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Executive Intelligence Review

January 25, 1983

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EIR

From the Managing Editor

Our Special Report this week is a product of a recent visit to Egypt by our Editor-in-Chief and our Middle East Editor. It is flanked by two summaries of analyses prepared by *EIR*'s LaRouche-Riemann econometricians: one of them presents the industrial and financial measures by means of which Mexico could avert a national breakdown, and the second outlines the latest *EIR* forecast for the U.S. economy. The overall conclusion suggested by these reports is that the underutilized capacity and idle labor of the "North" can be profitably put to work producing capital inputs for the populations of the "South"—if the requisite political will is mustered, and world banking is placed at the service of technological development.

That amounts to a New World Economic Order, a subject at the center of discussion on Jan. 14, when *EIR* founder Lyndon H. LaRouche, Jr. and his wife Helga Zepp-LaRouche held a strategy session in Washington, D.C. with representatives from 12 developing-sector nations—diplomats who seek to bring together the Non-Aligned members and the Ibero-American countries. The LaRouches stressed the following points. The decisions made by developing-sector governments over the coming weeks will in large part determine whether a "debt bailout" is secured over the dead body of the world economy. What is necessary is a unified "Third World" war council against the Eurodollar bankers, and "flanking action"—e.g., by Africa, whose debt has already been written off, and has no "debt blackmail" capability by itself, but could play a vital support role for those nations who *can* tell the banks and the IMF that not a cent will be paid until the New World Economic Order creates the new wealth whereby to pay it. The problem is that governments, like individuals, "want to be wishful thinkers, make one deal at a time, be pragmatic. But now only grand policies for good or evil will work."

Below we present the latest intelligence needed to inform the architects of policy, intelligence which includes assessments of the International Monetary Fund's and Bank for International Settlements' efforts to consummate their reorganization of the world economy.

Susan Johnson

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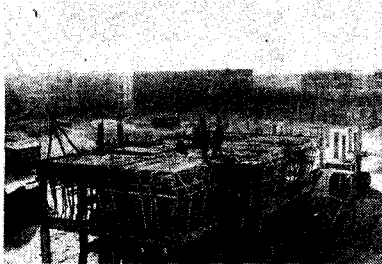
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B. P. Wolff/United Nations

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- Correction:** Our year-end review issue, dated Jan. 4, misidentified the electoral opponent of Patrick O'Reilly in a Minnesota congressional primary race. The Democrat in question was Jim Nichols, not Bill Frenzel. The article in question was titled "The LaRouche Factor in U.S. Politics."

The Ditchley Group plans a new IMF world order

by C. L. Magister

A spokesman for the National Democratic Policy Committee of Lyndon H. LaRouche, Jr. announced today that the NDPC seeks prosecution of the "Ditchley Group" of commercial bankers for blatant violation of and conspiracy to violate U.S. anti-trust law, including the Sherman Anti-Trust Act of 1980 and the Clayton Act of 1914.

The Ditchley Group of 36 international banks, led by British banks including Lloyds and Barclays and major U.S. banks led by Morgan Guaranty, convened secretly in Washington Jan. 10 and 11. The LaRouche spokesman charged the group functions as an international "creditors' cartel, worse than the 19th-century Standard Oil combine."

The Ditchley bankers plan to use the cartel to force the establishment of a "new Bretton Woods monetary system." The cartel has already succeeded in cutting lending to the Third World by over 50 percent since its formation in May 1982; but that is just the beginning. They have done so to deliberately create a world debt crisis, forcing nations to call in the IMF, as officials of Morgan Guaranty including chief economist Rimmer de Vries have affirmed (see *EIR*, Jan. 18).

The banks have taken up a plan now being circulated by former British Chancellor Lord Harold Lever to revamp the International Monetary Fund as a "world central bank," Washington insiders say, which will lead to the re-chartering of the IMF with supranational powers. "Not only have the banks set up a cartel which is controlling international lending, but it is a cartel run by the IMF," Richard Dale of the Brookings Institution told *EIR*. "It's too ad hoc, and has to be formalized. . . . The role of the IMF must be expanded and its charter changed . . . the IMF must take a more dirigist

approach to the entire world economy."

The plan would eliminate the national sovereignty of the United States. As a source at the Washington Overseas Development Council said bluntly, "Credit is to be regulated according to international arrangement," by the IMF, and "the United States is to be treated like a Third World country."

Illegal embargo

The British-run Ditchley Group of banks, founded at Ditchley Park in London, has already acted as a cartel, in flagrant violation of U.S. law, to embargo credit to the Third World. During the second half of 1982, *after* the Ditchley group was founded in May, the published figures in Morgan's own *World Financial Markets* show the cartel reduced lending by over 57 percent to the non-oil-exporting developing world.

This drastic reversal in international lending, compared with the 40 percent annual rate of increase in these banks' loans during 1974-81, could only have been accomplished by a tight conspiracy.

Under the Sherman and Clayton Acts, mere conspiracy to do this, let alone proof that it has been done, is a felony. "Monopolization [by] a group of persons using their power to lend money . . . with purpose of stifling actual or potential competition" was ruled illegal in 1954.

The Ditchley Group claims that its aim is merely to exchange information on bank lending to developing nations, by setting up what one Citibank official called a "global risk-analysis bureau." The group announced on Jan. 12 it has established an Institute of International Finance in Washing-

ton to carry out this "exchange of information." Secondly, the Ditchley Group will also "disseminate explanations of policy scenarios" for banks to use in judging whether or not to loan, one banker said. To receive credit, borrowing nations will be required to demonstrate "willingness to adhere to IMF conditionalities," he added. "When a country needs to devalue, and the IMF tells them to do so, they must do so." This alone is conspiracy.

Publicly, Ditchley spokesmen deny the cartel charge. "Certainly it might be desirable for the banks to withhold credit as a group, but this is illegal," one Morgan official admitted. In fact, however, Ditchley leaders state privately that the group means to "control" international lending as a cartel. There have been too much borrowing and "too many reschedulings," the banker told a journalist. "Previously, because of bank competition, countries who refused to make adjustments could get loans anyway. The commercial banks must act themselves to get the situation back under control. We want to make sure borrowers don't play one bank against another [to get more loans]." The banks wish to "exercise enough clout to persuade borrowing nations" to cut their credit consumption drastically, Ditchley organizer George Clark, executive vice-president of Citibank, told the *Wall Street Journal* as early as July 1, 1982.

U.S. to foot the bill

International press coverage of the LaRouche anti-trust charges, particularly in Latin America, to which the cartel has cut credit to zero, has already caused the Ditchley Group a good scare. TV Globo in Brazil Jan. 12 ran a spot on the National Democratic Policy Committee demonstrations against the Ditchley meeting. The leading Mexican papers *El Sol* and *El Diario de Mexico* covered the charges with headlines the same day, as did the Peruvian daily *El Observador*.

Fear of exposure and potential legal consequences lead the British banks and some of the biggest German and French banks to downplay Ditchley's significance and deny their attendance at the meeting entirely in some cases. Even Barclay's Bank official Sir Peter Leslie, one of the original Ditchley Group organizers last spring, told *EIR* through a spokesman that Barclay's was "keeping at a distance" from the new cartel.

Commented one British banker, "It was a big mistake to found [the Ditchley Group] in the United States, from a legal standpoint." The British persuaded David Rockefeller's Chase Manhattan to do their dirty work for them, since Ditchley's Organizing Committee is chaired by Chase vice-chairman William Ogden.

The British hope to set up the Treasury of the United States, which would pay for a vast expansion of the IMF's resources as well as back up the new IMF world central bank with U.S. dollars, as the "fall guy" in any world banking crisis. By lobbying Congress for a major bailout, while en-

forcing lending policies that ensure that such a bailout will only work for weeks at best, Chase Manhattan has bought itself the worst of both worlds: by "cleverly" tying the United States' own credit to the bankrupt \$1.4 trillion Eurodollar market, it ensures that the American banking system will take the entire brunt of the monetary catastrophe that will hit, most probably, at the beginning of the second quarter of this year.

British bankers, by contrast, dumped as much of their short-term debt holdings with respect to Brazil and other major developing-sector debtors, starting last October and building into what the London *Times* of Dec. 20 described as a "run" against Brazil at the end of the year. In effect, they have used the Ditchley operation to dump this paper into the laps of New York banks, American regional banks, and the Treasury itself.

The death of world credit markets also means there will be "no recovery in the United States," a top IMF official in charge of the U.S. economy said Jan. 12 (see *Business Briefs*). That, together with bankers' worries that the Federal Reserve cannot lower interest rates much more without collapsing the U.S. dollar, brings the United States another step closer to a crisis which could break the Reagan administration.

The new world central bank

Meanwhile the British and the Ditchley cartel seek to blackmail the Reagan administration into pushing the new IMF world central bank plan, and to panic the U.S. public and Congress into approval. Washington insiders predict a series of policy crises meant to either topple Reagan or force him to support the IMF plan within the next weeks (see *National*).

President Reagan is being briefed on the need for a new IMF dictatorship by Secretary of State George Shultz and Treasury Secretary Donald Regan, and Washington sources close to Ditchley say "the effect will be achieved." Indeed, in his Jan. 6 press conference the President exhibited his fear of the threatened world blowout and openly called for a "bailout." "We have been taking a number of steps with regard to the International Monetary Funds that are available for bailouts," the President stated, "Increased the contributions to those. . . . If there was widespread default, there would of course be some very severe financial problems," he added.

Administration sources report that the Reagan Cabinet Task Force on International Economic Policy met Jan. 12 on a plan to "re-charter the IMF." "Discussion of the IMF charter reform is all over Washington," House Banking Committee sources said, "and the plan promoted by Secretary of State George Shultz is based on Lord Lever's Churchill Lecture of last year."

The plan surfaced in public briefly Jan. 10 when former U.S. Treasury Secretary Henry Fowler called for the IMF to be transformed into a "world central bank" before the Senate

Foreign Relations Committee's hearings on international debt. "The IMF is evolving into a different kind of function than established at Bretton Woods," he said. "Since then, a huge international market, the Eurodollar market, has grown up outside the scope of central-bank supervision, and its supervision is not provided for in the IMF charter. That gap has to be filled. We should look at the IMF and see if its charter needs to be revised. Now is perhaps the time to talk about a world central bank . . . and see if we should move the IMF in that direction."

In his testimony, Fowler cited a plan for the IMF to control all future commercial bank lending, floated by New York Federal Reserve President Anthony Solomon in an Oct. 7, 1982 New York speech. Solomon called for "governments, working with the IMF, to *indicate* amounts of future private lending to major or financial troubled borrowers *necessary or desirable* [emphasis added]."

Fowler included this recommendation in a nine-point program which included proposals for the IMF to "develop special procedures to coordinate . . . debt rescheduling and renegotiation of debts public and private, as well as massive financial expansion of resources for the IMF by the United

States and others."

In an interview, former N.M. Rothschilds official Richard Dale, who is close to both the Bank of England and the office of Secretary Shultz, described the new proposal by noting: "The era of free market lending is over. Not only have the banks set up a cartel which is controlling international lending, but it is a cartel officially orchestrated by the Fund. Banks are lending only where they're told to lend under a quota system run by the IMF. Right now the IMF is setting minimum quotas. Eventually they would have to get maximum quotas. But the real problem is it's too ad hoc, and has to be formalized.

"The role of the IMF must be expanded and its charter changed," balance of payments in advance, plan where the deficits will be allowed, and how large they may be. The IMF must take a more dirigist approach to the entire world economy, not just the Third World.

"There must be more IMF surveillance of U.S. and OECD budget policy, interest rate policy, and other domestic policies. There must be IMF surveillance of exchange rates, including in the Third World where the rates are managed. If

The Ditchley Group: its banking leadership

Named for London's Ditchley Park, where it was founded in May 1982, the Ditchley Group is a cartel of over 36 international commercial banks run by the British banks, the IMF, and the BIS.

The top 20 major U.S. banks, led by Morgan Guaranty, Citibank, and Chase Manhattan, are active and appear to be leaders of the Ditchley Group. William Ogden, vice-chairman of Chase Manhattan, is the chairman of the Ditchley Organizing Committee, which is based in Washington.

But the Ditchley conspiracy originated in Britain. Since Peter Leslie, Senior General Manager of Britain's Barclay Bank, organized its first meeting at Ditchley Park in London, the group has in fact been run by British banks such as Barclays, Lloyds, National Westminster, and Midland Banks, who attend all Ditchley meetings.

The Bank of England control of the group will be exercised by Sir Robyn Leigh-Pemberton, the new Governor of the Bank of England, who until last month was chairman of National Westminster Bank.

By means of the Bank of England, Ditchley policy is made by the supra-national Bank for International

Settlements in Basel, Switzerland, which controls the Bank of England. BIS Executive Director Alexandre Lamfalussy sends aides to all Ditchley meetings, as does International Monetary Fund Managing Director Jacques de Larosière. Peter Cooke, the head of BIS's "Cooke Committee" of world bank regulators, attends most Ditchley meetings and tells the banks what the BIS considers to be "prudent levels" of world lending.

In fact, it was BIS President Fritz Leutwiler who first called for the establishment of a bankers' cartel in a March 1982 speech in Mainz, West Germany. "Banks will have to tighten their lending," the Swiss announced, and "an ad hoc body of international institutions will have to step into the breach."

U.S. officials close to the BIS who routinely attend Ditchley meetings include New York Federal Reserve President Anthony Solomon, other Federal Reserve officials, and C. Todd Connover, U.S. Comptroller of the Currency, who represents Treasury Secretary Donald Regan.

U.S. bankers involved include Mr. Ogden of Chase Manhattan, Citibank executive vice-president George Clark, Morgan Guaranty executive vice-president Werner Stange, Morgan chief economist Rimmer de Vries, Manufacturers Hanover Executive vice-president Donald G. McCouch, and representatives of Bankers Trust, Chemical Bank, and other major U.S. banks.

there is going to be an end to the free market in exchange rates, the IMF must manage any Third World programs of exchange controls.”

Dale added that the Yugoslav debt crisis, just at the verge of a blowup, will set a precedent for this sort of action. Undersecretary of State Lawrence Eagleburger just showed up in Yugoslavia, praising the country for paying its debts by accepting an International Monetary Fund austerity program. The Yugoslavs, for their part, took an extraordinary action on behalf of the expanded powers of the IMF, calling a meeting with their banking creditors in Switzerland for Jan. 17, to be chaired by the International Monetary Fund—giving the IMF de facto powers as mediator over the private banks’ operations.

IMF quotas: only the first step

Thus, the Ditchley Group is also engaged in conspiracy to give the International Monetary Fund total control over the United States, as a source at the Washington Overseas Development Corporation close to Ditchley indicated Jan. 13.

Last October, at a Ditchley meeting, “the bankers took out their calculators and reached the startling conclusion that the debt cannot be repaid,” he said. They decided that credit is a “political question,” he said, and that if the banks were to be bailed out, “we must end the idea that credit is a sovereign instrument, regulated by individual countries.”

The decision was made, he said, to “force a new international monetary conference” to establish a “new Bretton Woods” system run by the IMF. The first step, he said, “is to create a climate in the Congress where no responsible public official will say they are against the IMF.” The entire purpose of the Jan. 10 *Time* magazine cover story on the world “debt bomb” crisis, he said, is “theatre. Things are being played up for effect.”

The first step has been to force President Reagan himself to sell a vast expansion of money to the IMF on Capitol Hill, including a \$60 billion expansion of new IMF quotas and other IMF facilities. Richard Dale and other Washington insiders believe that Congress will have no choice but to ratify this initial step in the plan.

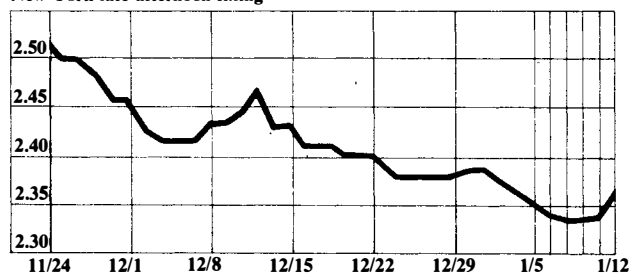
In fact, the Ditchley Group has planned for months to panic the Congress. “The desires of the U.S. government notwithstanding, they must pay into the new IMF expansion,” a Morgan official threatened as early as last August. “The private banks want the IMF in Mexico and other countries as a policeman. Only the IMF can force Third World governments to tighten their belts.” If the Congress balks, he predicted last August, there will be “further financial crises such as that of Mexico.”

The expansion of IMF quotas is only step one, to “test the political temperature” in Washington for the new IMF expansion, a British official at the IMF said. “We’re waiting to see what happens to the quotas. We’re working with the U.S.” on the rest of the plan, he said.

Currency Rates

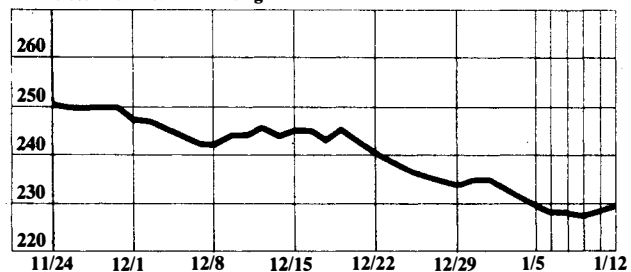
The dollar in deutschemarks

New York late afternoon fixing



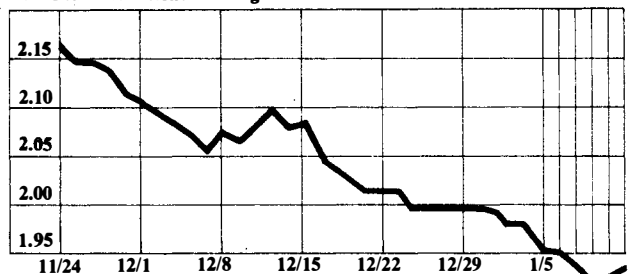
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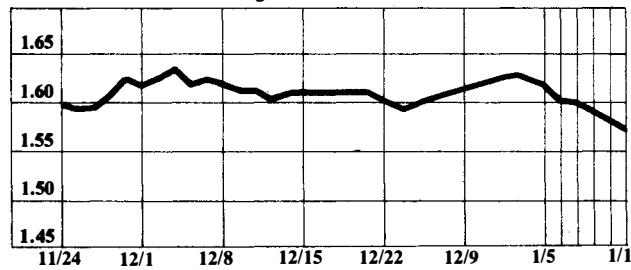
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The British pound in dollars

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The International Monetary Fund axes Brazil's nuclear energy program

by Mark Sonnenblick

One of the developing sector's most ambitious nuclear programs, Brazil's, has become the first casualty of Brazil's submission to International Monetary Fund (IMF) conditionalities.

Brazil signed a 29-point letter of intent to the IMF on Jan. 7, just hours after *O Estado de São Paulo* had leaked, "President Figueiredo yesterday ordered the suspension of the Iguaçu I and II nuclear plants which were to be built in São Paulo as the third and fourth units of the Brazilian-German nuclear program. . . . According to government sources, during at least the next three years, while the program of adjustment to the international crisis is in effect, it is unlikely that the resumption of the nuclear agreement will be authorized."

It did not take long for all concerned to verify the news. Presidential spokesman Carlos Atila took pains to deny that the elimination of nuclear development was part of a secret agreement with the IMF. Atila explained that it was "merely" a result of the 41 percent reduction from last year's level in the budget of the state nuclear agency, Nuclebrás.

On the 10th, Nuclebrás announced that work on Angra II and III, the first two of the German plants under construction near Rio de Janeiro, would also almost cease for the next year.

The nuclear program is not a showpiece. It was designed by people committed to continuing Brazil's development at such a rate that all the energy of the Amazon's rivers would not meet its needs until the advent of fusion power. It is that commitment to man's progress which is the target of the IMF and its Malthusian co-thinkers

The *New York Times* rejoiced, "With its agreement on terms for an IMF loan, Brazil appears to have temporarily applied the brake to its rush toward the status of a great industrial power. . . . The loan and the austerity program mark the end of the drive for major economic development, a drive that has been managed by a small team of technically minded decision-makers within the military government that has dominated Brazilian politics for years."

In 1977, U.S. Vice-President Walter Mondale provoked Brazil to break military relations with the United States by ordering West Germany to abandon its contract to help Brazil build eight power plants plus enrichment and reprocessing

facilities. Today, U.S. Secretary of State George Shultz, who chaperoned Brazil's "blind date" with the IMF, is treated as "Brazil's friend in Washington." When Shultz heard last September that Brazil was studying adoption of U.S. economist Lyndon LaRouche's recommendation of using its debt as a weapon for forcing a growth-oriented new international economic order, he met with Planning Minister Delfim Netto and promised "U.S. backing" with the IMF and with the private creditors. Shultz arranged for \$1.5 billion in U.S. Treasury funds to go to keeping Brazil from default.

Nevertheless, Brazil was forced to stop payment of principal on long-term debts Jan. 3. The money is accumulating in interest-bearing accounts in the central bank. Brazilian leaders had apparently expected that the international bankers—goaded as they were by Jacques de Larosière of the IMF and by federal regulatory agencies on behest of Shultz—to commit themselves to rollover Brazil's 1983 debt service by the Dec. 30 deadline. Now, it seems the process may be drawn out until March 1, with the banks asking Brazil for one concession after another. So far, they have been getting them.

The Brazilian authorities are also counting on the IMF rushing to disburse \$1.62 billion shortly after the mid-February directors' meetings. But, again, they may be put on a shorter leash than they anticipated.

Conditionalities

Americans may as well learn how the IMF operates, since there are moves afoot (see article, page 4) to put the U.S. under similar strictures.

In its "letter of intent" and accompanying "technical memorandum" the victim defines precise qualitative and quantitative policy parameters which have already been negotiated with the IMF. This is the straitjacket within which the country must live until it repays the IMF credits and interest. If the IMF finds compliance in each quarterly audit of the country, it dribbles out that quarter's credit ration. If not, it tells all credit sources to cut off lending.

The "technical memorandum" sets specific limits for each coming quarter for:

- reducing the balance-of-payments deficit to zero by December;

- reducing public-sector borrowing;
- reducing internal money supply;
- limiting growth to total foreign debt to \$6 billion in the year;
- devaluing the cruzeiro against the dollar by over 12.7 percent (more than Brazilian internal inflation) during 1983;
- eliminating "minor foreign exchange restrictions" including progressive taxation of profit remittances, limits on royalty remittances, export taxes on coffee and other crops.

The guts of an IMF program is always to have the government dictate savage reductions in consumption and productive investment in new plant and equipment so that whatever wealth a country can generate is diverted into paying foreign debts. The IMF accords have already had a dramatic effect on life in Brazil.

Since the beginning of the year, investors have pulled their money out of banks into legal hedges such as gold (which rose 20 percent in a week) and illegal ones such as black-market dollars (which now fetch 88 percent more than the legal exchange rate.) The withdrawals, combined with the IMF clamp on credit and insistence on massive devaluations have sent interest rates to annual levels of up to 360 percent on commercial paper. Given that the average Brazilian company has debts equal to 60 percent of its capital, the business daily *Gazeta Mercantil* editorializes, "How can any Brazilian company withstand real interest rates of 50 percent and more above inflation?" Their pressures and hopes were placed on the National Monetary Council, which met Jan. 11 only to reduce some of the taxes on the banks, but not to ease the credit scarcity. The vice-president of the National Industry Confederation, Edgard Arp, concluded, "Credit has ceased to be an activity in support of productive activity, transforming itself into a unilateral drain of resources. Today, Brazil is a country belonging to the moneylenders."

Banking sources whisper that 300 of the medium and large industries are close to bankruptcy due to the absurd interest rates; their failure would ruin many banks. During the second half of 1982, 8 to 10 percent of all loans were in arrears, compared with the normal 0.5 percent rate. São Paulo's bankruptcies topped the record in December, accompanied by another ratchet drop in employment.

"The common people are just buying food," reports an *EIR* subscriber, a São Paulo electronics engineer. "They are hysterical, afraid of not having jobs and not having anything to buy in the stores." This radical change of mood from the ingrained optimism of a generation experiencing practically unbroken development has a rational basis.

Bad weather, farm credit cuts, and commitments to the IMF and the banks to radically reduce wheat imports add up to a growing prospect of serious food shortages in the world's fourth biggest agro-exporter, a country which—if developed—could equal the entire world's food output.

Is Brazil's collapse reversible?

Delfim Netto did not show up at a Tokyo seminar on

Japanese-Latin American relations Sept. 28, because he was in New York and Washington closeted with George Shultz working out the program Brazil is now carrying out. The speech he had read for him in Tokyo, however, pointed to the "irreversibility" of world economic cataclysm coming from precisely those policies.

Delfim Netto now admonishes the country's fabulous capital-goods sector, built to turn out \$7 billion worth of quality machinery a year is "not underutilized, but dispensable." *EIR*'s São Paulo engineer fears, "If those industries are lost, we may not recover for 30 or 40 years."

The productive apparatus of the world's tenth largest economy is in danger. The Brazilian Exporters' Association reports that the inavailability of export pre-financing is already inhibiting the producing of the exports. Thus, it warns, Brazil will fail to meet its \$6 billion trade surplus commitment—even if markets could be found.

To try to meet the conditionalities imposed by Shultz's friends at Morgan Guaranty and the IMF, Brazil is forced to dump its steel on the United States. It can compete because a Brazilian steelworker only earns \$150 per month, compared to \$2,000 for an American. Yet, the IMF insists that the minimum-wage levels in Brazil are scandalously high and must be reduced in real terms so as to make exports even more competitive. There is fierce resistance on the question from saner minds, but Delfim Netto restates daily that real wages must and will be slashed.

Carlos Bresser Pereira, a successful private-sector economist who soon will manage the huge and hugely indebted São Paulo state bank, Banespa, asks in print: "If the measures pactured with the IMF were complied with, wouldn't they be disastrously recessive?" And he adds, "Wouldn't a moratorium end up being better than those measures? Without any doubt, we would have grave problems. We would have to pay cash for our imports and there would not be sufficient foreign exchange, so that a selective control of imports would be inevitable. We would thus lack basic inputs and have sectoral recessions. But wouldn't even that be better than the prolonged and hopeless recession implicit in the government's latest measures?"

"In the final account, amid the crisis unleashed by ceasing payments we would have to administer our economy more decisively, instead of being run by our creditors?"

Bresser's colleague, the senator-elect from São Paulo, Severo Gomes, is insisting that Brazil declare a moratorium and renegotiate its debt together with the other similarly struck countries of Ibero-America, while trading with them on a barter and common-market basis.

President Figueiredo has risked his presidency and the national security of his country by following George Shultz's "friendly" advice. His Jan. 13 talks with Argentine president Reynaldo Bignone reportedly will center on the debt problem. Will the two generals afflicted with over 40 percent of developing-sector debt take counsel from Lyndon LaRouche and Severo Gomes?

The LaRouche-Riemann survival program for Mexico's economy

by David Goldman

Mexico's economy is in a deep state of shock, and poised for an economic decline this year far in excess of the 3 percent negative growth projected by the International Monetary Fund. As Mexico's creditors admit with some concern, the International Monetary Fund agreement signed in December by the new de la Madrid government merely postpones the crisis, for the simple reasons that the balance of payments, debt service, and import numbers agreed upon between Mexico and the Fund are as fraudulent as those Brazil has presented to its creditors.

Even the Mexican Treasury's projections for 1983 allow for no more than \$11 billion in imports, while the import-level which would permit zero economic growth is over \$18 billion. 70 percent of Mexican industry depends on assembly of components imported from the United States, such that the exhaustion of inventories of such components implies an additional minimum reduction of industrial output by 10 percent over the year; a reduction in oil prices, a rise in U.S. interest rates, and a shrinkage in the predicted U.S. market for Mexican goods, all of which are left out of the current government numbers, will make the situation impossibly worse.

What kind of transformation?

In one form or another, the next months will force a general transformation of the Mexican economy, eliminating the cancerous burden of government and private overhead which has distorted Mexican economic development during the past two decades. Whether the operation will also kill the patient, however, is an unresolved question: the computer-assisted study we present here demonstrates that the patient may survive using the correct spectrum of policies.

Two Mexican Presidents in the past twelve years tried and failed to correct this economic distortion: Luís Echeverría with considerable daring, and, somewhat more conservatively, José López Portillo. Neither was able to overcome the overwhelming influence of the investment policies of Mexico's northern neighbor, which treated Mexico as a cheap-labor extension of American industry, and insisted upon producing consumer goods destined for middle class consump-

tion, such as home appliances.

In 1980, the Fusion Energy Foundation published in collaboration with this journal a development program entitled "Mexico in the Year 2000." Under vastly more favorable world economic conditions, and at the height of Mexico's apparent oil wealth, we recommended that Mexico conduct a sharp turn away from the "import-substitution" system which had produced an industrial structure 94 percent of which produced consumer goods, and whose output contributed little to the basic development requirements of the country. We demonstrated, employing the LaRouche-Riemann system of computer-based analysis, that Mexico had the potential to become precisely what then-National Security Adviser Zbigniew Brzezinski said he would never tolerate: "another Japan south of the border."

In fact, the opposite of what we had recommended was done, despite President López Portillo's best efforts to the contrary: the oil revenues produced a boom in middle-class consumption and an ill-based expansion of the "import substitution" industries. Although some progress was made on the vital national projects, e.g. the Las Truchas steel complex, the Landbridge at the southern isthmus, the PHLINO irrigation system for the fertile Northwest, and the new coastal cities, the great projects envisioned by the López Portillo administration lagged badly; and worst, the Mexican government delayed a decision on a nuclear-energy program until, under the pressure of last year's financial crisis, the program was postponed indefinitely.

Now the absence of foreign exchange is eradicating the import-substitution industrial sector—almost half the economy in monetary terms. What might, under better circumstances, have been done as a matter of internally generated policy is now becoming fact as a result of external pressure. Can Mexico survive this?

The following computer-based study shows that it can, with one crucial assumption: that it enjoys the support of an Ibero-American Common Market, i.e. the ability to sell a minimum of 60 percent of its 1982 level of oil sales in return for technology to the remainder of Ibero-America, and to at least some of the industrial nations. Under given political

circumstances, if Mexico were to abrogate its suicide pact with the International Monetary Fund, it could expect the same treatment Argentina received during the Malvinas war: a trade embargo from most of the OECD nations, and especially from the United States, with whom the Mexican economy is integrated down to the last level of detail. This threat, communicated by Federal Reserve officials and private bankers, played a not inconsiderable role in Mexico's decision to capitulate, for the time being, to the IMF's demands.

There is no reason to expect that an Ibero-American breakaway from the IMF system, in favor of continental autarky, is a state of affairs accessible by any path of political development arising from present events. Ultimately the North and South must agree to what the re-organization of the monetary system will be. Nonetheless, given no alternative but the destructive austerity proposed by the IMF with the backing of most major industrialized-nation governments, developing nations will have no choice but to move along such an autarkical trajectory until the industrial nations return to reason.

In this sense, the present revision of the *EIR*-Fusion Energy Foundation "Mexico in the Year 2000" program is hypothetical: it demonstrates that, even under conditions of an economic break with the United States, Mexico could continue economic growth. As noted, there is no good reason to assume that Mexico could move linearly along this path; if the United States fails utterly as a factor in world affairs, the chances for stability in any region of the world economy will not be measurable by this or any other means. However, as a guide to policy for the immediate period ahead, this program represents Mexico's only chance.

One note of caution is required on the reliability of data. According to Mexican senior officials who prepare national income accounts, virtually all pre-1975 data are fraudulent; despite efforts to produce real data since then; "some of it is valid, and some of it is, well, projections," in the words of one administrator. The data base employed required a general revision of Mexican national income accounts which leave out, for example, all home consumption in agriculture—the largest single element of consumption in the economy—and contain estimates for depreciation which evidently are "projections" of the worst sort. However, the *EIR* team rigorously cross-gridded the constant-peso numbers for output, investment, and consumption produced by the government against all other available data, and made substantial revisions in the published numbers on the basis of this cross-gridding. The result is a view of the Mexican economy at least as accurate as that currently available to the government in systematic form, and sufficiently accurate to make our general results reliable.

Minimum development requirements

The question is the following: Given a cutoff of economic relations with the United States, and a much smaller market for Mexican oil, could Mexico nonetheless solve basic de-

velopment problems along the lines we proposed three years ago in "Mexico in the Year 2000?" The answer is that Mexico would lose about 10 years relative to the time-scale we earlier projected, but could nonetheless move in the same direction.

From this standpoint, the urgent, minimum development requirements would be:

1) Crash efforts to complete the Northeast Hydraulic Plan (PHLINO), which would irrigate about 1 million hectares of best-quality land, raising grain yields per hectare from about 1.5 tons to 6 tons;

2) Rebuilding (or re-grading and tracking) the Mexican rail system to permit transport of bulk quantities of fertilizer and grains in and out of the growing agricultural zones, as well as providing the required rolling stock;

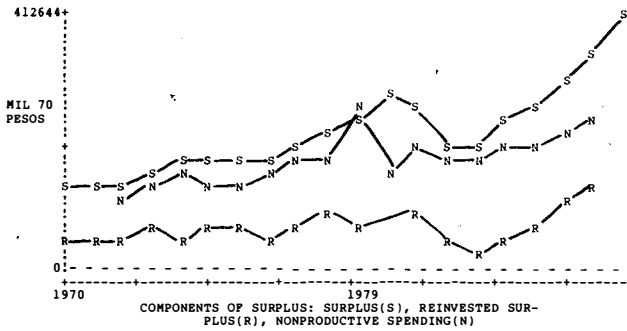
3) Using the present industrial base as a springboard for development of an expanded agricultural equipment and construction equipment industry, largely through reconversion of the automobile sector;

4) A crash national effort to create a machine-tool industry, cannibalizing skilled manpower where required from nonviable sections of the consumer-durables industry, soliciting technical assistance from Brazil and other well-established machine-tool producers, and beginning the production of machine-tools domestically. This is the minimum requirement for the reconversion and maintenance program needed to keep at least part of Mexican industry operating; perhaps 60 percent of presently installed manufacturing capacity might be retained, although only 30 percent is currently independent of U.S. components requirements (though not of spare parts), given a crash program to expand the country's machining capacity.

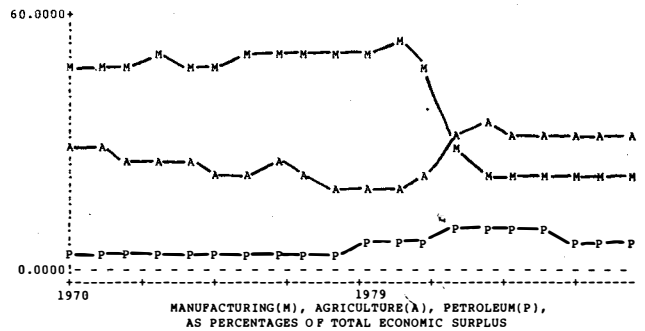
The result is a program that 1) ensures that the basic requirements of the population are met, 2) prepares Mexico for rapid industrialization during the 1990s, and 3) requires Spartan austerity for that section of the Mexican population whose incomes have grown most rapidly during the past 10 years, i.e. the middle class. The austerity requirements may be summarized this way: everyone who now has a personal automobile, a refrigerator, or an electric hair-dryer will have to make do with it for the rest of the 1980s, and those who do not will have a hard time obtaining one. But the diet, housing, and clothing of the majority of the population will improve steadily, and the basic productivity bottlenecks will be solved.

Turning to the output of the computer model, **Graph 1** shows the Surplus (tangible profit), and its two components, Reinvested Surplus (margin of expansion of capital and labor inputs into the economy), and Nonproductive Spending (tangible consumption of households not engaged in goods production), with historical data through 1981, and projections for the remaining period under our recovery program. It is notable that the great majority of tangible profit, or surplus, is consumed by non-productive spending, up through 1980, when virtually all such profit is diverted towards nonproductive spending. This reflects the historic misuse of oil wealth, which became a fund for consumer goods imports or imports

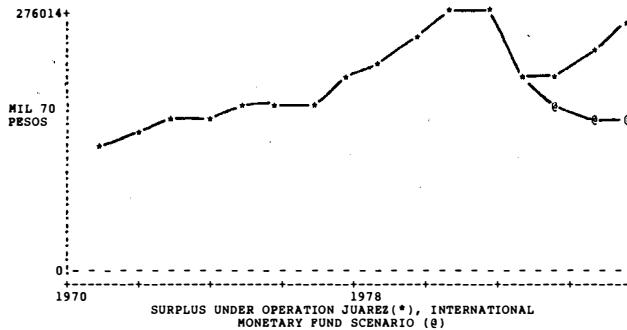
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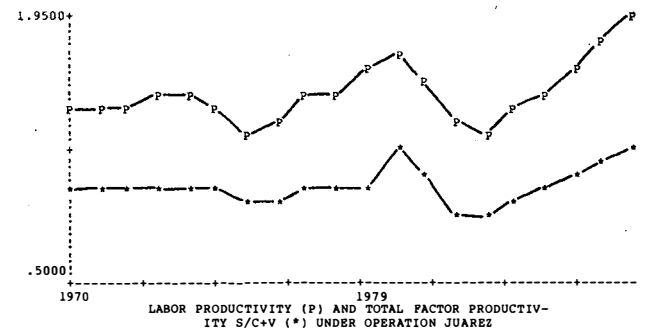
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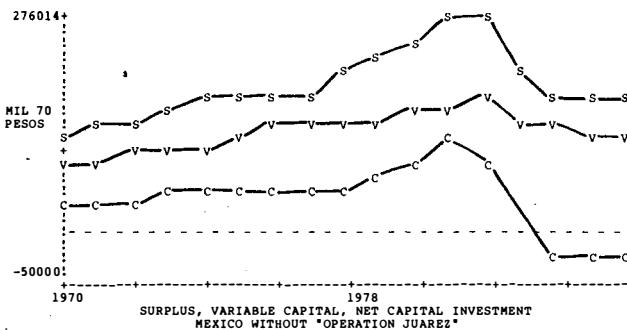
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GRAPH 6



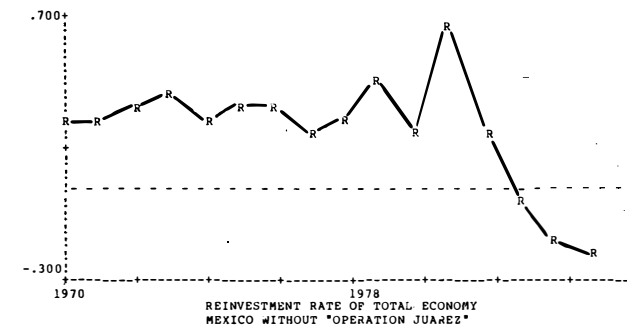
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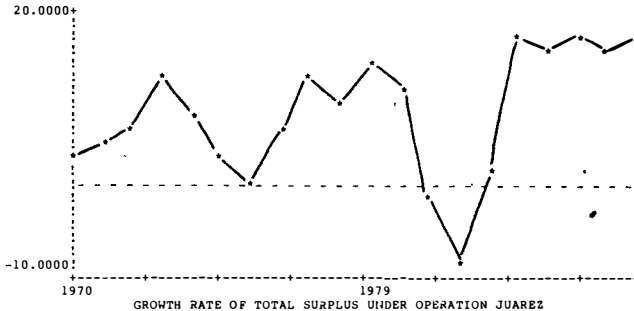
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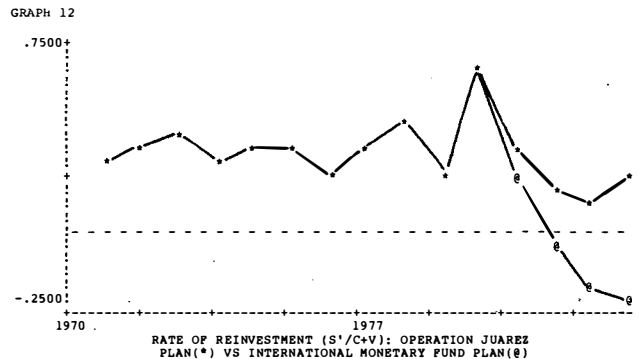
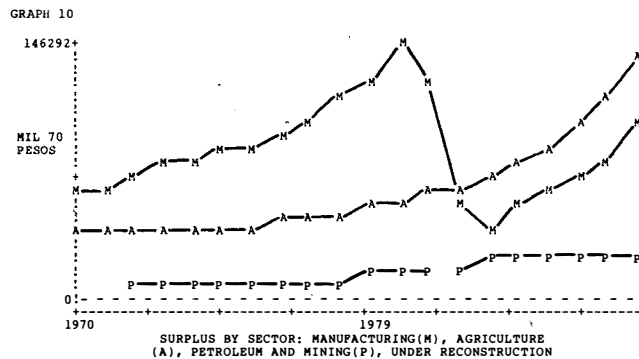
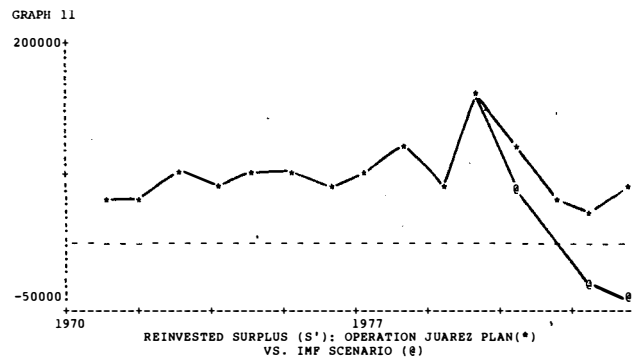
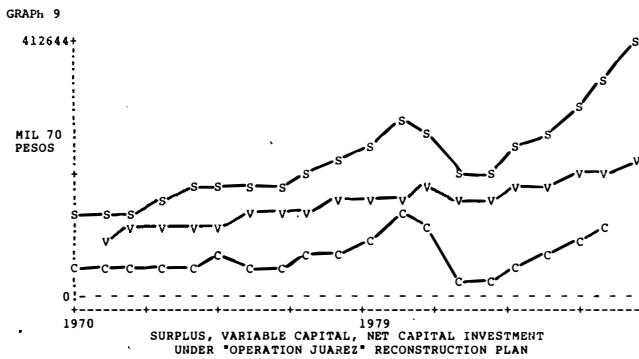


GRAPH 4



GRAPH 8





of "intermediate goods" for the local consumer-goods producers, feeding middle-class consumption. As the graph shows, Reinvested Surplus—the margin of the productive sector's expansion (manufacturing, agriculture, construction, mining, transportation, electrical utilities) stagnated relative to the potential growth, i.e., the growth of total tangible profit.

In the broadest terms, the most important feature of the program, whose basic outline is taken from *EIR* Contributing Editor Lyndon H. LaRouche, Jr.'s special report, "Operation Juárez," is this: the rate of growth of surplus does not rise much beyond previous levels (see also Graph 8), but its components shift away from nonproductive spending (through suppression of middle-class consumption) towards reinvestment in the productive sectors. This is shown clearly in the projections for 1982-89.

Graph 2 contrasts the behavior of Surplus, or tangible profit, under our "Operation Juárez" plan and the current International Monetary Fund program; the initial falloff in 1982 is identical (in fact, the fall during 1982 shown is less severe than what apparently has already occurred. Our estimate for 1982 was not derived from the 1982 data but from the projected consequences of a trade embargo with the United States. That alone should indicate the problems with the IMF program). Between 1983 and 1987, the last year shown, the economy recovers as noted above under the programmatic

proposals we outlined, while showing no recovery at all under the IMF demands. The latter trajectory arises from the abandonment of even those major projects which Mexico could undertake with its own resources.

Graph 3 shows the trajectory implied by the IMF program in more detail; noteworthy is that the lowest line on the graph, net capital investment, runs into the negative, showing net disinvestment in capital stock.

Graph 4 shows the rate of reinvestment (reinvested profit divided by capital and labor inputs, or $S'/(C + V)$). This is the principal measure of the growth potential of the economy, and it falls from a high point of about 0.70 in 1980 to nearly negative 0.25 in 1987. The forecast was not pursued beyond this point; the implication is that the economy had ceased to function in its present form.

Graph 5 returns to the recovery projection. It shows the relative shares in the economy of manufacturing, agriculture, and petroleum. Perforce, manufacturing falls drastically as a percentage of output, because 40 percent of the sector had ceased to exist under our assumptions. However, it is able to keep pace with the growth of agriculture in the succeeding years (i.e., its percentage of the economy does not fall). The petroleum sector, which had risen as a portion of the total economy up through 1982, falls somewhat in relation to other sectors, for the obvious reason that Mexico would not have access to the same world market for oil, and would have more

pressing investment requirements.

Graph 6 shows the productivity performance of the economy by two measures: labor productivity, or tangible profit per unit of labor input (S/V), and total productivity, tangible profit per unit of both labor and capital inputs ($S/C + V$). The collapse of both is unavoidable after 1982, for the simple reason that the apparently most productive sector, manufacturing, is reduced drastically; therefore the average productivity falls. However, the economy is able to more than regain its previous productivity, principally by raising productivity in agriculture and construction, the sectors that lagged the most previously.

Graph 7 shows productivity by sector. Manufacturing productivity drops sharply on the basis of our input assumption that the reconversion of industries away from foreign parts dependency and, most importantly, from auto, towards agricultural and construction equipment, will take approximately three years before industry can resume productivity growth; this is followed, as the graph shows, by a period of sharp productivity increase. Agriculture and construction, however, show the first significant increases in productivity during the entire historical period, calculated from the predictable effects of capital inputs, based on a study of the reconversion potential in existing Mexican industry.

Graph 8 shows the resulting growth rate of total surplus, or tangible profit, following the 1982 shakeout.

Graphs 9 and 10 summarize the results for the "Opera-

tion Juárez" program. Surplus rises at previous rates, with the difference that the rise is based on sharp increases in net capital investment; this permits steady growth of labor consumption, or variable capital. **Graph 10** shows the rapid rise of agricultural surplus—based largely on the irrigation of 1 million new hectares, principally in the Northeast. Also shown are the rise in manufacturing, and the relative stagnation of petroleum output.

Graphs 11 and 12 summarize the contrast between the "Operation Juárez" program and the consequences of the IMF plan. Reinvested surplus (the margin of expansion of the productive sector) has already recovered by 1987, **Graph 11** shows, while continuing to fall (net contraction of the productive sector) under the IMF program. The rate of reinvested surplus ($S'/C + V$) has similarly recovered by 1987, en route back to previous historical levels by the end of the decade, while the path shown for the IMF plan shows an economy that can no longer function.

For additional details of EIR's emergency program for Mexico, please contact Mr. Peter Ennis, EIR's Director of Special Services, at 212-247-8820.

LaRouche-Riemann analysis of Mexico's recovery potential was conducted by an EIR-Fusion Energy Foundation team in New York City and Mexico City, including David Goldman, Sylvia Brewda, Jorge Bazua, David Ramonet, Delia Lozano, Peter Rush, and others.

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Why the Federal Reserve cannot print its way to a recovery

by David Goldman

To our knowledge, the following is the only published forecast which predicts a continued downturn during 1983, of between 3 and 10 percent, depending on monetary factors which may not be pre-specified. In November 1979, *EIR*'s LaRouche-Riemann economic analysis was the only published warning of a major downturn during the first half of 1980; in late 1980 and early 1981, *EIR* published the only computer-assisted forecast of a major new downturn beginning in the second half of 1981.

Not so much *EIR*'s past record, however, as the extraordinary nature of the present situation should persuade government officials and businessmen to look askance at the standard "mild recovery" forecast. Fundamental shifts in the American labor force and capital stock have occurred during the past three years of Federal Reserve-dictated austerity which have impeded the economy's capacity to recover.

In financial terms, it seems that a recovery is more expensive than previously; the cost of rebuilding inventories and rehiring labor alone suggest demands for private bank credit well in excess of those during the fourth quarter, even to maintain the fourth quarter's rate of decline! These cannot be met at the same time the federal government must finance over a quarter trillion dollars in new debt (budget deficit, off-budget financing, and "guaranteed" and "sponsored" items). On the strength of this alone, the International Monetary Fund's North America division has unofficially abandoned its prediction of recovery for 1983.

But these financial considerations reflect two basic paths of deterioration of the underlying real economic structure. First, *the proportion of economic output devoted to production of wealth* is shrinking in a self-aggravated spiral, as larger sections of the goods-producing workforce are eliminated; in real terms, the overhead burden per employed worker has risen. At the same time, the disastrous *decline of capital spending in new technologies* during the past 10 years, exacerbated by the past three years' depression, has reduced the economy's productivity. These two conditions lock the economy into a spiral of negative growth, and are mirrored in the financial impasse represented by the Treasury deficit.

Here, we present two scenarios for the U.S. economy during 1983 and 1984. As in the past, we caution that all such forecasts are based upon the predictable impact of economic policies which have been pre-specified and analyzed with the aid of the LaRouche-Riemann model. No attempt is made to predict the future, but to accurately analyze the results of identified policy decisions. The present forecast is, therefore, doubly complicated.

First, the Federal Reserve has currently abandoned the monetary policy which dominated the American economy since October 1979, but cannot maintain its present monetary largesse indefinitely. Secondly, the relationship between the intentions of policy makers and the outcome of specific decisions has been severed by the immediacy of world financial crisis.

At present, the short-term actions of the U.S. Federal Reserve and other central banks are admittedly dictated by the contingencies of the world banking crisis, although not in such a way as to eliminate the danger of crisis. As stated in the Introduction to this report, we do not expect that the central banks will postpone such a crisis much longer than the first quarter of 1983. Perhaps the last opportunity to avoid such a crisis is the conjuncture of events around the early March 1983 meeting of the Non-Aligned developing nations;

The complete LaRouche-Riemann forecast for 1983-84 from which this article was adapted is available from EIR. Call or write to Special Services Director Peter Ennis. Subscriptions to EIR's quarterly econometrics services, one of whose available components is a \$15,000 global survey, may also be discussed with the Special Services department at (212) 247-8820.

should the developing countries or any sub-group thereof make a unified demand to the industrial countries for long-term debt rescheduling on such terms that world trade might be revived, prospects for avoiding a crash would be improved. Short of such international agreement, we do not expect the present banking system to endure through 1983 in its present form.

The Federal Reserve strategy

The Federal Reserve has been pumping money into the economy at a rapid rate for the entirety of the fourth quarter of 1982: bank reserves have grown at an almost 18 percent rate since October and money supply at a 20 percent rate. The Fed's basic policy-making body, the Federal Open Market Committee (FOMC) decided, at its November meeting, that in the near future it will abandon the regulation of money supply.

This strategy cannot work. The U.S. economy's basic productive infrastructure has been so ravaged by 20 years of technological obsolescence and the last three years of the Volcker depression, and the U.S. skilled labor force has been so destroyed by real unemployment in excess of 23 percent, that the U.S. economy, in its given technological mode, could not recover, short of a comprehensive financial reorganization aimed specifically at restoring American technological strength. That fundamental problem is reflected in the financial system in a special, but parallel fashion: the tremendous weight of the debt overhang of the productive sector, government sector, and total economy. This debt burden, already massive, will explode further in 1983, as we will show below.

This defines a fairly clear situation: the only means by which the White House-Federal Reserve collaborative team could finance the huge federal budget deficit and financing needs projected for fiscal year 1983, in addition to the huge debt service refinancings of the corporate and agricultural sectors, plus provide a margin of funds for the prospective recovery, is for the Federal Reserve to *monetize \$50 to \$80 billion of Treasury debt*. If the Fed implements such a policy course, and it appears that it will, the dollar will collapse on foreign exchange markets, and interest rates will rise. A further rise in interest rates would, of course, frustrate the effort to reflate the economy; debt-service costs on existing debts will rise faster than the banking system could successively compensate through the issuance of new credits.

The two scenarios we present have the following conclusions and assumptions:

1) Continued decline of the U.S. economy at a 10 percent annual rate in terms of output of tangible goods, assuming continued lack of credit availability to the productive sector, and inability and unwillingness on the part of goods-producing corporations to rebuild inventories, re-hire employees, skilled workers, and production line workers, and replace plant and equipment. This projection is considered "most

likely," with the obvious provision that it may be complicated by a sharp deterioration of the world monetary situation.

2) Continued decline of the U.S. economy at a 3 to 4 percent annual rate in terms of output of tangible goods, under conditions of a general deflation which would revive auto and housing, but leave basic industry and capital-goods industries unaffected. This scenario is not considered probable, and is included less as a forecast than as a demonstration that conventional deflation mechanisms will not work under prevailing circumstances.

The user of these forecasts is advised to consider them as points of orientation in a rapidly shifting political and economic climate. Depending on the unpredictable course of political events, actual economic trends will show elements of more than one projection. For example, the small upturn of the auto and housing sectors during the last quarter of 1982 belongs to the geometry of the "deflation" forecast, although the impulse of the economy remains in the realm described by the basic forecast of continued rapid economic deterioration.

Scenario one: continued credit attrition

The first scenario is substantially unchanged from the forecast presented in our last published report, which was summarized in *EIR* Nov. 2, 1982. It assumes:

1) That the availability of credit to the goods-producing sector will remain at the levels registered during the third quarter of 1982 and, judging from preliminary data available, during the fourth quarter of 1982, rather than the relatively higher levels of availability of credit during the first and second quarters of 1982. This worsening of credit usage by the productive sector indicates a deterioration in the economy such that the rate of decline of tangible-goods output would fall from the 7 percent per annum average registered during the first three quarters of 1982 to the 10 percent per annum rate of decline shown in October 1982.

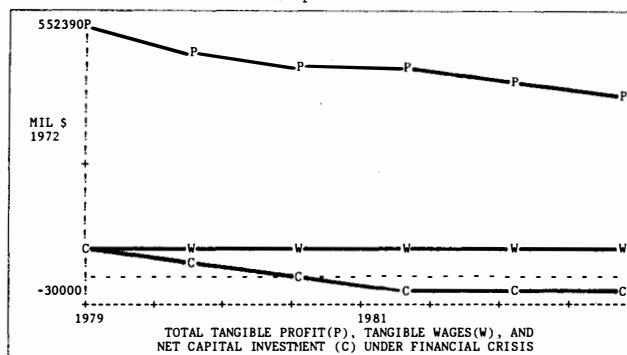
2) That real interest rates (the effective prime lending rate minus the Gross National Product deflator) will remain in the range of 6 percent, against a 1970s average real interest rate of about 2 percent, continuing the pressure against corporate balance sheets, and forcing further diversion of corporate deployment of revenues towards debt service, at the expense of purchase of inventories and hiring of labor.

3) That changes in tax policy during 1983 will not affect the flow of funds into productive or non-productive categories. According to our analysis of the flow of funds, an attempt to reduce the budget deficit through increased taxation will merely substitute a taxation pressure upon corporate and household incomes for a credit pressure arising from the extraordinary nature of the federal budget deficit.

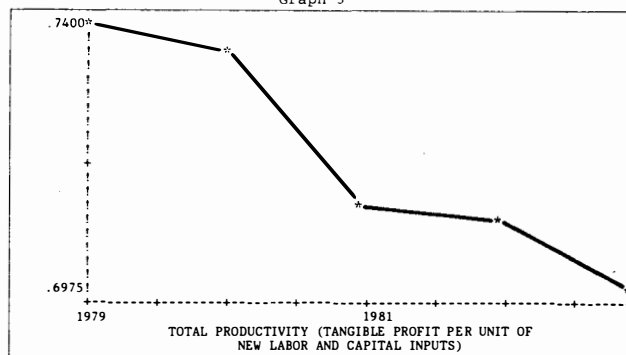
4) That the President's military spending plans such as adopted by Congress during 1982 will remain in place; the impact of the military spending plans have been programmed into the 30-sector model, using Defense Department esti-

The quarterly forecast results

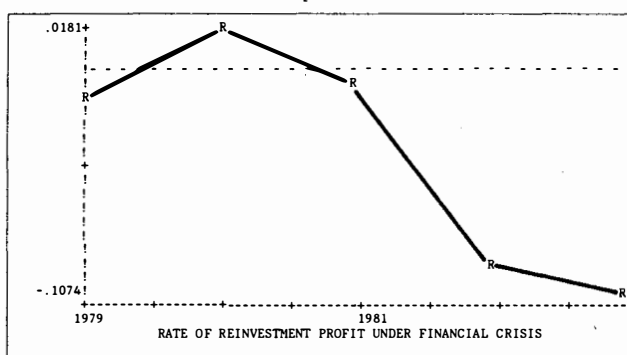
Graph 1



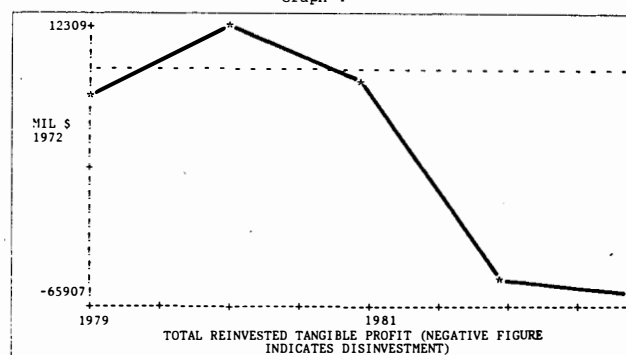
Graph 3



Graph 2



Graph 4



mates of sectoral impact of defense procurement of tangible goods.

Graphic analysis

The consequences of these assumptions, as generated by the LaRouche-Riemann model, are summarized in the following excerpts from the computer-generated analysis.

Graph 1 shows, on the same scale, the Total Tangible Profit, Tangible Wages, and Net Capital Investment. Capital investment will be negative, at -27 billion 1972 dollars in 1983, and -15 billion 1982 dollars in 1984. Surplus falls by 28 billion 1972 dollars during 1983, at a 7 percent annual rate; tangible wages fall at the same rate.

Graph 2 shows the rate of reinvested profit ($S'/C1 + C2 + V$), also the potential growth rate of the economy. At -10.7 percent during 1983, this measures the rate of economic decline.

Graph 3 shows the gradual decline of the economy's total productivity, as measured by amount of surplus per unit of capital input. In terms of economic potential, the economy undergoes a 6 percent productivity decline by this measure over the 1979-84 period.

Graph 4 shows the total reinvested tangible profit (S'), falling from a barely positive figure during 1980 to net disinvestment during 1981, and a \$66 billion 1972 dollar rate of disinvestment during 1982 and 1983.

The 'attempted reflation' scenario

The second scenario is prompted by the change in Federal Reserve policy since last October, when the Federal Reserve noted the likelihood of economic and monetary breakdown and shifted towards what is widely advertised as an attempt to bring about an economic recovery at all costs. It assumes:

1) That the Federal Reserve will succeed in reducing real interest rates to the 2 to 3 percent level, an assumption which, as noted, we do not consider realistic, but have included in order to give the monetary authorities the "benefit of the doubt" in the matter of whether "demand-management" economics may bring about even a short-term secular recovery.

2) That credit is widely available for users of short-term credit, but that long-term credit either for capital investment or for consolidation of debt remains in short supply due to the extraordinary demands of Treasury financing during the next two fiscal years.

3) That the result of this unusual mix of available short-term credit and unavailable long-term credit will follow a pattern already discernable during the fourth quarter of 1982: while certain sections of consumer credit, e.g. auto loans and mortgages for single-family homes, will be encouraged, capital investment will continue to decline, and goods-producing corporations will be unable or unwilling to amass large amounts of short-term credits in order to rebuild depleted inventories.

4) That the overhead costs of the economy, defined by both the military budget and the additional cost of unemployment compensation and other social welfare programs, will remain high as a result of depression. This is a critical, but highly justifiable assumption.

In real terms, this implies continued diversion of tangible output away from re-employment of labor, in favor of maintenance of a population made unproductive by the depression. In financial terms, it takes the form of a federal deficit borrowing requirement perhaps 50 percent in excess of total domestic savings, which will absorb that credit fund that might otherwise be available to finance a recovery. The implication of this assumption is that nothing short of a thorough-going reorganization of the financial system would break the vicious cycle, and that such a reorganization would have to be directed towards restoring the depleted productivity of the goods-producing sector of the economy. In terms of the LaRouche-Riemann model, this means that the labor productivity ratio S/V must be higher than the overhead ratio of d (non-productive expenditures) over V ; if the latter is larger than the former, economic growth cannot take place.

No demand-management program is capable of restoring the imbalance between the productivity and the overhead ratios. On the contrary, the austerity demand-management program exercised by the Federal Reserve during the past three years merely damaged the productive sector, while permitting non-productive employment to grow (until May 1982, when non-productive employment also began to fall). Under present circumstances neither the Federal Reserve nor the administration has the tools to correct this trend towards self-feeding decline; the economy is now in a mode of structural decline. What the solution to this dilemma might look like is discussed in the following section.

Graphic analysis: the 'reflation' scenario

Graph 5 compares the tangible profit of the total economy under the first scenario, indicated by the numeral 1, and the reflation scenario, denoted by numeral 2. The economy declines in both cases, although the rate of decline is much lower in the second case, at about 3 percent p.a. during 1983 and 4 percent p.a. during 1984.

Graph 6 compares the rate of reinvested profit ($S'/C1 + C2 + V$) under the two scenarios; both are clearly negative, although the first scenario (as noted above) shows a nearly 11 percent rate of decline during 1983 against a 3

percent rate of decline.

Graph 7 shows the growth rate of tangible profit of the total economy under the two scenarios.

Graph 8 shows the effects of the reflation attempt in the Construction sector, which registers 15 percent growth during 1983, largely due to a calculated rise in the level of housing starts from the present level of about 1.1 million per year to about 1.5 million.

Graph 9 shows the Steel sector under conditions of total reflation, falling gradually rather than catastrophically.

Graph 10 shows a marked recovery of auto output, from the range of less than 5 million units per year to about 7 million units per year (although still well below 1979 levels), assuming widespread availability of low-interest auto loans; scenario 1, shown in the same graph, assumes continued decline.

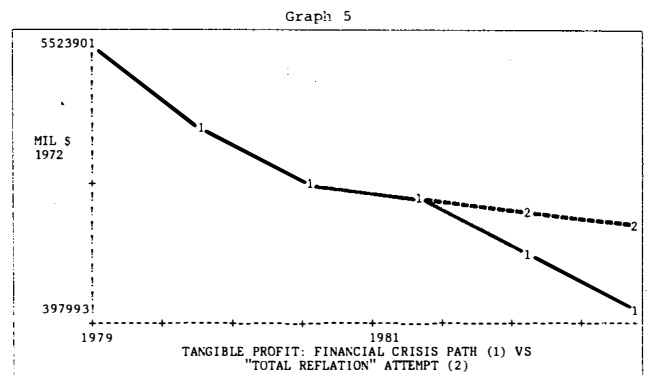
Graph 11 shows practically no effect in the Nonelectrical Machinery sector, which is predominantly a capital-goods category, as investment continues to decline.

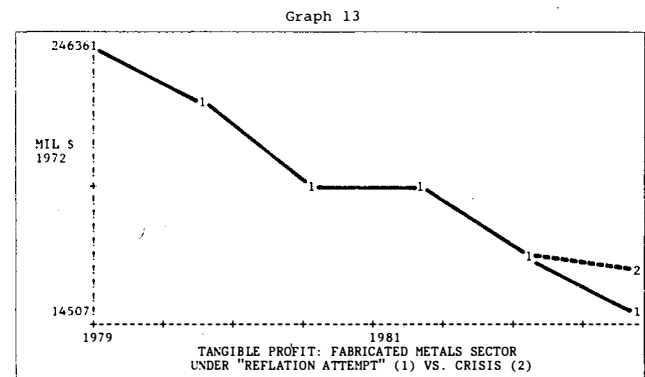
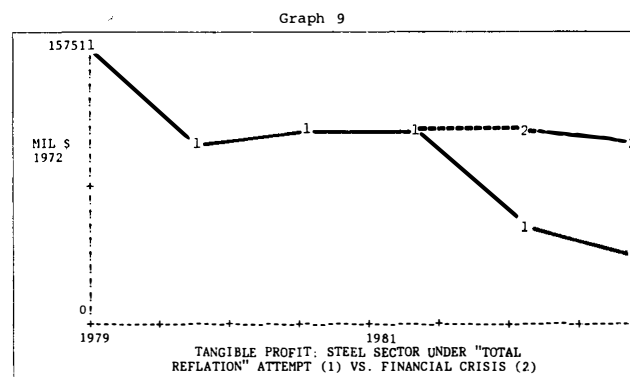
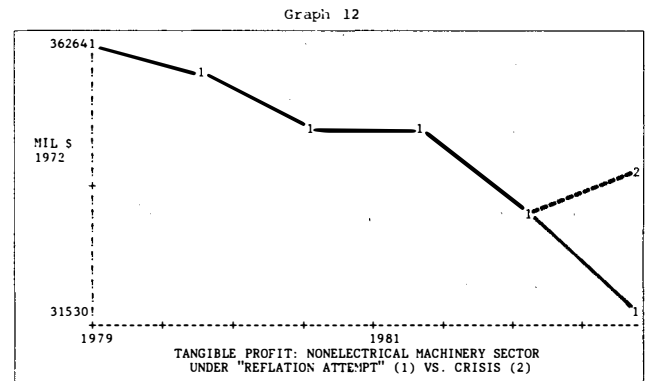
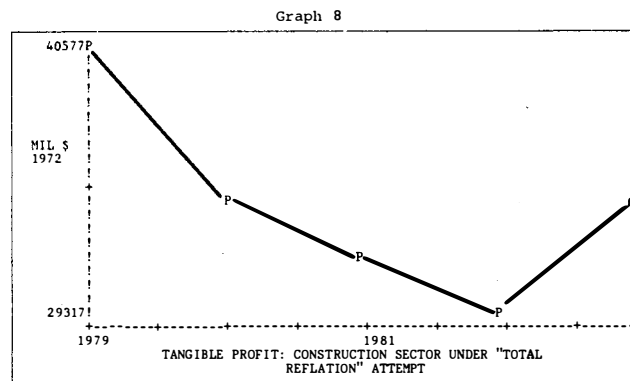
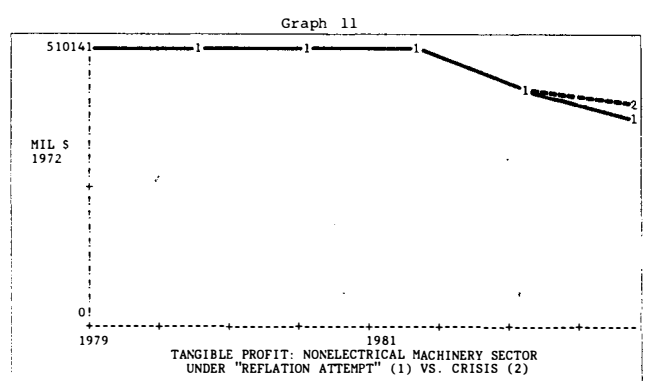
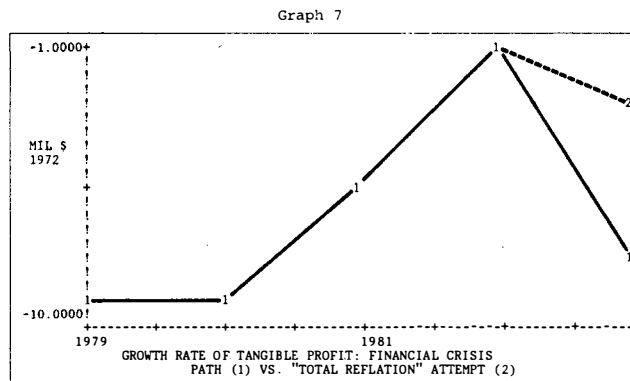
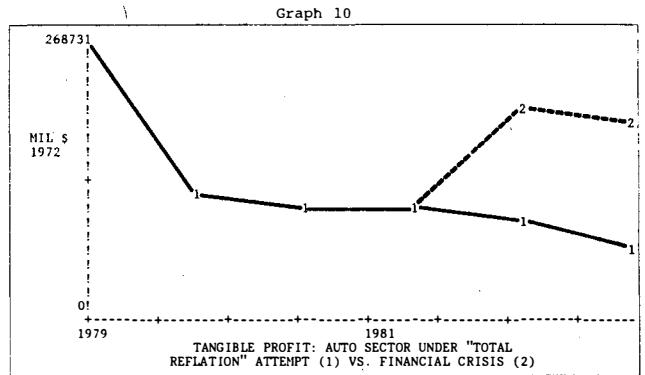
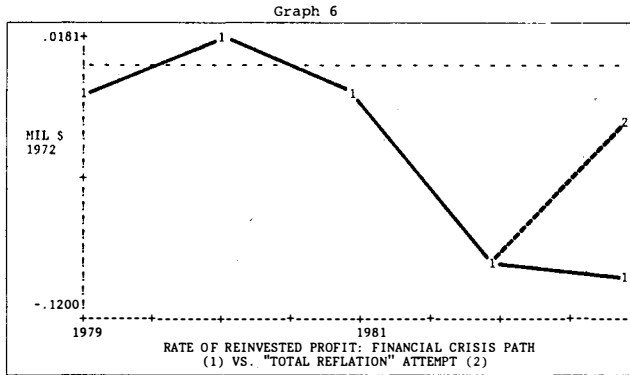
Graph 12, however, shows a small recovery in the Electrical Machinery sector, which, as noted earlier, is otherwise less depressed than the industrial average.

Graph 13 shows a 3 percent decline in the Fabricated Metals sector's tangible profit during 1983, rather than the 14 percent rate of decline anticipated under Scenario 1, shown in the same graph.

It should be emphasized once more that this projection is not a forecast of the impact of a general reflation, which would otherwise encounter "perverse effects," e.g. rising interest rates, destabilizing such an effort. Rather, it is presented as a demonstration that an attempt to revive the old methods of demand-management, which bear so much responsibility for the present crisis, cannot succeed even on its own terms.

This quarterly forecast was prepared by a team under the direction of David Goldman, including Richard Freeman, Leif Johnson, Peter Rush, and Sylvia Brewda.





IMF takes control of U.S. foreign loans

The Fed will underwrite Eurodollar banks' rollover loans, i.e., the ones the Fund approves.

While the International Monetary Fund is talking about exercising dictatorship over Third World nations, that supranational institution has already been handed control over United States credit by the Federal Reserve Board.

The Fed policy was quietly dropped in a speech to the Boston-based New England Council by Fed Chairman Volcker himself Nov. 16, 1982, but its ramifications are revolutionary. It boils down to the fact that, because of the shutdown in Third World lending in the wake of the Mexico and Brazil crises, the Fed has turned over to the IMF its regulatory authority over U.S. banks on all U.S.-bank loans to the Third World.

Volcker announced that, when the IMF is in on a rescheduling package and/or consortium to a given Third World nation—i.e., Mexico, Brazil, Argentina—the Fed will look the other way from the bankers' loans to the country, and never classify them as doubtful debts, in defiance of U.S. regulations which demand such classification.

"From the standpoint of the banks themselves," Volcker said, "such restructuring and the provision of some additional credit, alongside and *dependent upon agreed IMF programs*, will in some instances be the most effective and prudent means available to enhance creditworthiness of borrowing countries, and thus protect their [the banks'] own interests.

"In such cases, where new loans facilitate the adjustment process and

enable the country to strengthen its economy and to service its international debt in an orderly manner, *new credits should not be subject to supervisory criticism.*" [emphasis added]

In the first place, this amounts to giving a U.S. government guarantee to IMF-sanctioned loans, which implicitly puts the credit of the United States behind a pledge to bail out the bad Eurodollar debt of the banks involved. While it does not involve any taxpayers' money immediately, it is a form of U.S. government insurance to the banks—a cryptic statement that if the loans can't be paid, as long as the IMF's political power is asserted supranationally, the Fed will bail out the banks.

"When the Fed tells the banks something like this, they are agreeing to guarantee the debts," a Hudson Institute economist noted this week. "They have raised the question who is the lender of last resort for the capital of banks which has just been overextended by these new loans. First, just by waiving the per country limits of bank lending, under U.S. law, the banks' lawyers have likely already told them that the government is now insuring the loans."

The fact that the Fed is now offering to "guarantee" the private bankers' Eurodollar debt was openly noted by New York financier Felix Rohatyn in the French magazine *L'Expansion* Jan. 6. Volcker's statement "creates a sort of implicit government guarantee for the creation of supplemental liquidities," he stated.

The scandal is worse. Volcker's "guarantee" is not merely accounting fraud, but a move to subordinate the United States to the IMF. For the converse is undoubtedly also true, though Fed officials won't admit it publicly: Any loan without the IMF's participation is now an extremely dangerous one for a bank to make, and they will clearly not be making any. As Morgan's *World Financial Markets* own statistics point out, new lending to the LDCs fell by 57 percent during the second half of 1982, and only rose slightly at the end of December—when the IMF/BIS "bridge loans" were announced.

Michael Martinson, head of International Accounting at the Fed's Supervisory Division in Washington and assistant on Volcker's Boston speech, confirmed this to *EIR*. "We did say that if an IMF plan which we back looks like it's going to work, then we probably won't classify it."

He noted further that in Volcker's statement, "new credits" applies not merely to "new money" banks are giving Brazil and other nations, but "to all credits involved" in IMF-run consortia—some \$25 billion in the case of Brazil.

Asked whether these loans are not obviously "doubtful debt," given that the rescheduling occurred in the first place because they could not be paid, Martinson gave a response which would give any accountant heart failure. "Yes," he acknowledged. "Now the question is, will the loans be paid in the future?"

A source at the Overseas Development Council in Washington said clearly what this means. The Fed and the IMF, he stated, are out to "end" the notion of "sovereign nation control over credit," and enforce credit as something only issued under supranational "agreement."

Arco and the IMF: a metal-price game

A dollar collapse, Third World exports, and U.S. mining shutdowns are part of this "bailout" plan.

The International Monetary Fund (IMF) is subsidizing Third World exports to the United States of primary metals, at the same time that U.S. metals production is collapsing, a leading Democratic Senator charged the second week in January. The arrangement, which is largely based on fluctuations in the exchange rate of the dollar, is hurting both the Third World and the United States in a way this Senator wants to stop.

In discussions with *EIR* reporters, aides to Montana Democrat John Melcher reported that they are preparing to bring up the IMF's unfair manipulations of international trade. The forum will be the current congressional hearings on whether the IMF should be given increased funding. With unemployment rising in the United States, Melcher thinks this evidence of IMF use of its resources to encourage dumping of cheap imports to the detriment of U.S. producers may throw an effective obstacle into congressional passage of the new IMF funding request.

If Melcher sticks to his guns, he will also probably find himself in confrontation with Robert O. Anderson, chairman of the Atlantic Richfield Corporation. It has become clear that Anderson is complicit in the IMF effort to shift basic metals production entirely to "cheap labor" areas of the Third World.

On Jan. 6, Atlantic Richfield's Anaconda subsidiary closed down its copper mining pit in Butte, Montana, Melcher's state, laying off 1,000

mineworkers. As of that point, only one copper-mining pit in the entire United States is still operating.

Melcher's office did some probing and came to the conclusion that the only way to begin addressing the mining industry's collapse was to take it up as an international issue. They learned that throughout 1982, the IMF was making loans to Third World producers of copper and other basic metals, specifically to subsidize exports to countries like the United States at reduced prices.

During 1982, \$3 billion in IMF funds were allocated from the IMF's "compensatory financing" facility, where distribution of monies is directly tied to subsidization of export earnings. Most of these allocations were made in the second half of the year, and made up an important component of the hectic emergency "bailout" operations the IMF has been orchestrating since August.

In addition to such basic commodity producers as Chile, Brazil, and Guyana, Hungary has received IMF export subsidization for manufacturing and machinery exports.

The Senator's office emphasizes that they do not want to present this issue as an argument in favor of protectionism, but rather as evidence of the failure of the IMF as an institution. "Melcher is convinced," his office reports, "that if a system is in effect whereby Third World countries are convinced to produce below costs of production, we're really creating a deeper hole for the Third World."

The fact that Robert O. Anderson is also viewing the collapse of U.S. mining as an international issue was made clear on Jan. 11, a few days after Anderson ordered the shutdown of the Butte copper mining pit.

That day an op-ed column by Anderson appeared in the *New York Times*, calling for a collapse in the international parities of the U.S. dollar, as the first step in reordering international trade along lines favored by the IMF.

Arguing that the dollar is overvalued, and that this is wrecking the competitiveness of U.S. exports, Anderson continued: "The cost of producing copper in Chile . . . in terms of United States currency, has dropped from 73 cents to 49 cents a pound during the past year. This places the Chilean copper industry in a profitable position at the very moment when every major copper deposit in the United States is under study for complete shutdown. No amount of increased productivity at home can overcome a handicap of this dimension."

In fact, it has been precisely during the period since November 1982, in which the dollar has been falling in value, that such Third World imports have marginally risen—despite a nominal increase in their price. Ever since the great financial crisis of 1982 erupted, any normal link between currency values and export competitiveness has been destroyed.

By calling for a collapse of the dollar, Anderson is actually calling for another additional bailout to be patched together for Third World debt: a bailout based on dumping cheap exports on a collapsed U.S. economy, in exchange for a larger volume of depreciated dollars. These dollars would then go not to the Third World producers, but rather to their bank creditors.

Trade Review by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
POSTPONED			
\$15 bn.	Brazil from West Germany	Brazil has not formally abrogated the "nuclear deal of the century," its 1975 contract with KWU for 8 power stations and the complete nuclear fuel cycle. But it has announced postponements which will mean the virtual stoppage of work on the project for the next 3 years, while Brazil's economy is under IMF surveillance. Part-complete projects, such as Angra II reactor and the pilot enrichment plant will continue at a snail's pace, while Angra III site preparation and yet-unstarted reprocessing and second yellow-cake facilities will probably halt entirely. Completed components for Angra II and III are warehoused in Germany. Govt. ordered Nuclebrás construction subsidiary not to sign construction contracts for Iguape I and II near São Paulo with Brazil's Mendes Junior and Camargo Correa builders.	Victory for world anti-nuclear forces. Could not be a surprise for Siemens, whose U.S. rep., Otto Dachs, told <i>EIR</i> 4 years ago that he thought it was "dead." Brazilian monetarists have kept deal on low flame as pretext for raising debt rollover loans from German banks. Hamburg employment loss compensated in part by new Brazilian order for a conventional submarine—put to top of priority list by British invasion of Malvinas.
UPDATE			
\$1 bn.	Italy from U.S.A.	Alitalia has reached final agreement with McDonnell Douglas for 30 DC-9 Super-80 liners to replace older twin-engine jets on its European runs. This is biggest DC-9 sale and will obviate further layoffs by Douglas. \$150 mn. of the deal is for Pratt & Whitney engines.	Ex-Im Bank gave preliminary OK to financing as much as 85% of the \$800-\$850 mn. U.S. share of planes.
	Niger from France/Japan	France and Japan are likely to have their first joint official financing of an overseas trade deal when Creusot-Loire and Kawasaki secure contract for cement plant in African nation of Niger in late December.	Deal depends on French and Japanese govt. export agencies working together on financing.
NEW DEALS			
	Bahrain from Saudi Arabia/Switzerland	A 12 mn. gal./day desalination plant being built in Bahrein will be designed by Al Bawardy Consulting Engineers of Saudi Arabia. This is first 100% Saudi designed desalination project. Will use multi-stage flash method in low-pressure boilers fired by natural gas or diesel.	Project is managed by Saudis' Salaine Water Conversion Corps. Electrowatt of Zurich will do much of the engineering.
\$103 mn.	Bahrain from Japan/Sweden	Sumitomo Corp. and Saskura Engineering won contract to build 12 mn. gal./day desalination plant in Bahrain. Plant will be largest in world using reverse osmosis method to purify well water containing 1.9% salt.	Designed by SWECO AB of Seden.
\$94 mn.	Oman from West Germany	Siemens won order for digital telephone switching system and local and long-distance transmission nets for Oman.	Siemens will oversee installation and maintenance for the first year.
\$15 mn.	Egypt from Italy	Italian state-owned ENI won contract from Egyptian oil group, Petrobel, for an electric power plant run by gas turbines.	
\$33 mn.	Saudi Arabia from Singapore	Volvo's Singapore operation has sold 400 dump trucks, heavy vehicles, and buses for use by Texas Hemisphere subsidiary in Saudi construction projects.	

CLUB of LIFE

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In January 1982, Helga Zépp-LaRouche called for the founding of a new international institution, shaped to be a conscious opponent of both the world outlook and the political intentions of the Club of Rome.

Since the successful founding conferences on October 22, 1982, the Club of Life has been working around the world to transform the conference of the Non-Aligned Nations in New Delhi on March 1, 1983 into the conference of the "Debt Bomb" and the New World Economic Order.

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Business Briefs

Trade

Houdaille Petition instigated by Brock

Washington sources have revealed to *EIR* that U.S. Trade Representative William Brock was the instigator of the U.S. Senate's unanimous endorsement last December of the "Houdaille Petition." If granted, this petition would deny investment tax credits to U.S. firms for any purchase of Japanese-made machine tools. According to the sources, Brock told the legislators he needed to use the lever of Senate backing of the Houdaille petition in his own negotiations with Japan. A spokesman for Brock has denied the charge.

A cabinet-level Trade Policy Committee, including Brock, Treasury Secretary Donald Regan, and Commerce Undersecretary Lionel Olmer, among others, met on Jan. 13 to discuss the Houdaille Petition, but came to no decision.

Last May, Houdaille Industries, Inc., a major machine-tool maker, filed a petition, stating that under Section 103 of the 1971 Revenue Act, the denial of investment tax credits for imported machinery could be ordered by the President if a foreign country operated an "international cartel." Houdaille claims that the Japanese government's use of tax incentives, low-interest government credit, and directed private credit to build up its machine-tool industry constitutes such a cartel. Granting the petition would effectively put the United States in the position of declaring a major element of Japan's internal economic structure to be illegal.

Fiscal Policy

Indonesia's Suharto calls for austerity

Indonesian President Suharto, in a speech before the Parliament on Jan. 6, announced the draft budget for the fiscal year 1983 beginning April 1, and called for the Indonesian "to work harder and make sacrifices."

The draft budget, which is expected to pass following minor modifications, asks a freeze on government wages, a 25 percent cut in the subsidy of fuel oil, and an end to food subsidies.

President Suharto said that maintaining the fuel subsidy at its current level "would mean using up to one-sixth of state revenue planned for the coming fiscal year."

The Indonesian government faces serious liquidity problems presently. Due to the worldwide depression, Indonesia, which depends heavily on income from oil and other commodities, has suffered a serious setback in 1982.

President Suharto, however, made it clear that he intends to bring on line as scheduled major development projects such as four large refineries, fertilizer plants, and a coal-mining complex. Development spending, he stressed in his speech, will rise by 7.9 percent of the developmental budget; the rest would come from foreign sources. Routine government expenditures, meanwhile, will grow about 3 percent in the coming fiscal year to a net total of \$6.5 billion.

Domestic Credit

IMF declares: 'No recovery in U.S.'

The official of the International Monetary Fund responsible for the U.S. economy said the second week in January that there will be no recovery in the United States.

The U.S. budget deficit can be financed because U.S. industry will require no credit, the official stated. "We are already financing a U.S. budget deficit on the order of \$150 billion a year without a rise in interest rates, and I see no reason why that cannot continue, as long as the U.S. economy remains very, very weak. If you tell me the U.S. private sector is going to have any new demands for funds, I would laugh. U.S. industry will not be getting much in the way of new funds. So I don't see any conflict between any U.S. demand for funds outside the budget deficit. There isn't any."

Asked about plans for reflation by Secretary of State George Shultz and Treasury

Secretary Donald Regan, the official laughed. "There are statements all over the place about reflation and they don't mean a thing. They're pushing hard, but I don't think it will happen. On monetary policy, I don't think Volcker is crazy. He's not going to do more than he's already done. I don't see the Fed pushing a real big reflation. As for the administration, they still say they are committed to cutting the budget, not expanding it, despite the recession. This is what we want. We'll find out when they announce the budget.

"The Third World," he said, "can keep screaming at the United States to reflate, but who cares? In the meantime, they'll have no choice but to cut their exports. If they have no one to export to, if their goods are not acceptable on international markets, they'll just have to import less. It's not a textbook solution, it's an inevitability. If no one will lend to them, which means their capital account is zero, and their reserves are zero, then their current account [trade balance] must be zero."

Agriculture

Prince Charles: modern farming a waste

An outspoken royal opinion on the future direction of agriculture came from Prince Charles of England in a letter sent to Britain's first major international conference on organic food production at the Royal Agricultural College in Cirencester.

The letter, which was read for him at the conference, strongly attacked modern farming methods as "wasteful and probably also unnecessary.

"For some years now modern farming has made tremendous demands on the finite resources of energy on earth. Maximum production has been the slogan to which we have all adhered. . . . The supporters of organic farming, bio-agriculture, alternative agriculture, and optimum production are beginning to make themselves heard and not before time. I am convinced that the only steps that can be taken are to explore methods of production which make better and

Briefly

more effective use of renewable, natural resources.

"Even if it may be commercially acceptable, pioneer work is essential if our planet is to feed the teeming millions of people who will live on it by the 21st century."

The prince, who is president of the college, promised to apply the fruits of "natural" research to his lands in the Duchy of Cornwall.

France and Spain set 'common projects'

Spanish Foreign Minister Fernando Moran and his French counterpart, Claude Cheysson, emphasized "common international political projects" in Latin America, the Mideast, North Africa and the Mediterranean, in a press conference in Paris Jan. 11 following a two-day informal "summit." Though no concretes were mentioned, Moran told press that "Spain and France can do many things jointly in the world and, above all, in Latin America."

"Neither France nor Spain . . . consider that relations between North and South are significant and cannot be reduced because of confrontations between East and West." Both expressed their desire for a "more just and fluid international economic order." In reference to NATO, both emphasized a desire to maintain "an autonomy that permits [Spain and France] to work with views toward peace and stability in the world." This statement concerning NATO is significant, since Spain, though it has signed the NATO charter, has not yet decided to integrate militarily, and has shown a desire to maintain a "French-style" distance from the pact.

This statement of "common international political intentions" by the two Socialist governments could represent the basis for an important intervention in the Third World—particularly Ibero-America—perhaps on a track quite distinct from that of the Willy Brandt Malthusian controllers of the Socialist International.

As one Swiss source pointed out Jan. 12, the "romantic Socialists" have tended to be a different political strain than the "Teu-

tonic" crew about Olof Palme and Willy Brandt.

Foreign Exchange

Zambia forced to devalue its currency

Zambia has unilaterally suspended payment on principal of medium- and long-term debt and announced its intention to seek renegotiation of its foreign debt. At the same time, the nation was forced to devalue its currency by 20 percent and institute further austerity measures.

The decisions were announced Jan. 7 by Finance Minister Kebby Musokotwane, who also reported that Zambia will freeze existing trade. The measures adopted include a limit on wage increases for low-paid workers to 5 percent for this year.

The Zambian decisions were taken after protracted negotiations with the IMF, and Musokotwane sought to reassure foreign creditors by reporting that Zambia had opened negotiations with the IMF for a standby credit. Zambia will continue making interest payments.

Zambia, the world's third largest copper producer, earns over 90 percent of its foreign exchange from exports of copper and cobalt. Zambia has been selling copper at a loss merely to keep the economy from collapsing altogether. The world depression has further aggravated the problem. Sections of Zambian industry are now operating at only 25 percent capacity, while others will soon shut down completely because of the foreign-exchange shortage, according to Basil Kabwe, Zambian Minister of Mines.

In April 1981 Zambia was granted a \$1 billion loan by the IMF for three years. This loan was cancelled by the IMF on the grounds that Zambia had violated its agreement by exceeding the IMF-set domestic borrowing limit to keep its domestic industries functioning.

Of about \$2.5 billion in foreign debts, Zambia is in arrears on \$800 million. Most Zambian debt is held by American and British banks, but the Americans are now more exposed than the British.

● **A BIS SPOKESMAN** confirmed Jan. 14 the plan for turning the IMF into a new world central bank. Speaking from Basel, Switzerland, a senior official there claimed that the world debt crisis would be handled "case by case" this year, but then added that by the end of the year there would be a creditors' cartel run by the IMF. "The IMF knows how to coordinate world credit flows," he said.

● **THE IMF** announced Jan. 14 that the IMF's regular mid-year meeting, normally held in late April-May, will be moved up on a crisis basis to Feb. 10 and 11 in Washington, D.C. The so-called IMF interim committee, which is chaired by British Treasury Chancellor Sir Geoffrey Howe, will meet to vote the IMF some \$50-\$60 billion in new money from the pockets of the taxpayers of the world to bail out the Ditchley creditors cartel. "So much progress has been made on negotiations to vote new quotas from various governments for the IMF that we feel confident and justified in calling a meeting at this time," an IMF spokesman told *EIR*.

● **THE GROUP OF 10** industrial countries will meet to plan a common strategy in Paris Jan. 18, the U.S. Treasury confirmed. "We want a large increase in IMF funding and we don't anticipate any problems with that," the Treasury official said. According to a Jan. 14 London *Financial Times* report, which the Treasury confirmed, the "North" will call for a \$35-\$50 billion increase in IMF quotas and a \$10-\$20 billion increase in the IMF's General Arrangement to Borrow emergency bailout fund.

● **THE U.S. FARM** parity index lunged to its lowest annual level in recorded history in 1982. The index, published by the U.S. Department of Agriculture, showed that for the month of December parity was 54 percent, making the year parity average somewhere between 56 and 57 percent. The previous record low of 58 percent was set in 1932.

A new agro-industrial Egypt encircles the ancient Nile Valley

by Criton Zoakos

The two weeks *EIR* Middle East Editor Thierry Lalevée and I spent in Egypt last December were not time enough to learn everything about that ancient land. Our investigations, however, enabled us to identify the single central issue around which political and social struggles revolve at this time, the potential for social conflict that this issue conceals, and the way to defuse such a potential.

Egypt is a nation of 43 million people, growing by an increment of more than 1.5 million per year. This population inhabits only 4 percent of the nation's total area of a million square kilometers. Ninety-six percent of those one million square kilometers has been arid desert throughout Egypt's long history. The country's fast-growing population is concentrated in the Nile River's Old Valley and the Delta. Three years ago, the annual growth in demand for food was double the rate of growth of food availability, suggesting an explosive demographic crisis ahead.

Within this general picture, one discovers the existence of two Egypts, the old and the new. Very few foreigners are aware of New Egypt's existence, yet it is one of the most heartening, forward-looking revolutionary developments which emerged out of the otherwise disappointing decade of the 1970s. This new Egypt is not to be found in the congested, squalid streets of old Cairo or old Alexandria, nor in the villages and fields of the Old Valley where fellah families eke out a meager existence cultivating their tiny, half-acre-sized family plots. The New Egypt is out in the desert, where human technology has staked its claims and is rapidly converting the forbidding lunar landscape into vast stretches of green farmland, blossoming orchards, and beautiful, spacious modern cities.

Land reclamation projects at this time are creating new farmlands at a rate of 150,000 acres per year. Between 1952, the year of Nasser's revolution and 1979, Egypt had reclaimed 920,000 acres of farmland from the desert. The current government plan will have reclaimed a further 650,000 acres by 1985 and from that year on, reclamation activities will accelerate to meet the objective of doubling the nation's total arable land by the year 2000. During the same period, energy production is scheduled to increase from the current 22 gigawatts to 100 gigawatts, 40 percent of which will be supplied by nuclear plants.



Thierry Lalevee/NSIPS

Eng. Gamal El-Din Kalied (standing, second from r.), Criton Zoakos (third from l.), and agricultural workers examine the first turnip crop at a land reclamation project in the Eastern Desert.

Meanwhile, great new cities are in varying degrees of completion in locations where vast stretches of yellow-sand desert used to be. New location names are beginning to fill the latest editions of Egyptian maps: Sadat City, Nasser City, Heliopolis, 10th of Ramadan City, El Amria City, El Obour City, and 6th of October City. It is estimated that by the year 2000, these new cities will accommodate over 20 million inhabitants.

It is striking to imagine that within 17 years, there will be a new Egypt where the desert used to be, whose urban part will be greater than all presently existing urban settlements and whose agricultural part will be equal in size to the traditional agricultural territory of historical Egypt, put under the plow by means of the most advanced technologies available.

So far, the entire work of building the New Egypt rests on the shoulders of a tiny minority of hard-working enthusiasts who pose a striking exception to the spirit of inertia and medievalism which still grips the vast majority of Old Egypt's population. During our short visit we were happily startled by the forward outlook of these friends, their indomitable technological optimism, their faith in human abilities, and their compassion for those of their countrymen who are still bitter opponents of New Egypt's projects.

The opposition

This traditionalist-based opposition is not inconsiderable. On the side of the opposition the hope is nourished, rather systematically, that the Old and the New Egypt will inevitably clash in some bloody, violent fashion.

On the other side, the government and the tiny grouping

of engineers and scientists who are inspired by the government's commitment to build a new nation, there is a drive to continue the construction and land-reclamation drive at a pace rapid enough to keep one step ahead of the danger of a possible social conflict. The underlying hope is that the New Egypt will have been completed, built, and populated, before the suspicious, resistant, traditionalist Old Egypt can exploit its temporary advantage in relative size and defeat the political forces currently in command of the nation-building drive.

To the visitor, two conclusions became self-evident.

First, the potential for internal political strife is both unnecessary and stupid from the standpoint of the nation's own interest. The "left" and "Muslim" opposition's arguments against the government's national construction program are either poorly informed or are based on bad faith. The evident shortcomings of the government's programs are the result, ultimately, not of the government's intentions, but the result of the prevailing genocidal conditions in the international credit markets, imposed by the IMF, the World Bank, and the major international creditors.

What has been inadequately addressed by both the government and its opponents, is what ought to be the Egyptian nation's unique role in the community of nations, what Egypt's national identity ought to be, not for itself, but for other nations. Because of that nation's past role in founding the Non-Aligned movement, it still possesses great reserves of political and diplomatic good will among the developing nations. This good will can be transformed into a tangible political asset if Egypt mobilizes its national resources on behalf of a struggle to create a New World Economic Order, to put an end to the financial dictatorship of the International Monetary Fund, the World Bank, and the major Eurodollar banks which are now using the instrument of indebtedness to reimpose colonial relations throughout the developing sector.

Such a national purpose, can bring the majority of the well-meaning portion of the opposition into a political alliance with the pro-development-oriented factions of the Egyptian government and defuse the potential for social crisis.

The visitor's second self-evident conclusion is related to the practical limitation of Egypt's present development program. If the land reclamation program is brought to successful conclusion by the year 2000, the entire supply of Egypt's fresh water will be used up, leaving no room for future growth. From that point onward, Egypt must look toward the African continent as a whole for its future fresh-water supply. Eventually, most of the Western Desert can be cultivated if Africa's entire drainage system is reorganized to, for example, make rational use of the much wasted waters of the Congo River Basin, much of which can eventually be channeled into the still-existing ancient, dried riverbeds of the Nile cutting through long stretches of the Western Desert.

But such an approach again requires of Egypt that it adopt for itself a leading political and diplomatic role in the world struggle against Malthusianism and for high-technology-based development.

A visit to the 10th of Ramadan City

by Thierry Lalevée

Halfway between Cairo and the Suez Canal city of Ismailia, in the middle of Egypt's Eastern Desert stands the new city of Ramadan. To reach it, we had to drive on a newly built road, with the sands of the desert on both sides, until a few fruit trees at the gate of the city signaled that we had arrived.

A few minutes later, we stood in the city's administrative center, a good kilometer from the center of town. Mr. Kamal Abol Fattouh, the Chief Administrator, explained to us that the city was begun at the end of 1977 with a first symbolic stone. By the end of 1978, after the basic infrastructure, including the necessary electricity grid, water pipes, and

sewers had been completed, the construction of housing units began. With more than 1,000 families already living in the city, Ramadan is being built to receive approximately 500,000 inhabitants by the year 2000—though it is expected that this goal may be reached as soon as the end of this decade.

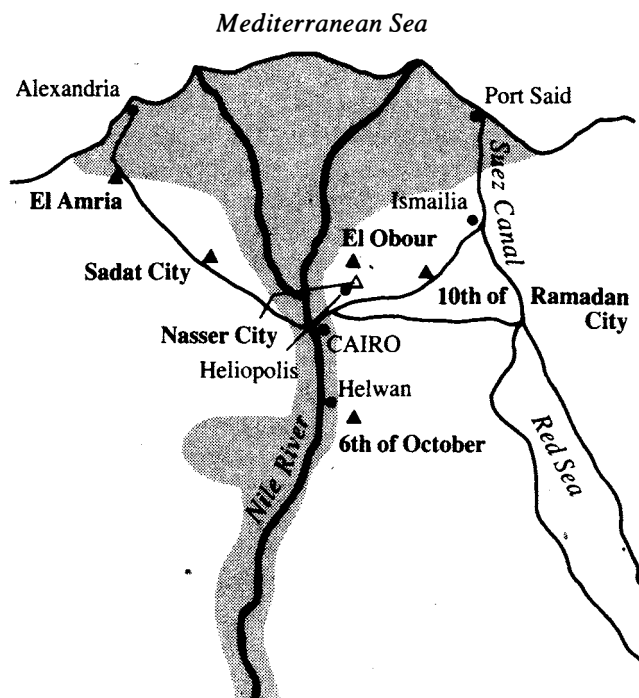
As Mr. Fattouh explained, "10th of Ramadan" is only one new city among many others. More than eight are planned and three or four are already under construction, such as Sadat City and the 6th of October City. These cities are already receiving their first inhabitants along the main road axes linking Alexandria to Cairo and Cairo to the southern part of the country.

These projects are part of Egypt's grand design for development aimed at preventing the cities of Cairo and Alexandria from growing too overpopulated and ultimately unlivable. A few statistics underscore the rationale behind such a plan. Considering that of Egypt's 1 million square kilometers, 96 percent is pure desert, leaving only some 40,000 square kilometers for agricultural and urban development. Because of the diminishing resources in what is called the Old Valley, along the Nile, no less than 7.5 percent of the countryside population leaves each year for Cairo or Alexandria or towns of smaller size like Port Said, Suez City, Ismailia, or Asyut. Suez City, as the late President Sadat remarked in 1977, was the last new city built in Egypt in more than a hundred years, making the construction of new cities long overdue. As can be seen on the map, these new cities have a twofold purpose, beyond preventing the overcrowding of the old cities: located on the most important road axis in the desert, they are to become the spearhead of a movement aimed at reclaiming land from the desert, while creating a new focus of industrial development.

Ramadan City, which we visited, is a good example of how this process works. As Mr. Fattouh explained, there is a division of labor among the cities, and Ramadan is to become an independent city with medium and heavy industries, ultimately providing some 150,000 jobs. 30 projects are already functioning, 60 are underway, and some 150 have submitted application. These include the original cement factory used to help build the towns, a glass factory, and a pipe factory. The Egyptians retain control over the entire process; but the industrial projects are often joint ventures, with France, the United States, or other countries.

A great advantage in building a new city is that it allows for rational planning and construction. Ramadan City, built in a hexagonal shape, is divided into four communities of 40,000 people each. The communities are subdivided into eight or nine neighborhoods of 5,000 inhabitants each, in which the basic needs of communications, public transport, schools, medical services, stores, and religious sites (Muslim and Christian) are provided. At the center of each neighborhood is a small, half-covered market whose cleanliness would impress any German housewife. The center of each neighborhood contains four- to five-story apartment buildings while along the outskirts are a belt of one-family villas containing

Egypt's city-building program



KEY

- Old cities
- ▲ New cities

a living room, two kitchens, bathrooms, and two bedrooms for parents and children, surrounded by a small garden.

Being in the middle of the desert, Ramadan City has to offer numerous additional incentives for people to leave the big towns. The new city planning council is offering to industries a 10-year period tax-free, and a subsequent 10-year period during which they are not required to pay customs duties on their imports. To individuals two kind of incentives are offered: 3 percent, 30-year mortgages to buy an apartment or house, and wages which are often two or three times higher than anywhere else in the rest of the country.

Ramadan City is now a large oasis in the middle of the desert, but if the challenge is met, what is now sand and desert will become green with fruit trees like the ones surrounding the city. The effort is well on its way to success.

The El Salhia land reclamation project

by Criton Zoakos

Traveling on the Cairo-Ismailia Highway, one is engulfed by vast unbroken stretches of yellow sand dunes which make up the forbidding Eastern Desert. As one approaches the 8-kilometer mark, one is suddenly engulfed inside a striking green landscape of lush vegetation: it is the El Salhia land reclamation project, one of many now emerging in the deserts of New Egypt. Fifty-six thousand acres of green cultivation have emerged in El Salhia, where only desert could be found two years ago. The landscape is dominated by the impressive silhouettes of pivot-irrigation pipes, each half a kilometer long, standing four meters above the ground and, carried on their tractor wheels, slowly revolving around their pivots, irrigating the soil.

El Salhia is a fully mechanized farm divided into five projects. It employs two irrigation systems: pivot irrigation for its legumes and drip irrigation for its fruit orchards. It is powered by its own newly constructed 100 megawatt power station; its 12 water-pumping stations supply 20 cubic meters per acre per day. The total manpower employed at El Salhia, including administrators, engineers, maintenance technicians, and farm workers, is about 2,000 people inhabiting a new city consisting of 2,200 residential units.

Our visiting party proceeded to the administrative offices of one of the five sub-projects, named the Shabab Projects, where we were greeted by its director, Engineer Gamal El-Din Kalied, an Egyptian-trained agricultural specialist in his early forties. After being treated to lunch composed of locally produced food, Engineer Kalied explained that eight months ago, in March of 1982, the entire area of Shabab Project was yellow-sand desert as it had been for millennia. Now, as we

could see, it was covered with green. With the modest pride of a man who knew he had defeated the desert, he proceeded to explain that he had currently under cultivation potatoes, tomatoes, green beans, turnips, radishes, sugar beets, onion, barley, alfalfa, lupines, clover, cabbage, and cauliflower, as well as a great variety of fruit trees. He had just sent his first 3,000 tons of string beans to European markets. Engineer Kalied explained that development costs were 1,400 Egyptian pounds for infrastructure per acre and 2,000 pounds for initial reclamation and cultivation. His very first crop, two tons of green beans per acre, had covered 40 percent of the expense. Given three crops per year, Kalied expects his project to break even financially during the third year of operation. He is further committed to completing 15 dairy farms (two are already operating), 11 rearing stations for chickens, and numerous fattening sheds for cattle. The entire El Salhia project, he explained, plans a cattle head capacity of 80,000 per annum, yielding 40,000 tons of meat per annum, an annual production of 180 million table eggs, and 15 million chickens.

The engineer spent some time explaining in detail the intricacies of the particular irrigation system he is employing, reminiscing about the days he spent in Nebraska getting acquainted with the U.S. equipment and its manufacturer. Upon prompting, he reported that El Salhia is not the only land-reclamation project now under way. There are other major projects in Upper Egypt, in Maryut, South West Delta, Middle Delta, South Tahrir Province, and elsewhere.

"Pivot and drip irrigation methods are the most efficient for defeating the desert," he explained. "Our only limiting factor is availability of water, ultimately. We must use irrigation systems which save water." We were then offered a ride on his pickup truck to visit the fields. At each stop, Engineer Kalied's quiet pride in his work grew, as he bent down, to show us the tomato bushes bending under the weight of their fruits, or the enormous potato roots as they emerged from the sandy soil that he removed with his hands, or the huge turnips that his farmers were already collecting.

"Look at the soil," he pointed out suddenly, "only one crop cultivated in thousands of years and it's already changing color. . . . During the beginning phase, we select crop cultivation sequences primarily for the purpose of enriching the soil. In 10 years, this will be one of the richest farmlands anywhere."

Before parting, I told Engineer Kalied that his work is a major military victory against the desert. He said, "You should tell people we want peace. We want peace with Israel, we need peace to develop our country. The only war we want to fight is against the desert."

We parted warm friends, I hope forever. This hardworking, brave and unassuming man, it occurred to me, is the kind of indomitable technological optimist, a special breed of frontier "American" growing out in the desert, a breed which has earned the hatred of Aurelio Peccei and the Club of Rome.

Domestic opposition poses scant threat to Egypt's economic progress

by Thierry Lalevée

Reports from many Western journalists try to cast Egyptian politics as a set of age-old, mutually antagonistic political institutions, including the government, the National Democratic Party (the main political party established by Anwar el Sadat), the opposition parties, various fundamentalist groupings, and, to some degree, the general population.

But during our two-week trip to Egypt, it did not take long to realize the fallacy of such reporting. The Egyptian political scene is boiling over, as never before, in a healthy debate which leaves nothing untouched. Indeed, Egypt is at one of those rare moments in a nation's history in which everything is possible—good or bad. Several years of rule by President Nasser saw the beginnings of an industrial revolution which had long been prevented by decades of British rule.

This industrialization did not go very far, as Egypt was engulfed in several wars with Israel, and forced to deal with fundamental national problems from a different approach. Now, Egypt can look forward to a real future. The question remains, however, how that future will be concretized politically. Although certain analysts would prefer to characterize the situation in such simplistic terms as a mixture of "Nasserism" and "Sadatism," evolving into some kind of "Mubarakism," reality is far more complex.

Since 1956 Egypt has been contained by the issue of war with Israel. Egypt became the center of Arabism. Later, after Camp David, the issue became Pharaonism, a policy of returning to pre-Arab Egypt, which means prior to the 10th century A.D.

As most Egyptians would recognize, both movements were extreme. Egypt could concentrate exclusively on its Arabism only at the expense of a greater role it could play in Africa. The same could be said of Pharaonism. Self-consciously, President Sadat titled his autobiography *In Search of An Identity*, something he did not have the time to find. Egypt right now is in the process of defining that identity, which is the fundamental issue of the ongoing political debate. As underlined in the introduction to this report, this cannot be dissociated from the basic issue of Egyptian economic development, and the fight rages between those who,

ultimately, are against such development and those who understand that only through such a process will Egypt be able to renew its history, and find its own identity as a fiercely independent nation.

Mubarak's policies

Egypt has been ruled by martial law since October 1981, and this can be seen by the way public buildings are protected, and in the regular army patrols in the street. But from all evidence, in particular Mubarak's decision to release political prisoners of all factions from jail if they were not implicated in any violent actions, this will not last much longer. Meanwhile, martial law or not, Egypt has seen in the past year and a half the most open political debate it has ever had. For non-Arabic speakers, this is summed up every morning in the columns of the English or French press. The subjects range from Egypt's peace treaty with Israel to its relations with the United States, the need to restore relations with the socialist countries, heavy criticism of the open-door policy implemented since 1974, and criticism of various aspects of obvious mismanagement.

There was never any direct attack against President Mubarak in this criticism, not because such criticism would bring heavy jail sentences on the offenders, but because for even the hard-core opponents—excluding a minority of Islamic fanatics—it is difficult to find something to criticize. However, some extremists have gone so far as to criticize Mubarak on the grounds that his decision to allow criticism is in fact a trick aimed at neutralizing the opposition. At this game, as we shall see, the "opposition" may well neutralize itself.

President Mubarak has his own style. He is less vocal than his predecessors and has a lower profile, but things are getting done. In a year and a half since he became President, much has changed in Egypt in all fields. Each time, developments were announced in a government or presidential declaration, and people are growing accustomed once more to believing that words can mean action.

On the foreign-policy side, there has been a slow but certain redefinition of priorities which were described to us as concentric circles. At the center, or first circle, would be

a redefinition of Egypt's relation with the superpowers, moving away from the one-sided relationship with the United States. Ultimately, this will mean the re-establishment of relations with the Soviet Union, with which Egypt has kept cultural relations. It will also mean that when President Mubarak arrives in the United States Jan. 26 Egypt will demand to be treated as a partner and not as a mere subordinate whose role is strictly military. Once again, economic issues will be at the center of that change, as Cairo seeks more flexibility in deploying U.S. economic aid and more productive investment in big projects. (The State Department's AID agency prohibits the use of U.S. funds on large modern projects.) As Minister Wali, quoted below said, "We have to think big," and the United States is needed for that, but Washington has to understand that "it cannot afford another failure in the region, like Iran."

In the second circle is Egypt's relation to the Non-Aligned movement which Nasser helped build. For years, even before the Camp David treaty, Egypt had abandoned that key element in its foreign policy. It has been one of Mubarak's first tasks to renew discussion of leadership of the Non-Aligned with Yugoslavia and India, as he did during his trip to New Delhi last autumn.

Immediately connected to this is the so-called third circle, Egypt's relations with Africa. Relations with Sudan are exemplary, and a model for cooperation for the rest of the continent, but Egypt can and will have a much greater role to play in the continent to which it belongs.

In the third circle as well are relations with the Arab nations, now being renewed after they had been frozen in 1979. Ties with Iraq, of strategic importance to Egypt, are in the process of official re-establishment after the meeting between Iraqi Vice-President Tariq Aziz and Egypt's Minister of State for Foreign Affairs Butros Ghali the first week of January. De facto relations also exist with Saudi Arabia, because of its strategic importance. A component of relations with the Arab nations is the large Egyptian presence in these countries. More than 6 million Egyptians live abroad, of whom 3 million are in Iraq and another million in the Gulf states. These Egyptian nationals, an important source of income for their families at home, are also a factor in the stability and development of other Arab nations.

One could be surprised that Europe has so far not been mentioned in any such circles, but Egypt doesn't really play a "European card" against the United States, realizing such an attempt would be based on sheer delusion. Egypt does, however, have a French card, and relations between the two countries are an example of what the United States could or should do in the political and economic field. Visits of Egyptian officials to Paris are continual, and the extent to which Mubarak is utilizing officials of the Paris Egyptian embassy in his administration indicates the importance of such relations. In early January, a pro-French official was appointed to head the Cairo-based Office of General Information, an

important government public relations outfit. The new head was the press attaché in Paris for 16 years. Similarly, the former Paris cultural attaché was appointed some time ago a minister in Cairo and the military attaché is the new head of military intelligence. These appointments may have provoked some anger at the Washington embassy.

These are fundamental changes. How are they being accomplished? Ironically, few really know the small group advising Mubarak on his policies, and many doubt in fact that such a group does exist. Mubarak listens carefully to his ministers, but in the same way he willingly accepts the advice of many other people. Again in contrast to both Nasser and Sadat, he cannot really be identified as associated with one party, even the National Democratic Party of which he is nominally chairman. Most ministers come from the NDP, but they are encountered as ministers, and Mubarak appears and acts as President of Egypt, not as the chairman of a party. This provokes a lot of unease in certain strata who would like him to make a decision on the issue of the "Sadat mafia," as some dubbed the NDP; to renounce his chairmanship or even to create his own new political party, as has been done each time the Egyptian leadership changed policy. Such layers fail to realize that the issues with which the government is dealing are issues across parties, and above parties—up to the point where some NDP members act as if the NDP were an opposition party, and are very nervous about Mubarak's commitment to fight the Mafia.

The on-going corruption trial of Esmat Sadat, the late President's brother-in-law, is only the tip of the iceberg. Hundreds of less important people have been tried or in the process of being tried. Their crimes have not been as great as those of Esmat, but these were the constant, petty crimes of corruption which had poisoned Egypt's atmosphere for years if not decades. Small land speculators or even school directors who are deliberately sabotaging public education to force their students to take private lessons are under attack. This sweep is doing much to restore public confidence in the administration, showing that though the Esmats will be put on trial, crime will also be followed up at each level.

All these moves would not lead to anything but for the major plans for development that the government is committed to realize, as the interviews and other articles in this report make clear.

The 'opposition'

The main opposition to these perspectives is not really those generally considered "opponents of the regime," but groups of "thinkers" whose main crime, fundamentally, is their failure to think. This group could be defined as "Islam-Marxists" who are combining left-wing, Tavistockian political structuralism with ideology coming straight from the Malthusian Club of Rome. Club of Rome policy is mediated through the Egyptian member of that group, one Abdur Rahman, who apparently wants to remain in the shadows. With

that dogmatic personality, as described to us, are associated various think-tank activities, including "Future Studies," and "Egypt 2000" whose main object is "to think small." Using as pretext that Mafia-linked Osman Ahmed Osman's control of Arab contracting is the prime mover in the big projects in the desert, they are opposing all big projects because "they benefit the Mafia!" In turn, the left wing is advocating a "revitalization of the small village," childishly refusing to consider the ultimate consequences of such policies for a population of 44 million which now can inhabit to live only 4 percent of the nation's territory. It comes as no surprise to discover that such institutions around the planning institute are taking advice or orders from Britain's Sussex University or from the "Oxford Marxist" group via Warsaw's Central University of World Economics.

Nor is it a surprise to hear such people bluntly advocating an "Islamic way of development for Egypt"—though what is meant by that is quite another matter. As we repeatedly asked proponents of this policy for a more precise definition of that concept, little explanation was put forward. Instead, the formula was simply that "the Western model of development" had to be rejected, which means that this group may soon become the core of an anti-nuclear movement when Egypt begins to receive its first nuclear plants this year. Marxists advocating Islamic development are, after all, no more surprising than a leading economist and former minister, now in the opposition, telling us very seriously that as far as he was concerned Egypt's national number-one problem was Cairo's sewer system. A pipe had broken some days earlier in the Giza quarter, which had made the front page of the *New York Times*.

These elements have little capability to disturb Egypt's march toward progress. They talk about the need to satisfy the "masses," but their ultimate card is the passivity of the population. Nasser complained frequently about Egyptian passivity, the direct result of centuries of government in which the population could do little but follow while nothing changed. This has indeed created resistance to development and to a new way of life. Centuries of repression have inhibited the population's ability to aspire to the kind of future its leadership wants for the nation—and "intellectuals" have an easy game rationalizing it, unable or unwilling to see that by using that passivity as a means to undercut the government's present policies, they are playing with fire, as did many Iranian intellectuals, under similar ideological influence, did before them. The engineer in charge of the El Salhia project, more political than any such left-wing opposition, concluded his guided tour by stressing that what Egyptian youth really need is a real challenge, in response to which it would have to fight for the country's future in this most important war of all, the war against the desert! Mubarak's leadership is providing this challenge, and that is also a challenge to the opposition. Perhaps it has grown so used to functioning as impotent critics, the opposition does not know how to stop. Now is the time or never.

Interview

Maher Abaza, Egypt's Electricity Minister

The following is an interview with Maher Abaza, Egypt's Minister of Electricity, conducted in Cairo on Dec. 17, 1982 by EIR Editor-in-Chief Criton Zoakos and Middle East Editor Thierry Lalevée.

EIR: What percentage of energy goes to what sectors of the economy, and what percentage is produced by what sources?

Abaza: The production of energy is now 22 gigawatts—60 percent for industry; 35 percent for households, shops and offices; and 5 percent for agriculture. We will increase energy production by the end of the century up to 100 gigawatts, because we are increasing industrial consumption each year.

At the end of the century, hydro-power will be the source of 10 to 15 percent of energy, 10 to 15 percent will be gas-powered stations; 15 percent will be coal-powered stations and 15 percent will be diesel-powered stations. The rest, which is 40 percent, we expect to be nuclear power stations. We do not want to have all our eggs in one basket.

EIR: Do you include the Qattar Depression project in the future 15 percent of hydro-power?

Abaza: No. The Qattara project is now under study, and we are going to finish the report at the end of 1983. The Swedish are looking very hard at this study.

EIR: Didn't you have a German group studying the project? What was their conclusion?

Abaza: The conclusion was that the cost is very expensive if you are not going to make a tunnel using nuclear explosives.

EIR: You're not considering using nuclear explosives?

Abaza: No.

EIR: Nuclear explosives have been used in certain countries for this kind of thing.

Abaza: They were used in the United States and in the USSR for a very short period, and then they stopped using them.

EIR: What was the cost estimate that the Germans gave you?

Abaza: \$3 billion for the nuclear excavation, and about \$6 billion for the tunnel project.

EIR: But the point is that financing is not forthcoming from foreign sources.

Abaza: That is right.

EIR: We are exceptionally interested in the Qattara project because of its larger implications, not only for energy but also for the transformation of the climate and so forth.

Abaza: That is why we are waiting until the end of this year, because we have two committees now studying all the possible implications, applications, and implementations of this project and the effect it will have on its surroundings. The Ministers of Industry, of Petroleum, of Electricity, of Agriculture, of Tourism are all members of these committees.

EIR: You seem to have had success recently in concluding deals to acquire nuclear plants.

Abaza: We only have agreements, signed with different countries like the United States, Germany, and France. These are all political agreements only, no commissions to buy any kind of equipment.

EIR: What are the obstacles so far?

Abaza: No obstacles. We are now just starting with the French government, and we are proceeding with them.

EIR: Are there any problems in the financing of these nuclear plants?

Abaza: We have an agreement with the European Community that they are going to finance a special organization in Egypt for new energy.

EIR: Is Egypt itself maintaining its own nuclear research programs?

Abaza: We have no research programs, only very simple things concerning some vegetation, as it pertains to agriculture, medicine, but nothing sophisticated.

EIR: You have projected an increase in energy production from 22 gigawatts to 100 gigawatts. Will there be any obstacles to achieving this objective, in terms of financing?

Abaza: It's possible we will have some delay in financing, but I feel that we are going to have enough money for that.

EIR: I have a specific reason for asking about financing problems. There are numerous countries experiencing debt problems, such as Mexico, Brazil, and so forth. And the IMF and the World Bank are going in with certain demands. They impose conditionalities. That is, if these nations want their debts to be refinanced, they must cut existing programs, impose domestic austerity, etc. Since Egypt's foreign exchange needs, in terms of debt and so forth, might go up in the next year to \$15 billion, there might be, in my understanding, some attempt by the IMF to impose the reduction of certain programs.

Abaza: If that occurs, we will see to it at that time, but until now we have had no problems.

EIR: Have you signed a political agreement with the United States regarding nuclear energy?

Abaza: Yes. In June 1981, we signed an agreement with Mr. Haig, who was Secretary of State at the time, for cooperation around nuclear energy.

EIR: Will energy issues—specifically nuclear—be discussed when President Mubarak goes to the United States this month?

Abaza: No, I don't think so. That's not going to be the main topic. He's going to the United States mainly for political reasons. Generally, discussions will be about the situation in the Middle East.

EIR: When President Mubarak was in India three or four weeks ago, there were talks on developing some kind of Egyptian-Indian nuclear cooperation.

Abaza: We have had cooperation between India and Egypt for years. It's a very old relationship.

Egypt expects 40 percent of its energy to come from nuclear plants by the turn of the century. Hydro-power from the Quattara Depression project, now under study, would also be a major energy source. Western Europe is interested in financing Egypt's energy development, and since mid-1981 there has been a nuclear power cooperation agreement with the United States. Egypt has no nuclear research programs, but its engineers benefit from Indian training.

EIR: Since when, approximately?

Abaza: Going on 15 years. We send engineers there to train—technical engineers, electrical engineers, mechanical engineers, and power engineers. We have an agreement between the two Ministers of Energy. I personally have visited India twice. Also, we sometimes send people to train in the peaceful use of nuclear energy.

Youssef Wali, Egypt's Agriculture Minister

The following is an interview with Egypt's Minister of Agriculture Dr. Youssef Wali. The interview was conducted in Cairo on Dec. 23, 1982.

EIR: We were very impressed by the El Salhia land reclamation project, which we visited last week.

Wali: Unfortunately, certain interest groups in Egypt oppose, to a certain extent, what El Salhia means. However, since being appointed Minister of Agriculture last January, I have given the project my support in order to facilitate the development of the area. The people working on the project are farsighted concerning the future of agriculture in Egypt.

EIR: We would like to know as much as possible about the overall land reclamation programs in Egypt. What we saw in El Salhia was very impressive and the rest of the world must know about it, to give them hope.

Wali: After the 1973 war, there was an increase in the standard of living in Egypt. This increase was also related to the Open Door Policy. There was a large migration of people out of the countryside. There is now a shortage of labor in agriculture, even though the statistics show that there is sufficient labor. So, for the future, we must emphasize labor as a major component of the economy.

In El Salhia, it is the first time we have had such a huge area irrigated with a pivot system. I think that those who are opposed to the project are those who in general are against everything that is new.

Some who oppose land reclamation from an intellectual point of view think that its feasibility must be calculated on the basis of energy consumption. It has been agreed that the pivot irrigation system uses more energy than the sprinkler system, which uses more energy than the drip irrigation, so perhaps when we repeat this project we will use drip irrigation instead of the pivot system.

One of the good things about the Salhia project is that it is the first farm with complete mechanization, for potatoes, tomatoes, maize and so forth. We can set up the same kind

of project in Sudan, where there is no pivot irrigation, no drip irrigation, no sprinkler system. We can take our trained personnel and given them machines to train others.

EIR: Basically, what you are saying is that you can lead all of Africa in agricultural development.

Wali: That's right. It is along the same lines that your magazine has written its recent cover story: "Egypt's Fight to Become the Japan of the Middle East." I agree with that concept. It is a very smart approach to take. We have to fight, though, to become the new Japan. It is not an easy game. Our transformation into a new Japan will not be served to us on a golden platter. We will have to work hard; we must be organized; we will have to avoid mismanagement, to avoid corruption, to avoid miscommunication, to become the Japan of the Middle East. I agree 100 percent with your vision.

The Ministry of Agriculture is now running an experiment with 1,000 acres for rice production. For the first time we have full mechanization for the transplanting and the harvesting of this rice, and we are increasing the production of these 1,000 acres by one ton per acre. That means we can increase the production of one million acres of rice by one million tons, which equals on the international market 2.5 million tons of wheat. Comparing us to Japan is very appropriate, because things are small and limited here in Egypt, like in Japan. Some of the fanatics think that we must have huge collective farms, but this is not necessary. There is equipment that can be handy for the small farmer, like what is done in Japan, in the Philippines, in China, in Thailand, and in Taiwan.

EIR: What are the government's current plans for future land reclamation projects?

Wali: For future land reclamation projects, we have three major areas. First, to increase productivity in old reclaimed land, approximately 912,000 acres. We are trying hard to put this area under the proper cropping system, the proper management, to reach the maximum productivity. We welcome the participation of investors, from the United States, from Europe, from the other Arab countries and even from inside Egypt. Second, we wish to reclaim virgin land. We hope to reclaim 650,000 acres within the current five-year plan. This is 12 times larger than the area of El Salhia. To do this, we are using drip and pivot irrigation. We plan to cultivate high-cash crops, which will be sold to other Arab countries for hard currency. Third, we have what we call the triangular development approach. We have combinations of countries working together: Egypt, France, and Sudan. We have Germany, Egypt, and Sudan and we have Egypt, Sudan, and multinational companies working together in Sudan, where we have a pilot experiment. We are leasing one million acres, and we have cultivated 75,000 acres in four years.

EIR: How many projects are included in your plan to reclaim 650,000 acres of virgin land?

Wali: It is a lot of projects! In the area of El Salhia, we have no less than 250,000 acres. On the west side, we have another 250,000 acres. The other areas lie within the New Valley and Upper Egypt.

EIR: What is the profitability of these projects?

Wali: The expenses are about 4,000 Egyptian pounds per acre. Profitability is reached within no less than 5 to 6 years, perhaps 10.

EIR: We have been looking at the Qattara Depression project from the standpoint of agricultural development as well as energy. Also, we have been receiving reports over the past year and a half about massive fresh water deposits in various locations in the Western Desert. The estimates we have seen, so far as scientists know, is that this water may last 100 years, but there is the possibility that it may be an underground river.

Wali: I am of the opinion not to contaminate the Qattara Depression with salt water by a canal from the Mediterranean Sea, because the hydrostatic pressure may affect the delta area and the cultivated areas. If we want to use the Qattara Depression for electricity, it is better to fill it with water and use it either for agriculture or for fish.

EIR: Where would you get the fresh water from?

Wali: That is easy. Because we already have the seepage of water from the canals, it can be oriented toward the Qattara Depression. This drainage canal will not exceed 1,000 per million salinity. It is not like the water from the Mediterranean Sea. Perhaps we can mix this drainage water with the fresh water from the Nile.

EIR: Earlier you said that people are raising the issue of the energy intensity of the land reclamation projects. Our view of economics is that a successful economy is one that uses a lot of energy, and highly organized forms of energy, and the net measure we use for economic success is how much free energy an economy ultimately creates. In other words, we do not believe that energy saving is an economically successful concept.

Wali: No, you are not right. For any country, any society, any family, there are five major problems: food, energy, population, inflation, and pollution. So it is not a matter of energy, it is energy as related to these four other factors.

EIR: There are international organizations, like the Club of Rome, which are trying to present a pessimistic outlook for the future of the world. And they are trying to apply pressure through various financial instruments to force the world to adopt traditional types of agriculture, which would imply a reduction of world population. *EIR's* philosophy is that we can improve things qualitatively throughout the developing sector by a massive exportation of technology from the advanced sector.

Wali: I am a believer of the ideas of your group. Definitely, I am against those of the Club of Rome and others—they are very shortsighted. To stop fanaticism—religious fanaticism, or communist fanaticism—you have to develop a country, you have to make sure that country has food. If people don't have food, they lose hope, they can be disoriented, they eventually lose their independence. I myself am a firm believer in the transfer of technology from the United States.

EIR: California is very similar to Egypt, because the Imperial Valley was developed out of desert.

Wali: That is true. The Imperial Valley is a depression in the desert. We have the same thing here in Egypt, in Fayoum. It is a depression also. It too can become an area for the cultivation of winter vegetables, for lettuce, for all the crops which are grown in the Imperial Valley. It is the same for the artichoke, a Mediterranean crop which is cultivated in California on the basis of very up-to-date knowledge. It can be cultivated here, too, because we have the same ecosystem. Olives—the same ecosystem. Asparagus is an Egyptian vegetable. It is cultivated nowadays in the United States. Egypt is not cultivating asparagus, and Egypt is where it originated!

EIR: Is it your opinion that you are getting enough from the United States or could you use more, in terms of technology?

Wali: I believe that in the United States there are two groups. One wants to help the United States and to help Egypt by making sure that both have very strong agricultural and industrial sectors. These are very wise and farsighted people. At the same time, you have the other group, which thinks that Egypt must only be helped bit by bit, with little pieces of aid just to keep us happy. This approach will only mean failure, and the United States cannot afford another failure in the Middle East after Iran. It would be a disaster, especially since Egypt provides equilibrium to the area.

EIR: In the case of a number of countries, such as Mexico, Brazil, Argentina, and virtually every African country, the IMF has posed some very tough conditionalities. The IMF has forced these nations to reduce the size of their development programs, to shut down the investment part of their budgets.

Wali: Mexico now is on its knees, from the United States. Mexico is offering the United States oil for 10 years, for debt payment. However, it is not a matter of the IMF being a magic stick. It is stupid to follow the IMF's orders like the Bible or the Koran. Everything must be discussed. There are many countries that are not directly following what the IMF wants. We in Egypt are following the formula of the IMF, but according to our own environment. For example, we increased the prices of agricultural commodities, but not for sensitive items that could lead to strikes or something that the government cannot contain. Why do that? It's not right. We can move, slowly but surely. And where there's a will, there's a way.

Mohammed Abdellah, Foreign Affairs Chairman of the Egyptian National Assembly

The following is an interview with Dr. Mohammed Abdellah, chairman of the Foreign Affairs Committee of the Egyptian National Assembly, conducted in Cairo on Dec. 23, 1982.

EIR: What is Egypt's orientation right now to the Non-Aligned movement?

Abdellah: Egypt is one of the three founders of the Non-Aligned movement, along with India and Yugoslavia. After Camp David, there was a kind of counterattack for a short while from within the movement to try to freeze Egypt's membership, but it did not succeed. When President Mubarak came to power, he emphasized the role of Egypt in this movement and tried to coordinate his efforts with Yugoslavia. He went to Yugoslavia, and, with India, assumed responsibility for the three countries in taking lead of the movement. This has been one of the main lines of Egyptian foreign policy since the July Revolution in 1962. It is not a new phenomenon. We are now continuing the same line, but emphasizing a little more the role of Egypt.

EIR: What do you see as the principal objective of the Non-Aligned movement in the context of world politics and the two superpowers?

Abdellah: Since the creation of this movement, our objective has been to find a means for the Third World to try to express themselves, away from the Cold War confrontation between the two superpowers.

EIR: We see in the North-South relationship two situations of adversity. We see economic pressures coming from certain interests in the North against the South, and we also see the potential for military threats—for example, out-of-area NATO deployments. Do you think the Non-Aligned movement will take these issues up for discussion?

Abdellah: Since the beginning of the movement, the main goal was to find ways and means for the countries of the Third World to move out from under economic pressures and military repression. There is coordination among the countries of the Third World that could give them more bargaining power. It's nothing in comparison to the power of the big

powers, but it is more bargaining power.

EIR: We now believe that unless debt renegotiation occurs, the existing debt structure is going to collapse, and there will be catastrophe for the debtors. However, the creditors do not seem willing to reorganize. We consider this to be one of the primary problems that the Non-Aligned movement should address and try to resolve.

Abdellah: I do not know the agenda of the Non-Aligned summit to be held in New Delhi in March. I believe that this is a very important subject and that the movement must study this issue because it is a big concern for all the Third World countries, not only Latin America. What Latin American nations are facing today, other countries of the Third World will face tomorrow.

EIR: What is your evaluation of current U.S. policy toward the Middle East?

Abdellah: I believe the United States has been playing an active role since Camp David and is a full partner in the agreements of Camp David, despite all the obstacles that Israel is putting in the path of peace.

EIR: Do you think the United States' role is positive?

Abdella: There are three important facts. First of all, the right of Israel to survive, to be recognized and live inside secure borders. Second, the acceptance by Israel and by the international community, and by the United States mainly, of the fact that the Palestinian problem is the core of the Middle East problem. A lasting peace will not prevail except by finding a just solution to the Palestinian problem. The third fact is that Israel must understand quite well that nobody can accept a flexible definition of security—which could be used as an umbrella to achieve expansionism, to annex Arab lands, which is what is happening now on the West Bank; which gives them the excuse to attack the Iraqi atomic plant in Baghdad; which could be used to morally justify aggression against any neighboring country. We have to start from these three points, and these could lead to peace. It is not an easy or short road, but it could lead to peace.

EIR: What is the attitude of the Israeli government, the U.S. government, and the principal European governments to these points? Are they acceptable bases for negotiations?

Abdellah: I think that if you go back and look at the evolution of the United Nations, and the European Parliamentary Union, and UNESCO, and all kinds of international forums, you will find that these principles are accepted. If you review Camp David, you will find these principles clearly. That is the spirit of Camp David. All the United Nations resolutions contain the same principles. The Egyptian-French initiative was founded on the same principles.

EIR: Where does the Egyptian-French initiative stand at this point?

Abdellah: For the time being, we are keeping it on the side, to give a chance to the Reagan initiative, and this is by agreement between Egypt and France.

EIR: Was this discussed with the United States?

Abdellah: No, this came from the Egyptians and the French. We are giving the Americans a chance to try to act on the basis of the Reagan initiative.

EIR: So this posture is going to be maintained until President Mubarak goes to the United States, and then you are going to renew the French initiative?

Abdellah: We are not putting a deadline on it. We want to give the Reagan initiative enough time to move.

EIR: How about the other Arab nations and governments? Some of them have difficulties giving Israel the right to live in secure borders?

Abdellah: I think that if you go back to the Fez resolution, it is clear that acknowledging the right for all countries in the area to live in peace includes Israel.

EIR: Why is Israel refusing to respond to the Fez resolution?

Abdellah: Because I believe that some people in power in Israel still don't want to see the real facts of the Palestinian problem.

EIR: Do you see a future role for the Soviet Union in Middle East peace negotiations?

Abdellah: I think that for the time being we are working on what we have in hand, and on the gains which are already on the table. My own assessment is that we cannot reach something under any initiative unless it is accepted by all parties in the area, which means Israel and the Arabs. I believe that this must be the basis for accepting any initiative. As Egyptians, we will always say that the door is open for any initiative that will provide a step forward, provided that it is in the spirit of the United Nations resolutions and accepted by all parties—Israeli and Arab.

EIR: Your government appears to be taking certain new

initiatives toward Africa. Can you give us a description?

Abdellah: Since we are part of the African continent, we were always very helpful to the African countries in their fight for independence. We were the founders of the OAU [Organization of African Unity], and we are keen to maintain the unity within this organization and to try to settle any kind of dispute in a peaceful way. Our goal is to try to maintain stability in Africa and to help Africa achieve as much as it can.

EIR: There are certain situations which are destabilizing Africa, such as the situation in South Africa, Angola, Libya. What is the Egyptian approach to such problems?

Abdellah: First of all, we are against any sort of apartheid, any sort of racism. However, we don't interfere in domestic disputes, because it opens the door to further interference. We prefer that the Africans settle their problems by themselves.

EIR: This applies to the Cuban military presence, for example?

Abdellah: It applies to any military presence. You must distinguish between when a government calls for foreign aid and when there is a foreign invasion. Basically we are against any foreign interference. But when a country asks for help, this is an action that differs from a foreign invasion. That does not mean we are happy to find foreign troops coming into Africa, however.

EIR: How do you see future relations between Egypt and the other Arab countries that were alienated from you? Will relations be restored?

Abdellah: I think there is an improvement in the atmosphere and a de facto rapprochement between Egypt and the other Arab countries. Your question is a question of formality. Relations between Egypt and the other countries were never cut. They withdrew their ambassadors, and we did the same, but the relations between Egypt and the Arab world continued. Since President Mubarak came to power, the first decision he took was to stop any kind of polemic between our media. His position was clear: We don't want to escalate any kind of campaign. Even if some official Arab media continue to attack us, we will not answer. This was a very important step to create a new climate in the area. Now we have contact with the majority of the Arab countries. We exchange messages; we receive envoys; we send envoys. So I believe that relations between Egypt and other Arab countries are good and are improving.

EIR: How do you see relations between Egypt and the PLO?

Abdellah: You know that the PLO kept its representation in Cairo. The office was never closed here. There is a tradition in the nation, a very old one between Egypt and the PLO. Since the Beirut crisis, we have had very frequent consultations on high levels between us and the PLO.

LaRouche debtors' cartel at center of Third World agenda

by Christian Curtis

The debt bomb, a term defined and all but copyrighted by *EIR* founder Lyndon LaRouche, has forced its way out of diplomatic briefcases and onto the conference tables of Ibero-American governments since the beginning of the new year in a way not seen since LaRouche first proposed use of the debt weapon last spring. During the second week of January alone, two separate multilateral conferences—plus the chairman of a third—resolved that the only way to deal with the debt crisis is through joint, global renegotiation with the continent's creditors—precisely the first demand outlined by the LaRouche proposal. And, even more importantly, the tight coordination of initiatives on this question with the Non-Aligned movement suggests a new potential for spreading the debt-bomb tactic throughout the developing sector.

A high-level Argentine diplomat put the matter succinctly. Asked how his New Year celebration had been, he quickly replied that he had just finished reading the Jan. 3 *Time* magazine "Debt Bomb" cover story and the most recent statements by LaRouche on the subject. The debt crisis, he concluded, has now reached such proportions that no one can avoid it any longer.

Indeed, it is not being ignored. "Debtors of the World, Unite" ran the banner headline in the Jan. 11 edition of *Ovaciones*, Mexico City's leading afternoon newspaper. The daily was referring to statements issued in Lima, Peru the previous day by the chairman of the Latin American Economic System (SELA), Carlos Alzamora, who reiterated his previous commitment to joint continent-wide renegotiation. But this time, Alzamora specified that there is to be a special meeting in Caracas, Venezuela of SELA experts on just how

to carry out such a demand. In addition, the Mexican press has given prominent coverage to Uwe Friesecke, a close collaborator of LaRouche, who is touring Mexico on behalf of the debt-bomb policy.

And Raul Alfonsin, the man whom many think will be the next president of Argentina, added his voice in a call for Ibero-American countries "to jointly renegotiate our foreign debt." Alfonsin has made a united regional response to the debt crisis the center of his campaign for the presidency. *El Nacional* of Caracas called his statement the "first positive proposal of 1983."

Calls for joint debt renegotiation were also issued at a conference of the foreign ministers of Panama, Colombia, Venezuela, and Mexico in Panama Jan. 8, and at the preparatory meeting of Non-Aligned members in Managua, Nicaragua two days later. And it is the latter meeting, a preparatory forum for the Non-Aligned summit to take place in New Delhi, India in March, which indicates a new potential for expanding the debt bomb battle.

Turning point: New Delhi

The New Delhi summit has been pinpointed by LaRouche as a crucial potential turning point in the strategic fight for a new world economic order, and the Club of Life, the only truly North-South institution in the world—founded by LaRouche's wife, Helga Zepp-LaRouche—has launched a campaign to force the Non-Aligned governments assembled there to inaugurate a new monetary system as their highest priority.

Indications of Ibero-American coordination with the Non-

Aligned group of nations include:

- the wording of the communique of the foreign ministers' meeting in Panama on the need for joint negotiation that closely parallels that of the draft resolutions discussed at the Non-Aligned Bureau meeting in Managua.

- the fact that the Managua conference referred all treatment of the Central American crisis to the Panama communiqué.

- that the ministers at the Panama meeting, only one of whose governments is a member of the Non-Aligned, recommended the strengthening of Ibero-American participation in the Non-Aligned movement generally.

- the endorsement by Argentine Foreign Minister Aguirre Lanari, who participated in the Managua forum, of the pending petitions for Non-Aligned membership by Colombia and Venezuela.

Spain: a new dimension

An emerging new factor that may add a dimension to the momentum of this process Spanish Prime Minister Felipe González has indicated he is "on board" the move for joint debt renegotiation. In an interview with Colombia's Radio Caracol network, González called for converting the debt of the so-called Third World into development credits, and announced that he will intercede with other industrialized nations' heads-of-state on behalf of developing countries.

It is also meaningful that González endorsed the Central American peace proposal of Mexico and Venezuela, which led to the Panama foreign ministers' meeting. He also sent a Spanish delegation to the Managua Non-Aligned meeting.

The potential of the Ibero-American/Non-Aligned combination has not escaped notice of the individuals behind the monetary system that brought on the debt crisis and depression in the first place, as the itinerary of their minions illustrates:

- David Rockefeller arrived in Bogotá Jan. 11 after stopping in Caracas, on a tour for the purpose of arm-twisting leaders in these capitals against the idea of joint renegotiation. His well-publicized encounter with *EIR* correspondent Carlos Cota Meza (see interview, page 39) clearly laid out the stakes in the debt bomb fight.

- Business International convened a meeting of elite policy-shapers in Puerto Vallarta, Mexico; the top agenda item was how to defuse the debt bomb.

- Under-Secretary of State Thomas Enders also dropped in on Mexico, according to sources, to dissuade Mexico from pursuing its peace course in Central America.

- A third ill-willed visitor, Queen Elizabeth of England, arrives in Mexico in mid-February.

- The British are meanwhile holding a special meeting on how to co-opt the momentum toward the debt bomb. London has not lost its perverse sense of humor during this crisis, however: the planning session is called World Parliamentarians for a New World Economic Order, and it takes place Jan. 13-16 at Westminster Palace.

David Rockefeller: 'Debt freeze is dangerous idea'

In an interchange with reporters Jan. 11 at the U.S. embassy in Bogotá, Colombia, former president of Chase Manhattan Bank David Rockefeller discussed the problem of Ibero-America's foreign debt and contrasted his solution—breaking the backs of the debtor countries one by one—to that of Lyndon LaRouche's "Operation Juárez." Rockefeller was speaking in his capacity as head of the U.S.-based Council of the Americas and in representation of "private initiative." Having just come from Venezuela, he was planning to move on to Panama following his visit to Colombia, which included a meeting with President Belisario Betancur.

Excerpts from the Jan. 11 press discussion follow.

AP: Will there be a depression and will there be countries that won't pay their debts?

Rockefeller: All countries in the developing sector are different and must solve their problems one by one. A good example is the way that Mexico and Argentina have been treated by the IMF and the private banks. This is one way to solve the problem.

UPI: The solutions of the IMF are recognized as short-term ones. What would be a long-term solution?

Rockefeller: First, let me clarify one thing. The accumulated debt of these countries is due to the increase in the price of oil, although Mexico has an additional problem. Mexico began to develop under the belief that oil prices would continue to increase, but they didn't and for this reason they had a great crisis in their economy. The help of the IMF and the private banks is short-term. A long-term solution is that the indebted countries will have to cut back their requests for credit.

EIR: Is your visit to Colombia for the purpose of supporting Belisario Betancur's proposal on the need to have collective renegotiation of Ibero-America's debt? What opinion do you have of LaRouche's proposal detailed in "Operation Juárez" that there should be global moratorium of third world countries' debts as the only possibility of saving the international private banks and to initiate the building of a New Economic Order?

Rockefeller: This is a very dangerous proposal. If there is a moratorium on global debt, evidently the banks will not loan in the future to those countries. For this reason, it is not in the interest of those countries to declare a global debt moratorium but rather to continue with country-by-country renegotiation, as they have been doing.

EIR: What is your opinion of Belisario Betancur's proposal?

Rockefeller: I think my response also holds for [this proposal], although Betancur's purpose is certainly not that of Mr. LaRouche.

EIR: Who knows? . . .

Russel Marks (Council of the Americas): I want to clarify something here. The proposal of Belisario Betancur is not the proposal of LaRouche.

Mr. Copello (Council of the Americas): I also want to make a clarification. Belisario Betancur has asked the industrialized nations to provide more money to the IMF and the Inter-American Development Bank, and not what you say he says.

Rockefeller: If this is what Belisario Betancur is proposing, then we are all in agreement.

RCN (Colombian radio): You are coming to Colombia after the Reagan trip and coinciding with the meeting of the Non-Aligned in Managua. Is this coincidence intentional?

Rockefeller: It is not.

EIR: Yesterday, at 10 a.m. in the offices of Kissinger Associates in Washington, a group of bankers known as the Ditchley Group met. This meeting has been denounced by political figures in the United States and Ibero-America as the creation of a creditors' cartel that is preparing a plan to assure Ibero-America's payment of the debt.

Rockefeller: I have just come from Venezuela and have no news on such a meeting. I know the Ditchley Group, a group of serious bankers that want to help at this moment of crisis. I know Kissinger and his offices but I cannot comment on what you are saying.

Colombian Radio: Do you support the holding of soccer championships in the United States?

Rockefeller: I think that relations among nations depend on each one of them. Relations of my country with Cuba . . .

Mr. Marks: Excuse me, Mr. Rockefeller, but the question was about soccer, not Cuba.

Rockefeller: Excuse me, excuse me, my Spanish must be failing me.

Q: What do you think of Colombia's entrance into the Non-Aligned?

Rockefeller: Every country is sovereign and must make its own decisions, but I hope Colombia maintains good relations with the United States.

Q: You say there are bitter feelings between the U.S. and Latin America. What are some of them?

Rockefeller: Some are commercial problems. But the most recent problem is that Latin America's upset with my country

since the Malvinas war. We want to know what [Latin America's] position is today on that subject. I believe it is not now so grave as a few months ago. The people of Latin America have understood that our country took the position of favoring the United Kingdom because Argentina was the invading country. Later at the United Nations we supported the creation of an independent government on the islands.

Q: What can Colombia expect from your visit?

Rockefeller: It is simply a visit to establish connections with private initiative and to work in a closer and more effective way for better relations between our nations.

EIR correspondent Carlo Meza gave Mr. Rockefeller a copy of the *EIR* and "Operation Juárez," to which Mr. Rockefeller responded with a smile, a thank you, and a comment: "I am very familiar with the ideas of Mr. LaRouche but I am totally in disagreement with him."

Ibero-American leaders: 'We must take joint action'

The following statement by Raul Alfonsín, presidential candidate from Argentina's Unión Cívica Radical party, appeared in the Jan. 3 edition of the Caracas daily El Nacional. We Latin American nations should unite to jointly negotiate our foreign debt. . . . Latin America is the region in which a large proportion of the foreign debt of the developing countries is concentrated. We must jointly negotiate our financial problems and establish mechanisms in international forums for the consideration of some that are compatible with the necessity of accelerating the economic and social development of our continent.

Excerpts from an interview with Dr. Alfonsín, published in the Dec. 26 edition of Brazil's Estado do São Paulo, follow: I believe that an increase in Latin America's foreign trade is indispensable, and I have been discussing this topic with our friends in Brazil to see how we may best defend our regional interests. Either we defend those interests or we will not be able to defend our economic independence. . . .

In the case of foreign debt, we have four countries that owe more than \$200 billion: Mexico, Venezuela, Brazil and Argentina. We should harmonize our financial policies, and seek to strengthen the Latin American Economic system. A new perspective can open up to us if we put on our long pants and work seriously to defend ourselves from discrimination and incidents of aggression from other regions of the world. . . .

We are going to focus our attention on Latin America to see if we can increase our exports. But even more serious is the problem of the foreign debt. It is serious, but it should

not become a conditionality. We should not accept conditionalities such as those proposed by the International Monetary Fund through recipes that are always recessionary. . . . Our economic situation is very grave; currently we are in a severe recession and I don't know how we can continue this way. In any case we will never accept a solution that implies a greater recession.

We have contracted a fabulous debt. But a good part of that [is the product of] international usury.

The following statements by Spanish president Felipe González were made in a Jan. 9 interview with the Colombian radio station, Radio Caracol.

In 1983, I will insist that the industrialized nations [consider] the necessity of seriously proposing a renegotiation of the debt and a new effective North-South dialogue; and I will insist on the absolute necessity of a security and cooperation plan for the Central American and Caribbean region.

Spain has been doing the calculations and will soon propose to the great powers the possibility of converting the debt of the countries of the South to development aid.

Everyone talks of democratic freedom and respect for human rights. However, this reality appears to be further and further away. Methodologically, I don't believe in violence to change a situation or a political structure. Violence doesn't lead to the liberation of peoples. Sometimes, unfortunately, it leads to the substitution of one tyranny by another.

The following is the text of an article entitled "Debtors of the World Unite" published by Agence France Presse (AFP) in the Jan. 11 edition of the Mexico City Daily Ovociones.

Caracas—The Latin American Economic System today proposed a meeting of finance ministers and presidents of the Central Banks of Latin America and the Caribbean to consider the possibility of renegotiating the region's foreign debt as a bloc. The 26 Latin American and Caribbean nations which form part of SELA should work hard to consider and agree to jointly negotiate their foreign debt, amounting to \$300 billion, affirmed SELA's president, the Peruvian Carlo Alzamora. The declarations of SELA's president contrasted with those of David Rockefeller who during his visit to Caracas, proposed that Latin American countries negotiate their debts separately.

Alzamora sent a letter today to the Peruvian Finance Minister who presided over the first meeting of finance ministers and Central Bank presidents that took place in Lima in 1980, asking him to call a second meeting whose topic would be the region's foreign debt. According to Alzamora, the [gravity] of the current situation makes it advisory that the region jointly analyze its debt and strengthen its ability to renegotiate it.

Finally, he announced that SELA had called experts on the question to a Jan. 17 meeting in Caracas which would make its conclusions available to the 26-member governments.

Colombia

Debt burden requires still bolder initiatives

by Valerie Rush

In the last two months, the Colombian government of Belisario Betancur has led a near revolution in the country's financial management. The question is, has he gone far enough?

When, last fall, Betancur announced that the fiscal deficit inherited from the previous Turbay administration was so huge as to make it subversive to cite the true figures, Colombians began to suspect that their President was getting serious. On Oct. 8 he declared a 24-hour emergency in an executive decree imposing drastic new lending limits on the run-away banking system and giving himself the power to nationalize certain banks. That power he immediately put into practice, nationalizing the Banco del Estado, whose prestigious offices had been captured by unscrupulous swindlers, and dissolving the Banco Nacional, which had built itself up as a laundering service for Colombia's drug-running elites. Both banking directors currently face hefty jail terms.

The majority of the Colombian population was delighted; the banking community waxed indignant at the "generalization from a few isolated cases"; and the so-called "emerging class" of newly rich began to wonder if Colombia was such a perfect haven after all.

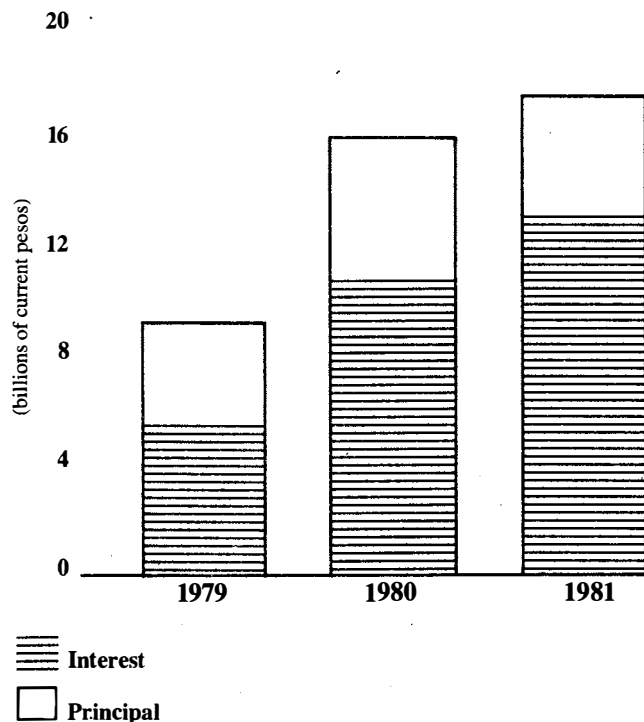
On Dec. 23, President Betancur greeted the holidays with a second "economic emergency," this one designed to last through Feb. 10 and to finish the job begun in October. The keystone of the second emergency is the "patrimonial amnesty," whose announced purpose is to "open a broad avenue for reincorporation of all the wealth which has been on the margin of the national economy, so that it can be a link to the development effort," according to Finance Minister Gutiérrez Castro. (The significance of the *amnistia patrimonial* is also intensely political, of course.)

In the period preceding the second emergency, the financial sector had besieged the Betancur administration with demands that an "amnesty" for the illegal (read, drug economy) be declared. In one particular gathering of bankers and businessmen in the city of Cali, at the yearly conference of the trade organization Fenalco, prestigious banker after banker rose to warn the government that unless the drug amnesty was granted, the banks were not going to lower domestic interest rates in accordance with a government decree.

The government responded with the patrimonial amnesty, but, contrary to the financial sector's expectations, it used the opportunity of offering a one-shot grant of forgiveness to tax evaders to create a series of legal precedents which—if enforced—could make Colombia quite uncomfortable for the drug financiers who have made Colombia their headquarters. Among other measures, the government has:

- established heavy fines and jail terms for anyone caught evading tax payments from fiscal year 1983 onward. Roving teams of specially trained government inspectors will be conducting regular spot checks of the accounting books of the more notorious individuals and enterprises in Colombia;
- ordered the lifting of bank confidentiality for any and all cases placed under investigation by the Colombian Attorney General's office and related judicial bodies;
- ordered an across-the-board property value reappraisal, which is expected to both dramatically increase the government's tax revenues while helping to eliminate the real-estate market as a shelter for illegal monies; and
- launched a major offensive against corrupt officials within the national tax bureau to eliminate many of the allies the drug industry has cultivated in official circles. Several have already been indicted.

Amount of interest and amortization of principal paid on Colombian debt, 1979-81



In a complementary move, the government has decreed a sweeping reform of the tax system designed to seal off gross loopholes established by the 1974 "reform" of former President and drug-runners' ally Alfonso López Michelsen. While broadening the tax base in this manner, the Betancur reform has simultaneously lowered income and sales taxes for the poor and middle classes, and eliminated some of the onerous taxes on industry and food production which have discouraged investment in those crucial sectors. As an immediate result of the reform, some 80,000 lower-income Colombians have been declared exempt from income tax payments

Getting to the root

Betancur's emergency measures have undoubtedly dealt a blow to the parasitic illegal economy which has sucked available liquidity out of production. They may also succeed in increasing the levels of reserves in the national Treasury to the point where Betancur's ambitious development plans—on hold since he came into office—may be unfrozen. However, both will be temporary victories unless and until the drug traffic itself is shut down.

The stronghold of the drug economy is not in the marijuana and cocoa fields which continue to compete with food crops for available hectareage, but in the established banking houses of the Colombian oligarchy who use their far-flung networks in Panama, Florida, the Cayman Islands, and elsewhere to shuffle narco-dollars around until they arrive, clean and pure, in New York, Bogotá, or Swiss bank accounts. While a useful intermediate step, banking transparency can only succeed if there is sufficient government muscle to follow through. The Betancur government, just six months old and far from homogenous in outlook, will lose its fight to rein in the powerful Colombian oligarchy—unless it nationalizes the banking sector and establishes a dirigist credit policy from scratch.

Key to such an effort will be backup from the labor movement, which has repeatedly demanded nationalization of the banks as a means of cracking the oligarchy's grip on the country's productive forces. The Betancur administration's initial response to a trade-union demand that the minimum wage in the country at least keep level with inflation was to reject the labor petition as "inflationary," thus seriously endangering the alliance of forces which put him in the presidency and which has supported his financial reform initiatives. A unified labor demonstration in Bogotá and elsewhere on Dec. 9 brought the crisis to a head, and within the week Betancur and labor reached an agreement providing for a 25 percent hike in the minimum wage—keeping even with the inflation rate. Betancur's success in cultivating the labor support he has won will be decisive for the outcome of his political initiatives both domestically and in the international arena.

The drain on the national economy has come only in part from the drug trade. As pointed out in a startling year-end

report from the Colombian Comptroller's office released this month, servicing the foreign debt has unexpectedly proven one of the Colombian economy's serious burdens.

Debt problem unveiled

According to the Comptroller's report, despite the fact that Colombia has one of the lowest national debts in absolute and per capita terms in South America, payments on that debt in 1982 actually exceeded the inflow of capital. The report explains that "in the first 11 months of 1982, \$4.478 billion pesos more were spent on debt service than the total amount of foreign credits obtained in that same period." The report also points out that during the period from 1979 through 1982, nearly 74 percent of the foreign capital brought in went right back out again as debt service. "The expenses for service of the public debt will exercise in the coming years the greatest pressure on the funds of the national budget . . . and will impede the sufficient flow of public resources toward other areas of expenditure, such as those contemplated by the government's new policies.

In a year-by-year grid starting in 1979, the Comptroller's report demonstrates how the interest payments on the foreign debt have spiralled even though the principal charges remained moderately low. The accompanying chart shows how interest costs went from 5.6 billion pesos (\$81 million dollars) in 1979 to nearly 13 billion pesos (\$184 million dollars) in 1981 while amortization of principle over that same period went from 4 billion pesos (\$58 million) to just 5.5 billion pesos (\$80 million) in 1981. The tendency is expected to continue at an accelerated pace once the 1982 figures are in; already the Comptroller's office anticipates that 1982 interest charges on the foreign debt represented a full 70 percent of total service costs.

In an unusual departure from the restrained and technical reports the Comptroller's office usually publishes, its 1982 report acidly observes that the relatively short-term payments deadline and high interest charges imposed by Colombia's creditors have given them an extraordinary "high level of participation in the financing of the national budget." The report goes on to name those creditors, starting with Chemical Bank (which holds 60.6 percent of the Colombian public foreign debt), Ferrostaal A.G. of Germany, Bank of America, and Manufacturers Hanover.

The report concludes that Colombia's predicament "is explained by the pressing necessity of obtaining accelerating quantities of capital in order to inject liquidity into the Treasury, which could lead to a worsening of negotiating conditions."

The Colombian government's discovery that they, like the rest of Latin America, have a debt problem which can only be exacerbated by unilateral refinancing negotiations, could well lead the Betancur administration into the kind of "debtors' cartel" which the President's own advisers have been proposing.

India

Congress Party gets a jolt from the voters

by Paul Zykofsky in New Delhi

The ruling Congress Party of India, led by Prime Minister Indira Gandhi, suffered a major setback in state elections Jan. 5 when voters in the two southern states of Andhra Pradesh and Karnataka rejected the party's candidates by large margins.

In Andhra Pradesh, a traditional stronghold of the Congress, a new party formed only nine months ago by N.T. Rama Rao, the leading movie star in the state, won 198 of the state Assembly's 294 seats, reducing the Congress Party's share from 253 to a mere 59 seats.

In the neighboring state of Karnataka, a coalition of opposition parties reduced the Congress Party's strength to 80 seats from 152. In a third, much smaller, state of Tripura in northeastern India, Gandhi's party gained a few seats but still fell far short of the winning leftist coalition which held power before the elections.

Despite efforts to interpret these defeats as a rejection of Prime Minister Indira Gandhi's national government policies, most analysts here agree that the vote was largely based on a rejection of the way in which the Congress Party had been operating at the state level.

Regionalism

The vote in Andhra Pradesh turned into a regionalist wave which was so strong that it swept aside not just the Congress Party, but all other national parties as well. It is perhaps this trend that sounds the strongest warning to the Congress Party, which grew out of the struggle for India's independence and which has been viewed nationwide as *the* national party of stability and post-Independence leadership. Amid growing localist, and in some cases separatist, demands in other parts of the country, the Andhra Pradesh elections strike a warning that cannot go unheeded.

Political observers are quick to note that this new trend follows the script drawn by the British colonial office, which has always been dedicated to the proposition that India is not one nation but several smaller entities. Dismembering India through regional, communal (religious), and separatist movements in the face of the national parties' inability to rally the population around unified nationbuilding tasks, has been a longstanding British scenario.

As things stand now, the ruling Congress Party will have

to take a hard look at the causes for its defeat, and move swiftly to reverse this trend by putting its house in order and mobilizing its rank and file for tough political battles against its opponents. This is especially urgent given that state elections have been scheduled in February for two more states in the Northeast, as well as for the Delhi Municipal Council, only a few weeks before India will host the summit of Non-Aligned nations.

The defeat for the Congress Party in two southern states this month did not reflect opposition to the Prime Minister, but to the way India's ruling party has been operating on the state level. In both cases, the outgoing governments had been rightly accused of inefficiency and corruption. The party should take a hard look at itself before other state and municipal elections occur in February.

A failure by Mrs. Gandhi and the Congress Party to take the necessary corrective measures now, analysts here fear, could open the door to a destabilization of the country with foreign and domestic elements playing their assigned roles.

Inefficiency and corruption

In both Andhra Pradesh and Karnataka, the outgoing Congress governments had distinguished themselves for being inefficient and corrupt. During much of the five years they had been in office they had failed not only to implement government development policies, but had failed in delivering the basic goods and services on a local level which the vast majority of the population expects to get from the state government. Journalists who toured these states a few months before the election reported the collapse of government administration in many areas.

Typical complaints heard in rural areas were that elected representatives had not visited their constituencies since they had been elected; that low-cost food which was supposed to be distributed by ration shops under controlled prices was not available due to corruption; and that while they had stood by Mrs. Gandhi during difficult times in the past, this time they

would not vote for the Congress.

That the vote was largely aimed at the state politicians and not at Mrs. Gandhi was summed up by one voter quoted in the national daily newspaper: "Mrs. Gandhi is not seeking a fresh national mandate, and we have installed her in power at the Centre. We want to deal with the satraps with whose performance we're completely dissatisfied."

Ironically, both of these states had provided support for Mrs. Gandhi in 1977 when her party was voted out of office in the rest of the country. In 1978 Mrs. Gandhi launched her political comeback by winning a parliamentary seat in Karnataka, and when her party was voted back into office of the central government in January 1980, she won a seat from a constituency in Andhra Pradesh.

Aware of the many weaknesses of the state party units, however, Gandhi spent three weeks campaigning extensively in Andhra Pradesh and Karnataka—the longest she has ever spent campaigning for a state election. In all her speeches she tried to raise the level of discussion to the national and international issues facing the country.

Karnataka and Andhra Pradesh

However this was not enough to counter the wave of local anti-Congress sentiment. In Karnataka the degree of dissatisfaction with the ruling state government was reflected in the defeat of the Congress Party chief Minister Gundu Rao and most of his Cabinet. Here a coalition of several opposition parties secured 98 seats against the Congress's 81 in a House of 224. To form the government, a coalition of the Janata, Kranti Ranga, and the two communist parties will get support from the reactionary Hindu chauvinist Bharatiya Janata Party (BJP) which made significant gains by winning 18 seats. However, given that the government will be based on a coalition of parties with divergent ideologies, analysts indicate that it will be inherently unstable and could well send the voters back to the polls in the near future.

The Congress Party's losses in neighboring Andhra Pradesh were far more severe. Here popular movie star Rama Rao was able to focus the campaign on the local issues of corruption and inefficiency. His movie role as an incarnation of various Hindu gods dedicated to people's welfare, along with his reputation for being austere and honest, further strengthened his campaign for a "clean government." Rama Rao focused his appeal on building a regional party, the Telugu Desam, which, he claimed, would respond to the needs of the population on a state level.

This appeal was strengthened by the frequent replacement of the Congress Party Chief Minister. In the past two years the central Congress Party leadership had changed chief ministers three times in efforts to stem the growing dissatisfaction with the state government. However, this only confirmed Rama Rao's charges in the population's eyes, that the chief ministers were accountable only to the central party leadership and not to the state voters.

Aid to South Korea is a gift to Washington

by Richard Katz

It has now become almost mandatory that a Japanese prime minister visiting the United States bring some "gift," perhaps the announcement of a new trade concession, perhaps an extra little increase in the defense budget. In return, the Japanese prime minister gets a statement of "appreciation" from his senior partner for the "gift," a statement he can use to his domestic political advantage.

Yasuhiro Nakasone is no exception. Indeed, perhaps more than other recent prime ministers, Nakasone needs a successful U.S. trip to quiet political turbulence at home. No one was surprised therefore when, in advance of his Jan. 17 arrival in Washington, Nakasone presented a rapid-fire series of concessions to longstanding U.S. demands. He announced an 85-product package of import liberalization measures; a 6.5 percent increase in the Japanese defense budget compared to zero growth in almost every other item; and Japanese agreement to sell the United States military-related technology, e.g. in the electronics field, as an exception to its general ban on export of military items. In this last concession, Nakasone overruled the Ministry of International Trade and Industry (MITI), which had held up the U.S. request for the past couple of years, fearing that technology issued for military purposes could be used by U.S. commercial firms.

The furthest-reaching of Nakasone's "gifts" was his move toward a new kind of relationship with South Korea, one which could be the prelude to Japanese acceptance of regional security responsibilities for East Asia, as Washington has long urged. On Jan. 10-11, Nakasone visited Seoul, the first such visit by any post-war Japanese prime minister to Japan's former colony. The ostensible purpose of the hurriedly arranged trip was to sign a long-disputed economic aid agreement with South Korea. Over the next five years Japan will provide \$4 billion in low-interest loans; this is less than the \$6 billion Korea had asked for 18 months ago, but far larger than any other foreign-aid package provided by Japan. According to Washington sources, former National Security Adviser Richard Allen played an important intermediary role in the deal.

The military dimension

On purely economic grounds, the aid package is in the interest of Seoul and Tokyo as well as Washington. South

Korea deserves its reputation as one of the most successful developing countries.

The export-dependent economy, however, has been hit by the world trade collapse; only a 3 percent increase in exports was garnered in 1982, far less than what was needed to propel further economic growth. South Korea's foreign debt of \$38 billion is regarded as manageable. However, Seoul cannot afford to borrow substantial new funds at astronomical interest rates. The stake in keeping South Korea stable and developing is obvious.

However, another game is reportedly being played by means of the new aid package. Seoul's original request for the aid made the claim that Japan "owed" the funds since South Korea spent 6 percent of its GNP on defense and thus contributed to Japan's own security. According to Tokyo sources, this Korean argument was developed not in Seoul, but in Washington, which wants Tokyo to accept responsibility for directly helping to defend South Korea, if only through economic means, initially, as a foot in the door for Japanese acquiescence to wider regional military commitments—e.g., naval and air defense roles in Southeast Asia.

Japan has played a large role in boosting South Korea's economic development since the early 1970s, but has always shied away from a security tie, because they share with the rest of the region bitter recollections of the results of their 1930s-1940s militarism. Thus the Japanese are leery of any proposal that they go beyond the present structure of bilateral U.S.-Japan security cooperation within Japan's immediate perimeter for Japan's self-defense. But George Shultz's and Caspar Weinberger's plan is that, as the United States diminishes its military presence in the Western Pacific, in favor of Rapid Deployment Force buildups in the Indian Ocean, Japan should fill the vacuum.

According to the Japanese magazine *Insider*, when former Japanese Prime Minister Takeo Fukuda visited Korean President Chun Doo Hwan in the summer of 1981, Chun suggested extensive security cooperation between the two countries, including standardized military equipment and a joint security role in the region. The Japanese did not respond enthusiastically. However, some Tokyo sources suggest that Nakasone's current trip continued exploration of Japanese-Korean security cooperation. In the joint communiqué issued on Jan. 12, Japan for the first time signed an official document stating that Korea's security is vital for its own. However, Nakasone repeatedly denied press reports that Korean-Japanese or Korean-Japanese-U.S. security cooperation was discussed.

As the victims of brutal Japanese colonial rule, the Koreans have been extremely wary of U.S. demands that Japan play a regional military role. Such Southeast Asian nations as Indonesian and the Philippines have told Washington that they fear the consequences of a rearmed Japan. If Chun indeed suggested broader military cooperation with Tokyo, one suspects it was done at Washington's behest.

Mitterrand consolidates foreign-policy switch

by Dana Sloan

Former U.S. SALT negotiator Gerard C. Smith recently complained in the pages of the *International Herald Tribune* that France was marching to a "different drumbeat" than the rest of the West when it came to matters of strategic defense doctrine and military weapons development. Smith, who is a leading spokesman for the conventional arms build-up cabal of Robert McNamara, McGeorge Bundy, and General Bernard Rogers, failed to notice that France's Socialist government under François Mitterrand was breaking from profile on more matters than that.

On domestic and international policy matters, President François Mitterrand is no longer adhering to the script of the Socialist International and its backers, and has fallen increasingly under the influence of an old boys network of political and military advisers whose allegiance is more to the Fifth Republic as an institution than to any particular party or regime.

This turn of events in France has earned Mitterrand the enmity of the leftist ideologues of his own party as well as Anglo-Soviet intelligence networks, and has provoked the activation of all varieties of terrorist groups against the government.

It was to be expected that after the shakeup of the French intelligence services and security apparatus, which began last summer and culminated in the appointment of Admiral Pierre Lacoste to head the DGSE (the French CIA), the next area to be affected would be Africa—where French influence is still strong and intimately associated with the state's intelligence capabilities.

During the first week of December, Minister of Cooperation Jean-Pierre Cot was asked to resign from this post which carries with it large responsibilities for Africa. Cot, who had been Amnesty International's agent of influence in the government, is a close associate of Minister of Planning Michel Rocard (whose presidential ambitions have made him a rival of Mitterrand's). Cot also opposed the policy of transfer of nuclear technology to the developing sector, a policy to which France has recommitted itself, using the convenient pretext of a nuclear contract with South Africa that Mitterrand pledged to fulfill.

In the Middle East, France is playing a mediating role

which, ironically, is serving the better interests of the United States despite many of the actions the U.S. is taking in the region. Mitterrand has committed himself to breaking the diplomatic isolation of Egypt, as well as supplying the nuclear power plants without which Egypt has no chance of surviving economically. Egyptian President Hosni Mubarak is very much the target of the same networks that are out to get Mitterrand: Anglo-Soviet forces who are striking a deal to carve up the region and terrorist groups deployed under the cover of Islamic fundamentalism.

President Mitterrand arranged for Mubarak to fly to New Delhi in November for talks with Prime Minister Indira Gandhi, who is chairing the summit of Non-Aligned nations this March.

Mitterrand went directly from Cairo to New Delhi, where he worked to achieve this diplomatic breakthrough for Egypt. Egyptian government.

More recently, the French President has also played an important role in bringing Egypt back together with its more immediate neighbors in the Middle East, most notably Iraq. Egyptian Foreign Minister Butros Ghali made a special stop in Paris early this month to meet with visiting Iraqi Vice Prime Minister Tariq Aziz, the first time the two countries have met on an official level since the signing of the Camp David treaty, which also marked the beginning of Egypt's exclusion from the Non-Aligned movement. In a remarkable interview given while in Paris, (and apparently not deemed noteworthy by the Anglo-American press), Tariq Aziz told *Le Monde* that he was favorable to PLO-Israeli and Iraqi-Israeli negotiations opening up.

France has singled out three nations, in continuity with the policy of former President Valéry Giscard d'Estaing, as requiring special attention: Saudi Arabia, Egypt, and Iraq. For historic and economic reasons, Middle East stability depends on these three nations, and all are presently embattled with Khomeini-style forces. France has pledged to keep up the level of its oil imports from Saudi Arabia and Iraq as another means to bolster their regimes.

The extent to which Mitterrand has been "captured" by more traditional and more Gaullist policy-makers is also demonstrated by his refusal to strike a deal with Soviet Prime Minister Yuri Andropov on the many recent disarmament proposals that have just been made, proposals that are not intended to create the conditions for peace, but merely to drive a further wedge between the U.S. and Western Europe while bolstering the greenie and disarmament movements. While the British and West German foreign ministers have each expressed their interest in deal-making, Mitterrand told the French nation on Jan. 2 that "it's not worth dreaming" about the possibility of France reducing its strategic nuclear weapons force.

Provided the proper channels are established between Presidents Mitterrand and Reagan, France could turn out to be one of the best allies of the United States during 1983, a year full of dangers but also unequalled opportunities.

Behind Great Britain's 'mackerel war' ploy

by William Engdahl

Great Britain opened the new year by slapping a ban on commercial fishing by Denmark in coastal North Sea waters Jan. 1, in keeping with a City of London policy of monopolizing raw materials within the most advanced industrial nations of Europe. Britain's ban followed Denmark's rejection of a new fishing agreement forced through the European Community at the end of December, which would allow Britain to take 38 percent of the total annual catch of fish, as compared to 23.5 percent for Denmark.

Unable to use the EC immediately as its enforcer, the British have now resorted to confrontation. Recalling the dispatch of Her Majesty's Navy against Argentina in the Malvinas war last spring, British officials have already boarded several Danish fishing trawlers, and a force of 22 Agriculture and Fishing Ministry and Royal Navy ships, and Royal Air Force surveillance planes have been dispatched to enforce the measure on the Danish fishing fleet.

The Danes immediately moved to challenge the British fishing restrictions, notwithstanding continued deployment of RAF Nimrods, the British equivalent of AWACs, to fly low over the contested areas. Danish Captain Kent Kirk, a member of the European Parliament, was arrested Jan. 6 after he deliberately sailed his fishing vessel, with 20 newsmen aboard, into waters within the 12-mile zone set by Britain. Kirk was subsequently fined £30,000 by a British court.

Kirk's avowed intention was to force the issue to the European Court of Justice, since the British regulations had not been unanimously accepted by the 10 members of the EC. Danish fishermen had had rights of access to these waters before Denmark entered the EC in 1972, but gave them up to accept EC fishing quotas.

The British measure will do nothing to improve Britain's industry, but it will put a dent in the vital supply of fish for Europe. Before the new quotas were arranged, Britain was already forced to destroy more of its mackerel catch than the entire amount Denmark wants to take. The large fish multinationals, such as Findus and Ross, have shut down all their primary processing facilities in the United Kingdom because they were so antiquated they could only be operated at a major loss. One observer, who recently toured British facilities, remarked that the U.K. industry is "somewhere be-

tween the Stone Age and the last World War—at least 30 years behind the times."

More than 30,000 tons of the 600,000 tons of mackerel, a valuable human food fish, taken by British fishermen from the waters off the west coast of Scotland, rot before they can be processed for foods, and must be turned into fishmeal for pigs, because the industry cannot handle the catch.

Denmark, which has the most capital-intensive and productive agriculture sector in Europe, must fight the British ban to avoid severe consequences to its own economy. Denmark began a major modernization drive for its fishing industry five years ago, and its primary processing capacity doubled in that period.

Britain now wants to take another 20,000 tons of the mackerel catch—from the disputed waters off the coast of Scotland—away from the Danish quota, an amount the British clearly cannot begin to process. This will force a 25 percent reduction on the active time of the Danish fishing fleet, from 12 months down to nine, and the losses of thousands of industry jobs, according to an industry source in Copenhagen.

"This is dirty, and we are angry," stated Poul Toerring, chairman of the Danish Fishing and Export Association. "This is a strange kind of Machiavellianism on the part of the British." Britain collects a subsidy for its fishing industry from the EC due to its inability to market the fish it is too backward to process.

The "dirtiness" of the British policy is demonstrated, according to industry sources, by the fact that the British violate their own mackerel quotas consistently. The British fishermen sell the excess fish, in a floating black market operation, to Soviet and Bulgarian "fish factories." More than one observer has reported large plastic bags of cash being dropped from the Russian ships in exchange for the British catch—transactions which, of course, are never reported. It is not yet known whether illegal narcotics are also exchanged in this way, to help finance the increasing international activities of Yuri Andropov's KGB and Bulgarian intelligence networks.

The "mackerel war" is the most recent in EC-controlled attacks on the modern industrial and agricultural capacity of Europe. After the infamous "cod war" with Iceland several years ago, Britain enforced a 50,000-ton limit on the Icelandic cod catch, while expanding their own quota to 115,000 tons. British fishermen have never caught more than 90,000 tons.

The dairy industry has also been decimated. Just as the U.S. dairy industry is now being attacked for producing alleged huge surpluses, the European press used to decry the supposed existence of a "butter mountain" to force the imposition of production quotas. Denmark, with the most productive, scientifically bred dairy herds in Europe, was forced to give its farmers "EC bonuses" of 1,000 kroner per animal, to slaughter herds it had taken 50 years to develop. Now Denmark must import portions of its dairy needs.

The Anglo-German approach

Further revelations on the "technology freeze" proposed by the DGB—at the behest of Prince Philip and Siemens.

The demand of former West German trade-union federation (DGB) head Heinz-Oskar Vetter for a slow-down of the introduction of new technologies "in order to save jobs" reported in this space last week, originated with Prince Philip of Great Britain and his advisers, *EIR* has learned. Also complicit in the "Vetter Plan" is U.S. Secretary of State George Shultz.

Vetter's call was made in an interview with the mass circulation daily *Bildzeitung* at the end of December. He threatened that labor would turn to the streets, with the unemployed and the peace movement, if such "job-saving" measures were not adopted.

Vetter's proposal was shaped, according to *EIR*'s sources, by the London-based "Anglo-German Foundation for Studies of Industrial Society," headed by Britain's Prince Philip. Vetter is a member of the board of trustees of the foundation, together with Lord Croham of the Bank of England, Sigismund von Braun (of the Inter-Alpha Banking Group, linked to Italy's Propaganda-2 Freemasonic lodge); Joachim von Oertzen of Siemens, A.G.; and C. C. von Weizsäcker from the Hamburg Anglo-German weekly *Die Zeit*.

The foundation is preparing a project, jointly with the German Marshall fund, on "shortening work time," public works projects for the unemployed, and "getting control over the pace of implementation of modern technologies."

Said a source at the Anglo-German foundation: "Unemployment fig-

ures should not be taken as reflecting something completely negative. There is, after all, something like the black economy, which means that more and more people drop out of normal work because they want to work but not pay taxes."

Vetter, in an interview made available to *EIR* by reliable sources, elaborated on his call for an international agreement to limit technology growth. "Huge industrial complexes" should be dismantled in favor of small and medium-sized enterprises, and "old industries" (like steel) should be relocated to the Third World, leaving Germany to concentrate on what are known in the U.S. as "sunrise industries" (electronics, communications, cable television). Working hours should be shortened in order to share the fixed number of available jobs.

Real wages would be reduced under Vetter's plan. "We in Germany made an offer to industry one year ago, namely, that the trade unions would not insist on wage increases for some time in exchange for steps toward shortening working time. Labor was willing to make that sacrifice, but industry refused to seal the pact."

Vetter explained that his plan is identical to the proposal of Social Democratic chancellor candidate Hans-Jochen Vogel for an "international solidarity pact." Vogel spent two days in Washington Jan. 5-7 discussing this and the disarmament issue.

Vogel "was treated like a real head of state, and not just like the head of the German parliamentary opposi-

tion," according to one German newspaper. He was received by President Ronald Reagan, Secretary of State George Shultz, Secretary of Defense Caspar Weinberger, arms negotiator Paul Nitze, Federal Reserve chairman Paul Volcker, and several Senators and Congressmen, as well as AFL-CIO chief Lane Kirkland, Henry Kissinger, and the Washington, D.C. Council on Foreign Relations.

Vogel's "solidarity pact" was discussed in Bonn recently between himself, Shultz, Helmut Schmidt, and Willy Brandt.

The plan was developed in consultation with the Washington, D.C. Institute of International Economics, (IIE) headed by C. Fred Bergsten. The IIE was created last year by the German Marshall Fund, with George Shultz as one of its founding members. The Institute is working in coordination with the North-South Commission of former German chancellor Willy Brandt to convince President Reagan to launch a "Keynesian" bailout of the banks while submitting the debtor countries in the developing sector to the International Monetary Fund's austerity "conditionalities."

Bergsten reportedly contacted Karl Schiller, a campaign advisor to Social Democrat Hans-Jochen Vogel, and convinced him to go with the "international solidarity pact" idea.

The Brandt Commission is scheduled to release a report early in February, timed to intersect preparations for the summit meeting of the Non-Aligned nations in March. The Brandt report, called *Common Crisis*, was summarized at a press conference given by the Commission after a Dec. 12-14 meeting in Ottawa, Canada. It calls for urgent International Monetary Fund action to ease the credit crunch to the Third World while maintaining austerity conditionalities.

The need for Navon

Yitzhak Navon is the main hope if Israel is to be rescued from Begin, Sharon, and the mobs they are cultivating.

With their perverse sense of irony, the same British families who installed Adolf Hitler in power 50 years ago in Germany have decided to bring a Hitler imitation into power in Israel during the course of 1983.

The success or failure of this plan, which is endorsed by the Soviet KGB and former U.S. Secretary of State Henry Kissinger, depends in large part on whether Israel's patriots take action in the weeks ahead to resolve their country's life-and-death economic, cultural, and political crises.

As depravity in high places and cultural pessimism have spread in Israel over the past months, the hopes of these patriots have increasingly focused on one man: President Yitzhak Navon. The central question has become whether Navon will attempt, as his presidential term nears its expiration in the spring of this year, to become the prime ministerial candidate for the opposition Labour Party in anticipated early elections sometime later this year.

Henry Kissinger met with Navon in New York on Jan. 12 to "inform" the Israeli President that it would not be in his best interest to run for the prime ministership.

On Dec. 27, eight days before Navon left Israel for the United States, a riot broke out in Jerusalem among the poorer sections of Israel's Sephardic (or Oriental) population.

As the violence spread, the rioters cried, "The Sephardic Revolution has begun!" They painted swastikas on the walls, accompanied by the words,

"Send the Ashkenazim to Auschwitz, Dachau, and Treblinka!" "Ashkenazim" refers to that 35 percent of Israel's Jews who immigrated there from Europe. Many of these Ashkenazim came to Palestine to escape the Nazis.

The Dec. 27 riot was no isolated incident: British hatred for European Jewish culture, played out so evilly in Germany 40 years ago, is now being played out in Israel.

Israel has a 130-plus percent inflation rate, and the highest per capita debt in the world. The ruling Likud Party of Menachem Begin has no intention of economically upgrading its mass Sephardic popular base, but instead rallies this base with "Maccabean" tribal slogans. Given the cultural devastation these Sephardim experienced in their countries of origin, this is producing a fascist mob. They will acclaim Defense Minister Ariel Sharon, or perhaps a newcomer, as "King of Israel." The raised hands and the "Heils!" will follow.

The project is being financed by Christian "evangelicals" in California led by wheeler-dealer Terry Reisenhuver. They are putting together a \$100 million war chest for Israel to annex the West Bank, and for a synagogue to be built on Temple Mount in Jerusalem, where the Dome of the Rock mosque now stands.

Under conditions of deepening economic depression, the evangelicals are spreading the word that this Temple Mount Synagogue will usher in the Apocalypse foreseen in the Book of Revelations. Working with them

are Jewish Defense League chief Meir Kahane, Ariel Sharon, Robert Morgenthau, and Henry Kissinger.

Navon represents a pole of sanity in the midst of this irrationalism.

Navon is himself by origin Sephardic, since his family traces back to pre-Inquisition Spain, Morocco, and Jerusalem. But he represents a Sephardic who holds a deep love for European Renaissance culture, and therefore points the way to an alternative identity for Israel's Sephardim.

In the early 1950s, the young Navon was brought into political life by Prime Minister David Ben-Gurion. Navon was fluent in Spanish, and Ben-Gurion wanted to learn Spanish to read Miguel Cervantes' *Don Quixote* in the original. Navon bolstered the better instincts of Ben-Gurion, who, at certain moments, realized the importance of universal principles of culture and statecraft for building a nation.

It was that element of cultural optimism of the 1948-65 "Ben-Gurion years" which was associated with the scientifically inclined "make the desert bloom" idea of many Israelis. That idea must be restored now, if Israel is not to descend into hell and possibly bring the world down with it.

As Israel's presidency is largely ceremonial, Navon's effect on Israel is currently more potential than actual. He is reportedly reticent to join the political fray, because of his awareness of how dirty Israeli politics has become. One hopeful sign is Navon's telegram to the founding conference of the Club of Life in October 1982, welcoming that organization's worldwide fight "for economic development and against cultural pessimism."

Will Navon now have the courage to respond to necessity and fight for these principles in Israel? The future of Israel and the region depends on it.

Peking has Washington guessing

New initiatives toward Africa and Cuba include a debt moratorium for Zaire.

For the first time since 1963, a Chinese head of government has made a major tour of Africa bearing messages of unwavering Chinese support for the nations of the continent.

Premier Zhao Ziyang wound up a month-long 10-nation tour of Arab and Black Africa the second week in January—a tour designed to test the saleability of its new “independent” foreign policy to a Third World that has grown suspicious of Peking’s decade of strategic collusion with Washington.

The Chinese are eager to convince their Third World brethren that they are no longer anybody’s card, and that China identifies with the causes and aspirations of the developing sector. Peking is also keen on establishing itself as a leader of the Third World in preparation for the March Non-Aligned summit, in order to protect its own strategic interests.

Zhao emphasized to his African hosts that China wants to pick up where former Premier Chou En-lai left off in the 1960s. China’s relations with the Third World hit their peak at that time, before the interruptions brought about by the Cultural Revolution and subsequent Sino-U.S. machinations.

But the Chinese are aware that rhetoric alone will not dispel African reservations. So while Zhao was declaring China’s deep sympathy for the struggles of the Arab and African peoples, the 64 military and economic experts accompanying him were busy meeting with their counterparts. Before leaving Cairo, Zhao promised the

Egyptians 60 to 80 new F-7 jet fighters, the Chinese version of the Soviet MiG 21. In Zaire, Zhao announced the cancellation of that country’s \$100 million debt, presumably reckoning that since it was unlikely to see the debt repaid, China might as well win itself points in the Third World.

Most interesting from the standpoint of strategists trying to gauge the substance of China’s foreign policy shift was Zhao’s treatment of the situation in Angola, where Cuban troops and Soviet advisers remain. While heaping criticism on the “racist regime” in South Africa and referring to the “superpower behind it,” Zhao neglected to directly attack the “Cuban mercenaries” whom only a short while back Peking referred to as “the Vietnamese of Africa.” Instead, remarks on foreign interference were limited to a broad attack on “hegemonism” involving “both superpowers.”

Meanwhile, back in Peking, on Jan. 5 a visiting Cuban trade delegation concluded a new trade protocol between the two countries, capped by a cordial meeting between Minister of Foreign Economic Relations and Trade, Chen Muhua, and the Cuban Vice-Minister of Foreign Trade. The following week, as Zhao flew from Zimbabwe to Tanzania, China established formal diplomatic ties with Angola.

Uncertain about China’s foreign-policy orientation, Secretary of State George Shultz called on Henry Kissinger to organize a special briefing for himself, National Security Advis-

or William Clark, Defense Secretary Caspar Weinberger and 20 other ranking administration officials who heard a dozen China experts (including Carter Defense Secretary Harold Brown) air their views on recent Sino-Soviet and Sino-U.S. developments.

As preparations proceed for Shultz’s February visit to Peking, pessimism about the current state of U.S.-China relations has made administration officials unsure about where to try to take the relationship from here.

According to informed sources, despite recognition at the Kissinger meeting that Peking-Washington relations have hit the doldrums, no one urged that the United States must “head the Russians off at the pass” with placating concessions to Peking.

Participants generally agreed that Shultz should focus on broad themes of agreement, i.e. “shared strategic concerns,” and increased economic and scientific ties, while avoiding areas of bilateral disagreement such as Taiwan or the textile dispute.

Varying degrees of opposition emerged to the idea of bringing up arms sales to the Chinese, on the grounds that this might provoke the Soviets at a crucial juncture in the arms reduction debate.

Premier Zhao, who is expected to visit Washington later this year, should be welcomed, according to the views of many, but few saw any reason for President Reagan to visit Peking this year.

Peking, for its part, seems as eager as ever to pursue economic relations with the United States but not if political strings are attached. However, the failure of textile negotiations and the imposition of new restrictions on Chinese textile imports to the United States could dampen Chinese enthusiasm for U.S. cooperation in its modernization plans.

A tale of two *municipios*

PRI losses of two state capitals in "Cristero country" have special political importance.

Local elections in Mexico, at the level of *municipio* (roughly the equivalent to election districts for mayors), have always been a more disorderly affair than elections for higher levels of government. It is here that local anomalies of personalities and political machines (*cacicazgos*) most readily trigger confrontation and violence.

The municipal elections of early December, however, held two special surprises.

In San Luis Potosí, capital of the state of the same name, and a semi-industrialized city of over half a million inhabitants, the joint candidate of the right-wing opposition PDM and PAN parties wrested the municipal presidency (equivalent of mayor) from the ruling PRI party.

The municipal presidency of the capital of the neighboring state of Guanajuato was taken by a PDM candidate.

These results bring to three the number of local governments in capital cities not controlled by the PRI. In elections last summer, the PAN party won control of the capital city of Sonora, Hermosillo, through the connivance of a local faction of the PRI unhappy with the pro-industrial policies of Sonora governor Samuel Ocaña.

Much of the coverage here of the *municipio* elections has focused on the situation of San Luis Potosí governor Carlos Jonguitud Barrios, whose already threatened hold on the state was further weakened with the victory of PDP/PAN candidate Salvador Nava Martínez.

This is indeed an important aspect of the matter. Jonguitud Barrios, who has three years left in his term, is the "power behind the throne" of the national teachers' union, the SNTE. The SNTE, the largest single union in Mexico and one of the most powerful due to its influence in rural and most urban areas, has been under attack from a Jesuit-directed "reform" movement for the past two years. The dissidents have seen their hand enormously strengthened with the accession of Jesús Reyes Heróles as education minister, a man committed to wrecking the centralized power of the SNTE and erecting his own power base in what remains.

Less noted but of perhaps greater significance to insiders, is the fact that both San Luis Potosí and Guanajuato form part of the "Cristero belt" in the central heartland of the country, and that the PDM party, which played a role in both opposition victories, is the direct descendent of the Cristeros of the 1920s and their successors, the Nazi-allied Sinarquistas of the late 1930s.

The Cristeros were the "warriors for Christ the King," backward peasants set in motion against the Mexican revolutionary state by 20 years of special Jesuit organizing projects, to stop the nation-building efforts of the great Alvaro Obregón. The Cristeros received the financial support of William Buckley, Sr. and other U.S. oilmen; Walter Lippmann and the Council on Foreign Relations in New York served as "case officers" for molding

international opinion to weaken the Mexican state.

Cubilete mountain, where the Cristero movement was formally launched, lies just a few miles southwest of the city of Guanajuato. . . .

Though the PDM contributed only 6,000 of the 53,000 votes won by Salvador Nava in San Luis Potosí, it laid claim to five other *municipios* in this eastern edge of Cristero country, and 50 people were injured when its militants were ejected from the town hall of nearby Ciudad Fernández on Dec. 29.

The neo-Cristero party similarly showed its muscle in rural areas of Jalisco state bordering Guanajuato, where it claimed victories in three *municipios* and is standing guard round the clock in one which it has physically occupied.

All of this takes on special importance in light of two mass mobilizations in the fall in the largest city of the Cristero region, León. Candlelight marches there, promoted by networks of the international Tradition, Family and Property feudal cult, brought many thousands of Mexican citizens into the streets.

In the view of concerned observers, the region is being consolidated as a base for a national "Catholic" neo-fascist movement. (See *EIR*, Nov. 2, 1982) This movement flaunted its existence in a full-page manifesto published in *El Herald* newspaper of Mexico City Dec. 22. Signed by the "National Mexican Civic Coordinating Council" and a half dozen other front groups, the 44-point manifesto highlighted principles of "improving the race," the inviolability of the Catholic faith as the basis of action, the sacred right to private property, and the need to establish the *municipios* as autarchic units free from central government interference.

International Intelligence

Argentina joins Central America peace effort

At the preparatory meeting of the Non-Aligned nations in Managua, Nicaragua, Argentina has played a prominent role in guiding discussion of the Central American crisis in the direction of the Venezuelan-Mexican proposal for peace in the region.

Speaking in Managua, Argentine Foreign Minister Juan Aguirre Lanari said that his government not only supports the Mexican-Venezuelan initiatives on Central America but also supports the call for all Ibero-American nations to join the Non-Aligned movement, a call issued by the foreign ministers of Venezuela, Colombia, Mexico, and Panama following their Jan. 8-9 meetings in Panama.

Argentina's actions in Managua have served to neutralize efforts to split the member nations attending into "pro"- and "anti"-U.S. factions. Correspondents in Managua report that Aguirre Lanari worked with his counterparts from India, Yugoslavia, and Egypt to modify the text of the first draft communiqué circulated by the Nicaraguans, which included vehement attacks on the U.S. role in the region. The revised version, which backs "peaceful and democratic solutions" for Central America and repudiates "acts of imperialist aggression" has been accepted by both Nicaragua and Cuba.

State Department bars meeting with LaRouche

The U.S. State Department has again been discovered in dirty operations against Lyndon LaRouche and the National Democratic Policy Committee.

Reliable sources report that the State Department intervened to prevent a delegation of visiting Argentine politicians from meeting with Democratic Party figure LaRouche and with Mel Klenetsky. A member of the executive committee of the International Caucus of Labor Committees, Klenetsky is a former senatorial candidate in the

state of New York.

Individuals in Buenos Aires who prepared the itinerary for the visiting delegation had included the names of LaRouche and Klenetsky as "must" meetings for the New York leg of their trip, and had proposed that the topic for the meeting be "the Anglo-Argentine conflict from a U.S. perspective."

Officials at the U.S. Embassy in Buenos Aires had assured the visiting politicians that they would be able to meet with LaRouche and Klenetsky in New York. But when the itinerary reached the U.S. State Department, the meetings were vetoed. A copy of a State Department memorandum that has reached *EIR*, and includes the proposed itinerary, shows a large "NO!!!" next to the names of LaRouche and Klenetsky. The Argentine politicians have been told instead that they should confine their visits to the effervescent Daniel Patrick Moynihan, the *New York Times*, the Council on Foreign Relations, the Council of the Americas, and Latin American experts of Columbia University.

Lucifer cult loses German court test

West Germany's most notorious cult of Lucifer worshippers may now be called by their right name, thanks to a legal battle in a Hamburg state court.

The court dismissed a suit against the European Labor Party (EAP) brought by the Anthroposophical Society, who were attempting to prevent further distribution of an EAP pamphlet showing that this cult, accurately characterized as Lucifer worshippers, has a controlling influence over Germany's antinuclear "gröenie" movement.

The 24th Civil Court of Hamburg had issued a temporary injunction against distribution of the pamphlet, "Stop the Green Menace—the Historical Roots of Green Fascism," in mid-October 1982, when its second printing was already nearly sold out. The Anthroposophs claimed the "Lucifer worship" charge was defamation.

The court's decision will enable the EAP to continue its fight against the green fascist

movement, which is modeled directly on Hitler's Sturmabteilung (SA). Gregor Strasser, who built the SA from the disaffected youth counterculture of Weimar Germany, was a member of the Anthroposophy cult in the 1920s.

Rome judge: U.S. blocks 'Bulgarian track'

Rome Judge Ferdinando Imposimato has charged in an interview in the French magazine *Le Point* that Washington is blocking Italian inquiries into the role of East bloc secret services in several ongoing criminal investigations.

Judge Imposimato, who is overseeing the investigations of the terrorist Red Brigades, told *Le Point* that the reluctance to follow the lead of the "Bulgarian track" is "not that Washington doubts the reality" of this trail, but rather, "on the contrary, that it is feared in the American capital that if the culpability of the KGB was demonstrated, any chance to strike a deal with Andropov would be damaged."

There may be other reasons that certain circles in the United States would like to see the Italian investigations—especially those of the P-2 Masonic lodge—quashed. According to a reliable source, the P-2 membership list just obtained by a parliamentary commission from Uruguayan authorities contains "many American names." This is the list that then-Secretary of State Alexander Haig sent Michael Ledeen to Uruguay to buy "at any price." Ledeen, like Haig, is known for doing Henry Kissinger's errand, and has also been charged with being on the P-2 payroll while working for the State Department in Italy.

Imposimato lashed out at those who would attempt to dismiss the Italian investigations as "incompetent" or unserious: "For political and diplomatic reasons, one tries to make believe that we make accusations very lightly. But evidence is abundant," the Judge asserted. In discussing the role of Luigi Scricciolo, the UIL (Socialist trade union) leader who has confessed to spying for the Bulgarians, in the kidnapping of NATO Gen.

James Dozier, Imposimato stated that "everything Scricciolo has confessed, and all that we have discovered during these past ten months, has been confirmed by many other sources."

Le Point also reports that an Italian magistrate has affirmed that the Italian judges are not ready to put these explosive dossiers back in the drawer, "even if it would mean the creation of political or diplomatic crises and would expose us to personal danger."

Genscher tied to arrested Iranian agent

Sadegh Tabatabai, a member of the Iranian Revolutionary Council, was arrested at the Düsseldorf Airport Jan. 8 with 1.65 kilograms of heroin in his possession when he disembarked from his Teheran/Zürich flight. According to Geneva sources investigating the Stipam heroin/weapons smuggling ring, Tabatabai met with Propaganda-2 Freemasonic fascist Stefano Della Chiaie and Switzerland's biggest gunrunner, Kunz, in 1982, arranging the attempted shipment of U.S. military surplus to Iran. Tabatabai, a leading procurer for the SAVAMA (Iranian intelligence service) living in West Germany (BRD), has collaborated with and been protected by Foreign Minister Hans-Dietrich Genscher.

Tabatabai "emerged" as an official Iranian negotiator in the Teheran hostages affair, meeting with Warren Christopher and Genscher at Genscher's home. In 1982 Genscher ensured that Tabatabai went free from prosecution when West German police authorities cracked down on a Swiss/West German/Iranian weapons deal. In 1982, when Khomeini's SAVAMA shipped large numbers of thugs into West Germany, who then led a night of rampage at Mainz University, killing one Iranian Khomeini opponent, Sadegh Tabatabai was there "negotiating" with Genscher to insure that there were no problems for the arrested SAVAMA thugs.

On Jan. 12 Genscher's press speaker, Herr Seidk of the Foreign Office Press Department, denied all connections between

Genscher and Tabatabai. "Tabatabai is a name in Iran like Müller in Germany," Seidk said, adding that the ministry would make no effort to establish if Tabatabai were Genscher's friend.

Soviet peacemongers draw NATO applause

A two-day summit of Warsaw Pact countries' ruling party leaders, held in Prague Jan. 6-7, issued an extravagant array of "great peace proposals," as they were billed by the Soviet Communist Party chief Andropov.

The 27-page document from the summit contained a score of old Soviet points from arms talks agendas, with new ones directed particularly against military programs in space. For on-going talks on medium-range and strategic arms limitation, the Warsaw Pact talked about on-site verification "if necessary," a first-ever general such offer from Moscow.

The so-called peace movement and European Social Democrats specializing in disarmaments took the lead in approving of the Warsaw Pact call. But they were not alone. A spokesman at NATO headquarters in Brussels, the kind of person from whom one might have expected dire warnings, about the maneuvers of the former chief of the dread KGB Andropov, was telling callers this week that the best thing would be to give Andropov's proposals a chance.

Sir Frances Pym, Foreign Secretary in the Conservative government of Margaret Thatcher in Britain, told the BBC that the Warsaw Pact had submitted a "document of great significance," which defined "a very important moment in international affairs." Pym is also Moscow-bound for talks with Andropov and Foreign Minister Gromyko.

In Bonn, West German Foreign Minister Hans-Dietrich Genscher proclaimed, "On the threshold of 1983, we can say that the East-West dialogue is in full swing." An official of Chancellor Helmut Kohl's office told Soviet Ambassador Semyonov that Kohl believes partial solutions must be found and the Reagan administration's negotiating positions are too "inflexible."

Briefly

● **DR. GHULAM HUSSAIN**, General Secretary of the Pakistan People's Party, told Swedish national TV and the daily *Dagens Nyheter* Jan. 10 that the recent decision of the Swedish authorities to allow the extradition of Pakistani refugees was a grave error. "We are the rulers of tomorrow in Pakistan, so it is a good investment to let the refugees stay," he said. "We don't want another mullah state. We want the restoration of democracy in Pakistan."

● **RICHARD COHEN**, our Washington bureau chief, Peter Ennis, our special services director, and Anthony Papert are in China as guests of the Foreign Trade Institute of the Ministry of External Economic Relations. They are presenting *EIR*'s LaRouche-Riemann economic model to Chinese economists and officials.

● **'LAROCHE: A New Roosevelt?'** is the caption under a picture of *EIR*'s founder in the November issue of the Argentine monthly *Búsqueda*. The magazine reported on the founding conference of the Club of Life in Rome Oct. 21 and 22. The December *Búsqueda* carries a report of the LaRouche organizations' clash with the *New York Times*.

● **ARCHBISHOP** Alfonso López Trujillo has been named by Pope John Paul II as the new Cardinal of Colombia. A noted anti-Malthusian, as director of the Latin American Bishops' conference López Trujillo kept the lid on the church's Theology of Liberation radicals.

● **THE FLYING DUTCHMAN** ran into unexpected turbulence Jan. 11 at the premiere of the new Munich National Theater production. Demonstrators from the European Labor Party carried signs such as "If you liked Hitler, you'll love Wagner." People who objected to this treatment were answered with the spirited Valkyrie-cry from *Das Rheingold*: "Wal-laballa, bahoo!"

The BIS prepares 'Reagangate' as decisions loom on world debt

by Graham Lowry

President Reagan is under assault by forces both inside and outside of his administration conducting the advanced phase of an operation to crush the United States economically and politically, with the connivance of Soviet boss and former KGB chief Yuri Andropov. The Swiss-based Bank for International Settlements [BIS], along with the International Monetary Fund and British-directed Morgan financial interests in the United States, has accelerated its drive to use the entirely real threat of a catastrophic financial collapse to place the U.S. economy under IMF dictatorship during the months ahead.

Paralleling this assault, Secretary of State George Shultz (a former Morgan Guaranty international board member) and Vice-President George Bush, in concert with the Malthusian arms-control crowd around the administration, are preparing a strategic disengagement of U.S. forces and influence in Europe, and a disarmament package effectively selling out an economically and militarily flattened United States to Andropov.

The deadline

Close supporters of the President privately assess the situation as critical, and the time remaining to reverse it as barely the remainder of the month of January. With the international financial system heading rapidly toward a blowout if present policies continue, the BIS group has gone all out to force Reagan to accede to its demands during the month he must determine his 1984 budget proposals and set forth his policies in his State of the Union message.

Alongside a media scare spearheaded by the Jan. 10 *Time* magazine cover story on the "debt bomb," the President is

being told privately that he must accept the BIS scheme for a banking bailout and bone-crushing austerity or take responsibility for bringing down the international financial system. During the first week of January, cabinet members led by Shultz and Treasury Secretary Donald Regan used that threat in strong-arming the President to accept the BIS line as cold "reality."

Those sessions were backed up, on the initiative of White House Chief of Staff James Baker, by bringing in the Senate Republican leadership to press the same case—which the President heard not only from BIS mouthpieces like Budget Committee Chairman Pete Domenici and Finance Committee Chairman Bob Dole, but from "loyalist" Paul Laxalt of Nevada as well.

The Nevada Senator went on national television Jan. 9 to announce that, following those White House meetings, Reagan had a "wholly different perspective" on the fiscal problems facing him. Laxalt predicted that the President would agree to cut back defense spending and endorse a contingency plan for increasing taxes after 1984. In another televised interview, Senate Budget Committee member William Armstrong (R-Colo.) joined the call for defense cuts, and indicated something of the scale of austerity the BIS has in mind by calling on Reagan to propose "very bold spending reductions, even abolishing whole programs like Amtrak and the Clinch River breeder reactor, and, if necessary, revenue sharing and subway construction and you name it."

While orchestrating pressure inside the administration for the BIS austerity demands, Secretary Shultz is directing the drive to loot the federal government for a bailout of the IMF and oligarchic private banks holding trillions of dollars of



The BIS "money tower" in Basel.

uncollectable loans. According to sources both within the administration and on Capitol Hill, deals have already been cut to ensure a hefty increase in U.S. funding for the IMF this year.

Democratic congressional sources report that, although for propaganda reasons the Democrats will "make a lot of noise" about the IMF increase, their leadership has already decided to pass it, using the same BIS threat of otherwise being responsible for a world financial collapse.

Several sources also insist that George Shultz, the man who built up the supranational powers of the IMF as Secretary of Treasury in the Nixon administration, is openly arguing for making the IMF into a world central bank, a plan also put forth by former Treasury Secretary Henry Fowler at a Senate Foreign Relations subcommittee hearing Jan. 10 (see article, page 4). The scheme was reportedly the subject of a cabinet council meeting with the President Jan. 12.

Strategic disengagement

In the minds of the Swiss and British architects of this plot to put the U.S. economy under an IMF dictatorship, the strategic consequences intended include the elimination of U.S. military capabilities necessary for it to play any decisive role in world affairs. Defense and intelligence sources in Washington report that as part of that plan, a cabal inside the administration led by Shultz and including U.S. Ambassador to Germany Arthur Burns, is working behind the back of the President to secure a U.S. strategic withdrawal from Western Europe—turning it over to the Anglo-Swiss oligarchy as part of a Spenglerian deal with Soviet chief Andropov. The "stra-

tegic disengagement" scheme reportedly has the support of deluded U.S. military circles, and is likely to be the subject of various pieces of legislation in Congress this spring calling for force reductions and withdrawals from Europe.

One of the central tracks in the intended strategic demotion of the United States is the "arms control" process, pursued by its planners as new ground rules for "safely" conducting protracted conventional wars for population reduction in the Third World, and as attempts to ban technological developments that would keep the door open to renewed U.S. economic power. Whatever resistance the President retains to arms agreements diminishing U.S. security, Shultz gained added leverage over the superpower negotiation process in the appointments and firings Reagan announced Jan. 12 for the Arms Control and Disarmament Agency, especially with the President's directive that ACDA report "to and through" Secretary Shultz.

The one key negotiator left untouched in the ACDA reshuffle was the head of the U.S. delegation to the Geneva theater arms talks, Paul Nitze, who is working directly with the Shultz-Burns crew and reportedly has arranged a deal with the Andropov faction to sacrifice the deployment of U.S. Pershing II missiles in Germany. Vice-President Bush's trip to Europe is also designed to put out "signals" that the United States is willing to deal with Andropov and his European allies, and the favorable responses will be fed back as added pressure on the President.

'The smell of Watergate'

Domestically, the same groupings that are pressuring the President on the budget, the IMF bailout, and arms control are also attempting to reduce him to at most a lame-duck Presidency by February. Backed by a mammoth press campaign during the second week of January to the effect that the administration and the President's policies are in ruins, Bush's forces are leading a drive to force Reagan to declare in the immediate future that he won't run for a second term. James Baker, who directed Bush's 1980 presidential campaign, has been deployed as the inside man to convince Reagan that a re-election campaign is politically unfeasible. Should such efforts succeed, and Reagan take himself out of the running now, the Bush and Shultz crowd expect to have practically unlimited control over administration policy making.

Faced with multiple crises, Reagan is under growing time-pressure as well, compounded by effects on his administration as a whole the longer he fails to counter Shultz's policy direction.

"Everyone is trying to cut a deal, mostly behind people's backs," says a source loyal to the President. "You don't know who is siding with whom. The paranoia is intense. There are too many deals, and no real Reagan policy. It can't go on like this. If nothing changes, the White House will become paralyzed, and somebody will eventually pull the rug out from under the President, like they did with Nixon. The smell of Watergate is in the air."

Mathias hearings pave way for IMF program

by Susan Kokinda in Washington

Early last month, a congressional source with close ties to the European oligarchy expressed concern that the "populist" sentiment on Capitol Hill could erupt into a defeat for the 1983 reauthorization and quota increase for the International Monetary Fund. Citing expected opposition from Republicans of the Jesse Helms stripe, the source also predicted that Democrats might open an attack on the IMF bailout as representative of a Reagan capitulation to the New York banks.

By the turn of the year, various levels of the European oligarchy's operations to bring Congress into line on the IMF bailout issue had fully emerged. The first level, as *EIR* reported extensively last week, was the *Time* magazine "debt bomb" article, written by Morgan Guaranty to panic Congress into accepting the IMF bailout as the only alternative to world economic collapse. The European-based bankers behind this IMF conspiracy, long trained in "Jesuitical methods," also have in place plans to capture and ultimately subvert the resistance to the bailout. One operation, aimed at Democrats, was articulated at House Banking Committee hearings held in mid-December. Committee chairman Fernand St. Germain warned Treasury Secretary Donald Regan that Democrats would not support the IMF reauthorization unless the President changed course on his domestic program—along the lines demanded by IMF bankers. The second operation, crafted to exploit conservatives' antipathy toward the "big New York banks," argues that the IMF should not be reauthorized unless the New York banks are placed under tighter economic discipline—again, the demands of the European controllers of the IMF and Bank for International Settlements (BIS).

All the elements of this conspiracy to prevent Congress from doing the will of the American people, whose jobs, farms and factories will be further destroyed by a bailout, surfaced at Jan. 10 hearings before the International Economic Policy Subcommittee of the Senate Foreign Relations Committee. Rigged by subcommittee chairman Charles Mathias, an advocate of world depopulation, as a showcase for the demands of the banking oligarchy, the hearings will continue on Jan. 19 and Feb. 1. They will feature leading American assets of the IMF and the BIS, such as Morgan's Rimmer

de Vries, Lazard Frères' Felix Rohatyn, and Henry Kissinger's Robert Hormats. Despite constituency pressure, an increasingly surly Mathias continues to refuse the request of the National Democratic Policy Committee to testify at the hearings. The NDPC is ready to present an alternative to the IMF bailout, in the form of Lyndon LaRouche's proposal for a new, just world economic order, based on debt moratorium for the developing sector and a new credit to the Third World for the purchase of capital goods from the currently depression-wracked industrial economies.

Architects of disaster

The opening day of the hearings was dominated by the testimony of former Democratic administration figures—Lyndon Johnson's Treasury Secretary Henry Fowler, Jimmy Carter's Treasury Secretary Michael Blumenthal, and Carter CEA adviser Charles Schultze. Each agreed with Fowler's assessment that the U.S. and world economy are in the worst crisis since the "disaster of the '30s which led to depression and war," and that Congress must act expeditiously on the IMF quota increase to at least partially alleviate the crisis. In turn, each elaborated the St. Germain strategy, that substantive cuts in defense, tax increases, a reflationary monetary policy, and certain WPA-style "permanent depression" social program were a necessary complement to the bailout. None of the witnesses advocated holding the quota increase hostage to such changes but neither does St. Germain. St. Germain and his chief economic advisers admit that ultimately, "when push comes to shove," St. Germain will lead his poor, duped, anti-IMF Democrats into support of the bailout.

William Proxmire, the odd Senator from Wisconsin and ranking Democrat on the Banking Committee, who had been invited to attend the Mathias hearings, remarked that he had serious reservations about the IMF bailout unless substantive changes were made in international and domestic banking regulations, so as to discipline and better coordinate international bank lending. It is difficult to believe that Proxmire is unaware of the efforts of the BIS and IMF bankers to carry out just such a tightening-up of the entire world financial structure through changes in the IMF charter itself. But Proxmire's act plays well to some populists and conservatives who prefer to complain about "profligate New York City bank lending," rather than combat the fundamentally Malthusian policies of the European-centered financial pawns that are destroying their constituents.

Still, the notion that the "bankers are to blame" and the anger at the supranational financial institutions is so general, and the idea of a welfare-bailout for the IMF while budget cuts and unemployment grow is so distasteful to constituents that anyone with a workable alternative is bound to get a hearing in the country and in Congress. No wonder, then, that the bankers' Mathias is willing to risk the wrath of his constituents to keep the National Democratic Policy Committee out of the hearings.

Race begins for the Democratic presidential nomination

by Molly Hammett Kronberg

The 1984 presidential campaign battle in the Democratic Party started on the weekend of Jan. 14-16, with the California State Democratic convention.

That convention had been intended by Democratic National Chairman Chuck "Banker" Manatt to consolidate his control of the Democratic presidential candidate selection process; instead, the uproar at the convention over two issues—the refusal of the Democratic Party to allow *EIR* founder and 1980 Democratic presidential hopeful Lyndon LaRouche to address the convention; and the campaign by LaRouche Democrat Ruth Stephenson, a Central Committee member of the California party, for the state party chairmanship against Manatt's law partner Peter Kelly—began to seriously fissure the California party and undermine Manatt's control.

The Democrats, and Manatt, have still not lived down the debacle of the Jimmy Carter-Walter Mondale administration, which destroyed U.S. standing abroad and wrecked the domestic economy with Volcker's high-interest-rate regime. Carter's humiliation at the polls in 1980 should have been a signal to Manatt, Lane Kirkland, and Averell Harriman that zero-growth and kooky environmentalism enraged American voters. That they are persisting in anti-industrial policies which will prolong the depression has opened up large sections of the Democratic base to Lyndon LaRouche and his National Democratic Policy Committee.

The California fight

The triggering issue in the LaRouche-versus-Manatt fight at the California convention was the refusal of California State Chairman Nancy Pelosi (amidst giggles from the closet) to honor the NDPC's demand that LaRouche be invited to address the convention. Every other still-unannounced Democratic presidential hopeful and possible candidate was invited to address the convention: Sens. John Glenn (Ohio), Gary Hart (Colo.), Ernest Hollings (S.C.), Rep. Moe Udall (Ariz.), and former Vice-President Walter Mondale. LaRouche, the subject of a "draft" for president led by the NDPC, has declared that he is "not unavailable." In response, the NDPC filed suit in California State Court demanding

that LaRouche be included among the speakers.

The NDPC's endorsement of Ruth Stephenson's campaign for chairman as a LaRouche Democrat also polarized the party. Stephenson, a 57-year-old California State Central Committee member, challenging Manatt's law partner Kelly, drew endorsements from dozens of labor officials and black and Hispanic leaders organized around LaRouche's four-point program to end the depression. On the other side, Kelly's political profile included his earlier role as sometime-fundraiser for terrorist Tom Hayden's Campaign for Economic Democracy. The fact that Stephenson's campaign—only a few weeks long—won the endorsement of more than 60 labor and Democratic Party leaders was an open challenge to Manatt's control of his home-state base. Stephenson and one other member of the Democratic Central Committee joined the NDPC's law suit to force inclusion of LaRouche—another evidence of the turmoil in the state party.

The Manatt-Kirkland attempt to push LaRouche, from the outset, out of the nomination process is key to their strategy to fix the 1984 nomination process from the top. If they fail to do that over the next months, all Manatt's palaver about party unity and top-down control (which was so unsuccessful at the June 1982 Democratic mini-convention in Philadelphia when it was confronted by LaRouche Democrats) will be given the lie. Any further loosening of Manatt's already tenuous grip on the party will result in an openness to grassroots political pressure unmatched since the 1930s.

The question of program

LaRouche's program makes him unique; no other Democratic figure has any answer to the depression and to the erosion of U.S. power in the world. The LaRouche faction of the Democratic party, along with Republicans and independents, is organizing for a U.S. commitment to develop particle-beam defensive weapons to end the threat of thermonuclear war and drive the collapsing U.S. economy into levels of production and prosperity far exceeding the NASA period. Access to a national platform in surroundings which are highly politicized would give the LaRouche faction the opportunity to spread these ideas like wildfire. In the caucus-

es leading up to the California convention, participation in delegate-selection was at an all-time high, despite the recent wipeout of California's former governor Jerry Brown, who lost the party the U.S. Senate seat and the governorship with his kookiness just last November.

On Jan. 14, a six-sided leaflet went out in California with LaRouche's message: "Don't let the Swiss and London Banks Loot the U.S. Treasury!"—referring to the IMF's debt-bail-out plans. In the leaflet, LaRouche urges Democrats not to fall into petty partisan politics, and urges bipartisan pressure on the White House to reverse its economic policy. LaRouche's program—world financial reorganization of the unpayable \$700 billion debt overhang; a New World Economic Order in which the advanced industrial sector is rescued from depression by enormous production for the industrialization needs of the Third World and the Third World is rescued from genocide by being industrialized—is already catalyzing popular rage about the depression in the United States into political support for a debt moratorium and new credits for the Third World.

LaRouche and his wife Helga Zepp-LaRouche, a European political leader, have circled the globe this past year organizing for the New World Economic Order and what LaRouche calls a "debt bomb" to be dropped by Third World debtor nations against the dictatorship of the International Monetary Fund. With such a candidate with his hat in the ring, Manatt and all his blow-dried candidates look sick. Manatt knows this; so does Lane Kirkland and so do the *éminences grises* of the Democratic Party, Pamela and Averell Harriman.

Except for LaRouche, every Democratic hopeful is in the orbit of the Harrimans. Pamela Harriman, Sir Winston Churchill's former daughter-in-law and now wife to the aged, still evil, Averell Harriman, is the founder of the political action committee "Democrats for the '80s" to which Manatt has delivered the party leadership for brainwashing sessions in zero growth, shrinkage of the Third World economies and populations, and the acclimatization of the U.S. population to a "post-industrial [post-progress] society." Harriman and his family, as *EIR* exposed in depth in 1982, were the leading U.S. supporters of Nazi "race science" in the 1920s and 1930s, policies they support today under the name of population control.

Senator Ernest Hollings is a regular at Pamela Harriman's Georgetown political soirées. Former Democratic Party Chairman Bob Strauss, an intimate of Pamela Harriman's, is reportedly lining up money for John Glenn's candidacy, which Strauss is aggressively peddling. Walter Mondale of the Tri-lateral Commission is cut from the same cloth.

Manatt's attempt to rig the California convention is in the service of this outlook. It represents a combine among Manatt and the candidates, all Harriman-linked. Only candidates "cleared by the DNC" were invited to the California conven-

tion; the same crew will show up as featured speakers at a Manatt-organized Democratic fundraiser in New York City Feb. 9.

The record

If Manatt didn't hope to make these gentlemen the only game in town, the serious flaws in each would make it clear why there is no "frontrunner" in the current Democratic wrangle. Five are current senators; Mondale is a former Senator and Vice-President. Moe Udall is a longtime Congressman. Every one of them by his record is tied tightly to the disaster of the Carter years and the destruction of the American economy. There have been many moves on Capitol Hill to lower interest rates, or break the stranglehold of the Federal Reserve on the economy—but not one of these fellows has been involved in that. Instead, they helped Carter preside over the most precipitous collapse the American economy has ever suffered.

Udall, Cranston, Hart, and Mondale are all self-proclaimed apostles of the "post-industrial society." The millions of American industrial workers now on unemployment lines have no reason to vote for these men, and Manatt knows perfectly well that LaRouche and his program for industrial recovery exert an extraordinary pull on the traditional labor base of the party.

Udall, Cranston, and Bumpers were all enthusiastic endorsers of the most vicious policy of the Carter years—the *Global 2000 Report*, which called for deindustrialization of the globe by the end of the century.

Ernest Hollings is merely a more conservative version of the others, who has acted as a "Johnny One-Note" on the pseudo-issue of a balanced budget, insisting that the depression is caused by too little austerity and too much credit.

Moe Udall (whom some believe will use lower-level Kennedy troops to build an environmentalist-"peace" movement in the absence of a Kennedy candidacy) cannot persist long as a serious candidate. His every press conference opens with a denial that he is terminally ill with Parkinson's disease.

One of the most insidious candidates on the scene is **Gary Hart**. He is the "peace" candidate par excellence; the "peace" movement for which he fronts is that which old Nazi supporter Averell Harriman recently prevailed on Chairman Manatt to endorse on television: the Soviet "peace offensive" now being masterminded by Soviet boss Yuri Andropov. A few weeks ago Harriman himself was on television calling Gary Hart "the most attractive candidate," with a good chance at the presidency, in 1988 if not 1984. What makes Hart so attractive to Harriman is Hart's ability to campaign vigorously and suavely for national suicide along the lines of the Andropov "peace" confidence game. Hart's other qualifications, in Harriman's eyes, include his close friendship with British operative Peter Jay, whose articles in the pages of the London *Economist* hammer at the theme of more austerity

for the United States. Hart also sits on the board of the Georgetown-based Center for Strategic and International Studies (CSIS), which is a major source of opposition to any Reagan administration adoption of the beam weapons development policy proposed by LaRouche and scientist Edward Teller. LaRouche has said that "Hart makes Jerry Brown look patriotic."

Hart's chief economics adviser sits on the U.S. branch of the zero-growth, genocidal Club of Rome. All of this makes Hart potentially able to shape a sophisticated campaign which could destroy Mondale and Glenn's campaigns.

Dale Gumpers, whose presidential campaign is limited to attacks on protectionism, and former Florida Governor Rubin Askew, are second-string candidates of the "New South" liberal variety—opposed to heavy industry and obsessed with the "soft" technology industries which were supposed to make the South and Southwest immune from depression (and failed).

Alan Cranston is another candidate of the environmentalist—"peace" phenomenon. Cranston's candidacy was launched in California using illegal means. California state law forbids either party to support or oppose any candidate before the primary has occurred. Despite this law (which is unambiguous), in the weeks before the Democratic convention in Sacramento, State Party Chairman Nancy Pelosi and the rest of the party leadership organized a week of special delegate caucus meetings for Cranston to address, held fundraising parties for Cranston, did his mailings, ad nauseum.

The party convention was also made into a national media forum for Cranston, with ABC, NBC, and CBS set to do preference polls on the floor, and the major national media deployed to the convention through its entirety. Party official Ivy Cohen estimated an 80-90 percent poll vote for Cranston, which would enable him to go to the 1984 convention as a "favorite son." No one thinks Cranston, a 76-year-old radical from the World Federalist/Bertrand Russell end of the spectrum, has a chance of becoming the party's nominee, but his showing in California is, according to some sources, meant to secure him appointment to Secretary of State in a Democratic administration, and it will keep the California kooky environmentalist movement "warm," so to speak, for a more credible "peace" candidate.

As for **Walter Mondale**—"Prince Valium" himself—his "frontrunner" candidacy has one tremendous, probably insurmountable problem: Jimmy Carter. Because Mondale commands the labor vote that the AFL-CIO's Lane Kirkland and the UAW's Douglas Fraser control, he has support that every other candidate needs; Mondale's own fortunes are hard to predict. His home-state Democratic Farmer Labor alliance, which he inherited from Hubert Humphrey, was undermined badly in the 1982 primary season, particularly when LaRouche Democrat Pat O'Reilly, running for Congress, came within a hair's breadth of defeating the DFL-

endorsed candidate. O'Reilly's campaign caused such consternation that the DFL withdrew \$60,000 from the campaign of its gubernatorial candidate Warren Spannaus to throw into the fight to stop O'Reilly from winning. The result: Spannaus, warmly endorsed by Mondale, lost.

Despite **John Glenn**'s astronaut image, he is a leader in the anti-nuclear-proliferation cause, which includes the fight to keep the United States and the Third World from deploying and developing nuclear energy plants for peaceful energy generation. Alongside his anti-nuclear-proliferation stand on weaponry, he champions a U.S. defense policy based on small, mobile ICBMs—no defense at all. Glenn is reportedly being groomed to be "more articulate, with more of an Eisenhower image." It is also reported that top Kennedy staffers are entering the Glenn campaign. This began to occur after a Democratic bigwigs' meeting in Pittsburgh after Senator Kennedy announced that he was not a candidate in 1984. Meantime, lower-level Kennedy people are going into Udall's camp.

If the electorate weren't still afraid of the Democrats, Lyndon LaRouche recently told 350 members of a farmers' "paritycade" in Georgia, the Republicans would have been turned out of office in November 1983. Nothing is more vivid proof of how much Americans loathed Carter than the fact that there was not a huge Democratic sweep at the polls in the last election, with the economy falling to pieces and unemployment at its highest point since the 1930s.

The present Harriman stable of candidates does very little to dispel the fear of the Democrats that Carter engendered. Perhaps this is the real reason Ted Kennedy withdrew from this presidential race.

'I'm not unavailable'

With this vacuum in the Democratic Party, Manatt is haunted by the idea of a LaRouche insurgency. At last count about 80 candidates across the country were running in local elections as LaRouche Democrats. In his speech to the farmers' tractorcade, LaRouche advised that the only tactic he could wholeheartedly recommend was to run for every office in sight at the federal, state, and local level. Asked again about his own presidential plans, LaRouche reaffirmed: "I'm not unavailable. I'm willing to go anywhere and talk to anybody. But we have to get through 1983 before we can think of 1984."

The LaRouche movement will be built during 1983 through hundreds of campaigns launched by supporters of his program around the country. The NDPC has an immediate goal: To force the Reagan administration to carry out LaRouche's program. It is also very likely that a medium-term result will be to give LaRouche the old FDR base of the Democratic Party—labor, farmers, minorities—which could make 1984 the most extraordinary election year in recent U.S. history.

Foreign-policy hitman and depopulation advocate: a profile of Rep. Stephen Solarz

by Ronald Kokinda in Washington

Rep. Stephen Solarz, a leader of the new generation of Averell Harriman's protégés in Congress, arrived in Mexico during the second week of January on one of his frequent tours of developing sector nations. Before he winds up his journey with a trip to Venezuela Jan. 24, Solarz will have touched base in every Central American country, as well as traveled with presidential hopeful John Glenn in Mexico.

Solarz is one of those liberal Democrats who consistently gains entry to Third World nations, bearing a "sympathetic" policy profile to their aspirations and initiatives not shown by the U.S. State Department; for example, Solarz said last year that the United States "should seize the opportunity afforded by Mexican President José López Portillo's far-sighted proposal to use his good offices to achieve a settlement in El Salvador."

Yet, Solarz's voting record and activities in Congress betray the character of a consistent neo-Malthusian, dedicated to the destruction of developing-sector nations and the mass murder of their peoples. For example:

- Solarz has consistently voted in support of Jimmy Carter administration's *Global 2000 Report*, which projected policy for the elimination of 2 billion people worldwide by the end of the 20th century.

- Solarz sponsored the resolution giving congressional carte blanche to Great Britain to invade the Western Hemisphere to wage the Malvinas War against Argentina, in blatant violation of the Monroe Doctrine.

- Solarz's wife Nina, who accompanied him on his present trip, helped draft the Simpson-Mazzoli "seal the border" immigration bill widely understood as an economic warfare measure directed at Mexico.

It is for the benefit of government officials, journalists, and citizens of the Third World nations, in particular, that *EIR* publishes the Solarz dossier.

Stephen J. Solarz (D-N.Y.)

Age: 42

Education: B.A. Brandeis University 1962; M.A. Columbia University 1967

Family: Married, two children

Religion: Jewish

Former profession: Journalist, political scientist

Previous political experience: Member, New York State Legislature 1968-74

Elected to Congress: 1974

Committee Assignments: Foreign Affairs (Chairman, Subcommittee on Asia and Pacific; member, Subcommittee on Africa); Budget; Post Office and Civil Service Committees

Jobs held prior to public office included: National Affairs Editor of *Newsfront*, a national news monthly; Associate Editor of *Greater Philadelphia*; and assistant to *New York Post* columnist Max Lerner

Solarz is a member of a tight group of Anglophile and pro-Zionist New York congressmen, and a fervent supporter of Global 2000 Malthusian doctrine. His special interest is foreign affairs.

In 1979, for example, he visited 24 countries over a period of about six weeks. Accusations that he travels too much at taxpayers' expense have not hurt him politically; he has cultivated a reputation for sponsorship of many amendments on foreign policy and foreign aid bills, much of it related to increasing support for Israel.

On the Foreign Affairs committee Solarz is allied with a grouping whose leader was the recently retired Rep. Jonathan Bingham (D-N.Y.) (a member of the New York Council on Foreign Relations). This grouping, which also includes Reps. Michael Barnes (D-Md.), Howard Wolpe (D-Mich.), Don Bonker (D-Wash.), and others, does not like the more traditional approach toward foreign relations that is taken by committee chairman Clement Zablocki (D-Wisc.). They do not work well with Zablocki and succeeded in dumping two more senior Democrats, Reps. Gus Yatron (D-Pa.) and Dan Mica (D-Fla.), from subcommittee chairmanships on Latin America and Africa, putting in Barnes and Wolpe, respectively, over Zablocki's objections.

Another of Bingham's New York gang is Rep. James

Scheuer (D-N.Y.), who has taken an interest in Mexico. A population-reduction fanatic, Scheuer, as Chairman of the House Subcommittee on Population, issued a report which called for "sealing the border with Mexico." Scheuer has also spoken out, like Kennedy, for having Mexican oil replace Arab sources.

Solarz's strong support for aid to Israel has led the *Jerusalem Post* to call him "one of the most committed friends of Israel on Capitol Hill," and others to accuse him of being an "agent of Israel." He has been extremely effective in getting increased aid for Israel. For example, in the last year of the Carter administration he was able to increase proposed aid by \$660 million, including shifts of loans to outright grants.

But it is the British who direct Solarz's policy outlook. Solarz has been a member of the New York Council on Foreign Relations, the U.S. branch office of the British Royal Institute for International Affairs. In 1966 he managed the campaign of an anti-war activist in Brooklyn against a machine Democrat, and eventually won his primary in 1974 against Bertram Podell, a machine Democrat, in the context of a general rout of traditionalist Brooklyn Democratic incumbents, who were accused of various wrongdoing, by political forces allied to the corrupt New York District Attorney Robert Morgenthau.

'Friend' of developing nations

During the Malvinas War Solarz was the sponsor of the resolution which passed the House condemning the Argentine government and calling upon the United States to provide any and all assistance, including military assistance, to aid the British.

His wife, Nina Solarz, is the executive director of the Citizens Committee for Immigration Reform. This is the continuing form of the Hesburgh Select Commission on Immigration and Refugee Policy. Other members of the committee include Theodore Hesburgh, Cyrus Vance, Robert McNamara, Pamela Churchill Harriman, and Lane Kirkland. This group wrote the Simpson-Mazzoli bill as the legislative form of the conclusions of the Hesburgh Commission.

Solarz signed the congressional letter supporting the *Global 2000 Report*, which is a blueprint for reducing the global population by 2 billion people by the year 2000. The corollary has been his adamant opposition to the development of nuclear power, especially nuclear proliferation overseas. He has opposed such infrastructural development as water projects, voted for legislation which would have allowed sodomy between children and adults in the District of Columbia, and he cosponsored legislation to decriminalize marijuana.

On Central American policy during this past year, Solarz has been generally supportive of the Reagan administration's Caribbean Basin proposal. In March 1982 Solarz suggested (*Baltimore Sun*, March 24, 1982) that "Congress should either terminate further American military assistance [to the Duarte

government in El Salvador] or make such aid conditional on an unequivocal willingness on the part of the government of El Salvador to enter into unconditional negotiations with the opposition forces."

Solarz's office relies heavily on the Washington "left lobby": the Washington Office on Africa, Amnesty International, and Trans-Africa, for policy on Africa, and the Washington Office on Latin America for information on that region. All of these are offshoots of the Washington-based Institute for Policy Studies, a radical intelligence operation with strong ties to guerrillas and terrorists. "He's a regular on the circuit," according to a well-placed source, and thus is viewed suspiciously not only by the Reagan administration and Republicans on the Hill, but by mainstream Democrats as well.

Solarz is a great advocate of "aid" to developing nations—along the lines of the *Global 2000 Report*; he was the strongest supporter on the House side of Sen. Mark Hatfield's "hunger elimination and global security" legislation. One supporter described its purpose as "giving them a fish instead of teaching them how to fish."

In the summer and fall of 1980, Solarz, as Chairman of the Africa subcommittee, refused any cooperation with the Committee for a New Africa Policy, which was set up with the support of Presidential candidate Lyndon LaRouche at that time to avert widespread famine and genocide in Africa. Initiating figures included former Manhattan Borough President Hulan Jack, Alan Salisbury and *EIR* Contributing Editor Chris White. (It should be noted that Solarz was part of the special investigative operation that then-Rep. Elizabeth Holtzman put in motion in 1979 to "get LaRouche," and that that his office retails slanders on LaRouche to callers up to the present.)

Over State Department protests, Solarz in 1980 became the first American in over 30 years to visit North Korea. After meetings which included Communist boss Kim Il Sung, Solarz announced North Korea's desire to improve relations with the United States. Later in 1980 he had over two weeks of discussions in Moscow with Soviet foreign policy specialists, holding a press conference afterward to outline Soviet attitudes toward Afghanistan, Poland, Iraq, and the Persian Gulf.

Solarz is extremely outspoken on human rights issues toward traditional U.S. allies in the region, bringing particularly tough pressure on the South Korean government, the Philippines government, and the Indonesians.

Solarz also mediated the 1982 compromise on economic and military aid to Pakistan.

In summary, Solarz travels widely and often, giving him contacts and information independent of official institutions in the United States. These contacts and networks are facilitated by the Harrimanite layers with which he is affiliated both through the Democratic Party, the networks overseas, as well as his voting and policy orientation.

National News

NDPC's Chamberlain to challenge Phil Gramm

George M. Chamberlain, a chapter chairman of the Houston, Texas National Democratic Policy Committee, and an engineer at Fort Worth's Comanche Peak nuclear plant, announced Jan. 7 that he will challenge Democratic Rep. Philip Gramm in a special election Feb. 12. The election was called by Texas Governor Clements after Gramm resigned Jan. 5 to seek re-election as a Republican.

Gramm made the party switch to position himself to run for the Senate seat of John Tower (R-Tex.). Tower is thought to have little chance of re-election if he should run again. Gramm resigned because the House Democratic Caucus removed him from the House Budget Committee.

A former economics professor and supporter of Paul Volcker, Gramm claims that "nothing good ever came out of the space program."

NDPC leader Nicholas Benton had launched a similar short-term campaign against Rep. Ron Paul a month before the November elections. Paul is also a follower of Milton Friedman's free-market policies. Although Benton was hampered by having to run a write-in campaign, he polled from 16 to 26 percent of the vote in most communities.

Gary Hart tests 'generational bonds'

Senator Gary Hart of Colorado, a Democratic presidential aspirant, held a press breakfast Jan. 11 to announce the proceedings at an exclusive, all-male gathering of "post-World War II" political leaders held at Hilton Held Island, South Carolina, the weekend of Jan. 8.

The purpose of the weekend retreat, called "1983/2000: Transitions in Industrial Democracies," was to gather together political leaders in their 30s and 40s whose "generation bonds" outweighed their "ideologies" to sweep aside the "hidebound, non-

innovational" current political leadership. The participants, including socialists and conservatives from eight nations, "felt," according to Hart, that "new international institutions and structures" were needed to prevent international trade war and "world war."

Hart is planning future retreats to formulate more specific policy. Participants—men Hart considers "future heads of state"—included U.S. Association for the Club of Rome member Robert Hamrin; Kissinger protégé, Robert Hormats, Assistant Secretary of State under Alexander Haig and George Shultz; Peter Jenkins, editor of a British intelligence mouthpiece, *The Guardian*, and advisers from the Malthusian Kettering Foundation and Aspen Institute.

Livermore developing revolutionary x-ray laser

Scientists at the Lawrence Livermore National Laboratory in Livermore, California began experiments with their new Novette laser system in early January. These experiments could lead to the demonstration of a laboratory-scale x-ray laser.

Livermore researchers generated the first x-ray-wavelength laser in December 1980, utilizing small nuclear explosions as an energy pump. This system is currently being perfected as an efficient and effective directed energy weapon against nuclear-tipped missiles.

A laboratory-scale x-ray laser would have revolutionary scientific and industrial applications; and the civilian applications of the laser could be developed prior to its perfection as a beam weapon. Preparations for using the x-ray laser as a scientific diagnostic were discussed in an Oct. 15 *Science* article by Dr. Johndale Solem and Dr. George Baldwin of Los Alamos National Laboratory on "Microholography of Living Organisms."

The Livermore Novette, which is the prototype for the Nova Laser fusion system due to be completed by 1985, has sufficient energy flux density to generate x-ray microbursts of the same intensity as those found in the larger nuclear explosions. Thus, Nov-

ette can be used to generate a microscopic x-ray laser beam.

According to the Solem-Baldwin article and other reports by Livermore x-ray laser scientist George Chapline, the first scientific application of the x-ray laser will be microholography of living cells. For the first time, scientists will be able to directly see, on an atomic scale, the full dynamics of living cell chemistry.

LaRouche to AAM: 'Become politicians'

Former Democratic presidential candidate Lyndon LaRouche, who has declared he is "not unavailable" for the Presidency next year, spoke to 40 farm leaders including founding members of the American Agricultural Movement in Nashville, Tennessee Jan. 8. The AAM was holding its national convention in Nashville.

LaRouche emphasized to the farmers that "the clock is running out on America, and if America goes, the world goes with it. . . . It is too late for partial remedies. Next year the government deficit will reach between \$200 and \$400 billion, and production will collapse another 12 to 15 percent."

LaRouche outlined his program: a new monetary system which would freeze major portions of world and farm debt, and "federalize the Federal Reserve System" and the immediate development of anti-missile beam weapons as a "technology driver" for the economy.

The role farmers can play in this current economic and political crisis, LaRouche told his audience, is indicated by the fact that farmers "are the only entrepreneurs left in society. Farm income is the collection of payment for the production of a product. . . . If you run for political office, you can mobilize. . . ."

One faction of the AAM, led by outgoing chairman Marvin Meeks, claims the AAM has accomplished 60 percent of its goals, and has merely to lobby for legislation that will set up a parity program. The second group, led by AAM founding members Patrick O'Reilly, Alvin Jenkins, and Thomas Kersey, declares the necessity of broad-based political organizing, such as was

attempted by the AAM's 1978 tractorcades, to secure emergency economic measures rather than attempt to strike a deal in a collapsing economy.

The presence of LaRouche became a factional issue within the AAM, particularly as both O'Reilly and Kersey had already endorsed LaRouche for president in 1984. The convention reached a tenuous agreement among the factions to continue to work under the same name, but the AAM still has no coherent economic program.

Baltimore Sun provokes FBI investigation

Using a tactic it has long deployed against constituency-based political leaders in Maryland, the *Baltimore Evening Sun* reported Dec. 31 that it had provoked the FBI to make a preliminary inquiry into the campaign finances of former congressional candidate and National Democratic Policy Committee leader Debra Freeman.

The Baltimore paper has run 11 major slander articles against Freeman since Dec. 1, after the candidate officially polled nearly 20 percent in a Democratic primary challenge to incumbent and Global 2000 advocate Barbara Mikulski. The *Sun's* articles, which included a three-part first page series, also slandered NDPC founder Lyndon H. LaRouche.

The *Evening Sun's* tactics against Freeman are similar to those used to destroy the political careers of at least 10 political leaders of the state over the past four years, including that of former Gov. Marvin Mandel. The *Sun* has targeted candidates with strong blue-collar political support since maverick Democrat George Wallace won the Democratic presidential primary in Maryland in 1964.

Freeman is credited with polling 35 to 49 percent in blue-collar and minority precincts in the primary, and reliable sources have told Freeman that she actually received at least 38 percent of the vote in the district.

The *Evening Sun* announced the FBI inquiry, under the direction of special agent Charles Wroblewski, two weeks after attempts to stop the NDPC from holding public meetings failed. The city of Baltimore

had gone to court to attempt to prevent the NDPC from meeting in a public school, an attempt overturned by U.S. District Judge James Miller, Jr.

Moynihan lobbies for Felix Rohatyn

A top economic aide to Sen. Daniel P. Moynihan (D-N.Y.) told a reporter Jan. 11 that the Senator would throw his support behind a proposed IMF quota increase because "bailing out the IMF is in the interest of the New York banks, and the New York banks are the Senator's constituents."

Moynihan's aide thought that the IMF interim committee meeting would occur sometime around Feb. 12, and that the administration's request for a quota increase would be sent to Congress about two weeks after that.

Moynihan, said the aide, "recognizes that the additional funding for the IMF is absolutely necessary, even if it drains taxpayer resources that could be used for other things. The IMF is one of the few pins holding together the fragile world financial system and it needs monetary support, not rhetorical attacks. . . . It is unfortunate that we will have to spend billions to bail out the banks, but we have to do it. If we let one bank go down, then the whole system could unravel. Besides, the money center banks are in New York. They are our constituents. . . ."

According to the aide, Moynihan is receiving his advice from Felix Rohatyn, among others. Rohatyn has told him that the only solution is in a global Big MAC operation that would exchange short term "explosive" debt for longer-term paper.

"Some people are banking on a global recovery or a U.S. recovery," said the aide. "Those people are fools. Even the banks know that there won't be any recovery in the foreseeable future. Some kind of debt exchange and a new monetary system appear to be the only answer, though the time is not yet ripe to push these ideas in public. We are going to have to let things get worse in the next few months to get people ready to move on these matters. The crisis will have to get more acute and I am certain that it will."

Briefly

● **MORTON ABRAMOWITZ**, who was appointed by President Reagan Jan. 10 to lead the U.S. delegation in the MBFR (Mutually Balanced Forced Reductions) disarmament talks, was rejected by the Indonesian government when Alexander Haig attempted to appoint him as ambassador to that country in 1981. Abramowitz had been Jimmy Carter's ambassador to Thailand. His wife previously campaigned for George McGovern and is currently working for Walter Mondale, while the ambassador himself is said to favor John Glenn for president.

● **BERYL SPRINKEL** has been holding behind-closed-doors meetings at the Treasury Department with selected Senators and senatorial staffers, according to Washington sources. Sprinkel is attempting to convince them that the U.S. Treasury should definitely bail out the IMF's bad loans.

● **WILLIAM PROXMIRE** (D-Wisc.) said at a hearing on the Senate Foreign Relations Committee Jan. 8 that the policies adopted by Germany in the post-World War I period should be looked at" by the United States "as a possible solution" to its economic difficulties. Those policies resulted in rates of inflation of over 1 million percent, complete economic chaos, and the coming to power of Adolf Hitler.

● **CARROLL WILSON**, a founding executive member of the Club of Rome and the Trilateral Commission, and an advocate of a policy of reducing the world population to 1 billion people, died Jan. 12. Wilson was the first General Manager of the U.S. Atomic Energy Commission, in which position he opposed the development of the hydrogen bomb and the nuclear submarine, and has been accused of involvement in the transfer of U.S. atomic secrets to Soviet spy David Maclean.

Editorial

Science Adviser shows his colors

1939: "The nuclear chain reaction is a scientific curiosity, which is unlikely to find a technical application in the foreseeable future."—Leading nuclear physicist Niels Bohr, quoted in the U.S. Army manual for the Manhattan Project.

1942: "Read the statement by Niels Bohr; but don't believe it!"—Reported instructions of U.S. Army Engineers Corps commanders issuing manuals to officers serving in the Manhattan Project.

1948: "For a long time to come the Soviet Union will not have achieved atomic armament."—J. Robert Oppenheimer to a U.S. navy Committee.

1949: Soviets' first atomic blast.

1982: "Not one watt of commercial fusion energy will be produced before the year 2050."—Dr. George Keyworth, President Reagan's science adviser, to Indian scientists in New Delhi in November.

1982: "Feasibility of directed-energy beam anti-ballistic missile systems will not be determined until well into the 1990s."—Dr. George Keyworth, reported paraphrase of testimony to a closed session of the Senate Armed Services Committee, December.

As this false testimony was being conducted to the Senate in contradiction to Dr. Edward Teller's earlier briefing to the same committee, the self-avowed enemies of beam weapons development at the Stockholm International Peace Research Institute were preparing a newspaper advertisement that frantically called for a "researcher, on contract, to start immediately," to study "military applications of high energy electromagnetic and particle beams." The international disarmament "mafia" centered on the London-Moscow "peace" axis is mobilized to block a technology breakout which Keyworth says cannot even be judged feasible for a decade.

Energy-beam ABM systems, spinning off laser, electron-beam and plasma-beam technologies for industry, represent a potential revolution in human dominion over nature unmatched since electricity was mastered in the last century. Beam weapons development would also end the Mutually Assured Destruction doctrine which has enabled the British oligarchy and its friends to spread technological pessimism throughout

the industrialized West since the 1960s.

Is Keyworth the Anglo-KGB "disarmament" network's man inside the Reagan administration?

Keyworth went to India pursuant to the scientific cooperation agreement President Reagan and Prime Minister Gandhi recently signed. Indian nationalist sources reported that he had the effect of sabotaging the Indian fusion program's efforts. In private outbursts in New Delhi, Keyworth slandered the U.S. fusion science community as "hustlers" trying to make a buck by exaggerating the promise of fusion energy.

No matter the recent success of the Princeton TFTR "energy breakeven tokamak," the record results of the Doublet reactor at General Atomic in San Diego, or similar progress abroad. No matter the increasingly confident reports of the past decade of every review panel convened to judge U.S. fusion progress. The little man in the White House Office of Science and Technology Policy says that fusion is "not ready" for engineering efforts or even large-scale experiments.

During this century, it has been the advice of such as Keyworth which had to be pushed aside to achieve every military-technology breakthrough, and this has only been done under the gun of the national necessity such military breakthroughs impose. Either develop the new technology with an all-out, as soon-as-possible mission orientation, or you don't develop it at all.

Keyworth's scientific incompetence is linked to equal economic incompetence. The same Washington military policy makers are being told that Paul Volcker's economic collapse and the "need" for huge budget cuts rule out any ambitious attempt to develop the E-beam technologies. Keyworth is a science adviser suited for a permanent depression and "post-industrial society." If we want, instead, an economic recovery for the United States, *EIR*'s LaRouche-Riemann model has demonstrated that beam-weapons development can provide the unique productivity increases to do it.

A first step would be to remove Keyworth from the post he had disgraced, before he wrecks the national laboratories' military efforts as he has demoralized the fusion program.

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