Argentine, Mexican, and in fourth place, Venezuelan, debt, from a general standpoint, are difficult to cover, and they are now reaching maturity.

For this reason, refinancing is now the dominant theory. All the countries want to refinance their debts, to reorganize their economic systems. But the question is this: in the time that is bought by the assumed refinancing of the debt, could a stable, equitable and adequate development be achieved which could allow these debts to be paid? My answer is no, that time would not be enough.

And there is another thing which is worrisome: What are the terms? If we look at the Mexican case, those conditionalities are really damaging to the sovereignty of our peoples. We cannot accept them.

Small: You spoke of the necessity for Latin American countries to unite to force some type of collective renegotiation of the debt, more favorable for them, and of rejecting the conditionalities of the IMF.

Montiel Ortega: Yes. I believe that one cannot negotiate unilaterally. In this sense President Herrera has been very clear, and on this aspect of his foreign policy I support him totally. We must negotiate the problem of our foreign debts in a global manner, not unilaterally.

Secondly, we must negotiate now, outside the framework of a conflict and above all without bringing about an economic collapse that would oblige us to negotiate on the terms of

the creditors. In other words, if we negotiate when our backs are to the wall, we will lose our sovereignty.

This is different from what the gentlemen who work in the International Monetary Fund, the World Bank, or the Bank for International Settlements, a sort of auxiliary treasury of the IMF, propose. They intend something else. They intend, in my opinion, to collapse the underdeveloped countries, since once they are collapsed, their economies will have to accept solutions of force. And if they are forced upon us, no matter how much we pretend we maintain sovereignty, we will not have it.

Thus, there is this dividing line: the IMF and its adulators, or at least the economic forces centered around that framework, are trying to induce the economic collapse of our countries. This is the first step of a continuum which could lead ultimately to the point of armed intervention, should the political-economic strategy to force the collapse of our countries through the IMF fail. And the Malvinas is a test, a live exercise, or dress rehearsal, of the bellicose action against our countries which could come if the political and economic strategy pushed by the IMF fails.

Small: Perhaps it is a modern example of using gunboats to collect the debt.

Montiel Ortega: Certainly, but within a completely different scheme, because they know they cannot collect the debt. What then, do they have in mind? What is the one thing that they don't have in their countries, the eight or ten countries that are the center of the world, given their state of development. What they don't have is raw materials.

The way the Mexican situation occurred is clear. You don't have the means to pay the debt? Well, the only thing they have of value is oil, which the U.S. and other economic centers of power lack. Then, they sold their oil in advance. They sold the oil while it was still in the ground; the sale of oil in the ground is the sale of the deposits themselves. It is denationalization, in a certain way, of Mexico's oil. And this Mexican oil ends up being stored in Louisiana as a strategic reserve for the U.S.

Well, I don't want that to happen in Venezuela, which could have a similar problem, since it is a petroleum-exporting country. We of course are not at a point of such collapse as is the Mexican economy. That precipice is far away, but Venezuela is definitely on the same path, and the monetarist policies applied [in Venezuela] under the pressure of the IMF are similar to those that created that Mexican economic debacle which led to the denationalization of the oil.

Small: Let us continue with this point of the parallels between Mexico and Venezuela. Mexico imposed exchange controls, and nationalized the banks, but it was a little like closing the barn door after the horses had left. There is massive capital flight in Venezuela at this time, and there is talk of a devaluation or exchange controls. What do you propose?

Montiel Ortega: As I said, Venezuela is not at the same point of collapse as Mexico. We have six months to organize a strategy to stop the capital flight, and the transference of dollars abroad which is leading to the disappearance of our reserves, also denominated in dollars.

Now, how do we stop this hemorrhage? There is only one way: exchange controls. But in my mind there cannot be only exchange controls: they must be differentiated such that those activities which add to production are granted or allotted dollars, and no dollars are given, or are granted at a much more devalued rate, for those activities which pull money out for gambling in Las Vegas or to buy real estate in Miami.

In other words, anyone who wants to buy inputs which are necessary for industrial development could obtain dollars at the rate of 4 bolivars per dollar. Those who want to send capital out of the country for their personal uses will have to spend 6, 8, or 10 bolivars to the dollar.

But what does the Fund recommend? It opposes anything resembling exchange controls, this we know. He who imposes exchange controls, enters into conflict with the Fund. And since the Fund is that which gives guarantees on all refinancing, we are practically committed to not impose exchange controls.

And that is the dog which bites his own tail. We need to refinance to buy time, but the IMF must guarantee the refinancing. The Fund does not permit, or "suggest" it, and if exchange controls are imposed, we will lose the Fund's guarantee, and then we will not be refinanced—it's like a merry-go-round, a carousel that keeps us in an orbit which is leading inexorably toward collapse, if we don't change our strategy. . . . I believe that Venezuela can change its strategy to resolve its economic and financial problems.

This is a type of game of strategy in which the Fund's opinion prevails. The Fund is operating through the Venezuelan central bank, where it has its followers, who consciously or unconsciously, are playing the Fund's game. It is the central bank which establishes the policy of reducing monetary liquidity. . . . The figures on monetary restriction in 1982 show a gigantic reduction, much more than the country can support. The official figures show a 2 percent reduction in liquidity, but this does not take into account the fact that in the last two years, total liquidity grew at 20 percent a year. Suddenly, in 1982, following guidelines which are in my opinion international, laid out by the central bank, not only was this growth stopped, but there was a 2 percent reduction. The real reduction was therefore not 2 percent, but 22 percent—a reduction which no country can withstand without falling into internal illiquidity. This is what has led our private sector and the national banks to a reduction of credits and a reduction in investment, which therefore has led to high unemployment in Venezuela.

And this is a game which is consciously or unconsciously obeying the politics of the IMF. If this continues, the self-provoked illiquidity is going to be transformed into chronic illiquidity . . . leading to an inexorable devaluation to re-

solve that problem, which would begin a process of chain reaction global collapse, and the loss of our petroleum reserves.

Small: Given various moves against the International Monetary Fund by various countries in the region, there have been various proposals. One idea is to take the continent-wide problem of debt and to use foreign debt like a political weapon. LaRouche, for example, proposed the use of what he called the "debt bomb." What do you think of this idea for a collective renegotiation of the Latin American debt?

Montiel Ortega: That seems an intelligent strategy to me, but it requires one thing: that Latin America function as a political bloc, a unity, and this we have not yet achieved, it is in the process of formation. The Malvinas gave us the notion that united we owe so much money that if we don't pay it, we will bring down the international financial system. It also shows that Latin America must become a great bloc, and stop being a kind of disintegrated or spineless middle class of the world.

But there is another factor, the defense factor. That is, if the Latin American countries decide to unite to not pay the debt, or to pay on its own terms, we would have to be presented prepared to defend ourselves against the predators sent by the economic centers of power to militarily trample the sovereignty of our nations.

But I definitely agree that Latin America collectively use its negative power of debt payments, because we know that if the debt is not paid, the very international financial system—led by the IMF and the Swiss banks—would be shattered like a broken mirror.

Small: So you think, that the recent proposal of President Siles Zuazo of Bolivia for the Andean Pact nations to join to collectively negotiate their debt, is positive and useful as a first step. Only the Colombian President has responded favorably; as I understand it, Venezuela has not yet responded.

Montiel Ortega: I cannot answer as to whether President Luis Herrera has responded, but it would not surprise me that he would subscribe to such a natural proposition, since President Herrera has an appropriate foreign policy in those terms, and he is favorable to Latin American integration, as he demonstrated during the Malvinas. I totally disagree with the Venezuelan central bank's current policies, as I stated before. But President Herrera's foreign policy has achieved some successes, and I have no reason to quarrel with it. I would not find it at all strange if President Herrera went along with Siles Zuazo's proposal.

Small: What is your evaluation of the policies of [former President and current Acción Democrática leader] Carlos Andrés Pérez?

Montiel Ortega: I can state this: the Venezuelan leader who has most clearly situated and analyzed the problem of the International Monetary Fund is Carlos Andrés Pérez.

German industry looks to makework plans as export markets collapse

by George Gregory, Bonn Bureau Chief

As West Germany's industry is being demolished, Europe's Social Democratic policy makers are coming forward with proposals, nominally attacks on the clearly disastrous effects of monetarist economics, which have the intention of eliminating all national sovereignty in determining economic policy. With ministerial meetings of the European Community (EC) and General Agreement on Trade and Tariffs (GATT) ending in total impasse in the face of collapsing world trade and debt crises, the Social Democrats are calling for a "new Marshall Plan" for both Europe and the developing sector.

This policy, like its predecessor (see *EIR*, Sept. 14), is not intended to rebuild industry. Rather than creating markets for advanced sector industrial products by solving the Third World debt crisis, just as post-war Europe could have been made a market for high-technology American exports, a renewed Marshall Plan, as one source stated, will create "a very gradual improvement in the economy—that way we will be able to develop new societal forms. One year of slow re-employment will solidify our program."

The success of the EC in facilitating trade, originally due to economic agreements between the governments of Charles de Gaulle of France and Konrad Adenauer of West Germany, is cynically being cited as a model for coherent economic planning in Europe. But such economic planning will be geared to phasing out, rather than protecting, industry.

In a classic "left-versus-right" gang-countergang operation, Europe's Social Democrats are proposing that they can carry out the transition to a post-industrial society more effectively and smoothly than the monetarists, such as Britain's Margaret Thatcher, have thus far been able to do. Their bid to the real policy makers, the ancient European financial oligarchy, for power to go ahead with the proposed renewed Marshall Plan is based on one factor: the ability to draw the European labor movement in behind the policy.

The card the Social Democrats have to play is a return to Keynesian government spending to create "interregional" policy-works programs.

Despite disclaimers such as "workers are not really so worried about layoffs any more since there are so many,"

they recognize the need to co-opt highly organized European labor in any plan to eliminate the sovereignty of national governments in economic policy-making.

The European Trade Union Council is currently planning an organizing drive throughout the winter and spring to convince the governments that "workers will now play a crucial role in European economic policy making, unlike the 1970s when governments spurned them by using monetarism as a tool." The new tool to manage the drastically reduced European economy will be "very strong labor-market management" modeled on the Swedish system (see article, page 13).

The immediate policy to maintain any production is universal short time. "Thirty-five hours is our first target, but of course we are really talking about 30 hours or less. IG Metal is the union we work most closely with and they will propose work-time reduction. Conservative governments will agree because there is no other solution."

The collapse of world trade in 1982 is forcing the shut-down of export-dependent West German industry. The co-optation of labor is essential to "managing" this industrial collapse and preventing the resurgence of any nation's commitment to an industrial recovery policy. This process is already underway in Germany, and the Social Democratic union controllers are proposing that they can spread it throughout Europe, "even without major changes of governments."

Cartelization of German industry

West Germany, the industrial leader of Europe, will clearly be the prime target for these labor-management controls. Since the Kohl government came to power in September, the decision has been made to cartelize industry, shutting down major portions of productive capacity and strictly limiting remaining production levels.

The one means to surviving the crisis brought on by export collapse, is financial diversification. With no moves being made to deal with the debt crisis and re-open developing sector markets, any firm which is able, is pulling together a "war chest" of liquid assets to meet coming domestic and international bankruptcies. Cutting all expenditures—main-

tenance of plant and equipment and labor—is the only means many firms have left to create this liquidity.

Two of the worst-hit sectors have been steel and machinery. A poll carried out by the business daily *Handelsblatt* in mid-December reports that the large German steel companies now have 70 percent of their workforces on short time—which means only 30 to 40 percent of regular production for that group—in contrast to previous official statistics of just over 50 percent. Most companies are now predicting that this situation will continue into 1983—a prediction which does not even take into account that the collapse will escalate.

Steel managers base their estimates on production of 35-36 million tons in 1983, which is the overall figure for this year. But current production rates are a miserable 28 million tons per annum. *Handelsblatt* states that current steel production capacity is too high by 25 to 30 percent.

The *Handelsblatt* poll shows an emergency situation for the steel industry. Thyssen, which has led the other steel producers in diversifying out of production, with the long-term policy of dominating a cartelized, severely reduced steel sector, has 29,000 out of 51,000 workers on short time as of December. One Thyssen manager called the situation the “worst phase of declining orders in the steel industry in the post-war period.”

Krupp Steel recently laid off 3,600 workers at its Rheinhäusen plant, to “avoid endangering the entire firm.” Department heads and middle-level management are on short time, in addition to most of the firm’s workers. Three other large-size producers, Hoesch in Dortmund, Salzgitter and Klöckner, are all on 56 to 70 percent short work.

Machinery

The German machinery sector remains the largest employer in the economy, with 1.064 million workers. Overall reduction of the workforce has been only 2.5 percent in 1982, but short work has increased over the same period by some 120 percent, from 75,000 in 1981 to 123,000 at the end of 1982.

The only factor which maintained employment even at these levels was an overall real increase in orders by 4.5 percent over the past year. But the September-October downturn means that machinery will follow the steel sector in a precipitous collapse of production, currently with a four-month lag time. Incoming orders for October 1982 are 26 percent below those of October 1981 on a price-adjusted basis.

To meet this decline in production, a self-cannibalizing process is under way in the machinery sector. The firms themselves are already projecting overall investments in this area to have dropped by a rate of 5.5 percent by the end of the second quarter, and, through the September-October period, to an annual rate of decline of 8 percent.

Bankruptcies of machinery and machine-tool producers are widespread; those avoiding bankruptcy are doing so only by the drastic means taken by Gildmeister AG of Bielefeld,

the largest single machine-tool producer in West Germany. Gildmeister, with a current workforce of 2,800 workers, will be down to 2,200 workers by the end of 1983, by its own projections. The firm recently announced a “cooperative” agreement with another firm, Pittler, which will lay off 50 percent of its own workforce beyond the 25 percent laid off in 1982. Gildmeister will now proceed to buy the 24 percent of Pittler currently held by the Dresdner and Deutsche banks.

The entire West German machinery sector is 60 percent export-dependent, with the more important high-quality machine-tool sectors up to 75 percent dependent on exports. This situation has intensified since the mid-1960s, when the sector exported only 45 to 50 percent of its production. The oil crisis forced the jump in exports throughout the 1970s, yet failure to develop long-term industrial markets in particularly the OPEC nations created the current disaster. When Economic Cooperation Minister Jürgen Warnke announced Dec. 2 that West Germany would no longer aid developing nations with “disproportionately high military budgets” and that “there will no longer be steel works built, no more prestige projects” in the developing sector, he was merely announcing Germany would follow the Third World into debt-created industrial collapse.

As for the rest of German industry, in the automobile sector, 97,000 workers are currently on short time, which is 7 percent higher than the figure for September, and a five-fold increase over the first two quarters of 1982.

Production actually increased by 7 percent over 1981 in the first 10 months of 1982, but 58 percent of the 3.45 million units produced were exported. This means a 14 percent increase in export-dependency for the sector.

The bottom fell out in October. Production fell by 3.7 percent and exports fell from previous rates of expansion to just 1 percent. For passenger cars, production declined by 18 percent in October, and exports fell by 16 percent. Yet the 175,700 units exported is still close to 60 percent of total production, setting up the passenger car industry for even more precipitous declines as world trade shrinks further.

In the chemical and refinery industries, the precipitous October decline meant serious financial losses. BASF refinery operations lost some \$120 million in the third quarter alone. Refinery production is dropping by 10 to 15 percent and 50 to 60 percent of employees are on short work.

German chemical production dropped to 8 percent below that of September 1981. Hoechst profits fell by 24 percent in the first three quarters of the year, and the firm is now operating at 63 percent capacity.

The other high-technology sectors, electronics and aerospace, are being dismantled. Following the August bankruptcy of AEG-Telefunken, that firm is in the process of losing a full 50 percent of its workforce. AEG was one of Germany’s 10 largest companies. Aribut has cut its estimate of airplane sales for 1983 down by 50 percent. As follow-up sales fail to materialize, R&D teams are already slated for layoffs.

Swedish business embraces Olof Palme's Schachtian policy for trade and labor

by Leif Johnson

Interviews with leading Swedish policy makers this month have revealed that the Swedish Three-Year Plan currently in effect is the most thoroughly fascist economic program that any nation has contemplated since Hjalmar Schacht was the head of Hitler's Reichbank.

Sweden has embarked on a policy of cutthroat export competition using competitive currency devaluations and domestic wage reductions to dump cheap Swedish goods on the world market, and gouge out a large share of rapidly declining world trade markets. This policy, which every political faction (which are all one in that country) supports, will in turn force other trading nations to respond with price cuts in a downward spiral of the world's industry.

What is most remarkable is that Swedish economic spokesmen do not foresee using the temporarily gained profits to invest in industrial growth. They foresee a permanent world depression in which domestic wage cuts are continued while domestic heavy industry in the north and central regions of Sweden is dismantled.

The trade program

This was first explained to me by a Moderate Party member of the Rikstag, the parliament. I mentioned that the day before I had a discussion with an economist at the Swedish employers' confederation who produced a set of disastrous statistics on the Swedish economy. Eighty percent of the work force lives on state or state supported jobs; half the population works directly for state or local government, while another 30 percent are indirectly funded by the state. Industrial output had steadily declined since 1974, when it reached an index figure of 105. By 1981 it was down to 97 and is expected to go lower still in 1982.

Industrial investment reached a high of 114 (1973 = 100) in 1975 and then plummeted to an expected 73 this year. The result is that while OECD countries increased productivity by 30 percent since 1973, Sweden's productivity increased only 16 percent. One-fifth of Sweden's world-market share has vanished since 1973.

I addressed the Rikstagsman, "So, the Swedish economy is in trouble. What are you going to do?"

"Yes, you are absolutely right, the economy is very bad.

The Swedes have been living beyond their means too long. Wages will have to be cut. We are all glad that the Social Democrats are in power [Olof Palme won the Sept. 19 elections] so that they can implement the program and we can blame them, if anything goes wrong."

"But what is the program?" I asked.

"We have to increase exports, since more than half of what Sweden produces is exported, and in order to do that we must reduce wages. Then maybe we can build up our strength in our top export fields like machinery, transportation equipment, and wood products.

"Then we must have import substitution especially in consumer goods to recover industries like textiles, which we lost because our wages were too high.

"This will last three or four years if not longer, but I cannot say what will happen after that."

Wage-cutting

Discussions the following day with a top economist at the Riksbank, the Swedish central bank, the international chief of the Gotabank, and the well-known economist at the Handelsbank filled in the details of the Schachtian economic program.

They explained that next year the LO (the trade-union federation) will ask for 2 to 3 percent wage increases nationally. However, the inflation rate, because import prices have been increased by the September devaluation, will be 12-15 percent next year, producing a 10-12 percent drop in real wages.

This will be followed by another 5-6 percent drop in real wages in 1984 and 1985, resulting in at least a 20 percent wage decrease by the end of 1985. Together with possibly another devaluation or two during that time, Swedish exports should become "highly competitive," they said.

One economist claimed that he did not care how much world trade collapsed, as long as Sweden could muscle its way to garnering a larger share of the market. "For example," he insisted, "world pulp markets have gone down 15 percent in the last two years, but our exports have increased. That is all we care about.

"The thing we worry about is the next five or six months

when the local unions must ratify the national LO package. Some unions will try to get more because some companies still have profits. But even if they get a few more percent, they will get a substantial loss in real wages, which is what counts."

Somewhat shocked by the size of the projected wage cuts and the openness by which these economists spoke of the plan, I asked the Riksbank economist what the Social Democratic government of Olof Palme thought of this program.

"This is the government's program," he replied. "Call up the Economics of Industry Ministry or any Social Democratic leaders."

Some days later I had an extended discussion with Hans Hagnell, the Social Democratic "Landshoevding" or state-governor of Gavle. He said that Swedish unemployment (officially stated as 3.7 percent) is minimally four times that amount when all the disguised unemployment is counted.

Guest workers to be expelled

What will happen if the government carries out the economic program that the economists had recounted to me? Hagnell responded that unemployment would continue to rise. "The problem," he said, "is that only the west coast of Sweden had been converted to a service economy [with the collapse of the shipbuilding industry] but northern and central Sweden had not yet been de-industrialized. This would cause hardships."

"How would you cure the unemployment?" I asked.

"We wouldn't. There is nothing that can be done."

"But you are the governor of a state; surely you have some program for alleviating unemployment?" I insisted.

"The only thing we could do is to kick the foreign workers out. Just because some Mexican or some Turkish child cries that he wants to go to Sweden, there is no reason to let him in. We will have to get the 800,000 foreigners out gradually, because all the liberals will complain if we do it too fast."

Surprised, I asked him to confirm if he was a Social Democrat. "Yes, I have been a Social Democrat since I was 16. I was trained by the Marshall Plan in the U.S. in 1948, I was the chief economist for the metalworkers for 25 years and head of the shipbuilders branch of the metalworkers for 12 years. I know the textile workers and autoworkers in the U.S. very well; in fact I stay with Victor Reuther in Washington when I go there."

In a subsequent conversation with a Swedish businessman, I remarked on the phenomenon of all political factions from the employers' federation and the Riksbank to the trade unions and the Social Democracy having the same political point of view.

He looked at me with a smile, "So you like our little dictatorship up here.?"

"It's remarkable," I replied.

"Yes," he returned, "we are much more efficient than the Russians."

Price-support deal is a total deregulation of the

by Cynthia Parsons

Although U.S. dairy farmers viewed the fifty-cent reduction in price supports as the best compromise they could get in the current economic crisis, it is actually the first phase of total deregulation of dairy production. Given escalating costs and decreasing consumption, particularly of butter, the total \$1 cut in price supports that will be enacted under the Omnibus Reconciliation Act will be disastrous for new farmers. It is nothing but a direct tax on milk production.

Recent increases in output have been due in part to the fact that grain and other farmers have been going into dairy production as the bottom fell out of grain prices. Per capita consumption has decreased due to escalating food prices. The only factor maintaining overall consumption figures, which decreased by some 25 percent from 1960 to 1981, has been free government distribution of some thousand tons of surplus dairy produce since the spring of 1982.

Legislative review

Congress passed the Omnibus Reconciliation Act in August, after the administration requested a \$1 deduction in the price paid to farmers for their milk. Dairy price supports cost \$2.2 billion for 1981-82, and a two-phase system was set up to reduce that figure. The 1982 payment level of \$13.10 per cwt. was to be reduced to \$12.60 on Oct. 1, with the intent of forcing reduced production to decrease the overall costs of price supports. A second fifty-cent reduction was set if production did not decline. This second amount was to be returned to the farmer if he proved he had reduced output.

The Oct. 1 deadline was delayed until Dec. 1, because of the November election. If this program does not slow down milk production, Agricultural Secretary John Block will be prepared to make further price reductions if Congress approves.

The dairy lobby, now bitterly regretting its acquiescence to the cuts, went along with the decision under heavy media pressure. A well-run barrage featured headlines such as "We Cannot Afford the Butter Mountain." In fact, the government had bought only 11 percent of last year's production, or some 14 billion pounds. Block cashed in on the media campaign, counting on disunity and confusion in the industry; he also

first step in the U.S. dairy sector

claimed that it was the high price supports which were responsible for the surpluses.

In the face of this onslaught, the dairy lobby compromised, afraid that the administration would convince Congress to relinquish the right to alter price supports up or down to the Secretary. The fight by the administration and deregulationists to get Congress to relinquish such powers dates back to the Carter administration and Bob Bergland era and a 1978 report by USDA entitled "Dairy Price Policy: Setting, Problems and Alternatives," which recommended such a change in the law.

Block echoed this desire at the annual conference of National Milk Producers Federation (NMPF) on Nov. 30. While exonerating himself from responsibility for the 50 cent tax, blaming it entirely on Congress, he did say that "Frankly, I think the administration's plan is looking better all the time." But it is understood by the administration and the industry alike that the 50 cents will not help reduce milk supplies. Indeed, as in the grain sector, a price squeeze will induce the farmer to produce more to compensate for the loss in unit price. The compromise, as a dairy expert exclaimed, "could be the writing on the wall" for the dairymen.

Phase I of deregulation

The compromise is really a foot in the door for the real intent—to eliminate price supports entirely, leaving milk and dairy production to the supply/demand forces of "the free market." The 50-cent reduction is really the culmination of a successful Phase I of deregulating the industry.

Phase I began when the 1981 Farm Bill set the dairy price supports at a maximum of 80 percent of parity. This was the first time in 40 years that support prices were not calculated on parity. The 1977 Farm Bill held that parity prices could not be set lower than 80 percent. With the August Budget Reconciliation Act, parity was again changed, setting it at 75 to 90 percent. It also set a derived \$13.10 support price, which is to be held until Oct. 1, 1984. Farmers will be paid the same basic price per cwt. of milk minus the \$1, making the next two years' basic milk price \$12.10 or less, no matter whether operating costs increase or not.

Responding to Block's statement that the administration would do nothing until the industry came up with a unified proposal, the NMPF adopted a set of broad principles at their convention on the price support program. The basic premise again was that "we have too much milk and the plan must reduce production." But they did say that the plan "must maintain the parity concept."

The other major umbrella group for dairy cooperatives, the American Milk Producers Industry (AMPI), said that the 50-cent move hit when they were in the process of drafting a dairy proposal with NMPF. AMPI also accurately claims that the tax does not address the real problem. The entire economy is at depression levels, the organization asserted, and the dairy problems had to be seen in that light. However, any concession by the government would be acceptable because "it is buying time".

On the other hand, the National Farmers Union's Dairy Task Force is urging Congress to enact a new dairy supply management program giving dairy producers incentives to trim production in line with demand. Those who participated in the scheme would receive supports at 70 percent of parity.

The parity question

Yet while everyone is scrambling to maintain some form of parity, and misfocusing on the discretionary powers argument, the rug has already been pulled out from under the dairy lobby's feet. The parity calculations used until the 1981 Farm Bill was passed are no longer in effect.

Parity price is the standard used to set the price for the dairy price support program. Its objective is to assure an adequate supply of milk to meet current needs, reflect changes in production costs, and assure farm income sufficient to maintain productive capacity to meet anticipated future needs.

For many years the method of calculating these prices has been under attack. In 1980, the GAO's report "Alternatives To Reduce Dairy Surpluses," claimed that the formula was too successful because it included some factors "such as family housing and clothing costs, which have little to do with milk production." Therefore supports have promoted "more than adequate milk supplies." Indeed, the parity pricing system ensures that the farmer can maintain and improve his operation and cheapen the costs of production. An alternative intermediary step to the deregulation goal, claimed GAO, would be a pricing system based on the "dairy parity pricing formula" which bears no relationship to the previous parity methods. This new formula, calculated in 1980, came to \$1 less than the prevailing parity prices then. In effect, a \$1 decrease in actual parity payments has been achieved without changing the name of the system. However, a USDA dairy spokesman admitted that the 1981 bill was not based on parity.

Meanwhile, the USDA is working on a major policy review which could well justify the move into Phase II. It will not be ready for another six months.

How Benjamin Franklin organized American industrial growth

by Donald Phau

Part One outlined how two young protégés of Benjamin Franklin, Alexander Hamilton and Tench Coxe, became leaders, along with Mathew Carey, in the fight for a federal constitution and a United States which was industrially independent and growing. Their opposition was represented by Thomas Jefferson, who wrote: “. . . let our workshops remain in Europe. . . . The mobs of the great cities add just so much to the support of pure government, as sores do to the strength of the human body.” In introducing his essay, author Donald Phau offered the story of this battle in the hope that it would help lend entrepreneurs of today “some guts as well as an instinct for self-preservation.”

In the fall of 1786, a year after Franklin's return to the United States, 12 delegates representing various states assembled in Annapolis, Maryland for what they expected to be an uneventful meeting to discuss “commercial reform” under the Articles of Confederation. When the meeting adjourned, however, the delegates had passed, perhaps to their own surprise, a resolution calling for a convention “to meet at Philadelphia on the second Monday in May next, to take into consideration the situation of the United States, to devise such further provisions as shall appear to them necessary to render the Constitution of the Federal Government *adequate to the exigencies of the Union* . . . [emphasis added]. The delegate who wrote the call was Alexander Hamilton, and it was Tench Coxe, the delegate from Pennsylvania, personally appointed by Franklin, whose backing was key in its passage.

Upon returning to Philadelphia, Coxe immediately came under attack by the rapidly growing Anti-Federalist faction for backing Hamilton's call. He was, however, staunchly supported by Franklin who had been recently appointed President of the Pennsylvania Council, the state's ruling body. When it came time for the state legislature to appoint delegates to the May Constitutional Convention, the Anti-Federalists attempted to prevent the appointments by boycotting the legislative session. The needed quorum was lacking. Franklin, as Council president, responded by ordering the sargeant-at-arms to command the legislators to attend, by force if necessary. It was a joyous day in Philadelphia as thousands of patriots joined law officers as they paraded the recalcitrant Tories from their homes to the session where delegates were duly appointed.

The next few months were to see a rash of organizing activity by Franklin's young recruits. On May 11, 1787 as

delegates were arriving in Philadelphia for the Constitutional Convention, Franklin created the first of what could be called one of many “front groups.” Held at Franklin's home, the meeting founded the Philadelphia Society for Political Enquiries. It was actually an educational, taught by Tench Coxe, on the economic principles of nation-building. Over 50 people attended, including many convention delegates and prominent businessmen. Hamilton and perhaps even George Washington may have attended. Coxe's presentation was titled “An Enquiry into the Principles of which a Commercial System for the U.S. Should be Founded.” The “Enquiry” was published by Mathew Carey in his magazine the *American Museum*, and distributed throughout the states.

Coxe's “Enquiry” attacked the evils of the present form of government:

Scarcely held together by a weak and half-formed federal constitution, the powers of our national government, are unequal to the complete execution of any salutary purpose, foreign or domestic. . . . Desultory commercial acts of the legislatures, formed on the impression of the moment, proceeding from no uniform or permanent principles, clashing with the laws of other states and opposing those made in the preceding year by the enacting state, can no longer be supported, if we are to continue one people. A system which will promote the general interest with the smallest injury to particular ones has become indispensibly necessary. . . . The settlement of our lands, and the introduction of manufactories and branches of trade yet unknown among us or requiring a force of capital, which are to make our country rich and powerful are interrupted and suspended by our want of public credit and numerous disorders of our government.

A few months later, while the Constitutional Convention was still in session, a follow-up educational was held. Directed at merchants, bankers, and skilled farmers in the area, as well as delegates, the meeting was called to establish the Society for the Encouragement of Manufactures. At the meeting, which was held at the University of Pennsylvania, the school founded by Franklin, Coxe again delivered the main address. The Society was founded, and Coxe became its first secretary.

In this address, Coxe developed the idea that manufac-

tures were essential for the survival of the nation, attacking the physiocratic notion, as expounded by the Jeffersonians, that agriculture should remain the nation's prime focus of economic attention. Addressing himself to the agricultural interests, many of whom viewed themselves in competition with manufactures, Coxe stated that just the opposite was true. He explained that it was only through the rapid development of manufactures that the nation's farms could prosper, by applying new inventions of manufactures to farming as well as feeding the growing working class created by the industrially based expansion of the economy. Coxe continued by outlining the necessity for the development of the nation's Midwest:

Without manufactures the progress of agriculture would be arrested on the frontiers of Pennsylvania. Though we have a country practicable for roads, some of our western countries are yet unable to support them. . . . The inhabitants of the fertile tracts adjacent to the waters of the Ohio, Potomac and Susquehanna, beside the cultivation of grain, must extend their views immediately to pasturage and grazing land and even to manufactures. . . . They must manufacture first for their own consumption, and when the advantages of their mighty waters shall be no longer suspended, they must become the greatest factory of raw materials in the United States.

Coxe then proposed the possibility of tremendous leaps in productivity which would be brought about by the application of steam power, as Leibniz had foreseen one hundred years earlier:

Steam mills have not yet been adopted in America, but we shall probably see them after a short time in places, where there are few mill seats and in this and other towns of the United States. The city of Philadelphia, by adopting the use of them, might make a great savings on all the grain brought hither by water, which is afterward manufactured into mead, and they might be usefully applied to many other valuable purposes. . . . Every combination of machinery may be expected from a country, a native son of which, reaching this inestimable object at its highest point, has epitomized the motions of the spheres, that roll throughout the universe.

Yet another meeting of the Society was held two weeks later. Here the members established a fund to build experimental factories dedicated to utilization of new technologies. Coxe also set up a network of sister societies in other states. The Society's main propaganda vehicle was Carey's *American Museum*.

Franklin's work half completed

Franklin lived just long enough to see Washington elected President and Hamilton's appointment as the Secretary of the Treasury. He died on April 17, 1790. A month later Hamilton

appointed Tench Coxe his Assistant Secretary of the Treasury. There can be little doubt that the new government was run by Franklin's co-conspirators. For example, the Department of State, captured by the Anti-Federalist leader Thomas Jefferson, had only seven employees, the Department of War had four, while the Treasury Department had over a thousand.

The job of transforming the federal government into an engine of national development was nevertheless an uphill battle. The Constitution in many respects was a compromise between factions and a program of scientific and industrial growth was never made explicit in its pages. Hamilton and Coxe immediately found themselves locked in head-to-head combat with Jefferson. Hamilton's proposal for a National Bank to fund infrastructural development was passed by the skin of its teeth. Hamilton's later *Report to the Congress on the Subject of Manufactures*, written jointly with Coxe, attempted to make the government's commitment to industrial progress more explicit.

Simultaneous with their efforts in government Hamilton and Coxe enlisted private investment in order to realize a number of the great industrial projects they had been planning. The investors were many of the same people who had joined the earlier Society for the Encouragement of Manufactures. One of these projects consisted of building an industrial complex of factories and mills producing steel, shoes, paper, linens, cotton goods, blankets, stockings, carpet, sail cloth, with a brewery as well. The site for the project was Paterson, New Jersey. Water from the Passaic river supplied the power. The Paterson plan immediately was denounced by the environmentalists of the day, the Jeffersonians, and had to be significantly scaled down.

The Great Enterprises begun by Franklin's disciples remain unfinished. Today their continuation calls for the government-sponsored, crash development of defensive beam-weapons technologies in tandem with the rapid advancement of fusion technology. The colonization of the Moon and Mars is our present-day Ohio Valley.

The tactics of the enemy have changed little over the years, however. Today the heirs of the Anti-Federalists are seeking legislation to dismantle the edifice that the Founding Fathers built. Last month, for example, men such as genocidalist Robert McNamara and Jimmy Carter's former White House counsel, Lloyd Cutler, met behind closed doors to found The Committee on the Constitutional System, dedicated to a "revision" of the Constitution. The many Senators and Congressman who attended the meeting heard the Committee's founders assert that the Constitution had become "outmoded" and proposed initial revisions which would eliminate the Electoral College and end Supreme Court review of federal legislation. The supporters of these revisions unabashedly admit that their model for government is the British parliamentary system.

These present-day Tories must be defeated and paraded through the streets as traitors, treatment Franklin would have meted out to the enemies of the nation 200 years ago, so that we may get on with the business of development.

Armand Hammer's East-West coal flurry

by Renée Sigerson

On the eve of retirement from a 60-year career devoted to manipulating U.S.-U.S.S.R. relations, Occidental Petroleum chairman Dr. Armand Hammer hopes to wrap up a large business deal with proponents of zero-growth in the Soviet Union. The deal would involve Occidental, Bechtel Corporation, and Italian energy groups in constructing a low-technology, coal-slurry pipeline from the Soviet town of Kansk in Siberia to the European part of the Soviet Union.

Hammer unveiled the proposal last October, at a press conference in Moscow.

It is now evident that the project is a piece in Hammer's broader objective, to restore coal to the position of a leading fuel source in the 1990s, as a high-cost, low-technology substitute for nuclear energy programs in both East and West.

Hammer has also been playing a leading role in bringing investors into projects in Appalachian coal reserves. The Appalachian coal region is in a serious economic depression. Barring a full-scale U.S. economic recovery, the only pathway for restoring Appalachian coal profitability is through U.S. coal exports which undermine coal sales of other international producers. This situation has direct bearing on East-West relations, since one of the countries hardest-hit by competition in international coal is Poland.

In November, Polish leader Jaruzelski stated publicly that he was highly suspicious that one of the primary reasons the United States was refusing to lift economic sanctions against Poland was so that Appalachian coal could steal Poland's coal-export markets. Presently, coal exports are the only predictable means available to Poland for earning foreign exchange. It is true that Appalachian producers have been grabbing up markets throughout Europe and Asia which Poland could easily supply.

Poland is poised on the edge of starvation; every 100 tons of coal sold abroad mean the difference between food supplies purchased, or not.

The international market has been of no real benefit to Appalachia, however. The overriding cause of depression in that region is 30 percent collapse in metallurgical coal sales in the United States, due to the shutdown of the U.S. steel

industry. If the boosting of coal exports, in which Armand Hammer's home-base of Kentucky has played a leading role, has been to anyone's direct benefit, it has been those international investors now bedding down in the Appalachian region. They are expecting coal to reach a new boom-stage 8 to 10 years down the line, for which the current export drive is only the first phase.

Energy competition in the U.S.S.R.

According to several "Soviet watchers" in the United States, Hammer's October coal-slurry pipeline announcement is intended to cement an alliance between his industrial allies in the West and the proponents of low-technology energies within the Soviet bloc.

According to these specialists, there are "three camps" within the research institutes of the U.S.S.R. as regards coal technologies. These are:

1) The advanced-technology camp, which has developed long-distance, high-voltage electricity transmission systems; their program for coal centers around building electricity generating systems on site, where the coal is located, and then carrying the electricity by large diameter, high voltage wires across vast distances. The Soviets have made major breakthroughs in such long-distance electricity transmission, and are considered world leaders in the field. While there is a marginally costly loss of electricity in the long distance transmission, as stressed by opponents, an ancillary benefit of the approach is that it allows for valuable research into intense electromagnetic-field generation.

2) The second camp supports synthetic-fuels production. Observers claim that while former Soviet President Brezhnev was a supporter of long-distance transmission, at the last Party Congress he gave a "nod of support" to synthetic-fuels proponents.

3) The "distant third" in the competition are the researchers and technocrats backing coal-slurry pipelines. "The advocates of the third technology," a Rand Corporation Soviet specialist stated, "are catching up through Hammer."

Another Sovietologist claims that Hammer's timing in launching the proposal fits neatly into the brewing economic crisis the Soviets face. "This is the first time in post-war history that the Soviets are working under a sustained squeeze in three areas: capital, labor, and investments." The economy, he added, is also under intense strain from the Soviets' commitment to completion of the natural-gas pipeline system to Western Europe.

The key current project in Soviet energy development, the natural gas pipeline, he claims, is consuming every ounce of investment available to the economy after military and agricultural investments are deducted. "The entire steel complex is stagnating because of the gas pipelines." He added that, once the pipeline is finished, it will generate an entire array of new problems in storage and distribution.

Hammer's timing in intervening in the Soviet energy debate at this conjuncture was extremely precise.

The dirty takeover of Texas GRE

The British investors' group at the center of this affair has suspect foreign intelligence connections.

In June 1982, an inter-agency intelligence task force drawn from the U.S. Departments of Commerce, Energy, Defense and the National Security Council examined the just-completed unfriendly takeover of Gulf Resources and Chemicals (GRE), a medium-sized resource group in Houston, Texas, whose stock had been raided by a British-Genevan led investors' group.

The intelligence task force was entrusted to determine whether the takeover had any detrimental implications for U.S. national security. GRE is the parent company of American Lithium Corporation, the company which produces nearly all U.S. commercial supplies of the strategic mineral. Lithium is used in nuclear warheads on hydrogen bombs, as well as in the production of tritium fuel for prototype nuclear fusion reactors.

Apparently, the task force concluded there was no current danger to U.S. government access to lithium as a result of the foreign takeover of GRE. Nevertheless, the investigation highlights the importance of the GRE takeover, which was dragneted by a core of foreign interests embedded in British intelligence and its organized crime offshoots. The strategically important lithium monopoly owned by GRE provides a further lead in determining why these foreign intelligence interests converged on GRE.

The GRE takeover was organized by a subgroup of investors in the Swiss-based Keyser-Ullman merchant bank,

which is positioned within British intelligence through its ties to the *London Observer* newspaper.

Keyser-Ullman director Edward DuCann played a role in the acquisition of the *London Observer* by the Lonrho mining company, on whose board DuCann also sits. DuCann is the intermediary between the British intelligence nest around the *Observer* and the Keyser-Ullman shareholders, who, acting as "individuals", bought up portions of GRE stock over a period of a year, until they controlled the company. Several Keyser-Ullman shareholders, including the head of the bank's Paris office, participated in the coordinated purchases of GRE shares.

Keyser-Ullman shareholder Sir Alan Clore, a British national resident in Geneva, Switzerland, was the nominal leader of the takeover group, and is now the chairman of GRE. Clore is also the son and heir of Sir Charles Clore, the now deceased dry-goods magnate rated among the wealthiest men in Britain. The senior Clore was not merely an intimate of organized-crime magnate Meyer Lansky; he built his own fortune partly on the basis of special services on behalf of British intelligence after World War II. These included the transfer of Nazi fortunes held in Switzerland into gold purchases that were eventually redistributed among pro-Nazi friends of British intelligence throughout the world.

According to intimates of Alan Clore, the heir is now using his inher-

itance to buy up and asset-strip companies throughout the United States. However, the GRE takeover cannot merely be characterized as an asset-stripping venture and there is evidently more involved in this affair. The GRE board, assembled by Clore last June, bears all of the characteristics of a foreign-intelligence operation.

The GRE board now includes:

Seymour Graubard, a former president of the Anti-Defamation League, the self-professed "Jewish" organization run by British intelligence;

Kenneth Bialkin, a top Wall Street lawyer, who is also a leading figure in the ADL. In 1978, at the instigation of the ADL and British intelligence, Bialkin coordinated an intelligence operation against *EIR* founder Lyndon LaRouche which seriously jeopardized LaRouche's life. Bialkin was also an associate of organized crime figure Robert Vesco.

Averell Harriman Fisk, the grandson of Soviet-linked Averell Harriman. Fisk conducts the less visible political side of his family's operations, posturing as a pro-Reagan Republican in contrast to his grandfather's "peace-movement" dedications.

John D. Murchison, Jr. nephew of Texas-based Clint Murchison, an oilman who participated in the Permindex organization widely cited as the assassination coordination center which eliminated John F. Kennedy.

In October, the Clore management began asset-stripping by divesting of GRE's subsidiary, the Bunker Hill Company, producer of 20 percent of all U.S. primary silver. The sale price of Bunker Hill has never been disclosed. What else the Clore clique may gain by its control of GRE remains to be seen. The national security implication of the establishment, however, is not a closed case.

Trade Review

by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
\$7 bn.	Finland/ U.S.S.R.	Bilateral trade agreement signed for 25th year in a row. Finns sell more than they buy, so Soviets pressured Finland to buy their natural gas or a nuclear plant.	Who has Finlandized whom?
\$34 mn.	Sweden/ U.S.S.R.	3-yr. barter agreement signed between Perstorp of Sweden and Soyuz Chemexport. The Swedes will get Soviet wood methanol, the base for formaldehyde used for plastics. They will pay for the feedstock by returning polyalcohol (used for paints) and thermosetting molding compounds of equal value.	As hard currency grows scarcer, barter grows.
\$700 mn.	Japan from Indonesia	Japanese traders have accepted Indonesia's "counter-purchase" system, which requires big exporters of machinery to Indonesia to buy Indonesian products in return. First to accept this kind of barter deal are C. Itoh and Nissho Iwai, which will buy over the next decade \$700 mn. in primary products from Indonesia, equal to machinery in their deal for modernizing Musi oil refinery.	Indonesia asked for 50% penalty for non-compliance, but settled for 20%.
	U.S.A./Japan	GM and Hitachi have combined R&D forces to develop a totally robotized auto assembly line. They are going for robots which can see and feel and understand "robot language."	Hitachi has the robot-making experience, GM has the software.
\$10 mn.	Argentina from Spain	Flex, Europe's biggest mattress maker, is building a plant in Argentina to produce 300 bed and mattress sets per day. Argentine partner is supplying building and local working capital in return for 1/3 share.	
	China from West Germany	VW signed with Shanghai Tractor and Automobile Corp. and Bank of China deal to set up joint venture to make 100,000 motors and assemble 20,000 of new Santana model per year in China. Chinese now erecting sample kits. Deal could include some export of Chinese-made components to VW ops. elsewhere. Would supplant 1950s Russian models still in production.	VW seems to be beating Japanese for China's auto modernization opportunity.
	China from Ja- pan/U.S.A.	Japan Steel Works has signed with China Machinery-Building International to provide China with its production and quality-control technologies for large steel castings and forgings. Japan Steel Works will design and remodel Chinese factories. Among products will be turbine casings for 600 MW electric generators to be made with Westinghouse technology.	Chinese will be able to export production to all countries except Japan, Czechoslovakia, and Spain, which have similar deals with JSW.
\$115 mn.	Singapore from Japan	Mitsui Engineering won order for ethylene oxide glycol plant for Singapore's new petrochemical complex. Output of 10,000 tpy ethylene oxide and 87,500 tpy mono-ethylene glycol will come on stream in 1985.	Singapore hopes depression will be over, because several other such plants being built in Mideast and Asia.
\$4 mn.	Israel from U.K.	British govt. ECGD is guaranteeing credit lines for U.K. exports to Israel issued by N. M. Rothschild and Bank Leumi (U.K.) to Bank Leumi of Israel.	
POSTPONED			
\$710 mn.	Brazil from Japan	Japanese consortium decided to suspend for 3 yrs. construction of alumina plant in Amazon. Project is joint venture with Brazilian state Cia. Vale do Rio Doce, and would use cheap Amazon electricity.	Aluminum plants shutting down throughout the world.

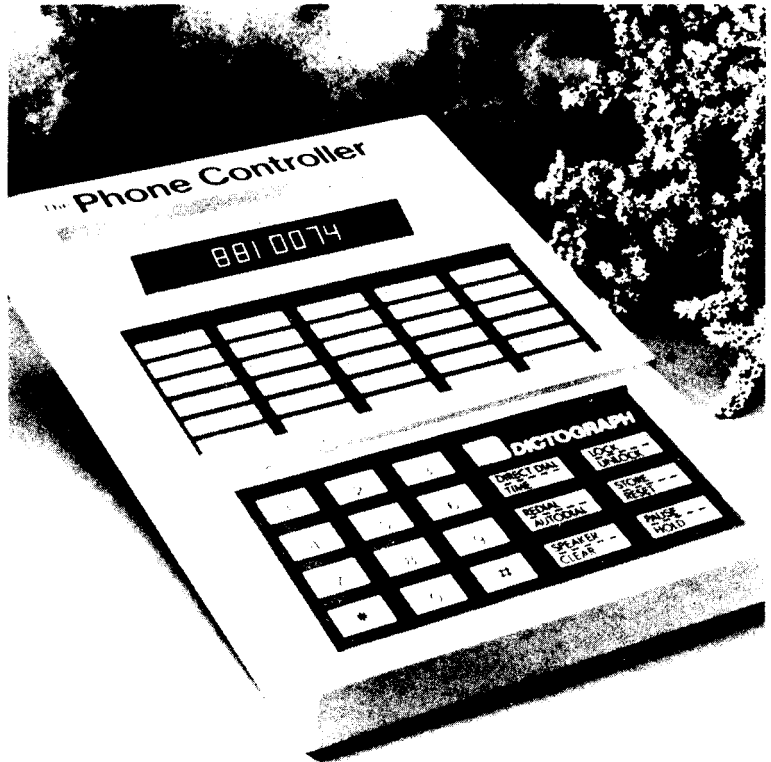
For Business or Private Phones

10 Ways Dictograph's New Phone Controller Can Increase the Service You Get from Your Phone, Speed Your Calls and Lower Your Charges.

From the people who invented the Intercom, Hearing Aid and Smoke Detector

This small electronic marvel — only 8" by 6" by 1½" — lets you do things with your telephone you never thought possible. Read these 10 ways Dictograph's new Phone Controller outdates old-fashioned telephoning —

- 1. Digital Time Monitor.** Alerts you to minutes you are talking, long distance or locally. Keeps 5 minute calls from going to a half-hour.
- 2. Time-Saving Callback.** Busy signal? Phone Controller calls back for you every 60 seconds. Keeps you from forgetting to.
- 3. One Touch "Memory" Dialing.** Get at the touch of a finger 30 numbers called most frequently. Real time saver.
- 4. Touch Dial Converter.** Lets you call by touch on rotary dial phone.
- 5. MCI and Sprint Compatible.** No need to buy or pay for installation of a touch-tone phone.
- 6. Hold Button.** Puts callers on hold so you can talk with others around you. More secure than hand over mouthpiece.
- 7. Built-in Speaker.** Call without having to lift and hold phone till someone answers. Also lets others listen in.
- 8. Error Eraser.** Dial a single wrong number, no need to redial whole number. Push clear button, error is erased.
- 9. De-Programming Fail-Safe.** Back-up battery power keeps programming intact and in place in event of power outage.
- 10. Eliminates Phone Use.** No need to dial from phone. Touch-dial directly from dial pad of Phone Controller.



Satisfaction Guaranteed

The Dictograph Phone Controller can be placed on desk top or wall-mounted. For single line service, plug into Bell modular jack. For multi-line service, specify Model PC 30 ML.

All Controllers have 90-day parts and labor warranty and are UL, CSA, FCC and Bell approved. Prompt service if needed. If you are not fully satisfied, return unit — or units — undamaged and in original carton within 15 days of receipt and your money will be refunded in full.

Dictograph-Pleasantville Plan, 62 Eastview, Pleasantville, NY 10570

Dept. #PC-12

Please send () Dictograph Phone Controller(s) at cost per instrument of \$129.92 single line, \$148.95 multi-line (Model PC 30 ML.)
I enclose check () money order () in amount of \$_____. Or charge my AMEX () MASTERCARD () VISA () credit card no. _____
expiring _____ NY residents add sales tax.

Name _____

Address _____

City _____ State _____ Zip _____

For earlier delivery, call toll-free 1-800-334-0854 extension 854, 7 days, 24 hours.

Business Briefs

Operation Juárez

Call for common market reiterated by SELA

"Integration is now more than an option: it is the only solution that Ibero-America has to protectionism, the world crisis, and the high foreign debt," said the head of the Latin American Economic System (SELA) Carlos Alzamora, in statements to the press Dec. 15. Alzamora called for a "trade accord on a regional basis" which would further integrate the economies of the continent. Along the lines of U.S. economist Lyndon H. LaRouche's "Operation Juárez" proposals for an "Ibero American common market," Alzamora stated that Ibero-America's capital-goods needs in the 1980s will amount to \$400 billion, 60 percent of which could be supplied by these countries themselves. The only obstacle, he said, is "getting the financing which allow us to compete with foreign products."

According to the Mexican press, Alzamora is now in Lima, Peru meeting with officials from other Latin American economic associations to map out "a common Hispano-American strategy regarding the foreign debt," and the advanced sector's closure to imports from the Third World. According to Alzamora, the "Lima meeting is an emergency alert."

Alzamora's statements were echoed the same day by Guillermo Maldonado, representative of the Economic Commission for Latin America, also in Lima. What is required, Maldonado told the press is that Ibero-American governments put together "our own political project, which, in the short and medium term, establishes response mechanisms to the foreign debt, in tune with the people's aspirations for development." The CEPAL official added that although he does not promote a joint debt renegotiation, "Ibero-America has some means of pressure of its own to use" in confronting the international creditors.

The Lima discussions were echoed in a mid-December meeting of political parties from several Ibero-American countries in La Paz, Bolivia. According to the daily *El Sol de Mexico* Dec. 16, the meeting, which has been attended by political leaders from Argentina, Bolivia, Brazil, Peru, Ecuador, and Uruguay, has called on "Ibero-Ameri-

can governments to establish the basis for joint renegotiation of their countries' foreign debt."

The La Paz conference also reviewed Ibero-America's strategic situation after the Malvinas War and the return of Bolivia to a democratic regime.

Philippines

Marcos cuts back key projects under pressure

Pressured by World Bank-IMF recommendations to reduce the widening balance of payments margin, Philippine President Marcos has asked for an immediate stoppage of all development projects which involve foreign exchange expenditures.

President Marcos's decision followed the recommendation of his technocratic Prime Minister Caesar Virata, who told the press Nov. 19 that "We cannot do it any more." Earlier, Central Bank of the Philippines Governor Jaime Layn sent a report to the President, which was made public later, stating that the bank can no longer finance government deficit spending because public sector borrowings are already above the prescribed benchmark.

It is no secret that over the last two years the IMF had made clear to the Philippine government that the IMF loan will be made available only if Manila imposes conditions whose main thrust is toward reducing the budget deficit and limiting government borrowing from the central bank.

World Trade

Japanese executives plan mission to Moscow

More than 150 Japanese business executives have flooded the offices of Shigeo Nagano, Japanese head of the Japan-Soviet Business Cooperation Committee, with requests to join his mid-February mission to the Soviet Union. In mid-October, Soviet Vice Foreign Trade Minister Sushikov visited Tokyo and urged Nagano, who is also head of the

Japan Chamber of Commerce and Industry, to resume meetings of the Cooperation Committee. It has not met since the Soviet move into Afghanistan.

With Japanese business starved for export markets and the U.S. sanctions gradually being eased, Nagano readily agreed.

At present, Japan-Soviet trade, at half the volume of Japan-China trade, comprises 2 percent of total Japanese foreign commerce. Japanese business complain that there is little room for Japan-Soviet trade to grow unless the current restrictions on Japanese Export-Import Bank financing are lifted. Such restrictions make export of large industrial projects prohibitive.

Originally only 20 to 30 businessmen were expected to go on Nagano's Feb. 22-27 trip because of these restrictions. However, the accession to power inside the U.S.S.R. of Yuri Andropov, whom the Japanese believe will want to step up Siberian projects, and the partial easing of U.S. sanctions following the November elections, led to the view that new project opportunities might develop.

Think Tanks

Bergsten leads gang-bang of world economy

"We knew the Shultz-Kirkland crew were out to screw the economy, but we had no idea they were organizing a gang-bang," remarked a veteran economic policy analyst after a Washington, D.C. press conference at which C. Fred Bergsten, Executive Director of the Institute for International Economics (IIE) and former economic adviser to Henry Kissinger, unveiled "A Statement on Global Economic Strategy by Twenty-Six Economists from Fourteen Countries." The signers of the statement, titled "Promoting World Recovery," are the leading Socialist International and "liberal" Democratic Party frauds, most of whom have been active over the last 10 to 30 years in promoting and implementing the policies which have brought the world economy to the brink of disaster. The gang of 26 includes Bergsten, Richard Cooper, formerly an Undersecretary of State for the Carter administration, Rimmer de Vries of Morgan Guaranty Trust,

Briefly

● **THE GROUP OF 30**, the private advisory group of the International Monetary Fund, met in London in mid-December to assess the financial "fire brigade" measures Western governments have employed since September to ward off monetary crisis. Commenting on the gathering, Switzerland's *Neue Zürcher Zeitung* wrote Dec. 16: even if such fire brigade bridging techniques succeed "in preventing direct catastrophes, the danger of a great international banking collapse is not yet eliminated."

● **FRED IKLE**, U.S. Defense Undersecretary, told the Austrian newspaper *Die Presse* this week that the United States suspects that high-technology patents and industrial blueprints under American control were being siphoned to East bloc countries through Austrian companies involved in East-West trade. Iké told *Die Presse* that there are "over a hundred Austrian firms" with access to American data banks and American microprocessing technologies which were viewed as vulnerable.

● **A U.S. STATE** Department source reports: "There have been studies in the U.S. government of one or more countries in a fit of nationalism repudiating their debts, but the conclusion is that the disincentive is so strong . . . that this will not happen."

● **JAPANESE** Prime Minister Yasuhiro Nakasone told the Japanese Diet that the passage of the "domestic content" auto legislation by the U.S. House of Representatives could cause a further deterioration in the already depressed world economy by accelerating protectionism. However, Nakasone—who is eager to present a conciliatory face in preparation for his mid-January trip to Washington—added that Japan cannot ignore the sentiment shown by the 215-188 majority for the bill. Therefore, he said, Japan must further open its own market to avert protectionism. The bill is not expected to be brought to a Senate vote this year.

Nobel laureate Lawrence Klein, Club of Rome founder Saburo Okita, and Democratic National Committee economist Lester Thurow. Prior to his appointment as Secretary of State, George Shultz was a member of IIE's advisory board.

The gang's plan is to implement a globally dictated plan of moderate fiscal and monetary expansion in order to prevent bank failures while their long-term strategy, a globally dictated reduction in wages and social benefits, is put into place. As these liberals delicately phrase it, "In some countries real labor costs have risen. . . . Where this has been due to a rapid rise in social security contributions and other nonwage labor costs, the solution lies in lowering the rise in social expenditure and restructuring its financing. Where the problem is that real wages are too high, efforts should be made to bring about the necessary correction, as by seeking a better understanding of the nature of the problem by the social partners."

Ibero-America

Argentina forestalls new military coup

More than 100,000 Argentines marched through the streets of downtown Buenos Aires Dec. 16 in the largest political demonstration there since the military took power in 1976. Despite violent incidents at the end, which left three dead and over 50 injured, the demonstration was viewed by knowledgeable observers as a show of strength which makes it almost impossible for a hard-line faction in the military to pull a "coup within the coup" and close off the country's moves toward presidential elections in 1983.

The march was called by the *Multipartidaria*, the alliance of the five major civilian parties, which are pressuring the government for the elections. Leaders of the *Multipartidaria* urged moving up the elections to October and even May 1983. The government of Gen. Reynaldo Bignone is currently committed to elections at the end of 1983.

The successful demonstration of the *Multipartidaria* followed by exactly 11 days a 24-hour general strike by the Peronist-led CGT labor confederation, which shut down

"95 percent of the country," according to sources inside and outside the government. The principal demands of the labor upsurge included ripping up austerity agreements of the government "negotiated behind the country's back."

Public Policy

Lazard Brothers praises Nazi 'recovery'

A senior spokesman for Lazard Brothers of London, of the financial empire that includes the *London Economist* and the *Financial Times*, gave a remarkably frank view of his outlook for the world economic situation when he praised the Nazi economic "recovery" in an interview Dec. 16.

"I'm not surprised at Brazil's quasi-default," he stated. "With the present shape of the world economy and the debt burden, all debtor countries find it increasingly difficult to accept such terms as the IMF imposes on them in order to provide bridging finance. . . . If the commercial banks—who bear the brunt of the losses—accept these moratoria, under pressure from central banks, more breathing space will be created. But there is no world economic recovery."

The IMF and Bank for International Settlements are just buying time, the spokesman went on. But policy is clear: the debt must be repaid in real terms. "But the implementation is very, very difficult. . . . The profile of what will come later can only be answered once the system has collapsed. There will be a crash first and then reorganization. And what happens then? The political elements are very important. . . .

The Lazard Brothers official praised the "increase of production that occurred in Nazi Germany. . . . There was a recovery, which you call cannibalization, but I call rearmament. It was a controlled but to some extent free-market economy, and it worked.

"We will probably revert in the event of a collapse to regional groupings. . . . It will resemble the inter-war years, won't it? And then we will probably go to a commodity-standard, with gold the most convenient medium. . . . It's just what Dr. Schacht [later Hitler's Finance Minister] did in 1924 with the Rentenmark."

Beam-weapon program: boost to productivity

by Steven Bardwell, Military Editor

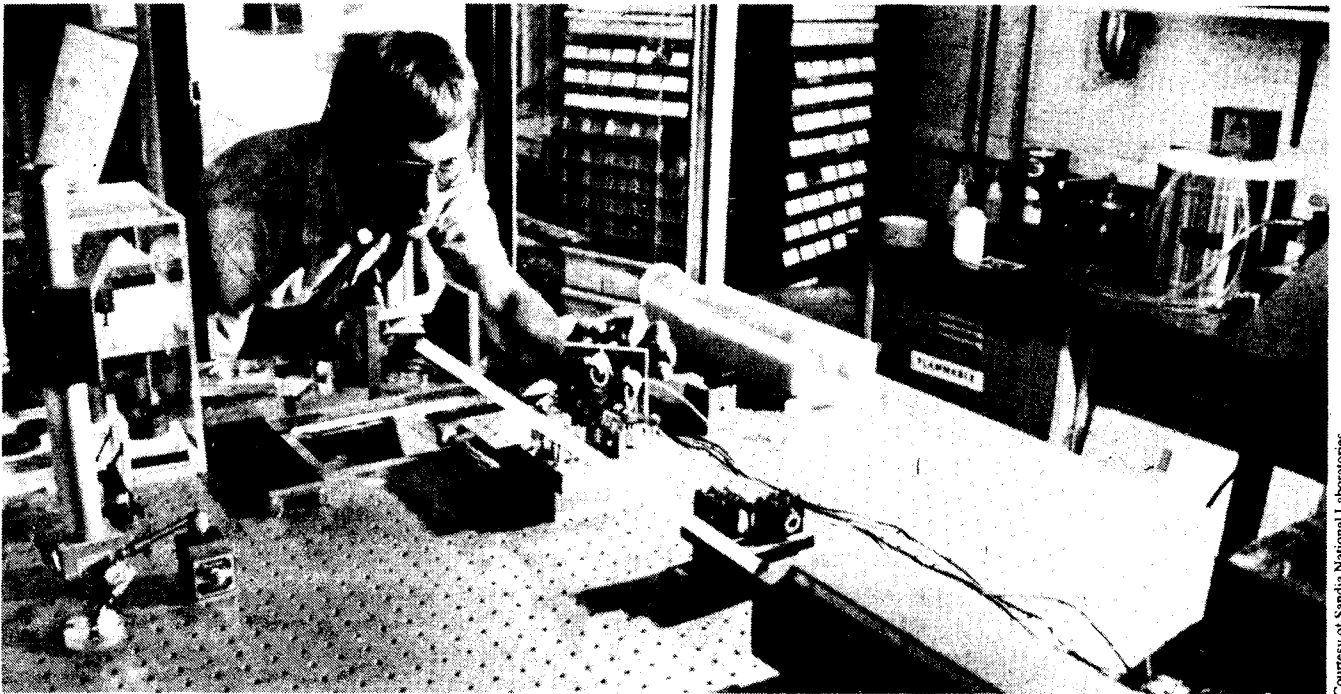
The national security of the United States, in the classic sense as national security was understood by the great military leaders at the founding of this country, will be determined for the next several decades by the decision to be made in the coming year on the development of directed energy beam weapons. Beam weapons will shape the military boundary conditions affecting foreign policy, but even more importantly, will determine the economic health of the nation without which no national defense system is possible.

After a series of important technological developments over the past 24 months, it is now the consensus in the scientific and engineering community that a high-energy laser beam could be built and deployed as a weapon capable of destroying nuclear-armed ballistic missiles in flight. Even if this assessment be doubted, it is well-known that the Soviet Union is pursuing a program for development of such a device and has constructed one such high-energy laser system which destroyed an ICBM in a successful test conducted a little over a year ago.

The military consequences of beam weapons—which could be achieved in a first-generation form within five years—have been widely discussed: The end of the doctrine of Mutually Assured Destruction, a shift of initiative from offense to defense, the obsolescence of the ICBM, and the so-called “militarization” of space as a defensive base.

Based on an ongoing study of the overall impact of the development and deployment of beam weapons, a Fusion Energy Foundation research group has concluded that the economic and civilian benefits of these weapons will dwarf even the great military benefit. According to this study, the situation with beam weapon development is very similar to that which existed with the development of nuclear power for submarine propulsion during the 1950s. Under the guidance of Admiral Hyman Rickover, the U.S. Navy pursued research and development simultaneously into the use of nuclear energy for ship propulsion and contributed to the very different application of civilian electricity production.

In hindsight it is clear that, while nuclear ship propulsion is an important military technology (and if it were to be applied to commercial shipping would be



Courtesy of Sandia National Laboratories

Laser research at Sandia National Laboratories in New Mexico: an energy-beam weapons program would send "shock waves" through U.S. research, development, and industry.

even more important), the civilian impact worldwide of the development of a new source of power, much cleaner, cheaper, and safer than coal or oil, was even greater. The development of beam weapons portends an even greater civilian impact.

The coming of the plasma age

The technological problems that must be solved to create a beam weapon capable of performing the strategic mission of destruction of ballistic missiles from near-earth orbit fall into six basic areas:

- 1) Sensing and target acquisition: the perfection of long-wavelength infrared sensors and other more exotic telescopes and detectors.
- 2) Data processing: the development of very large scale circuit integration and new computer algorithms for processing of large amounts of data in real-time.
- 3) High-energy lasers: gas and chemical lasers in the multi-megajoule range with repetition rates measured in tens of pulses per second.
- 4) Precision optics: the construction of mirrors at the diffraction limit with diameters of up to 30 feet.
- 5) Magnetics, materials, and pulsed power: the connected technologies of high-power superconducting magnets, materials able to withstand high radiation density environments, and the pulsed power sources associated with lasers, particle beams, and high-intensity magnets.
- 6) Space engineering: the capability of launching large amounts of machinery into space and performing in-space maintenance and monitoring functions on that network of

In this section

A 'great enterprise' in NASA's tradition Page 26

The military and industrial move into space will require tripling NASA's own budget.

Artificial heart shows breakthrough potential..... Page 28

Everything from the materials in the heart to its monitoring devices, were a spin-off of NASA research.

How beam weapons would spur recovery Page 29

The LaRouche-Riemann model's simulation of their industrial impact.

equipment.

A qualitative examination of these technologies shows that *if* these technologies were available in the form required for a beam weapon, then the technologies available to the civilian economy would usher in a new stage of industrial processes, which are almost totally dependent on the narrow range of the electromagnetic spectrum in the infrared (heat), the characteristic feature of these new technological capabilities is that they access the full-range of the electromagnetic spectrum, from x-rays through to microwaves. For the first time, it becomes economical to perform chemical, industrial, and agricultural processes using finely tuned electromagnetic energy rather than "brute force" infrared energy. The impact of this general change can hardly be overestimated. The FEF study has identified several central areas:

1) Energy production: the advent of the plasma age is most dramatically shown by the coming into existence of nuclear fusion energy, the second-generation nuclear technology using heavy hydrogen in the same fuel cycle used by the Sun. This technology, which the Japanese project to be on line in the middle 1990s, produces clean, cheap energy from an unlimited fuel source (water), in intensities 100 times those available at present.

2) Materials processing: plasma torch processing, using matter in its ionized state and magnetic or centrifugal separation, makes astronomical increases in the natural resource base of the world economy. It also creates capabilities for new, high-quality metal refining, waste recycling, and elemental transmutation. Applications of laser-isotope separation, the nearest-term of these technologies, include extraction of rare isotopes, nuclear tailoring of material and alloy properties, and chemical process control.

3) Metal working: the use of beams and lasers for more efficient, higher speed, and more easily automated metal cutting, forming, and welding is a well-established technology which awaits cheap high-power lasers for its widespread application. Less well known, but with perhaps greater impact, are applications of surface heat-treating, differential crystallization, and laser annealing.

4) Chemical processing: chemonuclear processes for the production of synthetic fuels (methane, methanol, and heavier hydrocarbons), hydrogen generation, and coal gasification are dramatic improvements on existing thermal and electrical technologies. These become realistic with the intense energies available from fusion. In addition, the use of lasers for control of specific, complex chemical syntheses and processing are a feature of control of broad ranges of the electromagnetic spectrum with food processing, non-destructive sterilization, and preservation being especially important.

5) Short-time process control: the automation and control technologies for processes which occur on sub-microsecond time scales have applications throughout the plasma industries. The ability to master the very high energy densities and inherently non-steady state properties of plasmas depends on both a diagnostic and control capability.

A 'great enterprise' in NASA's tradition

by Marsha Freeman

The development and deployment of a directed energy-beam defensive weapons system over the next decade will be one of the "great enterprises" the nation must embark on. It will require the kind of government investment that the nation has seen in the past in preparations for war, and in the civilian space program. This federal spending has the potential to stimulate increases in the productivity of the nation's economy because it has the ability to increase the rate at which new technology is introduced into the economy.

Such increases in productivity result from the optimism created by national leadership when great new projects such as the lunar landing are stated as national goals; when the spending on the project puts federal dollars directly into our high-technology industry to accomplish the task; and when industry and agriculture apply government-developed techniques to everyday economic activity.

All three of these effects led to increases in productivity during the 1960s period of the NASA Apollo program. By comparison, *none* of these effects were seen as the space program funding was diverted into Great Society social welfare programs after the death of President Kennedy.

In order to deploy beam weapons in space, our civilian space program will have to be geared up to finally provide the in-orbit manned capability that we do not yet have. Large and complex space-based military systems will have to be maintained, updated, and repaired while in orbit, and specialists located in space stations will have to be on call for this purpose. The funding for civilian space programs will have to increase over the next few years until it regains its 1960s real purchasing power.

This will mean tripling the NASA budget by the end of this decade, for the military and industrial move into space. The technology and productivity development from this funding will add to the shock waves of economic growth the development of the beam weapons themselves will provide.

Lasers for industry

Although we cannot predict all of the new technology that will result from the development of directed energy-beam weapons over the next decade, we know that specific technologies, such as the industrial application of lasers, for example, will be propelled into large-scale use. Electron and plasma technologies will be pushed years ahead, as will the

development of fusion energy itself, opening the era of unlimited, intensive energy supplies worldwide.

The use of coherent light sources, in the form of lasers, has been significant in industry for the past decade. Today lasers are used in the welding, cutting, and heat-treating of metals. They can be used for the processing of plastics, rubber, ceramics, glass, and practically all other materials.

The use of highly focused lasers introduced a degree of precision unobtainable from mechanical processing methods, and this precision is evident in the use of lasers in medicine. But due to the collapse of capital investment in industry for the introduction of revolutionary new technologies, laser applications have not penetrated into our basic industries and transformed them on any large scale.

Were the government to announce a full-scale laser-weapon development program, with changes in monetary policy and the investment climate, these technologies would begin to flood into the industrial stream. Research and development would be spurred at great pace and the constraints on the industrial use of lasers would be solved.

According to industry experts, lasers available today are in the low power levels of less than 1,000 watts, or one kilowatt (kw). Large systems are not reliable and not affordable. If lasers for industrial use were available in the tens of kilowatt range, new applications, such as the heat-treating of semi-finished steel products, would become available.

Steel pieces could be fused with alloying materials on the surface using laser heating, rather than using alloys for the entire piece of metal. Steel pieces could be selectively hardened, or annealed, using laser heating, and processes such as photochemistry could be done on a large scale.

With larger lasers approaching the size of those needed for the beam systems themselves, industry could develop laser drilling techniques for oil and other minerals, and laser tunneling could replace mechanical methods used today.

Further into the future, laser systems will have exciting uses in space. NASA is examining proposals to orbit large nuclear power generating plants. These would produce electricity, which could be used to power a laser. The laser energy would be transmitted from the power station to satellites, space stations, factories, and other facilities in space, which then could operate without their own on-board power supply. Laser energy could also power in-orbit military facilities.

Scientists have developed preliminary designs for laser propulsion systems for deep-space travel. All of these possible future uses of laser technology would be pushed years ahead in their development and use by the directed energy-beam weapon program.

In addition to lasers themselves, the attendant systems design for power handling, optical focusing, materials development, and other areas would stimulate new applications in industry.

The tripling of the NASA budget, to restore the agency to its level of purchasing power during the Apollo period and provide the needed in-space capabilities for a beam program,

will bring an entire array of space-manufactured materials to the economy. Man's permanent move into space will create new industries now difficult to foresee.

In addition to the new industrial processes and products that additional space capacities will make available, technologies that have already been "spun off" from NASA spending will begin to penetrate the economy as investment shifts toward high-productivity applications.

Reaping the benefits from space

The increases in NASA funding, which peaked in 1965, spun out new technologies for the economy with the potential to dramatically increase productivity in every area of economic life. For example:

Industrial processing—One of the best known technology spurts from NASA spending was the cheapening and improvement of computers and electronics. Between 1968 and 1971 U.S. textile weaving mills were able to increase productivity between two and three percent by the introduction of a multiplexer circuit connecting a computer to remote terminals developed by NASA's Marshall Space Flight Center for the Saturn rocket.

An ultrasonic testing technique, developed by NASA to qualify delicate materials without destructive effects, is being used in the production of steel, rails, aircraft, nuclear reactors, and automobiles. The original \$2 million NASA investment has created a \$50 million per year new industry.

High-temperature resistant alloys needed for high-temperature energy and industrial processing were created for spaceship use, and dozens of new materials were created by industry from NASA's basic research. These new materials increased the productivity of existing industrial processes by allowing them, for example, to be run at high temperatures or in more hostile environments, or created wholly new techniques more productive than those they replaced.

Energy—NASA's requirement to work with compact, high-density energy sources, in extreme environments, greatly spurred development possibilities for advanced ground-based energy sources. The NASA ROVER nuclear space reactor program, and the NERVA nuclear rocket effort, contributed to the productivity of our civilian technology.

Work done on compact, high-temperature nuclear fission fuel arrays led to the development of composite fuel elements, which have been used in experiments in our liquid fast breeder reactor program. "Beaded" fuel particles developed for NERVA applications are also applicable to next-generation high-temperature gas-cooled reactors which would provide industrial-grade process heat for industry.

Although neither the U.S. breeder nor high-temperature reactor programs have become commercial, the renewed national commitment to frontier military, space, and energy development would pull those NASA spinoffs off the shelf.

The same is true for magnetohydrodynamics (MHD) direct-conversion energy technology. By replacing steam turbines with direct heat-to-electricity conversion, MHD could

Artificial heart shows breakthrough potential

The artificial heart now beating in the chest of Dr. Barney Clark is, in every sense of the word, a spinoff of research and development at the National Aeronautics and Space Administration. It is a monumental demonstration of the impact which the space program has had throughout the economy. It is also a foretaste of the immense effect that the beam weapons program, particularly the X-ray laser, could have on basic biology and aging research.

In 1963, at the height of the Kennedy-era enthusiasm for landing an American on the moon by 1970, Congress voted up funding for drawing up an overview prospectus on artificial heart research. The National Heart Institute went to what was then the center of technical and engineering expertise, NASA. There, Lowell Harmison, a nuclear engineer, and Frank Alturi, a mechanical engineer with nuclear background, agreed to coordinate a large task force of consultants from various fields, under the auspices of the private consulting firm Hittman Associates.

The summary Hittman report, completed in 1966, envisioned the full development and testing of a completely implantable artificial heart before 1980.

The main problems to be solved were these:

- **Energy source:** the device must ultimately have a fully implantable and long-lasting energy source. The heart must produce a power of 2.5 watts, and pump or contract 30 to 40 million times per year. From the beginning, the most likely source was nuclear. Alturi was involved in developing the plutonium pellets used as electrical generators for some of the earliest space probes. In fact, all of the necessary features which would be needed for human implantation, to guard against spillage in case of a violent event such as a plane crash or a gunshot impact, have already been fully developed by NASA. The heart used in the Utah implantation runs on an external air pump, but can be switched to implanted energy sources as they become available.

- **Geometry of the heart chambers:** clotting occurs if the blood flow pattern is such that some blood pools and remains in an area of the ventricle for a long period of time, or if there is excessive turbulence of the blood as it is pumped. Blood flow dynamics, termed rheology, is a special application of hydrodynamics, and the heart program has relied heavily on experts in the field borrowed from the aerospace industry.

- **Materials:** most of the materials used in artificial hearts are polymer plastics, such as the polyurethane in

Barney Clark's Jarvik-7 heart. The space program provided an additional impetus to extend the range of these substances and their characteristics.

- **Monitoring and control devices:** NASA pioneered in the area of automatic computer-controlled sensing of biological parameters such as blood pressure and heart rate, in the course of monitoring the condition of astronauts in space. The computer miniaturization needed for a fully-implantable device is also a product of space research.

Contrary to the predictions of the 1966 Hittman report, the level of funding by the National Heart, Lung and Blood Institute for research around the country has not been \$50 million annually, but more in the range of \$7-10 million. Despite this severe limitation in funding, which has caused the program to "put many of its eggs in very few baskets," according to a NHI spokesman, the major engineering problems have been solved.

At current funding levels, spokesmen foresee testing implanted energy sources in humans in three to four years, having a dependable implanted energy source in five to six years, and completing final phase testing with large numbers of humans preparatory to mass marketing of the device in another six to seven years. However, since the engineering problems are basically solved, increasing the funding to the originally charted \$50 million per year would predictably shorten the entire rest of development to marketing phase to a total of only **three years**.

The increased longevity and prolonged working lifetime possible with the artificial heart would more than repay society for the social cost of the program. For example, with mass production the cost of the device itself could be brought down to \$1,000 easily. Further in the future the device could become the standard treatment for people who survive their first heart attack. Since heart disease is responsible for more than half the 2 million deaths annually in the U.S.A., and since more than half of these people reach a hospital before dying, the potential for the device is enormous.

The long range goal of heart research should of course be non-surgical treatment and ultimately prevention. The development of space-based defense beam weapons involves the production of the X-ray laser, which would revolutionize biology by making possible the microscopic examination of macromolecules such as genes and proteins at far greater magnifications and over far shorter time intervals than is currently possible. It may be possible to observe the action of genes, functioning within living tissue, with a resolution of atomic distances. This would add immeasurably to an understanding of the "unknowns" and guide research not only in atherosclerosis but in cancer and many other areas as well.

increase energy conversion productivity by 50 percent. MHD physics and technology are based directly on space-aged technology, and are yet to be implemented.

Agriculture—Food production, processing, and treatment are some of the greatest potential beneficiaries of space technology. Remote sensing satellites, developed, launched, and operated by NASA, have saved farmers billions of dollars in preventing the spread of plant disease. They have alerted them to possible floods by estimating spring run-off from winter snowfalls.

Farmers have been alerted to impending hurricanes and other damaging weather conditions by NASA-developed weather satellites, and for the first time, global food planning has been possible.

The lack of investment capital for developing nations to build the infrastructure and data handling facilities to make use of Landsat remote sensing data has hampered the full deployment of this great revolution in planning, nurturing, and processing the world's food.

Medicine—The productivity of a nation surely depends on the health and life expectancy of its greatest resource—its people. The artificial heart used to save the life of Dr. Barney Clark just weeks ago was the result of applied NASA resources—both the materials and people that had been developed by the space program created the artificial heart.

Telemetry technology needed to monitor the life functions of astronauts millions of miles away is now used to monitor the life functions of infants in incubators. Infrared scanner devices developed by the Marshall Center during the Apollo effort are used in breast cancer diagnosis as well as in industry. New generations of military sensing techniques will find highly precise medical applications.

Artificial limbs were created by applying the remote handling devices used by NASA in space and by the nuclear industry. Mass spectrometers preset to collect and analyze the atmosphere, a pilot's breath, the space environment, and the soil of Mars are now used in over 200 intensive care hospital units to measure eight critical complements of a patient's breath. All of these applications increase the productivity of the U.S. workforce.

NASA-derived technology led the infusion of new technology into the commercial economy over the 1960s. Advancements from our smaller but yet significant space program of the 1970s, by and large, never entered the marketplace in significant scale. Our productivity over those last twelve years has reflected the fact that we have allowed the by-products of our space investment to sit on shelves or in laboratories, and have not put them to work.

Now, with a national commitment to beam weapon development, a space colonization program, and the introduction of fusion energy and the plasma age, the United States can leap forward in productivity immediately by simply deploying the ready technology of our past research efforts, and plan continuing waves of new technology as these programs go forward.

How beam weapons would spur recovery

by Sylvia Brewda

The economic effect of the U.S. beam-weapon development program put forward by the National Democratic Policy Committee has been analyzed using the LaRouche-Riemann model, the only economic method competent to assess the type of non-linear changes that such a high-technology program would bring about. Model runs produced by the Economics Research Group of the Fusion Energy Foundation led to two simple conclusions:

- Without such a science driver, the U.S. economy is now so ruined that even sane credit policies will not save it.
- With the productivity improvements to be immediately gained from the adoption of the NDPC program, the economy will move rapidly to recovery and growth.

Global productivity impact

An approximate estimate of the global productivity impact of an aggressive beam weapon development and deployment program was devised using the following steps:

- 1) Estimate of overall efficiency impact of NASA spending during the 1960s as template for estimate of beam weapon program. A large number of correlation studies were done and it was found that close correlation exists between the amount of change of NASA expenditures and the ratio of factor productivity (total tangible profit divided by total tangible input costs) and gross capital investment lagged by one year.
- 2) A base run of the U.S. economy over the period 1984 to 1989. This base run, even giving very generous estimates for extrapolation of trends that have existed in the U.S. economy and assumptions of maximal efficiency in deployment of existing technologies, shows very slow growth over the coming period. Even after assuming that an initial push could be given to the economy by rationalization, the growth rate levels off to near zero by the end of the period. The accumulated obsolescence and "entropy" in the U.S. economy is too great to overcome by incremental measures.
- 3) The application of the observed correlation to a beam weapon spending profile that totals \$30 billion over 3 years and which grows rapidly between 1982 and 1987, and levels

Figure 1 : NASA R&D SPENDING IN THE U.S. ECONOMY

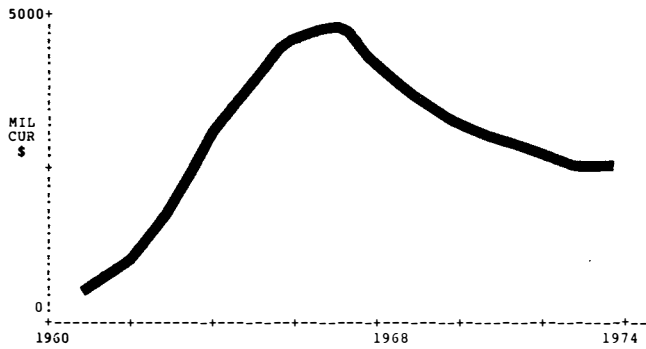


Figure 2: CHANGES IN NASA SPENDING

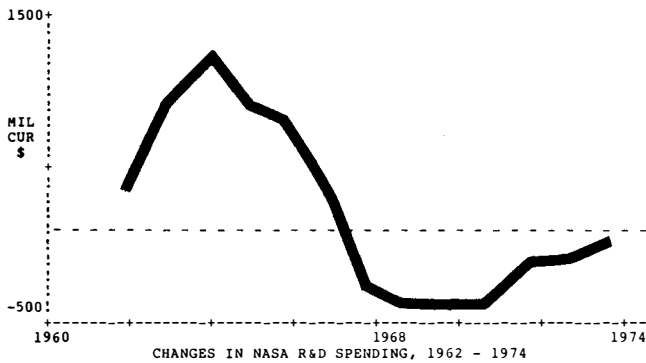


Figure 3: TIME COURSE OF FACTOR PRODUCTIVITY (S/C+V)

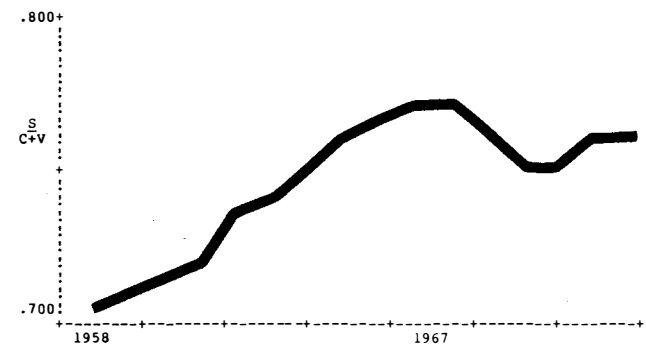


Figure 4 : Correlation (r -squared = 0.8587) between absolute amounts of changes in planned NASA R&D (non-administrative) spending and the effectiveness of total capital investment in producing factor productivity

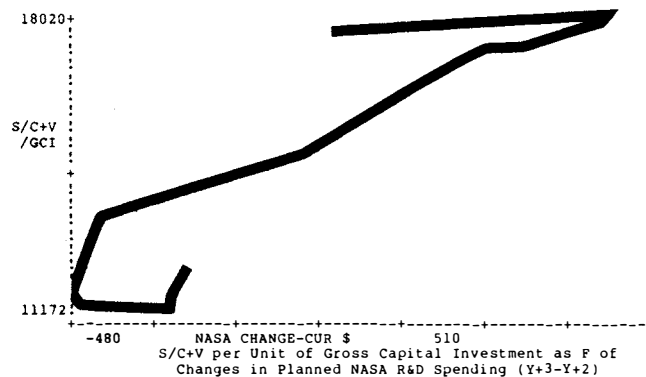


Figure 5: Time course of Gross Capital Investment

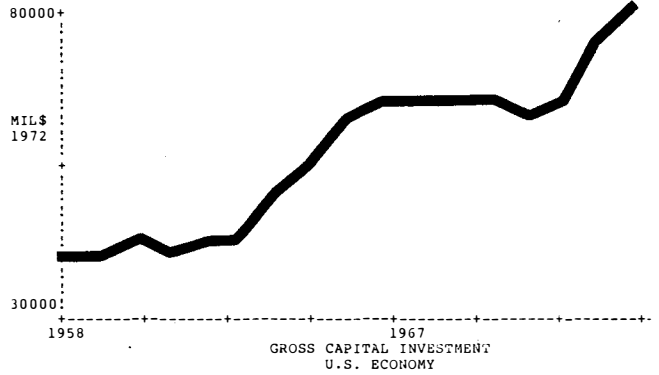


Figure 6: Total Surplus in U.S. Economy

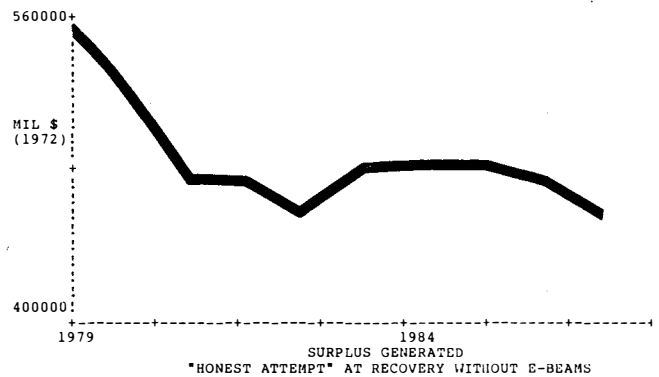


Figure 7: S/C+V or factor productivity

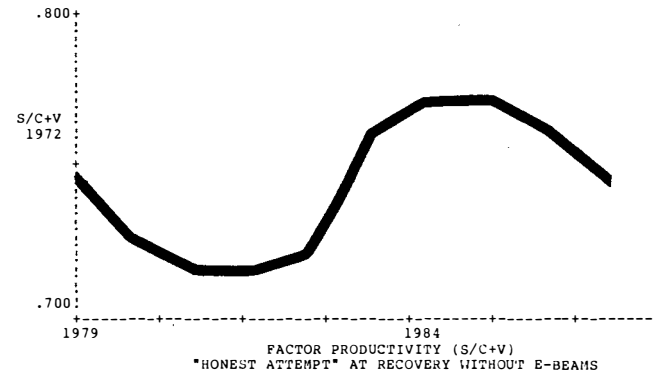


Figure 8: S'/C+V or instantaneous growth impulse

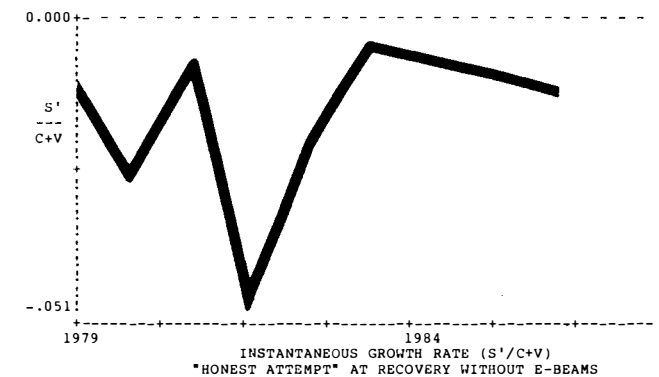


Figure 9

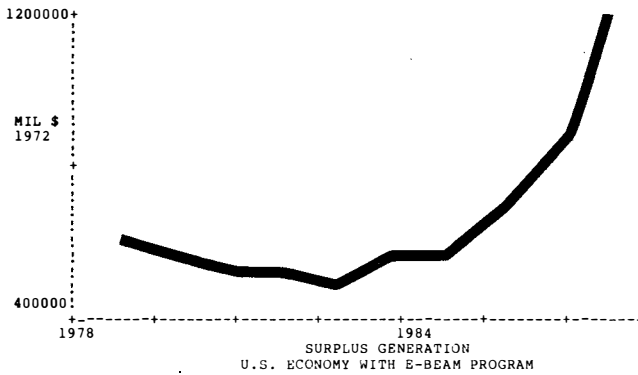


Figure 13

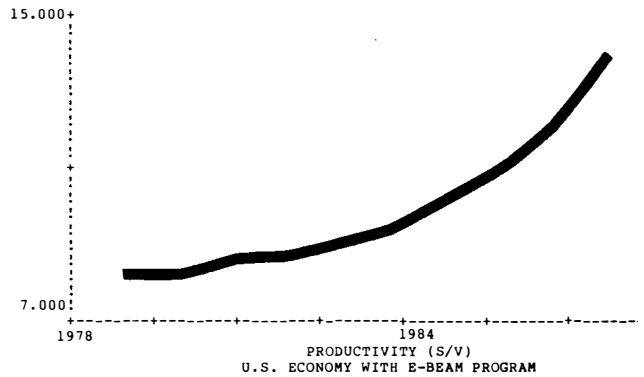


Figure 10

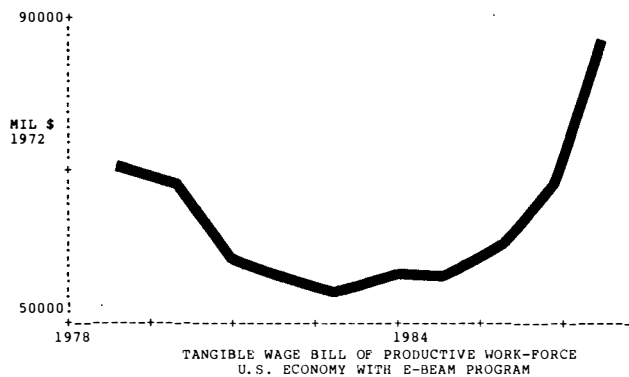


Figure 14

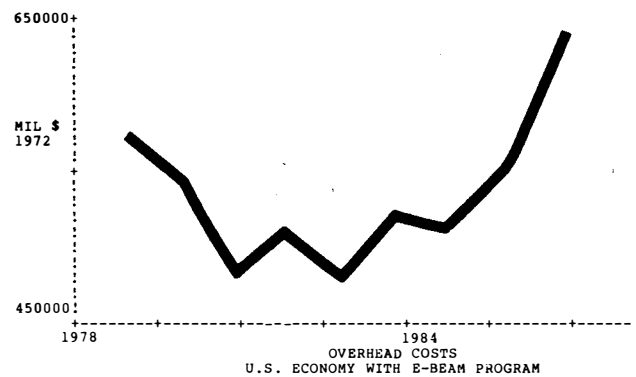


Figure 11

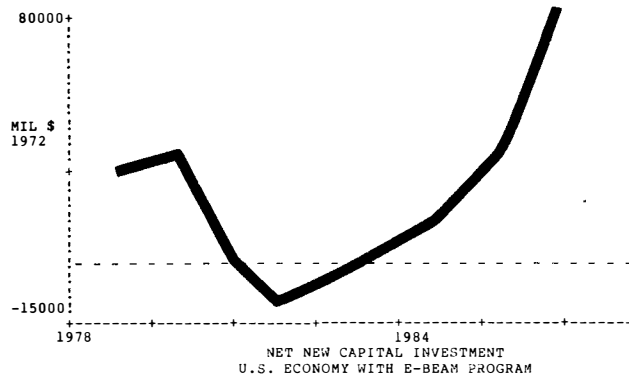


Figure 15

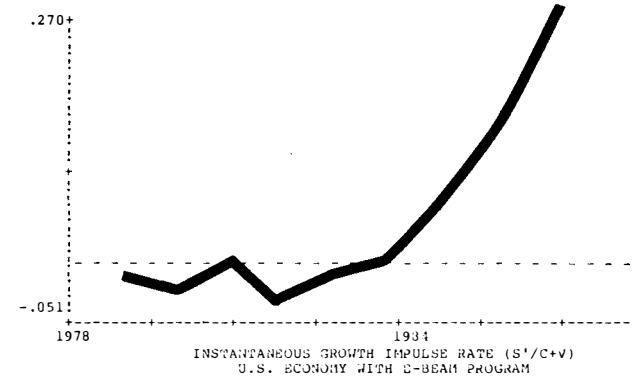


Figure 12

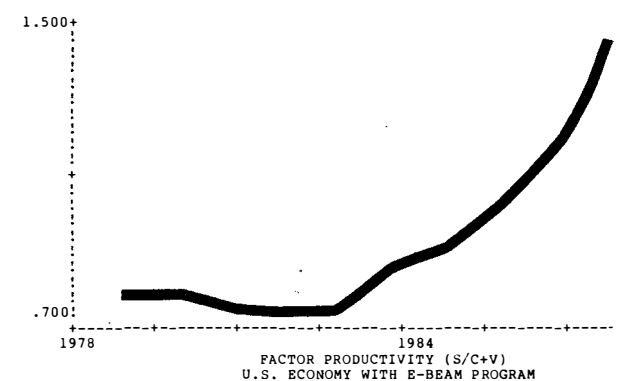
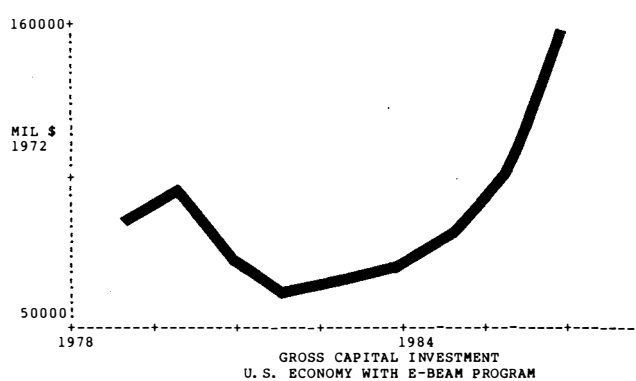


Figure 16



off after 1988. The impact of this program is to significantly improve the performance of the overall economy. In every area of employment, output, profitability, and capital investment, the results of application of a high-technology research program are startling. As many other researchers have noted, the impact of spending on advanced technologies is qualitatively different than the same spending on transfer programs, conventional military procurement, or public works. The unique feature of advanced technologies is their injection into the rest of the economy of productivity and efficiency increases.

The effects of NASA on the economy

The time course of NASA R&D spending is shown in Figure 1, and the amounts of change which this represented in Figure 2 (first report). The form of Figure 1 is not surprising to most Americans, who remember the national commitment to the moon-walk, the vision of President Kennedy. The shape of the second graph is more unexpected. The greatest increase in absolute amount of spending occurred at the very start of the program, and the size of the increases, rather than growing as more hardware was built and the program was more able to "absorb" funds, decreases rapidly after 1963. The end of this growth, close to simultaneous with the Kennedy assassination, also marks the beginning of economic decline, not in amounts but in the efficiency with which productivity was being purchased.

The relationship shown in Figure 4 (second report, correlation) demonstrates quite clearly the causally important relation between planned spending on advanced R&D, investment decisions, and the overall efficiency of an economy. Note that a statistical analysis of the data shows a correlation coefficient of 0.86, a highly non-random result. One of the most notable characteristics of this relationship was that it occurred immediately—actually before the allocated money was spent. This indicates that it involves a series of decisions to look for the most advanced, and therefore most efficient, capital goods which were available, rather than depending on the introduction of newly developed capabilities.

In the same way, the commitment of the United States to develop and deploy the weapons, combined with a sane credit policy, would have an immediate effect because available high-technology types of capital goods would be installed. This effect would then create the conditions of economic health in which the direct spin-offs of the beam program itself could be effectively used as they become available, and a continuing economic shock wave be generated. As a first approximation, we assumed that the relation between increases in beam weapon spending (non-administrative) and the efficiency of total capital spending in creating factor productivity will be the same as that observed in the case of NASA, after correcting for inflation. This assumption may actually be overly conservative, since a reservoir of technological advances was created as a result of NASA, but never

deployed (see article, p. 26). There was no such pool of unutilized technologies in the early 1960s.

An "honest attempt"

There are few people who will disagree that the U.S. economy at present is in the process of a disastrous crash. However, it is less obvious that this process has now reached a point of no return, under the existing conditions of the real economy. That is, a reversal of the credit and interest policies which have brought us to the point will no longer suffice to reverse the effects. The model run which we have labelled an "honest attempt" at recovery without the E-beam program makes these results clear.

To produce this run, the excessive overhead ratios generated by Federal Reserve Chairman Volcker's policies were reduced to historically observed levels, as shown in Figure 3 (of second report—overhead) and the productivity of the economy was allowed to rise as investment could be directed towards existing higher-technology sectors. In order to start some type of recovery, real wages were increased (unemployment was decreased) at the expense of new capital spending. The results show a brief halt in the process of decline, with surplus production recovering from the depths of current conditions to the levels seen in 1961 (Figure 6 [of second report—surplus]). Figure 7 (of second report— $S/C + V$) shows that factor productivity increases as capacity is again more fully utilized.

However, the instantaneous growth impulse, net reinvestment of surplus per unit of operating cost, remains negative, and there is no net capital spending. Under these conditions, shown as Figures 3 and 8 (of second report—net new capital and instant growth rate), the increase in factor productivity cannot be sustained, and by 1987, the economy has resumed its downward slide, without ever having regained even the levels of the late 1970s.

The power of beam weapons

Under the impulse of investment in beam-weapon development and deployment, as well as the necessary NASA spending to prepare the required capability for space bases, the economic picture is dramatically altered. The run shown here was done by using the rate of change in capital spending efficiency with changes in NASA-type R&D spending. It was notable that the starting efficiencies in today's economy were significantly lower than those of the early 1960s, so the zero-point of the regression could not be used. The time course of gross capital investment, which is the mechanism by which research spending affects productivity, is shown in Figure 16.

The amounts used were corrected for administrative overhead, and were limited by estimates of what can be absorbed by existing agencies.

The time course of spending used for the model began with an expenditure of \$750 million, authorized in 1983 and

spent in 1984. Three hundred million was allocated to the beam weapon program itself, and the remainder represents the portion required for upgrades of NASA. A value of 80 percent was used to calculate R&D spending from total budget, based on current NASA experience. In the following year, expenditure doubled, as the preliminary "red tape" is dispensed with, and the scientific work can be intensified. Once funding levels appropriate to a national commitment have been established, the rate of growth decreases, and the spending authorized in 1987 is \$2.8 billion in 1982 dollars.

In this first, aggregate model study, total tangible wages for the productive work-force, shown in Figure 10, increases about 60 percent with the beam weapon program, not because of direct spending on beam weapons (which is always a small part of the economy), but because of indirect increases in economic activity throughout the whole economy. Along with the rise of tangible wages, the productivity of labor is also rising (Figure 13). Thus, as Figure 9 shows, the production of surplus increases even more, as the capital intensity of the economy increases with positive values for net new capital spending (Figure 11). The depreciation rate was increased in this run, to account for the more rapid replacement of outdated equipment, but even with this higher operating cost, there is a marked, accelerating rise in both productivity and the instantaneous growth impulse (net reinvestment of surplus per unit of operating cost), which is illustrated in Figures 12 and 15, respectively. The predicted growth impulse, although far higher than what has occurred in the United States during the last 25 years, is of the order of magnitude seen in the Japanese economy during the late 1960s. This coheres with the intention of this run, which is simply to simulate the effect of technological optimism, expressing itself in an economy where a spectrum of technological advances are available, and where credit and interest policies allow such expression.

Note that transfer payments, education, services, and other overhead expenses can increase greatly under this projection (Figure 14), while they fall in the base run. That is, not only does the beam weapon program pay for itself (it is included in these overhead expenses) but it allows for the general increase in these expenses as the economy develops. In fact, these increases are necessary to support the implied increases in productivity that will be required for the introduction of the new plasma technologies.

This is, in fact, the real significance of the beam weapon development program in the larger sense of national security. By insuring the overall cultural and educational development of the domestic economy, it creates the basis for on-going progress in all areas of economic and social life. A military program that only addresses military goals (in the narrow sense) will in the long-run fail to protect a nation; the real mission of the military, as the early American military leaders recognized, was nation building. The beam weapon program is that nation building task in modern garb.

EIR Special
EXECUTIVE INTELLIGENCE REVIEW

NOW AVAILABLE

Special Technical Report

A BEAM-WEAPONS BALLISTIC MISSILE DEFENSE SYSTEM FOR THE UNITED STATES

by Dr. Steven Bardwell, director of plasma physics for the Fusion Energy Foundation.

This report includes:

- a scientific and technical analysis of the four major types of beam-weapons for ballistic missile defense, which also specifies the areas of the civilian economy that are crucial to their successful development;
- a detailed comparison of the U.S. and Soviet programs in this field, and an account of the differences in strategic doctrine behind the widening Soviet lead in beam weapons;
- the uses of directed energy beams to transform raw-materials development, industrial materials, and energy production over the next 20 years, and the close connection between each nation's fusion energy development program and its beam weapon potentials;
- the impact a "Manhattan Project" for beam-weapon development would have on military security and the civilian economy.

The 80-page report is available for \$250.
For more information, contact Robert Gallagher
or Peter Ennis (212) 247-8820.

The peace movement, the KGB, and the Anglo-Italian axis

by Umberto Pascali and Bonnie Mesaros

Well-publicized statements by members of Congress, trumpeted through the Dec. 10 *New York Times*, that there is “no evidence that the Soviets direct, manage, or manipulate the nuclear freeze movement,” are as fraudulent as the claim that the purpose of this so-called peace movement is to promote peace. It is a matter of documented fact, proved anew by arrests this month in Italy, that the European wing of the peace movement is run top-down by agents of the British-Venetian aristocracy and the Soviet KGB, and that international drug-pushing, terrorism, coups and assassinations are such “peace networks’ ” stock-in-trade.

We expose the networks, name the names, and blow the operations.

The Godfathers

Let us take as our first example the peace movement in Italy. Its real boss is the sociologist **Franco Ferrarotti**, whose **Italian Psychoanalytic Center** (CSI) is officially linked to the psychological warfare “mother” organization of British Intelligence since before World War II, the **Tavistock Institute**. Ferrarotti began his career as union-buster for **Olivetti**, the electronics multinational, headquartered in Ivrea, the stronghold of austerity-mongering Italian **Senator Bruno Visentini** and Olivetti’s Aquarian age industrialist **Carlo de Benedetti**, a good friend of **Henry Kissinger**.

On the “socialist” side of the peace movement, the big cheese is **General Nino Pasti**, who, after having served as a top officer in **NATO headquarters** in Brussels and a chief of Intelligence in the Italian Army, became the organizer of the Stalinist faction inside the **Italian Communist Party**. Pasti is notorious for his ties to the **Soviet KGB**, and func-

tions as a classic interlink between **British intelligence** and the KGB.

At the level of Europe as a whole, the peace movement is coordinated by **Prof. Adriano Buzzati Traverso**, leader of the most high-toned, hoity-toity intelligence operation run by the old European aristocratic families of Venice, Genoa and London, the notorious **Société Européenne de Culture (SEC)**.

The peace movement in action

Ten days ago, on the island of Sardinia off the west coast of Italy, police arrested 12 members of the Sardinian separatist movement in connection with investigations into international terrorism. The Italian state prosecutors operating under the authority of Judge Mario Marchetti, who issued the warrants for the Dec. 4 arrests, announced that the roundup had disrupted a plot to mount a coup d’état against the Italian republic, a **fascist** coup that was to have been triggered on the pretext supplied by a terrorist campaign and was intended to trigger insurrection all over the Mediterranean to split Sardinia away from Italy. One man in particular escaped the dragnet—Al Gerj Mehemed Tated, a citizen of Qaddafi’s Libya and the contact man for the Sardinians and their terrorist paymasters and arms suppliers in Tripoli.

Last spring, the Libyan dictator Qaddafi made a tour of western Europe, including Italy, and announced that he was indeed the true leader of the European peace movement. Recalling Qaddafi’s well-known KGB and terrorist connections, consider that Italy’s Judge Marchetti, in further investigating the Libyan links to the Sardinian separatist coup plot, must observe the close connections between the Sardinian

leader **Prof. Bainzu Piliu** and the Qaddafi-linked boss of the Sicilian separatists, **Michele Papa**. Piliu, a professor of chemistry at the Sassari University, was introduced to **Libyan agent Tabet**, the same who is currently in flight to avoid arrest, last summer in Sicily, during the so-called Feast of Sicilian-Libyan Friendship sponsored by Michele Papa and the Libyan government.

Michele Papa became famous as the man behind "Billygate," the scheme by which the brother of U.S. President Jimmy Carter was "turned" into a registered Libyan agent.

But Papa has long been known as a link between the Mafia, Qaddafi, and terrorism. After the confession of terrorist **Bernardino Andreola**, arrested in Sicily during the early 1970s, Italian state police found that Michele Papa was organizing a "national liberation army" to split Sicily away from Italy. Money and weapons were sent from Libya; Andreola himself confessed that he had been sent to Sicily by the terrorist "Alpha Group" to learn "**how to apply the Mafia's methods to the political fight,**" that is how to use terrorism and drugs.

Andreola was put into contact with **Michele Papa** by a top mafiosi, **Nino Badalamenti**; he himself was a protégé of KGB-linked **Giacomo Feltrinelli**, who tried to organize an alliance between his terrorists and the Sardinian bandit mafia led by Graziano Masini to provoke Sardinia's split from Italy, to make it "**the Cuba of the Mediterranean.**"

Thus the Qaddafi-KGB-British plot foiled by Italian authorities with the Dec. 4 arrests was essentially the same in scope and personnel as "**Operation Nightmare,**" the gameplan for precipitating an Italian coup last March that was exposed at that time by the European allies of American anti-terrorist fighter Lyndon LaRouche.

"**Operation Nightmare,**" it will be remembered, was to be kicked off by huge "**peace demonstrations**" in Sicily against the installation of the U.S. Pershing II missiles, or Euromissiles, on that island. When the leader of the Sicilian Communist Party, Pio La Torre, was briefed by associates of LaRouche, that operation was aborted. On April 30 La Torre was assassinated in a Mafia rubout in Palermo, after investigations had further pointed the finger of suspicion at British-KGB agents at Italian Communist leaders **Giancarlo Pajetta** and **Giorgio Napolitano**.

The Bulgarian connection

Another series of "busts" has exposed this same Anglo-Soviet faction as in control of the drug- and gun-running which puts huge amounts of Western currency in the hands of the Bulgarian intelligence services and the Soviet KGB, which is then used to finance the so-called peace and environmentalist movements. One might ask Yuri Andropov and Henry Kissinger why this story has taken so long to come out.

At least three Italian judges are investigating the involvement of Bulgarian secret services in criminal activities. Rome Judge Ilario Martella's unravelling of the links connecting

Mehmet Ali Agca—the would-be assassin of Pope John Paul II—to Bulgaria have been amply reported here and elsewhere; Trento Magistrate Carlo Palermo's uncovering of the huge East/West arms-for-drugs center, Stipam International Transports in Milan has also been fully reported in *EIR*, but virtually blacked out of the U.S. press. Also covered up here, but widely reported in Italy are the startling revelations in the ongoing trial under Judge Ferdinando Imposimato's charge of the Red Brigades' aborted kidnapping of NATO General James Dozier. Imposimato has extracted a full confession from Luigi Scricciolo, former external affairs director of the Socialist Party-controlled trade union confederation, UIL, who has admitted to being an espionage agent for the Bulgarians. His role was as a mediator between the Bulgarian secret service and the Red Brigades terrorists, who reportedly extracted NATO secrets from Dozier and passed them through Scricciolo to the East Bloc. Scricciolo's confessions about the role of the Bulgarian national airline, Balkan Air, has led Imposimato to order the seizure of all lists of the airlines' employees and passengers. Scricciolo was also the Italian coordinator of British "support operations" for the Polish trade union Solidarity. These activities were co-sponsored by the U.S. AFL-CIO of Lane Kirkland, suggesting the perceived identity of interests on which the KGB and Kirkland operate.

Spadolini hits East-West convergence

Just this week, former Italian Prime Minister Giovanni Spadolini issued a statement to the press on the international controllers of terrorism. Spadolini, who also issued the text of a letter from President Reagan thanking him for his strong efforts against the international drug cartel, identified the fact that the Eastern European terrorist networks operate hand-in-hand with related Western networks. Spadolini said that while the connecting tissue of terrorist plots is in the East Bloc, at the same time, this Eastern network is "linked to its Western counterparts." The two, he emphasized, "strangely converge" in a common aim of destabilizations against nation states. One should not be surprised therefore to learn, he added, that Bulgaria is deeply involved with Propaganda 2, and vice versa.

Spadolini, a member of the Republican party, was forcefully backed up by leaders of both the Christian Democratic party (DC) and the Italian Communist Party. On Dec. 16, Ciraco De Mita, DC General Secretary and a spokesman for the PCI, underscored the need for an investigation that "must go in several directions." The East Bloc angle, they emphasized, is only one, and terrorism "is fed from several sources. . . ."

Meanwhile, PSI boss Craxi, who is attempting to play down the Socialist role in these revelations, especially those of his crony Scricciolo, and that of PSI leader Giacomo Mancini, who was recently indicted by Judge Imposimato for subversive activities against the state, continues to try to keep the spotlight focused toward the East.

Deng Xiaoping reaches an unstable truce with the army-industry faction

by Richard Katz

An uneasy truce reigns in Peking. The recently ended National People's Congress (NPC) left a tenuous balance between the ruling faction of Deng Xiaoping and the opposing faction of army and heavy-industry leaders. Deng has found futile his early-1982 hope of eliminating his opponents through a massive purge in the army, party, and state bureaucracy. Instead, the Dengists have had to give way to their opponents on both organizational and policy questions.

For the past two years, Deng and his allies had waged a pogrom against heavy industry along with Maoist ideology; his opponents, by contrast, had demanded both the use of modified Maoist ideology to control the Chinese masses, and a resuscitation of heavy industry. The heavy industry sectors and the more technologically oriented groupings in the army formed a coalition around the view that industrialization was the indispensable basis of national power and military strength.

Now the two sides have reached a truce best shown in the NPC speech of Dengist Premier Zhao Ziyang, a speech in which Zhao repudiated the policies he had insisted upon only a year earlier. Zhao's speech, which presented China's Five-Year Economic Plan, was the epitome of compromise. At last December's NPC, a constant theme in Zhao's speech was a demand for indiscriminate "closing down, shutting down, suspending operations" of allegedly redundant or inefficient factories. This year, Zhao reserved such sentiments for one small section of his report and greatly qualified them.

Last year, Zhao railed against what he called "the one-sided drive to get bigger percentages of students into higher education." This year, Zhao called for *quintupling* by 1985 the number of students entering postgraduate education—to the still pathetic level of 20,000—and raising by 40 percent the entering class at college level to 400,000. Last year, Zhao said coal would be expanded almost exclusively by expanding existing mines. This year, Zhao proposed opening new mines in the next 10 years with a total capacity of 220 million tons.

On the other hand, possibly as a trade-off for these concessions to the heavy-industry proponents, Zhao insisted on pursuing—albeit in a slower, more careful manner—the decentralizing "reforms" long desired by the Dengists, including going so far as to propose restoring private individual ownership over *small* presently state-owned factories. Zhao

also stipulated that the total level of investment under the current Five-Year Plan would be no higher than in the 1976-80 plan, and that heavy industry would be kept at a lower rate of growth than light industry, 3 percent and 5 percent respectively.

Prelude to the congress

One of the most remarkable aspects of Zhao's speech was that it was given at all. During the past two years, as the Dengist versus anti-Dengist fight raged, unity around the most basic day-to-day policies had been impossible—aside from unity against total maniacs such as the Gang of Four. A Five-Year Plan that was to have begun in January 1981 could not be agreed upon until just now, two years later, as Zhao himself mentions in his speech. For nearly two years, until this September, Peking was unable to convene the long-awaited Twelfth Party Congress that was supposed to finally end the residue of the Cultural Revolution. A new non-Maoist Constitution for China also had to be put off, until now.

At the beginning of this year, Deng hatched a scheme to rid himself of his opponents through a planned (but never fully implemented) purge of hundreds of thousands of government officials and millions of party members along with hundreds of thousands of military men. Going into the Twelfth Party Congress, when it was finally called in September, Deng hoped to clinch his organizational supremacy, throw his opponents out of leadership bodies, and downgrade the power of the ideologically oriented Communist Party in favor of the more technocratic state apparatus, e.g., the NPC.

Deng failed on virtually all these counts. Instead, the army-industry coalition gained more power than they had had in years. The army, which previously had held only 6 of the 28 Politburo seats (25 full members and 3 alternates) rose to 9 seats. A Dengist move to put the army under a State Military Commission instead of the Party Military Commission failed. Finally, Deng had to leave on the Politburo one of the most stalwart heavy industry proponents, former Vice-Premier Yu Qiuli, whom Deng had transferred in 1981 from his post as head of the Planning Commission to a downgraded Energy Commission, only to dismiss him from the latter post in May of this year.

The Party Congress seemed to initiate the beginning of

the delicate truce between the Dengists and the army-industry grouping, as both groups agreed to the demotion of the staunch ideological Maoists led by former Party Chairman Hua Guofeng. A few weeks after the Party Congress, the semi-Maoist Army Chief Political Commissar Wei Guoqing was ousted for allowing the *Liberation Army Daily* to print a prominent ideological piece highly critical of Deng. However, Wei's replacement was not a Dengist, but Yu Qiuli himself who declared to the *People's Daily* a few days after the Party Congress that the Army must stay under the control of the party "forever," i.e., not under Deng's proposed State Military Commission.

Still another victory for the army-heavy industry faction came with the late-November replacement of Geng Biao as Defense Minister by Zhang Aiping. Geng Biao, a non-army man, had been put in by Deng in 1981 against the wishes of the army and had implemented Deng's 25 percent budget cuts in the military from 1979 through 1982. Zhang, on the other hand, was a career military man whose most recent post was as chief of the military's science and technology commission, where he helped develop China's submarine-based nuclear missile capacity.

A final reflection of the newfound power of Deng's opponents has been the marked shift in the last few months of China's foreign policy: away from Deng's previous close ties to Washington and toward more normal state-to-state ties to the Soviet Union. This switch in policy was underscored by the replacement of Foreign Minister Huang Hua, a fervent advocate of the pro-Washington view, with Wu Xueqian. Wu, who has often represented China in dealing with developing countries and with Soviet bloc communist parties, is suited to China's new "non-aligned," pro-Third World orientation. Wu is by no means a partisan of the anti-Deng groups, having been a longtime protégé of Dengist Party Chairman Hu Yaobang. However, the new foreign policy adopted by Peking is in part an accommodation to the views of Deng's opponents who have long felt that China should concentrate on building up its national power and avoid getting into a confrontationist situation with the Soviet Union for the "sake of" the United States.

There is currently a lull in the faction fighting, at least enough to settle day-to-day policy for the time being. To be sure, the Dengists retain organizational and policy primacy, but they can no longer run roughshod over their opponents.

The tenuous balance and uneasy truce between Deng and his opponents produced the compromise Five-Year Plan presented by Zhao at the early-December National Peoples Congress. The NPC is China's nominal legislature, whose power Deng has been trying to increase. Zhao's most explicit statement of the compromise came in his declaration that the goals of Deng's "readjustment" program had been "basically" achieved. Deng's shutdown of heavy industry, which resulted in an admitted 5 percent drop in heavy industry in 1981 and the unemployment of millions, was carried out under the slogan of "readjustment" which was intended to lower the

ratio of heavy to light industry, and lower the rate of investment. Whereas in December 1981, Zhao said such readjustment would go on for several more years, in this speech, Zhao said instead that these ratios were "basically in balance."

Zhao also gave much greater lip service to Marxist ideology relative to material incentives, saying, "we must combat all such unhealthy tendencies as sheer irresponsibility, putting money above all else, asserting departmentalism and anarchy. . . . It is essential to do everything to combat and check the shameful practice of selling one's moral integrity . . . and commercializing human relations, as is common in capitalist society."

Zhao's quadrupling plan

The basic purpose of the Five-Year Plan (two of whose years have already passed) is to *quadruple* China's total agricultural and industrial output by the year 2000. If every year's growth were equal, it would require an average 7.2 percent rate of growth. However, Zhao proposes to achieve this goal by a 4-5 percent growth rate in 1983-85, a 5-6 percent growth in 1986-90, and then to zoom to a 10-11 percent growth in the 1990s. Naturally, many Chinese, victims of previous promises, are quite doubtful.

One of the most remarkable aspects of Zhao's speech was that it was given at all. During the past two years, unity around the most basic day-to-day policies had been impossible—aside from unity against total maniacs such as the Gang of Four. A Five-Year plan that was to have begun in January 1981 could not be agreed upon until just now. . . . Once the plan runs into snags and political unrest emerges as in 1981 . . . a new master plan must be created, and a ferocious fight will break out over what it should be.

Zhao bases his program on four premises: infrastructure investment; technical upgrading of existing enterprises; "free enterprise" administrative reform; and a projected 8-9 percent annual growth in exports in the 1980s. The program is the product of political compromise rather than sound economic planning and thus contains many features that could doom it.

Thirty-eight percent of the total investment in the Plan will go to transport and energy infrastructure, a higher rate

than previously; this includes an escalated nuclear energy program. Peking hopes that this investment will break the bottlenecks that keep Chinese industry operating so far below capacity, and that this will produce "takeoff" in the 1990s.

It remains to be seen if the investment is sufficient to meet Zhao's claims. The overall investment during 1981-85 at 360 billion yuan (about \$180 billion) is no higher than during 1976-80. Moreover, it is not known how much of the infrastructure is really aimed at building up heavy industry, and how much simply at aiding resource-extraction projects for China's exports, and for its coastal Hong Kong-like Special Economic Zones (SEZs). A big part of the investment goes to increasing China's harbor capacity by 33 percent. Finally, Zhao proposes to keep heavy industry growing at only 3 percent compared to 5 percent for light industry. All these limitations cast serious doubt on the ability of this investment to yield 9-11 percent growth payback in the 1990s.

Zhao also hinged a great deal of the success of the program on the notion of shortening the cycle of depreciation of fixed capital equipment from China's current average of 20-24 years to about 10 years. Zhao proposed a shift of investment from building new factories wholesale to upgrading and renovating existing enterprises with new, more technologically advanced equipment. Zhao's plan will raise the portion of investment going into renovation of existing enterprises from 20 percent to 33 percent. The espousal of modern technology marks a departure from last year, when Zhao charged that advanced technology eliminated jobs. If the policy of shortening the depreciation cycle is indeed carried out, it would certainly aid China's industrial development immensely, as similar policies have in every successfully industrialized country. The only question is whether this initiative is used as a pretext to hold down overall investment and to avoid needed new enterprises.

Balancing these concessions to the heavy industry proponents, Zhao went even further than before in promoting the "free-enterprise" types of economic "reforms" disliked by the army-industry faction. As in the past, Zhao pointed out that, under the current system, factory managers often simply strive to fulfill their quota without regard to whether there is a market for their goods, whether the goods are too shoddy to be used, and whether they so wastefully used material and equipment as to raise the cost of production above the administered sale price. As a result, 30 percent of state-owned enterprises run at a loss.

Zhao's solution was to retain the overall supremacy of the central plan, but to provide incentives for local decisions and efficiency. Rather than having factories turn over profits to the state, Zhao proposed that factories should be taxed, whether or not they make profits, and be allowed to keep and reinvest whatever profits they managed to make. This would force firms to become efficient, Zhao said. Those firms which could not become profitable under a two-year period face the possibility of being shut down or amalgamated.

Zhao also said that "We plan to adopt, by stages and

groups over the next three years, such diversified forms of operations for *small* state-owned enterprises as contracting or leasing them to collectives or to workers and staff members as *individuals*, with the state collecting taxes and the enterprise paying for the use of state funds and assuming sole responsibility for its own profit or loss [emphasis added]." Private ownership of business in communist China!

In the context of proper investment policies, such measures could add a "reality principle" to local factory management. However, all too often in the last two years, as the Dengists slashed investment funds for industry, such "free-enterprise" reforms simply served as a pretext for shutting down firms made unprofitable not by poor management alone but by the woeful lack of industrial infrastructure.

The more ideologically oriented army-industry elements are sure to object to private ownership, even if it is limited to firms with only 5-10 employees.

One of the more crucial parts of the quadrupling plan is the hope for an 8-9 percent annual growth in both exports and imports. China needs to import technology to overcome bottlenecks and obtain technology. But, seeing the experience of other developing countries, it is reluctant to get into debt. Zhao has already said that China will borrow on commercial markets, but this will be limited. Therefore, to avoid deficits, China wants to gear up its exports, and much of the infrastructure investment is directed to export promotion, e.g., railways and ports to handle the coal being developed in Shanxi Province in cooperation with Occidental Petroleum.

Under current world economic and trade conditions, China will be hard-pressed to achieve the 9 percent export growth. China's attempt to increase sales—it now sells 1 percent of total world exports—runs into hard competition with other developing countries. Moreover, importers are already putting limits on China's exports. At U.S.-China talks Dec. 14-15, Peking wanted the U.S. to raise the quotas on shipments of textile and apparel to allow China to maintain 1982's 20 percent rate of increase. Washington, under pressure from domestic textile lobby, wants to lower China to a 5-7 percent rate of increase; the European Community is being even harsher.

Thus it is unlikely that China can meet the goal mandated by the Plan. If it must cut imports, as in 1981-82, then the overall plan will be sharply curtailed and quadrupling of income by the year 2000 will soon be recognized by all as very unlikely.

How long the truce?

The truce between the Dengists and army-industry factions is based on the premise that China can follow the course outlined in Zhao's speech. Perhaps the participants to the truce themselves believe the arrangement can last for some time. This will change once the plan runs into snags and consequent employment problems and political unrest emerge as in 1981. At that point, a new master plan must be created; and a ferocious fight will break out over what it should be.

Indonesia emerges from the shadows: a first-hand report

by Daniel Sneider, Asia Editor

Asked to identify the four largest countries in the world by population, the average educated person would probably have little difficulty in correctly answering: "China, India, the Soviet Union, and the United States." But asked to identify the fifth largest, the same person would be stumped. He might answer "Brazil"; it is doubtful he would hit on the correct answer—Indonesia.

Indonesia, a nation of 150 million spread across an island archipelago of 13,000 islands that stretches a distance about equal to that from the Pacific to the Atlantic coasts of the United States, remains mostly in the shadows of world affairs. Despite the fact it is OPEC's 7th-leading oil producer and a vast treasure house of largely unexplored mineral riches, the word most commonly used to describe Indonesia's economic role is "potential."

Politically, Indonesia's military-dominated government can point to a record of relative stability for the past 15 years. Strategically, the country commands the crucial sea lanes linking the Persian Gulf and Indian Ocean to the Pacific.

Yet Indonesia's role in global affairs is very low-profile, confined to the affairs of the Southeast Asian region and particularly those of the Association of Southeast Asian Nations (ASEAN). The casual observer places Indonesia within the broad "pro-Western" camp, perhaps even as an acquiescent partner in U.S. strategic designs for East Asia.

These impressions all have an element of truth in them, but the visitor to Indonesia quickly learns that one must try to distinguish between the images on the surface and the deeper reality. The most popular art form in Indonesia is a useful guide to looking at the country—it is the *wayang*. The *wayang* are performances of the well-known Hindu epic poems, the Ramayana and the Mahabharata, where the principal characters appear as puppets whose shadows are projected on a screen.

In many ways the political and social culture of Indonesia, which principally means the dominant culture of the densely populated island of Java where 80 percent of the population lives, is a well-performed shadow-play, whose reality remains largely hidden. But it is clear that Indonesia, a potential major power on the Asian and world scene, is a nation emerging from the shadows.

Economic riches and uncertainties

Indonesia is considered one of the booming economies of Southeast Asia, a region whose overall economic perform-

ance has been a relative brightspot in an otherwise gloomy world economic scene. In 1981 the economy posted a 7.6 percent rate of growth (GDP), down from 9.9 percent the previous year but still strong. In the past couple of years foreign exchange reserves have grown to a 1981 level of over \$6 billion and the budget has shown real surpluses. Inflation is down to a moderate level of around 7 percent, and a number of large investment projects are planned, including several in the petrochemical field.

The view from the streets of Jakarta, the growing capital and port city located on the coast of Western Java, seems to confirm a sense of growing prosperity. The streets are filled with tens of thousands of new cars, mostly Japanese but also European and even American, which are assembled in Indonesia from pre-fabricated kits. Supermarkets can be visited whose shelves are filled with imported goods and billboards proclaim the virtues of all sorts of consumer goods from color televisions to brands of foreign cigarettes. In the nicer residential areas of the city, large houses can be glimpsed behind walls, and in the center of the city highrise office buildings and luxury hotels are springing up in increasing numbers. A provincial city, like Bandung in Western Java, which this writer visited, may lack the highrises, but even there the trappings of a growing consumer society can be found.

Behind this image of growing prosperity, there are darker uncertainties and deeper problems which remain largely unsolved. The immediate circumstances of growth in Indonesia are largely dependent on two basic factors—the increasing achievement of food self-sufficiency (Indonesia is still a large food importer although rice production is now meeting national demand) and the world market and market prices for its principal raw materials exports: oil and natural gas first and foremost, followed by wood and wood products, rubber, coffee, and minerals like tin and bauxite. Conservative financial and fiscal policies provide at best a temporary buffer during the times of world depression we now face.

Indonesia's export earnings, and hence its current account and foreign exchange position, experienced an upturn following the 1979 oil price hike. However, the world depression has dropped oil demand and also the market for other commodities, and the impact is now being felt in Indonesia. During fiscal year 1981-82 (April 1-March 30), the current account went from a modest surplus the previous year to a deficit of \$2.4 billion. Exports of petroleum and LNG (liquefied natural gas) went down 10 percent in value; wood

and wood products down 30 percent; and rubber and coffee down 40 percent. Imports, including of petroleum products, were up substantially.

Assuming that oil production remains at its current level (about 1.3 million barrels per day), the Western depression continues, and import growth continues, it is currently estimated that 1982-83 will produce a current account deficit between \$6 and \$7 billion. A recent report on "economic trends" in Indonesia issued by the U.S. embassy in Jakarta suggests that the deficit might even reach \$8 billion. Official foreign exchange reserves have dropped \$2 billion since January 1982, the embassy also reports, to a level of around \$4 billion by the end of September. State bank foreign exchange holdings abroad are about \$4 billion.

Is Indonesia another Mexico?

These conditions are sure to put significant financial strain on the Indonesian economy. Indonesian foreign debt is estimated at around \$17 billion, but undisbursed loans bring it up to \$28 billion. This is far below the level of some Latin American debtors, but there are observers who raise the question whether Indonesia is potentially "another Mexico."

The short term answer seems to be "No." Debt service levels are generally manageable—estimated at \$2.6 billion for 1982—taking into consideration export levels and their capacity to undertake new borrowings. With projected borrowings for the next year, even a current account deficit as large as that projected will require, by U.S. embassy estimates, about a \$2 billion draw-down of the overall foreign exchange reserves of \$8 billion. The picture beyond that point, however, is much murkier if world economic conditions continue as they are.

Substantial pressures are already mounting for the Indonesian government to adopt financial austerity measures which could have unforeseen political and economic consequences. The government earlier this year dropped subsidies of the domestic gasoline price by 40 percent, and there is talk of further cutback in subsidies for fuel oil, kerosene, and food. Adi Sasono, the director of the Institute for Development Studies in Jakarta and a critic of government policy, told this writer that he believes the balance of payments problems will result in a scrapping of those subsidies and a devaluation of the rupiah, the Indonesian currency, which will fuel inflation.

Less publicized, and more significant, are pressures on the government of President Soeharto to scale down plans for large-scale capital investment, particularly large industrial development projects such as refineries and petrochemical complexes planned for South Sumatra (an aromatics complex) and other areas. As the U.S. embassy report coyly put it: "Some leading spokesmen have wondered aloud whether it might be advisable to slow down certain major capital projects until the world economic situation improves."

President Soeharto has so far, however, rejected such calls to slow down the pace of development investment, a policy which Indonesia had adopted during the mid-70s fol-

lowing the so-called Pertamina Crisis on the insistence of Western banker creditors, with the internal support of Western-trained technocrats grouped around Coordinating Minister for Economics, Finance and Industry, Dr. Widjojo Nitisastro. Soeharto, in a recent speech, insisted that Indonesians "do not need to panic in facing these conditions (of recession)" and that "Indonesia must push forward with its ambitious development program if it hopes to meet the challenges facing it in the next five years."

The consumer goods riches of Indonesia conceal the extent of these challenges—for all its raw materials wealth, and associated import of consumer goods, Indonesia lacks most of the fundamentals of an industrial base, including sufficient steel and cement production and an almost complete lack of a machine tool industry. More importantly, the basic infrastructure in transport, communications, and power—key to both industrialization and agriculture—remains very undeveloped, its weaknesses compounded by the tremendous difficulties posed by the vast distances and island geography of the country. Indonesia, despite its oil wealth, produces less than 3 gigawatts of electricity, and the vast majority of that is consumed in urban areas. Less than 10 percent of the countryside is electrified.

Indonesia's greatest source of potential wealth, its vast population, is also very undeveloped. While literacy has grown substantially, there is an acknowledged shortage of skilled manpower, including Indonesian trained scientists and engineers (only 700-800 science and engineering graduates are produced each year from their colleges and universities). Indonesia's ability to develop new industry, to absorb capital investment and new high technology, will be dependent on expansion of its education and manpower training facilities.

The political-economic debate

These challenges have spurred a debate in Indonesian policy-making circles over the development path for the future. The dominance of a certain group of Western-trained technocrats, sometimes referred to as the "Berkeley mafia," who have guided economic policy since the end of the Sukarno era in the mid-1960s, is no longer so overwhelming. Different voices, including those of technocrats trained in Western Europe (France and Germany mainly) and "indigenous" technocrats from institutions like Gajah Mada university in Jogjakarta in Eastern Java, are now part of the policy debate.

The lines of debate are not crystal clear by any means, but the newer voices are more nationalist in tone and urge more rapid industrialization, growth of self-sufficiency in agriculture, and science and technology. The current focus of discussion is the preparation of the next 5-year development plan (Repelita 4), to be presented in March of next year. That coincides with Soeharto's anticipated re-election as President by the national parliament which was elected earlier this year.

Informed political observers in Jakarta point to a complex political debate going on in the government, which will culminate in March. After his reelection, Soeharto will announce a new, reshuffled cabinet, one which may reflect the priorities of the new development plan. There is, according to one observer, a game of musical chairs going on in Jakarta. When the music stops in March, there will not be enough chairs for all those who now occupy the ministries and other seats of power. Who will be left behind is a subject of many a rumor, and in private conversations it is common to discuss whether this or that leading figure's fortunes are on the rise or waning.

It is in this context that Indonesia's "political stability" will be tested. Some Indonesian analysts believe that a continued economic downturn, in the context of global depression, could create fertile ground for political instability. Those sources point to the danger of Islamic fundamentalism in a country which is 90 percent Muslim, in fact the largest Muslim country in the world, and in which conservative Islamic elements oppose the accepted secular ideology of Indonesia, an ideology first pronounced in 1945 by nationalist leader Sukarno in his famous statement of the *Panchasilla* (literally five foundation stones or principles), still the official state credo. Similarly, some speak of the danger of a revived communist movement—the Indonesian Communist Party (PKI) was once one of the largest in the world and a virtual partner in the political system with Sukarno until the attempted 1965 PKI-backed coup led to the takeover by the army and the complete destruction of the party as an overt political force.

Most Indonesian political sources this writer talked to believe these dangers to be overstated. While there is undoubtedly dissatisfaction with the mild authoritarian rule of the army, there are few signs of boiling discontent that could emerge in the immediate period ahead to threaten the stability of the Soeharto government. Most refer to known Islamic fundamentalists as "extremists" who are a tiny minority, even within the Islamic political party (the PPP), one of the two recognized opposition parties represented in the national parliament. The threat of a PKI revival is similarly dismissed—it is more, it seems, of a ghost on the political scene which serves to remind the population of the "bad times," particularly economic, of the late period of Sukarno rule. PKI communism, which was mainly pro-Peking, remains the only form of political ideology and organization which is totally "outside the pale" of Indonesian politics.

The key to the stability of the Indonesian polity seems to rest not so much on the formal authority of the system and its structures, including the army and the pro-government Golkar (functional groups) party, but rather on the strength of the traditional Javanese culture, which is the dominant culture of Indonesia, and its political reflections. Java, according to general historical knowledge, has been inhabited since 3000-2000 B.C., and the evolution of its civilization reflects a rich historical tradition. It combines the early influences of

Indian civilization, which brought the Sanskrit language and Hindu philosophical/theological culture to Java early in the first millennium A.D., with later influences of Islam and Western civilization, all on top of an earlier Javanese animist culture. One observer has called it a "marbled layer cake."

All these elements remain preserved today, mixed together in an amazingly flexible, syncretic culture characterized by a high degree of tolerance and the ability to absorb all sorts of stresses and strains without cracking. This traditional Javanese culture was very much the basis for the ideology of the modern nationalist freedom struggle against the Dutch colonialists led by figures like Sukarno and M. Hatta, the first President and Vice-President of the Indonesian republic which declared its independence only days after the Japanese, who occupied Indonesia during World War II, had surrendered. One of those cultural-political principles which remains enshrined in Indonesian politics today is called "*Gotong Rojong*," translated as "mutual cooperation." Gotong Rojong is based upon what is called "*musjawarah*," meaning deliberation or discussion.

This is the Javanese version of what the Japanese like to call "consensus." It is "un-Javanese," I was told, to allow differences to be expressed in such a way that it creates real division. All opinions, all views must be incorporated in the system in the spirit of Gotong Rojong. Only communism is exempt from this dictum because, as I was told many times, they did not accept the Panchasilla, particularly the first "silla" (principle) which speaks of a belief in "one supreme being." That same silla expresses a highly tolerant attitude toward religion in a country which is 90 percent Muslim, but where all sorts of beliefs are meshed together. Islam in Indonesia, in practice, incorporates numerous Hindu rituals and the great Hindu poems like the Ramayana and Mahabharata, the gods and tales of which are known and loved by all. It is difficult to see how Islamic fundamentalism of the Khomeini, Saudi, or Pakistani varieties could find fertile ground here.

The role of the army in the government—many cabinet posts are filled by army officers and the army has the "last word" in political decisions—must also be seen in this light and not facetiously compared to army rule in places like Latin America or Pakistan. The army is a direct product of the nationalist war against the Dutch and its participation in political life flows from that period. The army presents itself, still credibly, as a "defender" of the nationalist ethos. There is little sense of overt political "repression" in Indonesia—at least to the casual visitor—and critics of government policy, including some met by this writer, not only speak openly of their views but also are incorporated, as Javanese political culture demands, into official "advisory" bodies to the President. Political figures may perhaps gain or lose power and authority but they remain "within the system."

There is underneath this a clear sense that the old nationalist traditions of the Sukarno period remain a strong part of Indonesian political life. While Sukarno is criticized for al-

lowing the PKI fox into the henhouse, he remains a respected figure for his contributions in unifying this geographically dispersed nation and creating a true "Indonesian identity" against attempts by the Dutch and others to geographically divide the country.

Dr. H. Roeslan Abdulgani, a long-time nationalist veteran of the anti-Dutch freedom struggle, and former foreign minister during the Sukarno period, told this writer that respect for Sukarno remains strong particularly outside the capital, in the traditional areas of Central and Eastern Java. Dr. Abdulgani, who heads the advisory team to President Soeharto on the propagation of the Panchasilla ideology, says that Panchasilla remains a very live force, and recounts how university students at a lecture he gave recently in Jagjakarta attacked a professor in the capital who suggested revising this state ideology.

Indonesia in Southeast Asia

The strength of traditional nationalism is clearly expressed in the views one finds on issues of foreign policy, particularly the Indonesian view of politics in Southeast Asia and the role of the great powers, including the United States, there. Indonesia's broadly pro-Western stance and the strong anti-communist views of the political leadership have led some observers to simplistically frame Indonesian foreign policy in the cold war division of the globe.

As U.S. Defense Secretary Caspar Weinberger recently found out anew, the strong influence of the United States and pro-Western views in Indonesia does not so easily translate into cold war politics. Weinberger, as this writer was told in Jakarta by foreign policy analysts at the Center for Strategic and International Studies (CSIS—an independent thinktank), did not find a receptive audience for the strategic line he was trying to sell. Weinberger tried to tell the Indonesians that the main threat to them, and to all of the region, is the growing Soviet military presence, both directly and through the Vietnamese.

While no one in Jakarta wants to see a strong Soviet military presence in the region, the Soviet Union is far from "No. 1" on the Indonesian "threat" list. In conversations at CSIS and with other Indonesian political observers, there are two countries most frequently mentioned as dangers to the region, as potential threats to dominate Indonesia and the rest of ASEAN—China and Japan.

The danger represented by China is a common subject of discussion and the view of the Chinese as the "main threat" to Indonesia and Southeast Asia is an almost unchallenged precept of Indonesian consensus. There are many factors in this dark view of China. One is Peking's role in backing the PKI during the 1960s. An Indonesian political figure told this writer that the 1965 events were basically a Chinese attempted coup and pointed to the predominance within the PKI leadership at that time of Indonesians of Chinese origin.

The view of China as an enemy is not merely a question of Chinese communism but is a matter of longer historical

tradition. One gets a glimpse of this in the set of dioramas depicting Indonesian history which form a museum in the base of the massive Merdeka (Freedom) monument built during the Sukarno era to commemorate the nationalist struggle. The dioramas start with ancient Indonesian culture but quickly move into a series of depictions of battles against various invaders, including the Portuguese, Dutch, and Japanese. But this series of battles begins with wars against invading Chinese fleets, almost a millenium ago, being shown driven off by stalwart Indonesian defenders. The sense of historical mission against Chinese invaders was distinctly reminiscent of displays this writer saw last year in the military museum in Hanoi.

This historical view is compounded by the distrust of the Overseas Chinese in Southeast Asia, including Indonesia, and in particular their predominant role in controlling trade, banking, and other business activities. The image of the secretive Chinese businessman, making money while Indonesians lag behind, is not an uncommon view in the region. The fact that many Chinese have failed to assimilate themselves into Indonesian society, to the point of retaining citizenship of China or Taiwan, is a sore point. Indonesian customs regulations, printed clearly on your entry form, prohibit the import of printed Chinese characters and Indonesian censors, sometimes to the point of silliness, black out any characters appearing in imported foreign publications. One Chinese-language daily newspaper is allowed in the country.

The question of economic dominance is also the key to a generally distrustful view of the Japanese role. Japanese economic presence is highly visible in Indonesia in the vast array of Japanese manufactured goods imported or assembled there. Wherever one turns there are Japanese cars, Japanese electronic goods, and Japanese businessmen. Resentment of the Japanese presence erupted into anti-Japanese riots in 1974 at the time of the visit of then-Premier Tanaka. However, various Indonesians spoken to agreed that the Japanese role has not declined but expanded, but that the Japanese have become more sensitive to Indonesian feelings, taking a lower profile and making efforts to carry out business activities in joint ventures with Indonesians. Nonetheless the common view is that the Japanese are only concerned to take out raw materials from the country and sell their manufactured goods in return. A Japanese commitment to aid Indonesian industrialization expressed in aid for such projects as the giant Asahan aluminum complex in Sumatra, is still viewed with some degree of skepticism.

The Japanese economic role is much less of a problem—and will likely continue to expand—than the issue of a potential Japanese political-military presence in the region. President Soeharto protested to President Reagan during a recent visit to Washington about U.S. plans to pressure Japan to take a larger, regional defense role. Weinberger's attempts to calm Indonesian fears on this point during his followup visit, according to CSIS analysts, is that the United States is naive regarding both China and Japan, and they express real

amazement at the lack of American sensitivity to the realities of the region.

Fear over a potential Japanese military buildup and regional role comes from deep-seated and bitter memories of the brutalities of the Japanese occupation of Indonesia during World War II. Although many prominent Indonesian leaders collaborated with the Japanese, and perhaps even initially hailed the ouster of the Dutch, people from that generation will readily tell visitors tales of horrors committed by the Japanese occupying troops against the population. There is no sentiment for again becoming "little brothers" to the Japanese.

The Kampuchea question

These themes of the Indonesian foreign policy viewpoint are the necessary context for understanding Indonesian views of the politics of ASEAN and the dispute with Vietnam over the Kampuchea (Cambodia) issue. While Indonesian official policy asserts their consensus with all the other ASEAN countries in opposition to the Vietnamese-backed government in Phnom Penh and support for the newly formed anti-Vietnamese "coalition" of Khmer forces including former Prince Sihanouk and the Pol Pot led Khmer Rouge, there are evident differences on the realities of policy.

While some anti-Vietnamese sentiments can be found in official and semi-official circles in Jakarta, the predominant view is that the Vietnamese are "nationalists and communists" and that they do not present a threat to the stability of the region. This is a view not shared by some others in ASEAN, particularly the Chinese city-state of Singapore, which one Indonesian political figure somewhat contemptuously referred to in a conversation with this writer as "the Chinatown of ASEAN," and the current Thai government.

The Indonesian backing for the Khmer "coalition" is generally seen in Jakarta as a negotiating tactic, aiming at getting a political agreement with the Indochinese countries which would result in Sihanouk, but decidedly *not* the Chinese-controlled Khmer Rouge, joining in some kind of coalition government with the Heng Samrin government now in Phnom Penh. According to informed sources, the views on this subject in Jakarta can be divided into three camps—the two minority views on opposite ends of the spectrum are strongly anti-Vietnamese and or in favor of recognizing the Heng Samrin government. The majority, in the middle, have what those sources described as a "wait and see" attitude. CSIS analysts, who anticipate some kind of Sihanouk-Heng Samrin agreement, believe it could take five years before such a ASEAN-Indochina deal is reached.

Beneath that "wait and see" attitude there is barely concealed irritation over the Thai-Singapore position, which is seen as unnecessarily intransigent, although the Vietnamese line is also seen as too tough. As one analyst put it, only half-jokingly, "It would be a lot simpler if Thailand wasn't in ASEAN." One concern expressed by CSIS analysts is that a deal would still leave in existence some thousands of Chinese-

armed Pol Pot guerrillas who, once pushed out of the border area of Kampuchea, might become a dangerous source of instability inside Thailand, linking up with the Chinese-linked Communist Party of Thailand which is carrying on a guerrilla insurgency mainly in the northeast region of Thailand bordering Laos and Kampuchea.

There is also irritation and concern over the U.S. stance on this issue. The U.S. backing for the Pol Pot coalition is seen as a product of the strategic doctrine of anti-Sovietism and the U.S.-China link rather than any intrinsic support for ASEAN, the proclaimed U.S. position. CSIS analysts questioned this writer whether the United States would stand by ASEAN even in the event of an eventual deal with Indochina, and inquired, for example, whether the United States would be willing to pressure Thailand to moderate its hardline stance. At this point, the dilemma for Indonesia is that its ASEAN role, as well as its relationship with the United States, make it difficult to find an immediate way out of the problem as it now stands. As long as Thailand does not change its stance, things will not move—hence the wistful desire to "simplify" things by wishing Thailand away.

There is new concern also about the impact of changes in the Sino-Soviet relationship on the problem. According to an informed source Foreign Minister Mochtar is said to currently believe that Sino-Soviet reconciliation will result in an "abandonment" of Vietnam and force Vietnam to take a more conciliatory position towards ASEAN. The source termed this view "incredibly naive."

Underlying these issues, and the broader themes of the Indonesian view of the world, is a not always visible but nonetheless palpable Indonesian aspiration to achieve a status in regional and world affairs commensurate with its size and vast economic potential. Ultimately Indonesians would prefer to see the region free of all major power domination, and the emergence of a situation in which the countries of the area would strengthen their self-reliant role. In such circumstances, often left unsaid, Indonesia by its sheer weight, would be the dominant power in Southeast Asia.

An Indonesian leadership role perhaps ironically harks back to the famous Bandung Afro-Asian summit of 1955, an event viewed as the founding event of the Non-Aligned Movement. Bandung, which is still considered an important reference point for Indonesian politics, was a moment of high drama, when on Indonesian soil, with the leadership of Sukarno, the greats of the newly freed nations, men like Nehru and Nasser, met to define their independent role, independent from the two great power blocs, in the world.

The nationalism of Sukarno was strong in its political and emotional qualities but weak in providing the economic development which could give such aspirations substance and foundation. For Indonesia to again play such a leadership role, the economic foundations of self-reliance and development will have to be solidly built. That such a task is understood by many in Indonesia as the challenge ahead is at least a good starting point.

Leonardo da Vinci's scientific genius is rescued from Windsor Castle

by Nora Hamerman, Editor

Nineteen eighty-two marks the five hundredth anniversary of the arrival of Leonardo da Vinci in Milan. He came there from Florence, the celebrated birthplace of the Platonic Renaissance in Central Italy. Milan, situated in the fertile Po valley at the crossroads between Italy, France, Switzerland and Germany, was a strategic capital which already evidenced the agricultural and engineering advances that have made it the industrial capital of modern Italy. The anniversary of the coming to Milan of Leonardo, the greatest artist and scientist of the late fifteenth century, otherwise so filled with men of genius, marked the moment when the Renaissance was no longer a local phenomenon of Florence but became a national cultural movement, capable potentially of forging the principalities of the Italian peninsula into a unified nation.

Not accidentally, Leonardo was the first artist to directly express in his painting and drawings the principle of self-transformation which first became empirically evident with the advent of industrial society. Not accidentally, he was the discoverer of the modern science of hydrodynamics. Not accidentally, he was the first to reconceptualize the science of perspective, which had been the great discovery of the Florentine Renaissance painters, from the "linear" Euclidean conception to a spherical perspective capable of representing in the visual world the higher ordering principle of the real physical world. Not accidentally, he was the author of a series of fearsome military engineering advances, both offensive and defensive, described in his famous letter of "job application" to the Duke of Milan in 1482.

Leonardo can only be understood as a great Italian patriot, who side by side with his collaborator Machiavelli struggled to create an Italian nation-state against the resistance of the powerful feudal oligarchy, particularly the oligarchy which had its stronghold in the so-called Republic of Venice. His broader purpose was to bring about that kind of industrial society which would fulfill the Florentine Platonic vision of liberating mankind from bestial labor, harnessing new forms of energy and applying machines to do the work of man.

It is also not an accident that today, at a moment when

the Venetian oligarchy and its junior partners centered around the British monarchy have openly set out to bring back the Dark Ages and the destruction of everything the Renaissance stood for, the "official" image of Leonardo da Vinci has been subjected to an aggressive assault.

A committee set up by the Milan city government has sponsored a series of exhibitions, concerts, conferences and other events to celebrate Leonardo's arrival in the Lombard capital. The official thrust of the Milanese celebration has been what Italians call "ridimensionamento" of Leonardo. That means in English, "cutting down to size." The striking exceptions to this line were an exhibit titled "Leonardo da Vinci as Engineer," at the Leonardo da Vinci National Museum of Science and Technology of Milan, and the symposium held at the museum on Dec. 1-3, 1982 under the title, "The Contribution of Leonardo da Vinci to the Birth of Modern Industrial Society," organized by Italy's Humanist Academy and co-sponsored by the museum.

The official "Leonardo in Milan" committee failed to invite the most obvious audience—students—to its October 1982 "scholarly" conference on Leonardo at the Castello Sforzesco, where the "ridimensionamento" was carried forward with a vengeance. The idea that dominated that meeting is that Leonardo da Vinci was "not a real scientist, but merely had great intuitive powers." "Science" for these scholarly gentlemen, dominated by the presence of British "Vincian" authorities, is rather the reductionist systems of Sir Francis Bacon, Galileo and Isaac Newton. Leonardo da Vinci, who somehow magically anticipated dozens of discoveries of 18th, 19th and 20th century science, was for them no scientist, but a neurotic fluke.

Most enlightening in regard to this line on Leonardo was a color supplement in the weekly magazine *Europeo* that appeared two months ago. The biographical text penned by Carlo Pedretti, the reigning authority on Vincian manuscripts who has a professorial chair at UCLA, is eighty percent devoted to an attempt to prove that Leonardo da Vinci was a homosexual. The remaining twenty percent touches upon the

actual accomplishments of Leonardo. Included among the illustrations is a previously unpublished magnificent anatomical drawing by Leonardo in the possession of an East German museum. *Pedretti reports that only the personal intervention of the Queen of England, who happens to be the owner of all of the rest of Leonardo's anatomical studies, persuaded the East Germans to release the drawing for publication.*

It is a telling glimpse behind the scenes of the plot against Leonardo da Vinci today. Since at least the middle of the 19th century the British oligarchy, represented by such "art critics" as the notorious sexual degenerate John Ruskin, has been in overt warfare against the heritage of the Italian Renaissance. Yet, the largest collection of Leonardo's drawings is at Windsor Castle, the private property of the Queen of England. Another treasured Leonardo scientific manuscript, the Codex Leicester, recently passed from the hands of Lord Leicester to Armand Hammer, the notorious crony of the Soviet and Libyan leadership in the American financial community. In short, official studies of Leonardo da Vinci today are dominated by the same British Royal family's circle of homosexual spies as the recently exposed KGB spy Sir Anthony Blunt, for years the Curator of the Queen's pictures.

All of this helps to explain the reaction which exploded when the Humanist Academy invited the public schools of Milan to send secondary school students to a symposium where it was asserted—and conclusively demonstrated—that Leonardo da Vinci was a great scientist, including a military scientist engaged in the defense of his city-state and the emerging nation.

Leonardo and beam weapons

The controversy, which occupied all press and media accounts of the event, centered around the assertion of the first panelist on Dec. 2, Fiorella Operto, that Leonardo da Vinci, if he were alive today, would be working to develop space-based relativistic beam weapons as proposed by Lyndon LaRouche. In the debate which ensued, one student went to the center of the problem which the Humanist Academy is posing: Is the Renaissance idea of scientific progress the path which must be recovered by humanity today, or rather—as the entire Italian "official" press, the majority of the so-called left, and large numbers of high school teachers maintain—should we not reject progress in favor of "quality of life"?

By demanding that the West develop beam weapons as the only way to end the age of thermonuclear terror, Operto was insisting that youth today must embrace Leonardo's own methodology of continuous scientific breakthroughs as the answer to the crisis. A number of students went through a process of re-thinking their "ecological" assumptions in the course of the symposium, and the issue of beam weapons was forced into the open in Italy in half a dozen newspaper articles. A television broadcast reporting on the symposium reached an estimated 1 million viewers in the Milan area.

The Humanist Academy organized its symposium on the

model of its dramatically successful three-day meeting, "Teaching Dante Today," held exactly one year earlier in Rome. An inaugural meeting was held on the first evening, in the sumptuous 16th century "Sala del Cenacolo" of the Museum, where Humanist Academy president Muriel Mirak laid out "The Significance of Leonardo for Science Today" for press and invited guests. On hand to deliver greetings were the museum's president Dr. Francesco Ogliari and director, Dr. Pasquale Romano, as well as Dr. Venturi representing the Superintendent of Schools who had sent a circular letter to the secondary school teachers inviting them to attend the conference with their classes.

On Dec. 2 and 3, the working sessions of the conference included three panels: The Political Significance of Leonardo's Activity, Leonardo and Art, and Leonardo and Science. Concluding the symposium on the afternoon of Dec. 3, a roundtable was dedicated to Leonardo and the Challenge of the Year 2000: The Great Development Projects.

Although the presentations were all geared to a student audience, they were nonetheless highly challenging and represented in totality a sharp contrast to the "ridimensionamento" of official events. Distinguished speakers from Italy itself included, besides Dr. Mirak, Fiorella Operto, the secretary-general of the European Labor Party; Cristina Fiocchi and Antonio Gaspari, respectively, the president and vice president of the Anti-Drug Coalition in Italy; Dr. Carlo Bertelli, director of the world-famous Brera Gallery in Milan; Mons. Luciano Migliavacca, the director of the Cathedral Choir of Milan Cathedral, who spoke on "Music in Milan in the Time of Leonardo da Vinci"; Giuseppe Filippini, director of Italy's Fusion Energy Foundation; and Prof. Marcello Fontanesi, head of the plasma physics program at Milan State University. From abroad came Dino De Paoli, an Italian scholar residing in France who has published a book on the French Ecole Polytechnique; Webster Tarpley, European representative of the National Democratic Policy Committee, based in Germany; and this writer and art historian Dr. D. Stephen Pepper, representing the U.S.-based Lafayette Foundation for the Arts and Sciences.

The over 1,000 students who attended the first full day's session Dec. 2 and the 600 who came on Dec. 3 must have been quite stunned when they read in the daily newspaper *Corriere della Sera* on Dec. 4 that the conference did not discuss the work of Leonardo da Vinci and that only a few tens showed up on Dec. 3 for the continuation of the symposium! In fact, as *EIR* investigators determined in the days immediately following the event, the author of these lying reports, one A. Pozzoli, had been from the beginning part of an attempt to sabotage the symposium. Pozzoli went so far as to call conference participants and ask them if "they knew the Humanist Academy was paid by the CIA," in a clear attempt at intimidation. In a telephone call to Mrs. Operto Dec. 4, Pozzoli delivered a mafioso style threat, asking her if she went around without a bodyguard and if she did not know that imprisoned Red Brigades members turned state's

evidence had been killed for less than what she was doing.

Operto announced in a press conference that she was bringing criminal charges against Pozzoli and noted that his actions were not unconnected to an attack, planted by the KGB in a Soviet journal, against beam weapons advocate Edward Teller. Operto said that the same KGB-British faction in the Soviet Union that wants to suppress the beam weapons debate in the West has been exposed recently as implicated in the "Bulgarian connection" to the illegal drugs, weapons running, and terrorism network accused of having attempted to kill Pope John Paul II.

Can science be revived?

The gauntlet to the anti-science cabal and its oligarchical controllers was thrown down in the inaugural session of the conference Wednesday evening, Dec. 1 by Muriel Mirak, the president of the Humanist Academy, an American-born scholar and collaborator of Lyndon LaRouche. Mirak, without "letting any fur grow on her tongue," (as the Italian expression for not mincing words has it), took on frontally the condition of science in a world where the Nobel Prize in Physics, Biology and Economics is consistently awarded to the kind of Nazi genocidalists who 35 years ago were hanged at Nuremberg for crimes against humanity. She cited this year's award in biology to the inventor of an abortion pill especially designed to reduce population in the Third World. As for economics, the prize has gone to babbling idiots like Paul Samuelson and outright mass-murderers like Milton Friedman. Lyndon LaRouche, the only economist whose projections of the world economy have been consistently accurate, and whose program for economic recovery therefore has unique authority, has said he would be deeply offended if the Nobel Prize were ever offered to him, Mirak reported. She concluded that to rebuild our dying civilization at this moment of extreme crisis, we must recover the soaring scientific accomplishments of Leonardo da Vinci—rejecting the bad-faith efforts at "ridimensionamento."

The following day, as the first panel of the conference dedicated to Leonardo and Politics opened in the museum's movie auditorium, over a thousand students, well beyond the seating capacity of the hall, were packed into the room. Nearly as many more had been turned away at the door. The bold assertion of the conference organizers that Leonardo da Vinci has enormous relevance for today stirred up anticipation among the youth, mostly in the age range of 15 to 18.

The first speaker Fiorella Operto asserted that the scientific morality of Leonardo da Vinci is exemplified today by the development of relativistic beam weapons as the only technology capable of ending the terror of nuclear war. Operto explained that Lyndon LaRouche had first circulated a pamphlet on the beam weapons initiative earlier this year. In late September, she reported, the famous physicist Edward Teller in a Washington speech had endorsed the new space-based defensive weapons using arguments parallel to those of LaRouche.

Operto compared the "Manhattan Project" by which the

Allies in World War II had developed the atomic bomb as a defense against the Nazis, to the great project of building the dome of Florence Cathedral under architect-engineer Filippo Brunelleschi, one of the spiritual fathers of Leonardo da Vinci. Just as thousands of critical technological advances were reaped from the Manhattan Project, including fission and fusion energy for peaceful purposes, long after Brunelleschi's death the project of completing the dome was the training laboratory for younger Florentine scientists and artists including Leonardo himself, she said.

In the concluding part of her speech Operto detailed the city-building projects of Leonardo da Vinci during his stay in Milan, projects for modern cities which included plans for sanitation and manufacturing centers. The impetus for the projects came after the plague swept through Milan in the late 1480s, not long after his arrival there, and carried off approximately one third of the inhabitants.

Leonardo did not limit himself to conceptualizing a modern city, but sought to bring an end to the usurious real-estate practices of the oligarchy which owned practically all the buildings in the city, Operto reported.

In the second presentation, Antonio Gaspari of the Humanist Academy quoted extensively from Leonardo da Vinci's writings, particularly on political and military subjects, showing that he tried to convince rulers such as the Duke of Milan that only through economic development could they ensure their continuing rule. Gaspari showed slides of Leonardo's military engineering projects, including anticipations of the cannons and gatling guns used first in the American Civil War, and Leonardo's famous project for a tank. All of these projects are on display in blown-up photographs of the drawings and models of many of the machines as a major part of the National Science Museum's excellent exhibit on "Leonardo as an Engineer," which also includes sections on Leonardo's hydraulic engineering, industrial machines, and studies of flight. Gaspari stressed Leonardo's commitment, along with Machiavelli, to the nurturing of a republican army capable of defending the state. It was at this point that the hysteria against Leonardo da Vinci broke out.

Led by a leftist teacher, Pina Sardella, who belongs to the PDUP party, recently exposed as being financed by the Bulgarians, a group of rowdy students tried to storm the podium and demanded immediate "debate." The majority of the audience agreed with the chairman of the conference, Marco Fanini, that the debate should occur as scheduled at 12 noon, after all three presentations. Sardella and her students, who exhibited clear symptoms of brainwashing, charged that the organizers of the symposium were "warmongers" and announced that they would demand an investigation.

The controversy reached its final absurdity when Pozzoli reported two days later in *Corriere della Sera* that an "investigation" was underway to determine whether symposium participants had departed from their announced topics. Were this a crime, as one wit observed, half the professors and all of the politicians in Italy would currently be rotting in jail!

The special merit of this symposium is that, in a way fully coherent with the great Leonardo da Vinci's own personality, the speakers brought an "outside" perspective to the specialized topics they addressed. It would be difficult to overestimate the respect which Fiorella Operto commands here as a political leader who is deeply committed to the survival of her nation, and who has mastered as her own the conceptions of the American economist and scientist Lyndon LaRouche, the inspirer of the Humanist Academy. When, during the tumultuous debate that ended the first panel, Operto detailed the importance of beam weapons to dispel the threat of nuclear war, even though a vocal minority wanted to brand the speaker as a "warmonger", there were five minutes of rapt silence in the room. One could sense the power of reason cutting through the irrationality of the left-wing Inquisition that wanted to block out the debate.

The next morning's panel on Leonardo and Science had a similar impact. Muriel Mirak, who organized last year's Dante Symposium in Rome and is known internationally as one of today's leading Dante scholars, is also the European coordinator of the Anti-Drug Coalitions. The more than 600 adolescents sat spellbound as she took them through the geometric constructions of the five "Platonic" solids as described by Plato and then developed in the works of Leonardo's close collaborator, Luca Pacioli. Immediately following her speech Dino De Paoli denounced the present-day "Vinciani," quoting from Leonardo's own scalding remarks about academic pedants and showing the famous drawing of Five Grotesque Heads which matches the Leonardesque barb. The students broke out into delighted laughter.

De Paoli brings to this study his in-depth work on the Ecole Polytechnique, which generated the great achievements of German nineteenth century physics. Recently, De Paoli discovered that the first publication of Leonardo's scientific manuscripts took place at the end of the 1790s in Paris under the orders of Ecole Polytechnique founder Carnot—a man who, like Leonardo, used innovation in military technology to transform society as a whole.

"It is not possible to understand Leonardo's science if one maintains that science consists only of mathematical formulae and has nothing to do with morality. Science has as its task the development of the universe. If this is not understood today," De Paoli asserted, "it is because there are too many sociologists and psychologists and too few physicists and engineers."

De Paoli showed that Leonardo's studies are in the vanguard of present day areas of physical research. Leonardo understood that the characteristic of the transmission of motion and energy was undulatory. But he also understood that the distribution of velocity inside sound and light waves was not homogeneous, that there exist actual qualitative jumps which give rise to singularities. This is what in the nineteenth century was called the phenomenon of shock waves. Leonardo studies this phenomenon in fluids. His studies were what led to Riemann, through the French Ecole Polytechnique, and today represent the line of the most advanced research.

The next speaker, Giuseppe Filipponi of the Fusion Energy Foundation, confronted one of the "sacred cows" of Italian academia, the notion that Galileo Galilei and not Leonardo was the founder of modern science. Filipponi demonstrated how the various "discoveries" of Galileo Galilei, Newton and other such proponents of empiricism (discoveries such as gravity) derived in reality from the fact that these individuals made use of Leonardo's writings, from which they took certain specifics and proceeded to bury the rest.

But in doing this, they limited themselves to attempting to translate into mathematical formulae the discoveries made by Leonardo, without however understanding the method whereby he arrived at them; that is, without understanding the principle of causality of physical phenomena. This was equivalent to believing that a *deus ex machina* moved the universe, the stars and the planets, acting without the existence of knowable laws of causality or physical phenomena. This Newtonian mathematical formalism has collapsed today like a house of cards, said Filipponi, in the face of the most recent discoveries made by Voyagers 1 and 2 in their soundings of Saturn and Jupiter.

These have demonstrated the existence of phenomena which are absolutely unthinkable from the standpoint of Newtonian laws. We do not yet know how to interpret those phenomena. But, since we do know that the universe is coherent, we know the method of investigation which could permit us to understand them, and this is the method of Leonardo. This method must therefore be reintroduced into the schools and universities from which it has been exiled until now.

Classical art: two methodologies

Like Leonardo the scientist, Leonardo the artist is reduced to an impotent, "intuitive" figure plagued by neurosis by official scholarship. Lafayette Foundation spokesmen D. Stephen Pepper and Nora Hamerman sought to overturn this conception, showing the unity of Leonardo's achievement in painting with the scientific conceptions developed by Mirak, Filipponi, and De Paoli. Dr. Carlo Bertelli's presentation on the restoration of Leonardo's *Last Supper* now taking place in Milan, while greatly informative, fell into the epistemological trap of "cutting Leonardo down to size" by looking at him within the framework of formalist criticism.

Dr. Bertelli, who showed a series of magnificent close-up slides of aspects of *The Last Supper* now emerging to light for the first time in over four centuries, correctly asserted that Leonardo was able to flourish in Milan in a way not conceivable in Florence, because Milan as a populous manufacturing center was not susceptible of the kind of "signeurial" feudal rule to which the Florentine republic was ultimately subjected. But Bertelli's assertion that Leonardo rejected the Florentine rationalism of Brunelleschian perspective in favor of an alleged "local Lombard" love of obscurity and mysticism, of mysterious light sources and inexplicable tonal contrasts which Bertelli actually labeled "subjective and irrational" shows a failure to grasp both the Platonic tradition itself and

the way the human mind works.

This notion was refuted in different ways by the present writer, Dr. Mirak, and Dr. Pepper. In my presentation I showed that all the great paintings of the classical school are a visual version of Platonic dialogue, in which the mind is moved to focus on those “singularities” which mark the passage from one level of self-ordering of consciousness to a higher level. This rigorously corresponds to the actual ordering of physical phenomena in the universe, as De Paoli subsequently demonstrated in Leonardo’s scientific drawings. The same “shock wave” phenomena grasped in his studies of fluid dynamics are manifested in the composition of the Last Supper as simultaneously a psychological process of the impact of Christ’s words upon his Apostles, and as an actual geometric process projected onto the painted wall of the refectory of S. Maria delle Grazie.

It was because of the ability of classical painting and polyphonic music to show both the totality of this process and the individual components of it at the same time, manifesting what Leonardo called “divine proportion,” that Leonardo deemed these two forms of composition more advanced than poetry itself in conveying the poetic principle.

Leonardo’s use of “chiaroscuro” (strong dark-light contrasts) and “sfumato” (smoky edges) is therefore not an assertion of irrationality and the unknowability of the universe, but the breakthrough to being able to directly represent the moment of change which embodies the law of the universe, a concept previous artists had evoked only indirectly via juxtaposition of the different levels. Leonardo’s method is the realization of the Florentine Platonic notion of increasing man’s dominion over nature by making the preconscious creative process conscious.

This notion was further developed by Muriel Mirak in her presentation, “From Dante to Leonardo and Luca Pacioli: A New Approach to the Investigation of the Physical Universe.” “The fundamental problem of knowledge, which Plato identified, derives from the fact that the real universe—that which is eternal and invariant—is not directly knowable by man. That which we see, we see through a glass darkly, as if in a mirror. This is the visible world, through which we seek to glean the contours of that other invisible, but real universe.

“Even if the relationship between the two worlds be neither direct nor linear, there must however be a lawful correspondence between them, a proportionality that would allow us to approximate knowledge. . . .”

This proportionality or coherence of the universe, said Dr. Mirak, is geometrically expressed by the five Platonic solids. These are the only solids capable of construction with equilateral, regular polygons, and whose generative geometric principle is the golden section, the same geometric principle which is found in the physical universe. This is true from the evolution of spiral galaxies through the proportions of the human body, and studied in these terms by Leonardo.

Dr. Stephen Pepper of the Lafayette Foundation, an in-

ternationally known expert on Italian art, also showed Leonardo’s advances in the domain of art to be the product of a profoundly *rational* approach in keeping with the Platonic tradition. He demonstrated how Leonardo introduced the concept of curved perspective as being more appropriate to the description of the universe, which itself is curved and not rectilinear. Curved perspective is also more consonant with our visual instrument, the eye, whose cornea is curved and is not a single point as is presupposed by linear perspective. Dr. Pepper explained how Leonardo conducted these studies through his investigation of the reflection of concave and convex mirrors, in the course of which he even conceived of the idea of a mirror telescope, a discovery which is otherwise incorrectly attributed to Newton.

The conference was brought to a close with the roundtable discussion which took up the theme of Leonardo’s legacy from an active standpoint. Christina Fiocchi, head of the Anti-Drug Coalition and a proponent of the Club of Life in Italy, gave a slide presentation on Great Enterprises—giant infrastructural efforts like those which Leonardo da Vinci himself projected—which must be constructed today if the world economy is to be relaunched. Dr. Filipponi gave a detailed explanation of the technology of beam weapons. Dr. Fontanesi of Milan State University explained how fusion energy works and argued strongly for its development as the energy source of the near-term future.

Webster Tarpley, speaking on behalf of Lyndon LaRouche’s pro-development Democratic Party faction in the United States, called for the construction of a real peace movement based on the development of beam weapons. He noted that, as a one-time participant in the anti-Vietnam War movement of the 1960s, he could not help but draw conclusions from the fact that the “butcher of Vietnam” Robert McNamara is today in the forefront of the so-called peace movement, based on the unrealizable hoax of a nuclear freeze.

In the discussion that followed, members of the audience struggled to reconcile prevailing concepts of “peace” with the conceptions Tarpley and others had developed. One individual asked whether one should not reject Leonardo’s military projects as the “unhealthy” part of his work while accepting his other accomplishments. The hands on the clock of our civilization, Tarpley pointed out, are at five minutes to twelve: In this situation, as in Leonardo’s lifetime, our one chance of getting governments to sponsor the necessary economic development based on technological advances which can rescue humanity from the abyss is through an appeal to national security and defense. The beam weapons policy represents the one available way to buy precious time in which the real causes of war—economic underdevelopment—can be attacked and solved, Tarpley explained. Dr. Pepper proposed that a citizens’ public assembly on the beam weapons be immediately carried out in Milan in response to the “peace movement’s” demands for debate. The proposal was incorporated into the wrap-up of the conference by chairman Marco Fanini, and set for Monday, Dec. 13.

How long will Reyes Heroles last?

The new education secretary has betrayed two presidents; will he do the same to de la Madrid?

One of the most hotly discussed of the new cabinet appointments is that of Jesús Reyes Heroles at Public Education.

The enemies of one of Mexico's strongest unions, the national teachers' union (SNTE), are jubilant at master union-buster Reyes Heroles's appointment. They are extolling him as the man who can push the "decentralization" of education, as announced goal of the new administration, to the point of destruction of the SNTE and its political protector, San Luis Potosí, governor Jonguitud Barrios.

Foreign bankers are confidently claiming that Reyes is their inside man to politically keep the lid on expected mass opposition to IMF designed austerity measures now being implemented.

A professor of Mexican history and constitutional law for at least two generations, Jesús Reyes Heroles has constructed a mystique around himself as the "great theoretician" of the Mexican System and the Mexican liberal tradition of the 19th-century. Among his students are de la Madrid himself, who wrote a graduate thesis on the "Economic Thought of the 1857 Constitution" under Reyes Heroles's guidance. At least five other new cabinet appointees studied under Reyes Heroles.

There is a tell-tale trail of omission and distortion throughout Reyes Heroles's classic three-volume work, *The History of Mexican Liberalism*. It sys-

tematically misrepresents the liberalism of the great Benito Juárez during the "Reform and Intervention" period (1853-1872) as *British* liberalism, instead of what it actually was: a cousin to the anti-British *American System* of economy of Abraham Lincoln. Reyes Heroles makes no mention of the great mercantilist tradition of Mexican capitalist economy that was built up along Hamiltonian lines, out of which Juárez's economics grew.

Suffice to say, Reyes Heroles wrote Mexican history from British eyes, and politically, he has always sought to replace Mexico's republican, nationalist institutions with British-type "pluralism" and parliamentary procedures.

Thanks to erudite lies, Reyes Heroles made his way up the political ladder, eventually emerging as the "teacher of teachers," and one of the most unscrupulous backstage manipulators in the history of Mexican politics.

Since he has been prevented from occupying the presidency (his parents are Spaniards and the constitution prohibits the child of foreigners from assuming the highest office) he has insinuated himself into the position of *éminence grise* for the past two administrations and is now bidding for that position in a third.

With Luis Echeverría (1970-76), he occupied the directorship of Pemex. He was obliged to leave the post after his attempt to take personal control of the powerful oilworkers' union

failed. The face-off culminated in the assassination of "el guero Quijo," Reyes's man within the union. He then moved over to head the ruling PRI party for two years, and then the Mexican Social Security Institute for a year.

Once López Portillo was elected president and named his old friend Reyes Heroles to the supreme cabinet post of Interior Minister, certain things became clearer. During his three years at Interior, Reyes indulged his appetite for puppet-mastering to his heart's content, especially as part of complex games in collusion with the anti-republican side of the Mexican elite. He built up a gaggle of leftist "parties," who flourished with guaranteed funds from the state. He even went so far as to permit political registration of an FBI branch in Mexico, the now-extinct Social Democrat Party (PSD).

But Reyes's maneuvers and disregard for presidential policy got him into hotter and hotter water; he was unceremoniously dumped from the cabinet in May 1979.

There is another defect in the new education minister: Jesús Reyes Heroles is an alcoholic, and not exactly anonymous. It is a secret to no one that his premature aging is the result of alcohol and his own self-destructive tendencies. Former president Echeverría stated it aloud last July 4, as he went to vote in the national elections: Reyes Heroles, he said, is "a traitor, an alcoholic, and a liar."

If these are the kinds of recommendations passed on by de la Madrid's two predecessors, both of whom went into office with high personal esteem and respect for Reyes, what will be de la Madrid's reaction?

As a columnist here recently noted, involving a venerable Mexican saying, "Once a dog has eaten dung, not even burning his snout does any good."

International Intelligence

Ariel Sharon makes Honduras dope junket

Ariel Sharon visited Honduras in early December as more than an arms dealer selling everything from light weapons to Kfir fighters: the narcotics traffic was rearranged as well.

According to cross-checked reports from anti-drug and intelligence sources, the Israeli defense minister was attempting to establish Honduras as the center of a revamped drug-trafficking route through war-ridden Central America and into the United States.

The drug operation is intended to provide a source of ready and expanded cash flow to Sharon's operations. Sharon also hopes to sabotage the work of the 12 anti-drug task forces which have been established by the Reagan administration in the last months. A third goal is to create in Honduras and Central America a haven and base of operations for the individuals being sought in the simultaneous narcotics crackdowns in Italy, Egypt, Lebanon, Turkey, and Bolivia, crackdowns aided by the administration's anti-drug effort.

According to Middle East sources, Sharon's agent "on the ground" in Honduras for the operation is a retired Israeli general named Gorodish, a former tank commander dismissed from the Israeli army following the 1973 war on charges of corruption. A group of wealthy Palestinian families centered in the city of San Pedro Sula, Honduras, also play a crucial role the sources report. These Palestinian families hold leading posts in the cabinet and control major sections of the Honduran economy.

Dr. Teller in Israel: Greenies resemble Nazis

Prof. Edward Teller, speaking in Israel in mid-December, warned that the Green movement now rampant in Europe is analogous to the Nazi movement of the 1930s. "There is a new irrationalist movement emerging in Germany and western Europe," Teller said, "and it scares me, for I have seen it all before."

Teller recounted his student years in Germany in the 1920s and 1930s, when the Nazi movement was on the rise. The Greenies are not exactly the same as the Nazis, said Teller, but the comparison is apt. He went on to score the Green movement's plans to transform Germany into a "prehistoric economy" capable of supporting only 700,000 people.

Teller also told the Israelis that they should build an experimental fusion reactor. Teller's recommendation countered the dominant feeling in Israel that fusion is not economically practical, noting that the usefulness of an experimental reactor for Israel had been underestimated, even though it might take years for fusion to be a source of commercial electricity.

Last spring, the Israeli Energy Ministry agreed to provide a site for a \$100 million fusion reactor designed by the International Energy Systems Company of California. The Israeli government has refused to invest in the project.

Socialists hit for Gibraltar capitulation

An editorial, "The Gate of Gibraltar," in the Madrid newspaper *ABC*, documents in considerable detail the pro-British treason of Spain's new Socialist government—unilaterally ending the longstanding blockade of the British colony of Gibraltar to the overwhelming benefit of Great Britain. The ending of the segregation of Gibraltar from the adjacent Spanish mainland will allow Britain to make a fortune running contraband into Spain, turning Gibraltar "into a Singapore or Hong Kong" on Europe's shores, *ABC* wrote. The Socialists' capitulation is "a victory for Mrs. Thatcher, and a gift to the British Treasury without the slightest concession to decolonizing Gibraltar, the only colonial possession still remaining on European soil," the editorial continued. Britain's use of Gibraltar as a free-enterprise zone with free access to Spain "will ruin Spanish industry" in the region. Up until now, due to Spain's policy of non-communication with Gibraltar, the colony had been "a considerable drain on the British Treasury."

Major responsibility for the Gibraltar capitulation is being laid at the feet of Spain's new Foreign Minister, Fernando Moran, a member of the Club of Rome.

Washington 'Jap bashing' precedes Nakasone visit

Japanese Prime Minister Yasuhiro Nakasone is scheduled to visit Washington Jan. 17-21; big efforts are under way to ensure that the environment prevailing during that visit is hostile to Japan.

On Dec. 15 the U.S. House of Representatives passed by a vote of 215-188 the "local content" bill, which would require that all cars imported into the United States consist mostly of parts that originate in the U.S. The bill, which is a virtual declaration of trade war, would increase year-by-year the ratio of parts that must originate in the U.S., reaching 90 percent within several years. Word in Washington is that the bill will not pass the Senate, but the very existence of the bill is a severe threat (and affront) to Japan.

A day later, the American Iron and Steel Institute, together with eight large steel companies, filed an unfair trade complaint against Japan under the provisions of the 1974 Trade Act. The complaint alleges that Japan is dumping steel products in the American market.

These two actions follow by days the conclusion of two rounds of negotiations between Japan and the United States on trade matters. Deputy Trade Negotiator David MacDonald was in Tokyo in early December demanding that Japan "liberalize" its import regulations, while Undersecretary of State for Economic Affairs Allen Wallis issued similar demands to officials of the Japanese Foreign Ministry. The European Commission filed a formal complaint with GATT (the monetarist free-trade enforcement arm) against Japan on Dec. 13.

On the political front, a "red scare" is underway in Tokyo.

A supposed KGB defector gave a press conference in Washington during which he released the content of secret testimony he gave to the House select committee on intelligence last July. In that testimony, the

Briefly

former agent Levchenko said that he employed 25 leading Japanese as KGB agents while he was based in Japan, and worked with an additional 200 Japanese. He announced that he is now writing a book on this subject, the contents of which will first have to be cleared by the CIA, at which point he will make public the names of his Japanese collaborators. Naturally, Japan's newspapers are now obsessed with learning the identity of the supposed KGB agents. In his testimony, Levchenko included efforts to expand Japan-Soviet economic cooperation and efforts to organize opposition to the "China Card" policy as two of his main responsibilities.

Central American peace proposal revived

Efforts have begun in both Venezuela and Mexico to reactivate the joint peace initiative, for Central America begun under the López Portillo administration. Leonardo Ferrer, a deputy from the ruling party in Venezuela, early in December called upon Mexican President de la Madrid to issue a statement reactivating the two countries' offer to mediate between Honduras and Nicaragua, now at the point of war. Mexico's ambassador to Nicaragua, Augusto Gómez Villaneuva, responded immediately that Ferrer's statements should be taken up by the Mexican government.

Then, de la Madrid told the French newspaper *Le Figaro* Dec. 10 that everything which happens in Central America "is of vital interest to Mexico, and that is why we want to find solutions to the crisis that is affecting our sister nations." De la Madrid pointed to the French-Mexican initiative for Nicaragua of 1981 as a precedent for what could be done in Central America. This was de la Madrid's first major foreign-policy pronouncements; Mexico's enemies expect its internal economic crisis to limit any action in international affairs. Mexico, along with Colombia and Venezuela, is key to any Caribbean settlement.

On Dec. 15 a member of the Costa Rican government raised the possibility of a break in relations with Nicaragua, following mu-

tual accusations between the two governments of aggression. Honduras simultaneously took a protest before the United Nations concerning Nicaraguan incursions against its territory at the end of November and beginning of December.

Both moves further Nicaragua's isolation and sense of encirclement, which have been deliberately created to drive Nicaragua to seek military aid and support from Cuba and East bloc allies—thus opening the way for a superpower confrontation in Central America.

The kidnapping of the daughter of the Honduran president by left-wing guerillas Dec. 14 during a visit to Guatemala will further efforts to form a military triangle of Honduras, Guatemala, and El Salvador against Nicaragua.

Chirac reviles Malthusian bishops

Following a meeting with Pope John Paul II, Jacques Chirac, a leader of France's Gaullist party, the RPR, called a press conference to issue a harsh attack against the French Synod of Bishops for its recent endorsement of pacifism and neo-Malthusian environmentalism.

"In the case of France," said Chirac, "I see that the declaration of the Bishops proposes a very weak conception in economic and social terms, and a Malthusianism in every way contrary to the demands of social progress."

Chirac noted that the timing of the Bishop's declaration was designed to give support to the French government's austerity program, "allowing the government to proclaim that the Church was supporting their economic and social policy."

The Gaullist leader also denounced the American church for supporting the "pacifist" movement: "The majority of American bishops are preparing to condemn the nuclear deterrent and therefore to have reservations about President Reagan's military policies . . . the bishops would thus reinforce the pacifist movement which is developing in the United States as well as the dangerous and irresponsible doctrine of the nuclear freeze."

● **VICTOR EMMANUEL** of Savoy, son of the pretender to the throne of Italy, Umberto, has been linked to the giant Stipam International drug-and-arms network through his sister Maria Gabriella, the former lover of arms dealer Renato Gamba. Interrogation of Gamba also resulted in the arrest of another Savoy hanger-on, Gamba employee Cesco dalla Zorza.

● **HENRY KISSINGER** was accused of responsibility for the 1978 assassination of Italian Christian Democrat Aldo Moro in a Dec. 16 article in the Venezuelan newspaper *El Diario de Caracas*. The author was Juan José Monsant, one of the foreign relations chiefs for the government party COPEI. *EIR* Ibero-American Editor Robyn Quijano had just visited Venezuela, stressing the recent Italian revelations about Kissinger.

● **CARDINAL KROL** of Philadelphia said in the *Wall Street Journal* Dec. 9 that the Bank of Italy must accept part of the responsibility for the collapse of the Banco Ambrosiano. Oligarchic financial networks have been trying to make the most of the Vatican's financial exposure through Ambrosiano.

● **BERNT CARLSSON** predicted Dec. 15 that the U.S. would soon be hit by "an earthquake" that would cause a "fundamental social restructuring" there. The Executive Director of the Socialist International laid both high interest rates and the world depression at the door of Ronald Reagan and the Republican Party.

● **CRITON ZOAKOS**, *EIR*'s editor-in-chief, arrived in Cairo Dec. 13 along with Middle East editor Thierry Lalevéé. They will tour several major industrial projects and meet with political and economic leaders. The visit should accelerate the dialogue in Egypt on the economic and strategic ideas of *EIR* and its founder, Lyndon LaRouche.

Manhattan's D.A. Morgenthau covered up the drug and terror ties of American Bank & Trust

by David Goldman and Kathy Burdman

Federal and state investigators have renewed examination of New York District Attorney Robert Morgenthau's role in covering up New York City's most spectacular case of dirty banking, the crash of American Bank and Trust Co. in 1976. Morgenthau took a case of blatant criminal fraud out of the hands of federal law enforcement agencies, and prosecuted two minor officers of the failed bank for minor regulatory violations. Morgenthau protected top officers in the bank, including future Carter administration Commerce Secretary Phillip Klutznick, the bank's president, and—incredibly—refused to touch the man who had arranged the final looting of the bankrupt institution, New York financier John Samuels. Samuels had been the biggest contributor and chief fundraiser for Morgenthau's 1974 election campaign for the District Attorney's office in the first place.

The implications of the American Bank and Trust case, however, go beyond Morgenthau's personal conflict-of-interest, the subject of a series of *Barron's* weekly magazine articles by reporter Richard Karp. Renewed interest in the affair, which brought together top operators of illegal arms traffic from Argentina to the Eastern Mediterranean, has emerged at the same time that the Italian authorities have shut down an arms-and-narcotics network that controlled the entire heroin flow out of the Eastern Mediterranean, according to Italian magistrates.

The beneficiaries of Morgenthau's alleged coverup, still the subject of several civil lawsuits in New York City, include a set of bankers and arms traffickers now under intense investigation in the Eastern Mediterranean arms-and-dope case:

- Lebanese financier **Edmond Safra**, whose Republic National Bank in New York City helped Argentine under-

world figure David Graiver purchase American Bank and Trust in 1975;

- Israeli arms merchant **Shaul Eisenberg**, a close associate of Israeli Defense Minister Ariel Sharon, and the controller of illegal sales of Israeli-produced weapons to Libya, Central America, and Khomeini's Iran; and

- The **Recanati** financial group of Israeli Discount Bank, the financiers of Shaul Eisenberg, whose American frontman **John Samuels** helped David Graiver loot American Bank and Trust of \$3 million of depositors' money.

The central role of **John Samuels** in the American Bank and Trust case puts the spotlight on Morgenthau's coverup: Samuels, a fly-by-night coal financier and erstwhile big spender on the New York cultural scene, was the **principal financier of Morgenthau's 1974 election campaign as New York District Attorney!** According to an exhaustive dossier on the bank scam assembled by *EIR*, Samuels funded the Morgenthau campaign at the same time he was obtaining loans illegally from **American Bank and Trust!** Yet Samuels, who helped Argentine financier Graiver loot American Bank and Trust, signing his name to checks Graiver used to funnel funds out of the bank, was never prosecuted by Morgenthau. Instead, Samuels, whose borrowings from American Bank and Trust ran above the legal limit established by New York State law, became a prosecution witness in the Morgenthau investigation, and went scot-free.

At the time of its collapse in 1976, American Bank and Trust was the property of **David Graiver**, the Argentine banker subsequently exposed as the financier of both the Argentine terrorist organization, the Montoneros, and the right-wing generals controlled by the Italian Propaganda-2

Freemasonic lodge. Propaganda-2, Graiver's secret organization, was the gathering point for ex-Mussolini fascists and Italian high nobility involved in illegal money flows and narcotics traffic out of Italy. Its chief banker, **Roberto Calvi** of the Banco Ambrosiano, went bankrupt in May 1982, a year after the Italian authorities raided P-2's headquarters and forced its chief, Italo-Argentine underworld figure **Licio Gelli**, into hiding until his recent capture by Swiss authorities. Calvi, found hanged under Blackfriars Bridge in London, was a central figure in illegal arms and narcotics traffic; the Italian arms-and-dope network shut down at the end of the last month, **Stipam**, had its office in a Banco Ambrosiano executive suite in Milan.

But when David Graiver showed up in New York in 1975 to take over American Bank and Trust, the \$500 million bank was already a political time bomb. New York State Superintendent of Banks **John Heimann**, a former Warburg bank officer who later went on to become Comptroller of the Currency under Jimmy Carter, had already sent a "cease and desist" order to American Bank and Trust in September 1975, ordering the bank to stop funding Morgenthau's political crony John Samuels. During the 1971-75 period, American Bank and Trust had made loans totaling \$12 million to Samuels, whose small empire in West Virginia coal became one of the 'rags to riches' stories of the early 1970s. In fact, every penny Samuels invested in his coal mines, or gave to Morgenthau's 1974 campaign, was borrowed from American Bank and Trust and its affiliates. Moreover, it was borrowed illegally: under New York State law, a bank may lend no more than 10 percent of its shareholders' capital to any single customer. Legally, Samuels's limit would have been only \$2.5 million, 10 percent of the bank's \$25 million capital; American Bank and Trust lent him ten times that amount.

American Bank and Trust's largesse to Morgenthau's moneyman was sufficient to bankrupt the bank. Richard Kapp reported in *Barron's* weekly magazine on Sept. 28, 1981:

While the press was ballyhooing John Samuels "leap to riches," the price of coal was sliding back. . . . Samuels' cash flow was fast drying to a trickle. If his income was dropping precipitously, his obligations weren't and Samuels had secured that debt with virtually all his assets. The most tangible of the latter was a cluster of coal mines in Pennsylvania and West Virginia. But those properties on the market would fetch only a small fraction of what ABT believed. . . .

By the end of the summer of 1975, the New York Banking Department was wise to Samuels' true condition as well as to ABT's illiquidity. On Sept. 25, the Banking Superintendent issued ABT's directors a "cease and desist" order, the strongest action the state could take short of closing the bank. . . . The Banking Department's order threw ABT's board into a state of panic; whatever it did, the bank's shaky condition would surface and the impact on its equity was bound

to be severe. ABT did not have sufficient assets against which to write off Samuels's \$12 million. . . .

At this point, Argentine terrorist financier David Graiver walked into New York, on the arm of the chairman of the Republic National Bank, Theodore Kheel, who brought Graiver to meet David Rockefeller, Henry Kissinger, Lane Kirkland, among others. Graiver bought the bank, looted it blind, and disappeared in a reputed plane crash in Mexico in August 1976—although well-placed Israeli sources report that Graiver is alive and living in Spain. But Graiver's role shows the American Bank and Trust to have been a two-dimensional stage set, behind which were found the world's most notorious operators of illegal money, covert arms traffic, and narcotics.

The strange history of ABT

The ABT of the mid-1970s had its origin in the network of banks spun out by the predecessor organization of Israel's secret service branch Mossad, during the 1945-48 arms procurement program. Israel's first finance minister, Pinhas Sapir, set up the "Centrade Group," a network of banks with headquarters in Switzerland at the **Swiss-Israel Trade Bank** in Geneva. Future ABT president Phillip Klutznick, then a leading figure in the "Sonnenborn Institute" group in New York which shipped illegal arms to the Israeli Haganah, helped found the bank and later became chairman. Another American founder was **General Julius Klein**, who first sponsored Henry Kissinger's World War II career in military intelligence. Swiss-Israel Trade Bank's first president of U.S. subsidiaries was a "Sonnenborn Institute" veteran named **Saul Kagan**, who had served under Klein in the U.S. military government in Germany 1945-48; Kagan's job had been the collection and distribution of reparations payments to Jewish victims of the Nazis. Kagan, later the chairman of American Bank and Trust, was one of two ABT officers who ultimately was indicted by Morgenthau for minor crimes.

Swiss-Israel Trade Bank's sister organization in Switzerland was the **Banque de la Credit Internationale**, headed by the director of the Mossad's logistics and arms-procurement program, Hungarian refugee **Tibor Rosenbaum**. Rosenbaum maintained a seat on the board of directors of the Swiss-Israel Trade Bank; but his other activities brought him into the circuit of American mafia financier **Meyer Lansky** and elements of the shattered Nazi movement. According to a 1967 *Life* magazine exposé, Rosenbaum's bank became the chief Swiss laundromat for the Lansky syndicate. *Life* reported that Rosenbaum's Banque de la Credit Internationale was on the receiving end of \$10 million in illegal funds, laundered through the World Commerce Bank of Nassau, Grand Bahamas. The Nassau Bank was a joint venture of Lansky and several of his gambling-syndicate business partners. The World Commerce Bank's president was Lansky's accountant **Alvin Malnick**; another official of the bank was a Swiss national and Lansky courier, Sylvain Ferdman.

Ferdman was simultaneously listed in BCI's directory as "Chief Operations Officer" for the Rosenbaum bank.

Rosenbaum was meanwhile the Mossad station chief in Geneva, collaborating closely with **Shaul Eisenberg**, concurrently the Mossad station chief in Vienna, according to the *Washington Post*. Eisenberg ran a vast, quasi-legal arms trading operation between Japan, Taiwan, Hong Kong, Israel, and the Caribbean, finding time to run arms into Idi Amin's Uganda and Qaddafi's Libya, while surveilling both of them on behalf of several intelligence agencies, according to the London *New Statesman* of Oct. 13, 1978.

Rosenbaum's bank, brought down for unknown reasons in 1974, was the core of the dirtiest money-laundering operations in the 1970s, according to French journalist Jacques Derogy's 1980 book on the Israeli mafia. Bernie Cornfield of Investors Overseas Services, the most celebrated flight-capital scam of the decade, nominally ran an international mutual fund; in fact, Derogy demonstrates, IOS was a branch of the Banque de la Credit Internationale, the money-laundering operation for IOS funds. The *L'Express* journalist reported that illegal revenues in a diamonds-for-narcotics traffic based in South Africa ran its money through the Israeli director of Investors Overseas Services, Zwy Peer, who brought his illegal funds to Rosenbaum's bank for washing—rubbing shoulders with Meyer Lansky's couriers, who frequently doubled as Investors Overseas Services salesmen. Behind diamond-dealer Peer, Derogy documented, stood another board member of Rosenbaum's BCI—the chairman of Bank Leumi, Ernst Japhet, the current head of a family that had made its fortune during the 19th century Far East opium traffic. Leumi, the principal financier of the Israeli diamonds traffic and a major facility for laundering narcotics money, in Derogy's account, had the last word in the American Bank and Trust story: after the bank's failure, it cleaned up the shards by purchasing the bank's remaining branches.

According the 1978 Jeffrey Steinberg-David Goldman bestseller **Dope, Inc.**, the Rosenbaum financial network were also the financiers for **Permindex**, the corporate entity which New Orleans District Attorney Jim Garrison charged was a front for the John F. Kennedy assassination, and to which Italian authorities ascribed responsibility for the Aldo Moro assassination in 1978. French intelligence established that Permindex laundered \$200,000 through Rosenbaum's BCI, paid out to Guy Bannister in New Orleans and other known associates of Lee Harvey Oswald; all died shortly after Garrison began his inquiry in 1966.

American Bank and Trust tumbled into this network in 1960, when Swiss-Israel Trade Bank of Geneva began looking for a New York outlet. The American Trust, a small New York bank, had been founded in 1914 by Mexico's Swiss-owned Banamex and taken over by then-Governor Averell Harriman's campaign manager, John J. Reynolds, during the 1950s. The Israeli Centrade group bought it the day after the Kennedy assassination, Nov. 23, 1963. Klutznick, Rosenbaum's partner in the Swiss-Israel Trade Bank, became

chairman; Abraham Feinberg, another "Sonnenborn" veteran, became a director, and Saul Kagan, Julius Klein's old lieutenant, was named president. An additional board member was the New York representative of German financier Erich Warburg: Henry Simon Bloch.

ABT grew fast in two directions. Feinberg, a power in Brooklyn politics, brought future New York mayor Abe Beame, and Brooklyn Democratic leader Meade Esposito onto the board. There is no evidence that they were aware of the wrong-doing. Arlen Realty became a major customer, and Stanley Kreitman of Arlen joined the board, later becoming president. New York City and state funds went into interest-free deposits at ABT, as well as the Carter campaign's 1976 treasury.

More important for the bank's growth, however, was the worldwide network of Sapir's and Rosenbaum's Centrade group in Switzerland. The Swiss parent of the New York bank opened offices in Mexico City, Uruguay, Panama, Colombia, Peru, and Brazil, soliciting flight capital for deposit in New York. Centrade called this "vacuuming deposits"; it had been the model for Rosenbaum's direction of the world network of Investors Overseas Services salesmen, and ABT applied it fresh to Ibero-America.

Centrade officially relinquished control of the bank to one of their associates in Ibero-America, Chilean financier **José Klein**. Klein, who owned Chilean iron mines, was the principal financier of Chilean President Allende's predecessor, Eduardo Frei. In 1969 Klein sold out and moved to Geneva, purchasing American Bank and Trust from Centrade the following year. Despite the sale, ABT did not miss a beat; Klein maintained the same vacuuming operations, and the same management. Rosenbaum's partner Klutznick remained chairman for several years after the sale and a board member until the bitter end, yielding the chairmanship en route to another member of the old Centrade crowd, Abe Feinberg.

Klein, for reasons that have never been adequately explained, picked up the unknown Texan John Samuels and financed his brief rise to prominence. But the Samuels case shows clearly that nothing had changed after Swiss-Israel Trade Bank sold ABT to Klein. Samuel's major financier was the London metals trader Leonard Cohen, whose offices were at Swiss-Israel Trade Bank in Geneva. Samuels' biggest investment with the proceeds of his coal sales was his 1976 purchase, for \$60 million, of **Exchange National Bank** in Chicago—from the Recanati family of Israel Discount Bank. Shipowners and financiers whose origin dates back to Spain in the 14th century and Venice in the 16th, the Recanati own the Israel Discount Bank, and are the principal financiers of Israel's foreign arms sales. The Recanati also control, through nominees, New York's Sterling National Bank, the official bank of the Anti-Defamation League of B'nai B'rith, and the subject of a February 1982 lawsuit by the Italian government, charging that Sterling National Bank conspired with jailed financier Michele Sindona to loot the Banca Privata Italiana.

Their principal client is **Shaul Eisenberg** of **Israel Aircraft Corporation**.

Enter Propaganda-2

David Graiver's arrival in New York City merely folded additional strands of the international money laundry back into American Bank and Trust.

The 35-year-old Argentine banker was the son of real estate operator Juan Graiver, who according to one report arrived in Argentina on the same tramp steamer that brought José Klein, then the owner of American Bank and Trust, as well as Juan Peron's economy minister of the 1970s, José Gelbard. The trio of Klein-Graiver-Gelbard maintained close connections which were passed to David Graiver after Juan's death. Gelbard brought the elder Graiver into the pre-Peron government as Undersecretary for Social Welfare in 1971, and Graiver directed government deposits into a series of small banks he had acquired—the beginning of the short-lived Graiver banking empire. The Peron movement's slush fund, the "Crusade of Justicialist Solidarity," was also deposited in the Graiver banks. Graiver became majority owner of the Peron newspaper *La Opinion*, then edited by Israeli Mossad agent Jacobo Timmerman. At the same time, Argentine mystic López Rega, a close associate of Licio Gelli of the Propaganda-2 freemasonic lodge, became the dominant figure in the Peronist movement. Argentina became a center for Italian tax evasion and revenues from Sicilian narcotics traffic, according to sources close to the Italian government prosecutors in the P-2 scandal, through Gelli's intermediation with López Rega. When Peron's P-2 widow Isabelita Peron could no longer maintain control over Argentina, Graiver, according to sources close to his family, financed the coup that overthrew her in early 1976. His principal beneficiaries were the subsequently-exposed leadership of the P-2 cabal inside the Argentine military, including **Admiral Massera**. This cabal conducted at least some of their meetings to plan the coup against Isabelita at American Bank and Trust's offices in New York, after Graiver had bought it.

At the same time, Graiver became banker to the Argentine terrorist organization, the Montoneros, who were subsequently wiped out by the same P-2 right-wingers whom Graiver worked with on the other side off the political street. While Graiver was building his banking empire out of the cash flow of the Peronist movement, according to the version given out by family sources, his brother Isidoro was kidnapped by the Montoneros. While negotiating Isidoro's \$2 million ransom, Graiver proposed that they place their funds—the Montonero treasury then totalled \$18 million—in the Graiver banks. The story only came out when the Montonero's money man, "Dr. Paz," was arrested by a provincial military governor; the latter, unsympathetic to the junta, released the entire story of Graiver's double-agent role between the terrorists and the P-2 junta.

Graiver also played a special sort of role for Israeli intelligence. In 1975, Argentina ordered its first nuclear reactor

under conditions of fierce competition between Westinghouse and the Canadian nuclear industry. The Canadians hired the founder of the Israel Aircraft Corporation **Shaul Eisenberg**, as their representative. Eisenberg won the contract for the "CANDU" reactor through the payment of a \$5 million bribe to several Argentine military officers; his conduit was David Graiver.

Not surprisingly, in the 1975-76 period David Graiver decided that Argentina had become too hot, and moved to greener pastures, establishing a small bank in Belgium, Banque pour L'Amérique du Sud. Graiver's own finances, shaky after the 1976 coup, had been bailed out after the failure of his Uruguayan bank, Banque pour le Commerce Continentale in Montevideo; Israel's Bank Leumi, controlled by Tibor Rosenbaum's business partner Ernst Japhet, took the failed Uruguayan institution off Graiver's hands.

But as *Barron's* reporter Richard Karp described it in the cited review of ABT court papers:

BAS in Belgium was not a bank at all, but merely a conduit for laundering and stealing any funds deposited in it. To get money into BAS, Graiver conducted a credit raid on ABT; as a result, after 10 months, some \$18 million of the New York bank's assets and credit were spirited to Belgium. To get additional funds into BAS, he also diverted to Belgium, by means of a complicated subterfuge, upwards of \$20 million belonging to ABT's depositors. When Graiver vanished in August 1976—supposedly in the crash of a private plane in Mexico—at least \$40 million disappeared with him. A month later, when investigators found no trace of the money, authorities in Belgium and the U.S. seized and closed both ABT and BAS.

As Karp documents the case in the cited article, the looting process had brought ABT to the brink of collapse by the end of May 1976. Morgenthau's friend John Samuels helped Graiver keep the bank afloat between May and August by "kiting" Graiver's checks: Samuels issued checks in million-dollar denomination to Graiver's shell, Banque pour l'Amérique du Sud, to Graiver, drawn on accounts at Bankers Trust and Irving Trust which had little or no money in them. Graiver "duly credited" the checks "to the BAS account at ABT." The next day, Graiver remitted the same amount from the BAS account at ABT back into Samuels's accounts. ABT was surviving day by day on the time delay, or "float," between the payment on and collection against Samuels's checks at major banks, which made the BAS account at ABT appear to have several million dollars more than it really did. This lasted until Aug. 2, when Graiver failed to put \$3.3 million back into Samuels's accounts. Samuels's checks bounced on Aug. 8, but Graiver had already disappeared in what Israeli sources believe was a phony airplane crash between Acapulco and Mexico City.

By August 1976, an extraordinary state of affairs prevailed in New York banking. Franklin National Bank, bought

in 1971 by convicted P-2 moneyman Michele Sindona, had failed in September 1974. It turned out that Sindona had spent the period between May 1974, when Franklin was known to be on the brink of collapse, and September, when the Comptroller of the Currency took it over, looting remaining Franklin assets through the aid of Banca Privata Italiana and Sterling National Bank.

Morgenthau covers up

It happened that Sterling National Bank was owned by the Recanati family of Israel Discount Bank. It happened that John Samuels, co-beneficiary with Graiver in the ABT scam, bought the Exchange National Bank of Chicago from the Recanati in 1976 for \$60 million, making himself chairman of the board.

It happened that Franklin National Bank's President, Paul Luftig, had a wife named Ida Luftig, who was head of the international department of American Bank and Trust during the entire period of Graiver's looting operation via Belgium.

It happened that when Franklin National Bank failed, Edmond Safra's Republic National Bank—whose Chairman Theodore Kheel had arranged Graiver's purchase of American Bank and Trust—purchased the international department of ABT, the American-Swiss Banking Corporation.

The entire apparatus of dirty-money laundering had moved heavily into American banking, implicating the cited institutions, in the original Lansky-Rosenbaum-Cornfeld scam. For the first time, U.S. law enforcement had cases of documented fraud sufficient to shut down the entire apparatus.

What D.A. Morgenthau did then remains a source of wonderment to everyone connected with the case.

First, Morgenthau, the former U.S. Attorney for the Southern District of New York, used all his political pull to force the federal authorities to leave the prosecution to him, although bank fraud is a federal crime. (Under similar circumstances, Michele Sindona was sentenced to 20-30 years in federal prison.) This pull apparently included help from Henry Kissinger's National Security Council, since Morgenthau was able to enlist the aid of the U.S. Secret Service—which operates on direct White House orders—to pick up the "black box" recording device from the aircraft in which Graiver supposedly died.

Second, Morgenthau set up a secret grand jury, whose minutes remain sealed, indicting only four lower-level officers of the bank, namely Saul Kagan and three virtual clerks: Jean Louis Wolf of the international department, Torleaf Benestad, and Edmund Fleckenstein, ABT's Treasurer. Only Kagan and Wolf went to trial. Klutznick, Feinberg, Samuels, Kheel, and the others who had run the looting operation in common with the conveniently-absent David Graiver, were never indicted. Morgenthau called them all as witnesses, and gave them immunity from prosecution! Morgenthau suppressed the massive evidence of criminal bank fraud and merely charged the two fall-guys with a minor regulatory violation, i.e., loaning more than 10 percent of American

Bank and Trust's capital to BAS, along with minor related criminal offenses. Of course, the fall guys, who left the courtroom with \$20,000 fines, never had a motive to commit such a crime; the motives were entirely on the side of the prosecution witnesses.

For reasons that he never explained, Morgenthau ignored massive documentation to his grand jury showing criminal fraud on the part of ABT's top management. The quality of evidence ignored by Morgenthau's grand jury is illustrated by a legal brief presented by lawyer Steven Lowey in a separate case filed in Federal Court in 1977, "Adato vs. Kagan," on behalf of Mexican depositors whose "vacuumed deposits" had never been recorded on ABT's books. Although witnesses came forward to present evidence of criminal fraud, Morgenthau refused to hear their testimony before his grand jury; he refused even to take depositions. The 1977 brief even traced the transactions within ABT itself, showing how the Mexican depositors' money was laundered into the Graiver BAS account, and spirited away to Belgium. The money, it showed, was dumped into a shell account of the "New Loring Co." at ABT, and ended up at BAS.

Most inexplicable to lawyers and law enforcement officers associated with the prosecution of the ABT case was Morgenthau's refusal to trace the estimated \$45 million that Graiver looted out of ABT to Belgium, and thence to Switzerland—a trail that might have led back to the dirty-money networks that created Graiver, ABT, and John Samuels.

Ironically, Morgenthau had made his reputation as "Mr. Clean," in a series of dirty money investigations, and took credit for the passage of the 1972 Bank Secrecy Act, which forced accounting for large cash deposits and other conveniences of organized crime. In Congressional testimony in 1969, just before the Nixon administration fired him, Morgenthau railed against foreign bankers enabling U.S. citizens to evade taxes. Handed the biggest bank fraud case of the 1970s—interlinked with every other bank fraud case of the 1970s—Morgenthau covered his political contributors and political friends.

It happens that Morgenthau, a member of the National Committee of the Anti-Defamation League of B'nai Brith, was a colleague of Swiss-Israel Bank founder and ABT board member Philip Klutznick, a fellow national-committee member, and Chairman of the ADL's Executive Committee at the time the case was prosecuted. It also happens that Sindona's collaborators at Sterling National Bank are the bankers to the ADL, holding all its accounts and investing all its money.

It also happens that *Barron's* reporter Richard Karp, the journalist who brought the ABT court papers to light, was sitting at the bar at Sardi's restaurant in New York not long ago, when he was approached by a stranger. "You don't know me," the stranger told Karp, "but I have just been engaged as the public relations director for the Anti-Defamation League. I want to inform you that you are on their watch list."

(Second installment: Morgenthau's personal finances.)

Post-Kennedy fight in the Democratic Party

by Richard Cohen

The announcement by Edward Kennedy (D-Mass.) that he would not seek or accept the 1984 Democratic presidential nomination has, as one Kennedy family intimate puts it, "wiped the slate clean," and "opened wide the chase for the 1984 Democratic presidential nomination." This source insisted that Kennedy's surprising withdrawal from the race came at the recommendation of senior Kennedy family politicians who bluntly told the Senator that "there was almost no way he could defeat Reagan in a head-to-head contest."

Sources close to the Democratic Party, however, report that Kennedy's decision may have been sparked by threats that if the Senator were to run, as yet unpublished details surrounding his personal life, particularly the still-unexplained Chappaquiddick affair, might surface. Kennedy family insiders pointed out that Ted Kennedy's upcoming divorce and subsequent "single status" in the midst of a hot presidential primary and election campaign would provide a perfect opportunity for explosive exposés unraveling the Senator's personal baggage.

No matter. Kennedy's sudden exit has already cleared the stage for a series of disastrous Democratic presidential alternatives.

Early signals from Democratic Party quarters reveal that David Rockefeller and Henry Kissinger's Trilateral Commission firmly controls the two leading Democratic presidential contenders. Both Democratic National Committee Chairman Charles Manatt and AFL-CIO President Lane Kirkland, who during the course of 1981-82 acted as front-men and apologists for the crippling high interest rate regime of Jimmy Carter's Federal Reserve Board Chairman Paul Volcker, are reported to be wavering between the two frontrunners—former Vice President Walter Mondale and Ohio Senator John Glenn.

Mondale, a member of the Trilateral Commission and a public defender of Volcker's policies since 1979, has reportedly secured the backing of the financially and politically

important National Education Association (NEA). Mondale, who wrapped up the NEA for Carter in 1976 and 1980, has also won the support of another important union, a union which he also brought into the Carter camp in 1976—the International Ladies Garment Workers Union (ILGWU) and its president, "Chick" Chaikin. Chaikin delivered one of the key-notes at the 1980 convention for Carter.

With Kennedy out, observers close to the AFL-CIO believe Mondale will receive wider support within such unions as the United Auto Workers, United Steel Workers, and the Communications Workers of America. In addition, Mondale, drawing upon his patronage by the late Sen. Hubert Humphrey, enjoys friendly relations with the leaderships of minority organizations, including the elderly, homosexuals, and the liberal bastion Americans for Democratic Action.

Yet, in an interview published in early December with nationally syndicated columnist and Trilateral Commission director Joseph Kraft, Mondale offers nothing but harsh austerity to his labor and minority constituency, offering an undying pledge of allegiance to the depression economics of Volcker. Mondale, according to Kraft, will hinge his economic program on reducing the federal budget deficit through budget cuts. Mondale is quoted as demanding draconian reductions in budget deficits if interest rates are to be brought down. He argues that only if the cuts go through, thus supposedly bringing the rates down, will American trade position improve and jobs increase. Mondale goes on to call for significant budget cuts in U.S. national defense and health costs as well as tax increases.

In short, Mondale bluntly advocates the same brutal austerity advocated by Volcker and the Swiss-based Bank for International Settlements (BIS). The interview, issued immediately following the Kennedy decision, was aimed at assuaging deep-seated uneasiness within Trilateral and BIS quarters surrounding Mondale's obvious lack of character and stamina. Rumors have recently been circulating here that Mondale might be tempted to break with his Trilateral sponsors and adopt a protectionist theme to gain votes from the rank and file.

Mondale's problem is not unique. Trilateraloid Kirkland, banker Manatt and presidential hopefuls such as Glenn, Senator Ernest Hollings (D-S.C.) and Senator Gary Hart (D-Colo.)—who are also identified with Volcker economics—will, according to Washington observers, face increasing rank-and-file challenges as unemployment rises, social benefits decrease, and direct and indirect government financial bailouts of Trilateral-favored private banks grow.

Some of these sources insist that it is for this reason that leading elements of the Democratic National Committee consider it an urgent priority to limit and ultimately bar *EIR* founder and National Democratic Policy Committee (NDPC) Advisory Chairman Lyndon H. LaRouche from access to the party's presidential nominating process. Democratic insiders know very well that LaRouche's economic programs have appeal among rank-and-file Democrats—especially when

compared to the Mondale or Glenn brand of Trilateralism or the fraud of protectionism, which many congressional Democrats plan to push in the '83 Congress, and the peace movement bluster of a Sen. Alan Cranston (D-Cal.) or a Rep. Morris Udall (D-Ariz.), both contenders for the party nomination.

John Glenn, who officially opened campaign headquarters in Washington on Dec. 13, is, according to my sources, the current private choice of both Kirkland and Manatt. Glenn is said to be obtaining growing support within the building trades section of the AFL-CIO and within Albert Shanker's American Federation of Teachers. In addition, Glenn has all but gained the support of the foreign-policy division of the AFL-CIO. This grouping, broadly represented at the Social Democrats USA (SDUSA) annual conference meeting in Washington on Dec. 3-5, favors Glenn over Mondale because of Glenn's vocal anti-communism and more tempered position on defense cuts. Already, Bob Keefe, long-time political operative of SDUSA favorite Sen. Henry Jackson (D-Wash.), has been stationed on Glenn's staff. Party insiders believe the Keefe appointment means that Glenn has received the organizational and financial support of important people in the Jackson camp.

While Mondale-Glenn and other favorites of the Trilateral Commission have been unleashed following the sudden Kennedy move, talk is already circulating in the liberal left-wing establishment of the Democratic Party (such as the International Association of Machinists (IAM) and their outspoken president, William Winpisinger, within the American Federation of Government Employees (AFGE), and sections of the American Federation of State, County and Municipal Employees), of a possible break from the Democratic Party in 1984. My sources tell me that over the next three months, meetings will be held in Washington, New York, and other key centers among these groups to decide whether to launch a third party—which will echo the policies and sentiments of the European peace movement and torpedo the traditional Democratic Party.

Finally, rules changes adopted by the Democratic National Committee for delegate selection to the 1984 convention passed on Dec. 2 will make it possible for the Democratic Party candidates for President and Vice-President to be actually determined at the convention itself, rather than through the primary process. First, the "binding rule" on delegates operative at the 1980 convention has been removed, and second, one-third of the delegates are now mandated to be local elected officials not chosen in the primaries. Speculation is already surfacing that these rules changes may lead to a series of favorite-son candidacies in the state primaries, a tactic already reported to be taken seriously by Governor-elect Mario Cuomo of New York, Sen. Lloyd Bentsen of Texas, and Sen. Dale Bumpers of Arkansas. If such a scenario materializes, the 1984 Democratic Party presidential candidate may well be chosen in the smoke-filled hotel rooms of San Francisco.

'Hot spots' multiply on Zia's American tour

by Susan Brady

The news of his tour preceded Chief Martial Law Administrator Zia ul-Haq to San Francisco, where he was greeted by the *San Francisco Chronicle* with an editorial-page cartoon depicting the Pakistani dictator in sado-masochistic drag—fishnet stocking, high heels, mask, whip, and chains—captioned, "We have floggings, but there is a style of flogging." This, together with abundant local media coverage of the spirited demonstrations and interventions against the dictator as soon as Zia got west of the Appalachians, contrasts sharply with the official and officious red carpet welcome he received in Washington.

Pleading that the Soviet intervention in Afghanistan presented an overriding "threat to Pakistan's security and stability," the Reagan administration was emphatic in conferring the White House seal of approval on the Zia junta—its murderous political record and drug-running notwithstanding. While Zia was dealt some provocative questions at the National Press Club, according to sources on the Hill, the Henry Kissinger protégé was handled with kid gloves by the otherwise fierce human-rights activists among the liberal Congressmen and Senators. Moreover, after the first day, it was evident that someone had quietly put the national media on notice that Zia was to be covered sympathetically or not at all.

Three days after the dictator left town the complicated technical maneuvers necessary to release the first installment of the \$3.2 billion Pakistan aid program passed the House without a hitch, and the same was expected in the Senate. Another issue, the flap that erupted days before Zia's arrival when Pakistan refused to accept the first batch of F-16s, was officially "settled"—though the terms of the eleventh-hour agreement, namely whether Pakistan got the sophisticated equipment it demanded or not, remains to be seen. The administration officially accepted Zia's oblique "promises" with regard to not developing a nuclear weapon, and the liberals rolled over and played dead on this issue as well.

Only the local press, responding more to the concerns of average American citizens, had the courage to make it clear that a drug-pushing dictator who murdered his predecessor was not welcome in the United States. They were reflecting the campaign to expose the crimes of the Zia junta that began Dec. 6 in Washington and had been led by Pakistan Peoples'

Party Secretary General Ghulam Hussain and the Club of Life, a coalition which had earlier teamed up with international forces to win the release of Mrs. Nusrat Bhutto, chairman of the PPP, from Pakistan for urgent medical treatment abroad.

News of the demonstrations preceded Zia to Houston where the dictator was greeted by *Houston Chronicle* coverage of the spirited 150-man demonstration at the Hilton in New York the night before. On hand to welcome the dictator to Houston were more than 60 Pakistanis and Americans, whose protest and rally featured Dr. Hussain at the microphone. In San Francisco, Zia was greeted by a 200-man demonstration as he arrived at the St. Francis Hotel, where he had to be hustled in by the tactical police squad. In the midst of Christmas shopping, in Union Square, where a 10-foot effigy of dictator Zia was hung, the protesters created quite a stir. At a Commonwealth Club luncheon the following day, "opposition kept popping up," as NBC-TV local network reported it, to publicly indict Zia for murder and drug trafficking and to demand the release of Benazir Bhutto.

The groundswell of public opposition to the U.S. alliance with Zia produced some results, and reverberated into Canada where Zia started a state visit Dec. 14. In San Francisco, Mayor Diane Feinstein cancelled her scheduled meeting with Zia, pleading that "something had come up" in the City

Council. Early reports from Montreal, where the Zia entourage alighted for a four-day state visit, indicate that the Parti Québécois has cancelled their invitation to Zia to visit Québec City for meetings with Lt.-Gov. Cote and Premier René Lévesque. In Montreal, an aide to Mayor Drapeau confessed that the Mayor had been ordered by the Canadian Foreign Office to receive Zia ul-Haq.

In spite of the administration's clampdown and the national media blackout, Zia's embarrassment is being picked up internationally. The Italian daily *L'Unità* carried the PPP message condemning Zia as a "terrorist;" in India, the UPI wire on the protests has been picked up, in addition to detailed stories filed by the Indian press services, and has been featured daily in the English-language press there.

Perhaps not so fooled by their own public relations posture as are their American backers, Zia cronies are acting as if they were aware that the alliance with the United States, like their own regime itself, is based on quicksand. The New York consulate has reportedly been ordered to bankroll the establishment of a "parallel organization" to the PPP in the United States, and Zia himself was overheard screaming at consular employees for their inability to prevent the demonstrations that met Zia everywhere he went. It is freely admitted by U.S. State Department spokesmen that the PPP would win any free election in Pakistan.

KISSINGER'S DRIVE TO TAKE OVER THE REAGAN ADMINISTRATION

Now available, a new EIR Special Report

Since at least May 1982, following an underpublicized visit to London, Henry Kissinger has been coordinating a drive to consolidate control of the Reagan administration for the Trilateral Commission wing of the Republican Party. Secretary of State George Shultz is fully collaborating with this effort, which will put Kissinger in charge of enforcing the "controlled disintegration" economic collapse and depopulation of the developing sector. This EIR Special Report, written by EIR's Washington Bureau, provides the details of Kissinger's drive, including the implications for domestic and foreign policy. Includes profiles of Kissinger's collaborators, especially Helmut Sonnenfeldt, and the role being played by the Jack Kemp-led "opposition." Profiles of recent administration appointments also included.

60 pages \$250.00

Order from: Peter Ennis, EIR Director of Special Services at
(212) 247-8820, or 304 West 58th Street, New York, N.Y., 10019

Laxalt submits resolution on 'strategic defense'

Republican National Committee Chairman and Presidential confidante Sen. Paul Laxalt was the point man in introducing a resolution on Friday which called on the United States to maintain a strong defense. While much of the resolution reflected warmed-over "peace through strength" phraseology, one key section called on the U.S. to "create a strategic and civil defense which would protect the American people against nuclear war at least as well as the Soviet population is protected; . . . and to achieve overall military and technological superiority over the Soviet Union." Senator Steve Symms, an ultraconservative from Idaho, elaborated in prepared remarks in the Congressional record on the significance of these two points. Symms attacked the MAD concept of Mutually Assured Destruction and called on the United States to "use advanced technology to defend its citizens against the horror of nuclear war." Citing a GAO report on the possibility of satellite-based defense, Symms further stated that "the United States can have superior force and a superior war-fighting capability. We also need to exploit advanced technology, such as the cruise missile [sic] and space-based anti-missile defense."

The resolution, which has already been endorsed by Caspar Weinberger, Joint Chiefs of Staff Chairman John Vessey, National Security Adviser William Clark and Powell Moore, Deputy Secretary of State for Congressional Relations, was supported by a broad spectrum of Senators, including Democrats such as Ernest Hollings (S.C.), Bennett Johnston (La.), Russell Long (La.), John Melcher (Mont.), and Jim Sasser (Tenn.). The resolution appears to be an initiative of the Coalition for Peace

Through Strength—an American Security Council-spawned group whose membership ranges from various traditionalist military and patriotic organizations to the Order of St. John of Jerusalem.

Fact-Finding delegation visits Italy to probe drugs

Led by William Hughes (D-N.J.), the Chairman of the Crime Subcommittee of the House Judiciary Committee, a six-man delegation of congressmen visited Italy, Turkey, Egypt, Manila, China, Kuala Lumpur, Bangkok, and Thailand in mid-November to examine internal efforts against illegal drug trafficking. Staff accompanying the delegation stopped in Hong Kong. According to a Hughes spokesman, the chairman thinks headway was made with the Chinese regarding the exports of methaqualone (qualudes) and the use of mainland China as a major trans-shipment point.

On the other side of the world, however, the delegation, which besides Hughes included Clay Shaw (R-Fla.), Harold Sawyer (D-Mi.), Carlos Moorhead (R-Cal.), Ed Jones (D-Tenn.), and Mike Lowry (D-Wash.), was stunned at the extent of the narcotics trafficking in Italy, particularly Sicily, and the fact that the United States has only five DEA agents in the entire country. On Dec. 14, Hughes held hearings before his subcommittee with Dominick DiCarlo, Assistant Secretary of State for International Narcotics Matters, and Francis Mullen, the acting head of DEA. Mullen repeated his oft-heard praise of Hong Kong's efforts at curtailing narcotics trafficking, noting that "Hong Kong has emerged as a substantial force among Southeast Asian governments in the effort to immobilize traffickers through financial investigations."

The Hughes subcommittee could become the major locus of narcotics investigations in the House, if the Select Committee on Narcotics expires at the end of this session. Its chairman, Leo Zeferetti (D-N.Y.) and ranking Republican, Tom Railsback (R-Ill.) were both defeated in their reelection bids and that may damage the committee's chances for recharter in the 98th session. It is not yet clear whether Hughes will use the augmented importance of his subcommittee to challenge Mullen's defense of Hong Kong, the capital of Dope, Inc.

Rep. Kramer bares bias against beam weapons

Speaking to a National Space Club luncheon on Capitol Hill Dec. 15, Rep. Ken Kramer (R-Colo.), a leading advocate of the strategic and military utilization of space along the lines of the High-Frontier proposal—which revives Admiral Haywood's 1960 proposal for space-based anti-missile missiles, with conventional rather than nuclear-armed missiles—revealed a bias against an immediate program gear-up to develop directed-energy beam weapons. In terms that are emerging as a political "line" to delay beam-weapon development, Kramer said that the United States has "not made the kind of progress in directed energy that needs to be made" and that we are "not at the point in our technology to make those choices."

Kramer noted that after visiting various laboratories around the country, "There is no sense of objectives." Kramer added that it was "important that that be changed and changed at the highest levels of government." Referring to the chemical versus short-wave-length laser controversy, a red herring used to delay the overall program, Kramer said he was "supportive

of a better organized and coordinated program to answer which technologies should be developed and when."

Kramer's remarks centered on the growing Soviet emphasis on and power in the "geopolitical pivot of world power,"—space. "This past summer the Soviet Union simulated a first strike against the U.S.," Kramer said, warning that "all conditions are present for a technological surprise by the Soviet Union." Kramer outlined that the U.S. response that he is advocating "draws on Project Defender" initiated in 1958, but then "shelved by [Defense Secretary Robert] McNamara because it ran counter to the doctrine of Mutually Assured Destruction."

House votes to kill Clinch River

The House of Representatives voted 217 to 196 to delete funding for the Clinch River Breeder Reactor (CRBR) from the Continuing Resolution Dec. 14, the first time that Clinch River has ever suffered a setback in the House. The vote is not expected to kill Clinch River at this time, since it is anticipated that Senate Majority Leader Howard Baker (R-Tenn.) will get the funding passed in the Senate and restored in Conference with the House.

The margin of CRBR's defeat was almost an exact reversal of the last House vote in July 1981, which approved funding by a vote of 206 to 186. The influence of the Fabian Society-dominated Heritage Foundation and the British-dominated National Taxpayers Union was clearly at work.

Budget Director David Stockman, a Heritage Foundation mole, set the tone for the defections by getting a 40 percent cut in CRBR funding into the administration's proposed FY1984 budget. It is unclear whether the new Energy Secretary Donald Hodel will

attempt to get this cut restored before the budget is sent to Capitol Hill.

In September 1982 a Government Accounting Office report said that the cost of CRBR would nearly double and that the revenue receipts would be less than anticipated, a classic "cost-benefit" analysis.

The result was that 35 members who voted for CRBR in 1981 switched to opposing it Dec. 16. The defections included Republican whip Trent Lott (R-Miss.) and 19 other Republicans, many closely allied to the Heritage Foundation's post-industrial society philosophy. Assuming that CRBR is preserved by Senate initiative, another vote is expected in the House on the regular FY1983 appropriations bill, which will be taken up in the new Congress.

Who's who on Senate committees

Despite the entrance of only five freshman Senators in January (the smallest freshman class in over 75 years), several key committees have been the locus of major changes in composition and leadership. No changes occurred in the majority Republican side of the Senate Armed Services Committee, but the Democratic changes, with the addition of Ted Kennedy to the Committee, appeared to be geared to using the Committee as a point of confrontation. Kennedy replaces the pro-defense traditional Democrat, Howard Cannon (Nev.), whom Kennedy connected forces helped to "Watergate"; and newly-elected Jeff Bingaman (N.M.), whose activity at the Democratic mini-convention seemed to consist of hanging on to Pamela Harriman's hem, replaced the very conservative Harry Byrd of Virginia, who—though an in-

dependent—served on the Democratic side. Furthermore, John Stennis (Miss.), who had served as ranking Democrat on the committee and who was another sane, defense traditionalist, gave up his position as ranking Democrat (for another committee ranking position) in favor of Scoop Jackson (D-Wash.).

With Kennedy's move to the Armed Services Committee, and with the downgrading of moderate and traditional democrats, the committee could very easily become a battlefield between nuclear-freeze proponents and the bankrupt, off-the-shelf, strategy being pushed by the majority. The crucial issue of beam-weapon defense is at this point on neither's agenda.

Similarly, the defeat of Sen. Harrison Schmitt (R-N.M.) leaves the technology and space subcommittee of the Senate Commerce Committee in the hands of a *Global 2000* advocate, Sen. Slade Gorton (R-Wash.). The role of that subcommittee in supporting the nation's space efforts is central to ensuring that a beam-weapon program be undertaken in the necessary broad-based civilian as well as military context.

The other important committee to undergo major changes is the Senate Banking Committee, where the re-authorization of the International Monetary Fund in 1983 is likely to become a major issue. A number of Southern and Western junior senators might be expected to reflect populist pressure to resist an IMF re-authorization as a "bail out of the big banks." The new GOP members are Paula Hawkins (Fla.), Mack Mattingly (Ga.), Chic Hecht (Nev.), Paul Trible (Va.), and Gorton. Paul Volcker's protector William Proxmire has reasserted his position as ranking Democrat, replacing Don Reigle, who held that position briefly after the resignation of Sen. Harrison Williams earlier this year.

National News

Missiles vulnerable without ABMs: DOD

Secretary of Defense Caspar Weinberger, speaking to the Senate Foreign Relations Committee Dec. 15, made the shocking revelation that the Soviets have the capability to wipe out 95 percent of U.S. land-based ICBMs.

Spokesmen for the Defense Department confirmed the Weinberger figures that afternoon. They added that unless some kind of missile defense system was put in place, U.S. missiles would remain vulnerable through the end of this decade, even if the controversial MX program went ahead.

Other DOD sources report that a fight is raging inside the Department over how fast the United States should move towards a strategy of "mutually assured survival," which would require deployment of a beam weapon anti-ballistic missile system. Despite public statements by some DOD officials that ABMs are not feasible, one source reported the majority of those in key planning positions recognize the technological feasibility of beam-weapon ABM systems.

"The problem is that with the economy the way it is and with the Congress so stupid, we are making decisions for economic and political reasons and not for technological or even national security reasons," said a DOD source. "There was a time when we could bring a new weapons system on line in less than four years, with a concerted push. Now, with all the quibbling in Congress and cutbacks in R&D funding, it takes us 6 to 10 years. The problem is that we used to have a wide lead over the Soviets in most areas. Now the Soviets are ahead of us and unless we change the way things are going they will stay ahead. If they get an ABM system first, we might as well think about surrendering or hope that they don't want to fight ever."

Weinberger's statements will be used by people inside the DOD to push for an ABM breakthrough as a way to end vulnerability, the DOD source stated. "I don't know whether the fools in the Congress will understand that they must act," he stated. "It is going to be expensive. It would cost bil-

ions to defend our Minutemen and we don't want to do just that: We would want to defend everything. . . . Every week we get calls from people, some people very high up in the government, who suddenly have waken up to the fact that we don't have any capability to knock down enemy missiles, if even they are fired by accident. They ask us, why is that so, and I tell them that it is because people were stupid 10 years ago and they are still pretty stupid today. . . ."

Shultz/Kirkland thugs continue plotting

Steven Bosworth, the newly named Chairman of Secretary of State George Shultz's Foreign Policy Planning Council, met with the Overseas Directors of the American Institute for Free Labor Development (AIFLD) at their ongoing secret strategy session at the AFL-CIO's secluded George Meany Center retreat Dec. 15. Spokesmen for the AFL-CIO, the State Department, and AIFLD have steadfastly refused to reveal details of the discussions at the Meany Center despite suspicions that AIFLD, which has been implicated in a number of coups against national governments, may be planning destabilizations against governments and trade-union organizations opposed to Shultz and AFL-CIO President Lane Kirkland's austerity policies.

Shultz and Kirkland have had a number of secret meetings over the past weeks to discuss a strategy for breaking international trade union opposition to wage-cutting and other austerity measures. Spokesmen for both men refuse to discuss details of the agreements.

AIFLD, formally a subsidiary of the AFL-CIO, is funded by a number of Nazi International-linked multinational corporations including W. R. Grace, and also receives \$9.5 million annually from the State Department's Agency for International Development.

At the Dec. 15 State Department briefing, Alan Romberg was asked if Bosworth's discussions at the Meany Center involved planning for active opposition to the formation of a Latin American debtors' cartel,

including plans to interfere with or overthrow the Belisario Betancur government in Colombia or other governments. He replied, "You can assume that no plans to overthrow governments were discussed," but refused to rule out the possibility that Bosworth was plotting other unlawful interference in the Latin American political process. Otto Reich, formerly of the Rockefeller family's Council on the Americas and now director of AID's Latin America Bureau, is scheduled to meet with the AIFLD group on Dec. 18.

A spokesman for AID revealed that Jack Muth, the State Department-employed labor attaché in the U.S. embassy in Colombia, is responsible for overseeing AIFLD's AID-financed programs in Colombia. Edwin Palenque, the director of AIFLD's Colombia operation, who is attending the Meany Center sessions, has used his office to conduct a campaign of slanders against *EIR* founder Lyndon LaRouche's Colombian associates. He has also actively organized for the Shultz-Kirkland austerity policy. Muth, responsible for guaranteeing that Palenque's activities are in accord with Shultz's policies, has himself bragged privately about his attempts to intimidate Pedro Rubio, an officer of the Colombian UTC trade union federation, into severing his relationship with Helga Zepp-LaRouche's Club of Life organization.

Manchester daily on LaRouche weapons plan

The New Hampshire daily *Manchester Union Leader* gave prominent coverage Dec. 16 to a small gathering of the National Democratic Policy Committee recently held in Manchester to organize support for beam-weapon research. This marked a break from past policy of the newspaper of blacking out the mass meetings that the Citizens for LaRouche held during the 1980 New Hampshire primary.

Entitled "Laser Offered as Nuclear Alternative," a partial transcript of the article follows.

"Lyndon LaRouche, an unsuccessful Democratic candidate for the 1980 presi-

dential primary, has mounted a campaign promoting development of the laser beam as a defense weapon against guided nuclear missiles. He will probably be raising the beam-weapon idea as an issue in the 1984 Democratic presidential primary . . . although the Rochester [New Hampshire] Democrat hasn't formally announced his candidacy. . . .

"Steve Komm of Boston, the New England coordinator for the beam weapon proposal, claims that the Soviets are already developing similar technology that could make the densepack basing plan for the MX missile short sighted. Komm, an associate of Dr. Steven Bardwell, the science adviser to LaRouche and editor of *Fusion* magazine . . . charged that liberal media has been suppressing information on beam weapons. . . . According to Komm, laser beams can destroy ICBMs from a distance of 1,000 miles. He blamed Henry Kissinger . . . and Robert McNamara . . . for stopping the development of nuclear defense weapons. When there were threats of technological breakthroughs, Kissinger rushed to say that that would be very dangerous and create a technology race, Komm said."

Space Shuttle locates Mexican minerals

Recently analyzed data collected during the second test flight of the Space Shuttle orbiter Columbia have revealed a deposit of minerals and ores in Mexico heretofore unknown to the Mexican government. The region of the mineral discovery is a desert area of Baja California which will now be prospected by the Mexican government and could have deposits of iron ore, gold, zinc, copper, lead, and silver.

The Shuttle Multispectral Infrared Radiometer (SMIRR) flown in November 1981 identified the region as having been subjected to magma-heat steam and hot water tens of millions of years ago. Similar sites in the western region of the United States have been found to contain similar deposits of minerals.

Since the region is a wilderness area not accessible except by air, the Mexican gov-

ernment used helicopters to reach the desolate area and researchers were able to verify the site.

Dr. G. P. Sales, director of the Consejo Recursos Minerales and leader of the Mexican team, said that follow-up geophysical and geochemical measurements would be made to determine the ore potential for the area.

Farmers plan a 'Parity-Cade'

Founding members of the American Agriculture Movement (AAM) met in Colorado Dec. 10 to begin a "Parity-Cade" through six Midwest states. The motorcade will stop to hold rallies to inform the population on the impending collapse of American agriculture.

The AAM initiated the use of tractor motorcades in the late 1970s, when a series of demonstrations culminated in the 1977 farm strike. Farmers testified before the U.S. Congress on the then-serious financial crisis in American agriculture during that strike.

The AAM held a public rally in Campo, Colorado Dec. 10 to discuss organizing policy. Keynote speaker Eugene Schroeder, a founding member of the AAM, stated that the reason for the lack of a parity economy came from the international monetary policy that had destroyed the value of the U.S. dollar and decoupled it from gold. Schroeder cited the effect of the debt crisis on farmers in nations like Mexico, and urged that the "action program" of the AAM be based on a threat to use "debt default as a weapon" to make bankers agree to debt renegotiation, as Mexico did.

Former Minnesota congressional candidate and family farmer Patrick O'Reilly also addressed the meeting, describing his practice of targetting the Federal Reserve during his campaign. O'Reilly, who conducted his campaign on the basis of Lyndon LaRouche's four-point program for economic recovery, proposed rallies in front of Federal Reserve offices throughout the nation to target the destructive effects of Paul Volcker's high interest rates on American agriculture.

Briefly

● **JUPITER'S** moon Europa, covered with deep water and a mantle of ice, might support simple forms of life "if transplanted there," according to NASA scientists speaking before the American Geophysical Union in San Francisco Dec. 14. The scientists draw a comparison with conditions under the permanent ice of Earth's Antarctic lakes, where organisms propagate with little sunlight. Conditions on Europa have been inferred from Voyager photos and other measurements.

● **REP. ROBERT DORNAN** (R-Cal.) denounced Congress Dec. 13 for its refusal to act against pornography. "Fourteen years ago pornography was a \$5 million industry. . . . It is certainly an industry now of \$4 to \$6 billion. There is a rape every 5 minutes in the U.S., 25 percent of whose victims are under 12. This is tied in with narcotics. . . ." Dornan added that the U.S. moral decline could well lead to its defeat by the Soviet Union.

● **REP. PAUL MCCLOSKEY** (R-Cal.) announced to the Congress Dec. 14 that despite his "deep dismay over the nation's continuing economic decline, it is a pleasure and a deep relief to find" that "for the first time in 25 years, the nation's frog population is increasing." McCloskey is a leading GOP supporter of the Sierra Club.

● **THE NEW YORK TIMES** Dec. 12 editorially endorsed a proposal by House Speaker Tip O'Neill and Rep. Dan Rostenkowski (D-Ill.) to tax the meager Social Security benefits of the nation's elderly. Showing its liberal compassion, however, the *Times* recommended that only 83 percent of the benefit income should be taxed.

● **DEFENSE SECRETARY** Caspar Weinberger has failed to improve his ability to explain the alleged mechanism which will prevent Soviet ICBMs from destroying closely spaced MX missiles. He told the Senate Foreign Relations Committee that the *incoming* missiles would be neutralized through "fraternization."

A sense of urgency

If Washington fails to assert itself and secure an Israeli withdrawal from Lebanon in the weeks ahead, a new Lebanon blow-up leading to a full-scale Middle East war could be unavoidable.

This is the message Lebanese Foreign Minister Elie Salem brought to Washington this month. In his meeting with President Reagan and with other administration officials, Salem spoke plainly. "If the foreign forces do not leave within a week or two weeks, or a maximum of a month, Lebanon will be positioned at a new angle, and I cannot say where it will end. Most likely Lebanon will be so dangerous that it may be ushered into a new war far more destructive, far more regional, far more international in its implications than the [civil] war of 1975."

"I am a son of a bitch who has been burned by history," Salem continued, "and I am afraid of new facts arising as the result of delayed action. It will be horrible. Already some people are referring to the southern part of Lebanon as the North Bank. That is no joke to us."

Salem laid it on the line to Washington: "I think America is in a position to deliver on anything America feels strongly about in the Lebanese-Israeli situation, and nobody's going to convince me otherwise. I was not born yesterday. I would be furious if the United States does not deliver."

Salem shocked official Washington. The approach appears, though, to have had some effect. The day after Salem left the capital, Reagan sent a letter to Israeli Prime Minister Menachem Begin telling him to quit Lebanon immediately. Although the contents of the letter were not publicly released, one senior administration official summed up the sentiment of the President's message: "We want them to do what they represented they would do months ago and that is to get the hell out of there. It is in no one's interest, including their own, for Israel to remain there. Israel, having been the invader, more and more has the appearance of the occupier."

According to White House sources, "a new sense of urgency" has gripped the President and his closest aides regarding the Lebanon crisis. They fear that continued stonewalling on the part of Israel will not only undermine the prospects of peace in Lebanon but will doom the Reagan Plan for a Middle East settlement. They are particularly concerned about the role of Ariel Sharon, Israel's renegade defense minister, who is doing his utmost to defy Washington up and down the line.

Reagan's fears about Sharon are justified. There are reports that Sharon is out to trigger a confrontation with Syria in Lebanon, to shift attention inside Israel away from his role in the Beirut massacre to a new conflagration in Lebanon. According to the *Jerusalem Post*, the Reagan administration is suspicious "that Israel is maintaining the Lebanon imbroglio to head off an effort to launch the Reagan proposals for a Palestinian solution, and that Israel is courting a confrontation with Washington as a convenient vote-drawing issue with which the government could fight an early election."

Begin himself may be relenting. Rumor has it that the prime minister will soon back down from his insistence that some of the negotiations with Lebanon on a troop withdrawal be held in Jerusalem, a demand that Lebanon cannot possibly meet at this time given the delicate nature of the Jerusalem question. To undermine the prospects of some kind of Reagan-Begin deal, Sharon says he is conducting his own negotiations with the Lebanese "away from American eyes," with the purpose being to revive Camp David and in that context force Lebanon into a treaty arrangement.

How swiftly Reagan moves will determine whether or not Lebanon explodes again. The Reagan Plan, though in and of itself no solution to the Middle East crisis, given the role that George Shultz and Henry Kissinger played in its conception, could provide a means for the President and his immediate circle to reassert U.S. influence in the region, and circumscribe Ariel Sharon.

EIR

U.S., Canada and Mexico only

3 months \$125
6 months \$225
1 year \$396

Foreign Rates

Central America, West Indies, Venezuela and Colombia:
3 mo. \$135, 6 mo. \$245, 1 yr. \$450
Western Europe, South America, Mediterranean, and
North Africa: 3 mo. \$140, 6 mo. \$255, 1 yr. \$470
All other countries: 3 mo. \$145, 6 mo. \$265, 1 yr. \$490

I would like to subscribe to the *Executive Intelligence Review* for

3 months 6 months 1 year

Please charge my

Master Charge No. _____ Visa No. _____

Interbank No. _____ Signature _____

Expiration date _____

I enclose \$ _____ check or money order

Name _____

Company _____

Address _____

City _____ State _____ Zip _____

Make checks payable to *Executive Intelligence Review* and mail to *EIR*, 304 W. 58th Street, 5th Floor, New York, NY 10019. For more information call (212) 247-8820.

Talk to the EIR Research Center every week!

Weekly Access Information Service

For the EIR subscriber who needs a
constant flow of political and economic information

For \$3500 per year the weekly service offers:

- Access to any EIR intelligence sector
- Two hours of phone consultation per week
- Two hours of special research by EIR staff each week on a question of the client's choice
- Half price on all EIR multi-client Special Reports

To sign up for the service, or to get further information,
contact Peter Ennis, EIR Special Services Director, at 212 247-8241

EIR Executive
Intelligence
Review