

# EIR

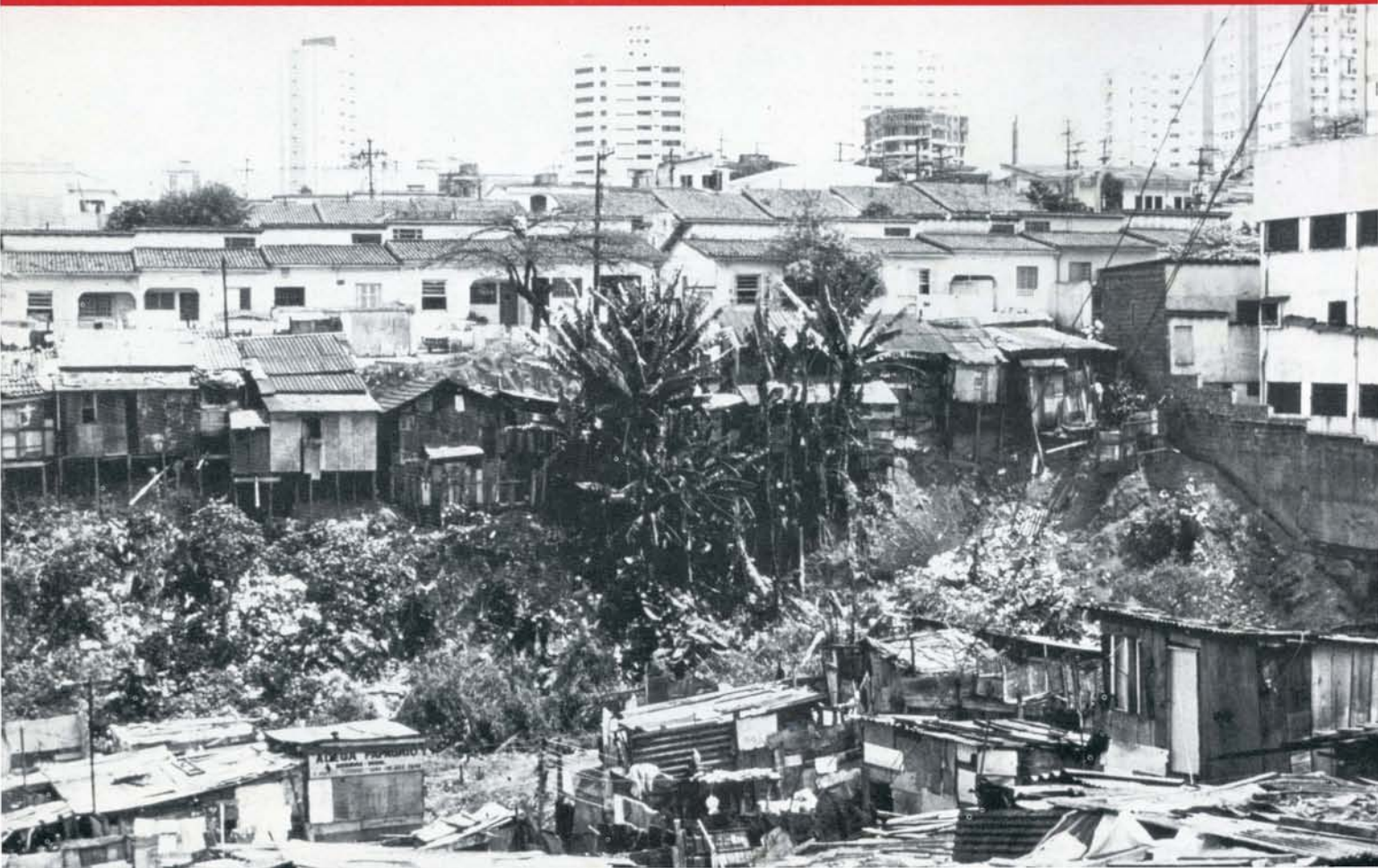
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New dollar fall dooms bankers, Greenspan  
LaRouche Dems call for emergency economic action  
China today: Deng's balancing act

**Brazil's debt crisis in  
the world financial crash**



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# THE ONLY WAY TO STOP MARSHAL OGARKOV'S WAR PLAN!



The greatest strategic weapon in the Russians' arsenal against the West, is not any of their weapons systems as such, but their ability to exploit the flaws in Western so-called economic thinking, which go by the name of "free enterprise."

## EIR QUARTERLY ECONOMIC REPORT

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### How to reverse the economic policy blunders that led to 'Irangate'

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## From the Editor

Let me draw your attention to the cover picture, which has the character of an archeological cross-section of a society which has been distorted by monetarist ideology, away from its tremendous productive potential.

In this photograph you are overlooking the city of São Paulo, Brazil. In the immediate foreground, on the bottom level, are the most degraded of the *favelas*, slums built of scrap metal and refuse, where millions of human beings are forced to live a subhuman existence. Behind and above that, across a refuse-filled ravine, is the next level of slum—still hideously impoverished, but partly constructed of what appear to be actual building materials. A notch up and behind, you see what might be considered “middle class housing,” apartment complexes, for those fortunate enough to afford such dwellings. Finally, on the horizon, are the high-rise apartment buildings and office buildings of downtown São Paulo, most of them representing the wasteful world of financial speculation.

This publication has a very long history of involvement in the debate over Brazil's political economy. For more than a decade we have warned, that as long as Brazil was considered the playground of oligarchs and financial looters, it would become the hotbed for an ecological holocaust extending to every corner of the globe. Conversely, we have published studies showing that the vast natural resources and above all, the human resources of Brazil's population, are key to the only question of any importance today: When does the world economic recovery begin?

Lyndon LaRouche's analysis of “The Strategic Significance of Brazil's Debt-Crisis under the Present World Financial Crash,” submitted in his capacity as honorary co-chairman of the republican philosophical association, International Caucus of Labor Committees, deals with the fundamental issues of economic policy for Brazil, Ibero-America, and the world as a whole.

It is complemented by the presentation, in the *Economics* section, of a comprehensive report on the ongoing financial crash and how our neighbors in Ibero-America have responded to it, so far. Good reading!

*Nora Hamerman*

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## The U.S. dollar must be defended!

by Chris White

It shouldn't be a question, but unfortunately it is. Over the recent five years, there have been a series of so-called policy discussions about what exchange parity the dollar should have relative to the currencies of its principal trading partners. The net effect since 1985 has been the devaluation of the dollar down to postwar lows against the Japanese yen, and to within a cat's whisker of the level set at the conclusion of hostilities 40 years ago and more against the West German currency, the deutschemark.

Now it is argued, that defense of the dollar ought no longer to be an objective of U.S. economic policy. These pearls of wisdom have emanated in recent days from new cabinet appointee Beryl Sprinkel; from one of the gurus of the free-enterprise wing of the Republican Party, Marty Feldstein; from liberal spokesman for the Boston Brahmins J.K. Galbraith; from the liberal wing of the Republican Party, typified by Herbert Stein; and from Allen Sinai of the Wall Street investment bank Shearson Lehman.

They assert, with appeals to the expediency of maintaining the stability of the system, that the dollar ought no longer to be defended.

Leaving expediency aside, their calls for the United States to abandon its own currency are actually treasonous.

The practical benefits are argued, first, in respect to the beneficial impact a declining dollar would have on the monstrous trade deficit, second, as politically more acceptable, especially in an election year, to higher rates of interest within the United States, under which banks, industries, and household consumption would be brutally crushed.

The adduced benefits are hooey. The declining dollar, over the last two years in particular, has not done anything to halt the growth of the U.S. trade deficit. Nor would it ever.

If the United States is not prepared to adopt the policy changes which would result in a renewal of manufacturing and agricultural capabilities, after 25 years of depletion under the policies of the "post-industrial society," it is not prepared to reduce its trade deficit.

For example, the imposition of a tariff on imported oil, triggered at a price of \$22-25 per barrel, would do more to bring down the nation's monthly import bill than anything else. It would help put domestic industry back to work; it would help in the exploitation of plentiful domestic resources; it would contribute to safeguarding the supplies of Persian Gulf oil upon which allies such as West Germany and Japan depend.

If anyone says that he is talking about reducing the trade deficit, and does not support a tariff on imported oil, then the conclusion should be drawn that either he doesn't know what he is talking about, or that he is talking about something else. The United States is presently importing about 40% of its oil requirements, a sizeable chunk of its total import bill, which could be produced here, if the price were right.

As to the alternative to a lower dollar, namely higher interest rates. Despite what the cited gurus say, that is not the alternative. The fate of the dollar has come up again as part of the desperate efforts, undertaken by the so-called U.S. elite, to keep the international financial system together, after the shocks of the week leading into Monday Oct. 19. The purpose of the renewed assaults on the dollar from within the United States is twofold. First, to terrify especially West Germany and Japan into providing liquidity, through internal deflation, to support the dollar credit system. It is well known, that what is demanded of Germany and Japan will mean suicide for their economies. Second, to provide liquidity for

the U.S. banking system through foreign exchange speculation against the dollar, backstopped by German and Japanese support. After announcing massive losses on foreign exchange transactions in the last quarter, the U.S. banks let it be known that to maintain profitability on such transactions, they need volatility in foreign exchange markets. Without volatility, they don't make money. Since the dollar won't go up, under present policies, the banks demand that it continue to go down.

The Federal Reserve's initial reaction to the Black Monday crash had been to lower interest rates, and man the printing presses to hand cash to the banking system, to finance losses sustained by banks, brokerage houses, and corporations, through redemptions of Treasury securities. That game began to come to an end the last week in October, when sellers of the relevant Treasury securities no longer turned up at Treasury auctions. At that point, the Fed's interest rate game began to reverse, threatening, once again, to set off the kind of destabilization of the international bond and money markets that had led into the Black Monday collapse.

### **Continental Illinois and other casualties**

This came on top of the institutional body count from the period leading into Black Monday. It has been pretty well covered up in the United States, by recourse to the brainwashing media techniques of psychological warfare. But the reversal of the Fed's interest rate shift threatened once again the kind of chain-reaction seen in the shocks of Black Monday. The wreckage of futures markets around the world, where big funds had hedged losses on the stock markets, by driving prices down 20% further, left brokerage houses, investment banks, and commercial money-center banks badly hurt. On top of which, it seemed from Hong Kong, through Amsterdam to London and Chicago, that it was the same outfits which had taken it on the chin in each location: Citibank's brokerage house James Capell, Hongkong and Shanghai Bank's Vickers Scrimgeour, Conti Illinois, and the big investment houses.

At that point, the U.S. "powers that be" launched their push for a new collapse of the dollar.

In the same scale, the case of the almost twice bankrupt Conti Illinois demonstrates the idiocy of what they're trying to do. Conti owned First Options, the company which ran the Chicago Mercantile Exchange's futures business. After Black Monday, Conti pumped, it is said, \$385 million into the options firm, to maintain its cash deposits at 10% of contracts outstanding. That means that \$3.8 billion of contracts were minimally left in the void on Conti's accounts alone. The \$385 million was more than one-third of the pre-Black Monday equity capital of Conti, and bank stocks collapsed by 25-35% between Friday Oct. 16 and Monday Oct. 19.

But what did Conti do? It announced plans to sell off its relatively sound operations, such as its network of suburban banks around Chicago, which are at least endowed with wage

and related deposit accounts, something real, to retrench into "risk management" and "corporate finance," two areas of financial speculation that will probably not last out the winter. The management of the bank is adopting the course which ensures that it will go over the edge into a second bankruptcy, perhaps sooner rather than later. But the management, since the bank went under for the first time in the spring of 1984, includes the U.S. government's Federal Deposit Insurance Corporation.

### **A question of treason**

The policy of letting the good go to protect the bad, and intrinsically unprotectable, is exactly what's being proposed for the dollar, by the luminaries cited above.

It may be stupid, it may be incompetent, it will not work, but why is it treasonous?

Simply, because it is only the powers of government, the government's power, under the Constitution, to create credit and money and regulate foreign and domestic trade and commerce, that is available to prevent the chaos of the developing collapse from spreading, and to define the policies which will bring about recovery. To the extent that the government's power to do that is weakened, or otherwise abused, those powers will be put at the service of the kind of self-feeding process of collapse, which will destroy the government itself.

Galbraith, Stein, Feldstein, and Sinai ought to know that, because over the years they have helped, in some cases draft, in others implement, the policies which produced the \$15 trillion bubble which is now popping. This policy has, in recent years, been implemented in the name of the "magic of the market-place," or "free enterprise."

Government powers can and must be employed to defend the country's credit and currency, to defend the federal and other government debt, and to keep the banking system functioning, or at least that part of it which is based on deposits which reflect real economic activity, rather than speculation, rentierism, and usury.

That can easily be done, under the Constitution, and other legal instruments which define the emergency powers of the presidency.

If the idiocy of the last days around the dollar is permitted to continue, then you can be sure that we are headed onto very dangerous ground, indeed. A collapsing dollar, with spillover effects on the interest rate structures of the international money and securities markets, is about the fastest way there is to ensure that the staggering international financial system does indeed come tumbling down.

Perhaps such methods can, in the short run, bludgeon Germany and Japan into doing what the financial "powers that be" demand they do. Actually, what is the choice? If the dollar tactic succeeds, it all comes down. If it doesn't succeed, it all comes down. Only the stupid, or criminally insane would refuse to adopt the necessary changes, to use the powers of government to halt the crash that is hastening upon us.

# \$3 trillion in off-balance-sheet liabilities are on the brink

by David Goldman

Through the summer of 1986, U.S. bank regulators issued grim warnings about bank and brokerage-house exposure in the form of off-balance-sheet liabilities, guarantees issued in exchange for immediate fees. Early in 1987, the Federal Reserve proposed guidelines for restricting the growth of such liabilities. At that point, discussion ceased, like the mention of an incurable illness in the presence of the soon-to-be-deceased. The central banks determined that the problem was inoperable, and chose to ignore it and hope for the best. Now it waits at their collective doorstep.

Several trillions of dollars worth of such guarantees are on the books of major financial institutions. A large portion of them went sour in the wake of Black Monday. The central banks do not know either the total volume of exposure, or the portion of that exposure ruined by the stock-market crash and related events.

However, what has popped to the surface during the past two weeks indicates that the order of magnitude of the present disaster exceeds the scale of the Third World debt crisis. The more than \$3 trillion of guarantees include such major categories as

- 1) straight guarantees of loan repayment
- 2) interest-rate or exchange-rate insurance on loans
- 3) currency, equity, and bond options sold as "portfolio insurance" for the buyer
- 4) open foreign exchange and bond trading positions
- 5) "currency swaps," "interest-rate swaps," and other supposed means of diversifying risk, which leave the bank or brokerage-house holding the bag if one party to the transaction defaults.

## End of bubble insurance

"Off-balance-sheet liabilities" are the history of the stock-market bubble, written onto the ledgers of major financial institutions. A precondition for the promotion of the securities-market bubble, which all major players viewed with suspicion, was the simultaneous expansion of "hedging" or "portfolio" insurance operations. Typical was the London option exchange, trading 64 varieties of guarantees of currency, stock, and bond values. Its volume rose by 180% during the 12 months since October 1986.

The major institutions, which ultimately write such insurance policies, and must pay on them in the event of trou-

ble, are holding the bag. Their off-balance-sheet liabilities, in the case of the 10 top U.S. banks, now exceed 1,000% of their total shareholders' capital. The banks argue that such liabilities represent little risk, because the banks themselves adjust their own portfolios to compensate; e.g., if a bank guarantees payment in a certain currency at a certain rate, it should buy that currency forward, in a matching transaction.

The last two weeks have made hash of the entire business of hedging, because securities prices and currency rates have collapsed so quickly, that the insurers find themselves exposed to the point of bankruptcy. The model for the dissolution of the hedging market can be found in Hong Kong, where brokers who issued futures contracts to sell stocks at a fixed price, now refuse to make good on those contracts, for the simple reason that they lack the funds to do so. On the global level, the great issuing-houses, including major banks and stock-brokerage firms, cannot meet their obligations as insurers of the bubble. That is why hundreds of billions of dollars of tradeable securities are now illiquid.

## The Eurobond disaster

Central to the problem is the great gray area of international finance, the \$600 billion Eurobond market. The collapse of international bank lending after the 1982 Mexico debt crisis gave way to an era of wildcat securities-issuance on the international market. Last year, \$220 billion anonymous, unregistered, untraceable bearer securities, known as "Eurobonds," were sold on the international markets. Designed during the 1960s as a vehicle for anonymous flight capital, Eurobonds came to dominate international capital-raising, as flight capital came to dominate the international markets.

Between December 1986 and February 1987, a large part of the Eurobond market ceased trading. The so-called "perpetual floating-rate note" sector died a sudden death in December, when Japanese banks, long the buyer of last resort for international paper, dumped them on the market. These notes, which offered interest paid in perpetuity, were a gimmick devised by big U.S. and British banks to increase their shareholders' capital. The Japanese and others looked at the Brazilian debt situation, then beginning the descent toward the February 1987 debt moratorium, and decided that the banks might be less perpetual than they seemed.



The rest of the floating-rate note sector, another \$100 billion worth, dried up during February and March, for the simple reason that the tiny increment over banks' own cost of funds offered in these notes did not pay banks to keep them.

Now, perhaps an additional \$100 billion of Eurodollar paper has ceased to trade. That does not represent the extent of losses to the banks; it merely shows one surface symptom of the general failure of the system of guarantees associated with the 1982-87 bubble.

Major international banks and brokerage houses found they could make more money by guaranteeing Eurobonds, than by issuing them. Underwriting income, i.e., the issuers' fees associated with bond flotations, collapsed to virtually nothing during the past two years, as all major institutions dived into the business.

According to public announcements, \$19.3 billion of Eurobond issues during 1986, and \$17.6 during 1985, carried some form of bank guarantee, known in the trade as "bells and whistles." That is, a participating bank attached to the bonds, a currency-option, an option to buy gold, an option to buy Treasury securities, or simply guaranteed that the borrower would obtain a higher yield if interest rates were to rise.

Of 1986 issues, \$4.6 billion carried an option to convert the principal, at maturity, according to the performance of gold, currencies, or stocks; \$600 million carried an option to convert payments into another currency; \$6.5 billion carried some kind of interest-rate guarantee; a small amount carried an option to buy gold; and so forth. Over and above the \$19 billion of "bells and whistles" bonds, investors bought a huge stream of so-called "convertible bonds," bonds priced at a lower interest rate, which the investor, at his discretion, might convert into the stock of the same company.

As noted, perhaps \$100 billion of "exotic bonds," as well as "convertible bonds," ceased trading during the stock-market frenzy following the Oct. 19 crash. With the stock markets in jeopardy, the value of a bond convertible into collapsing equity becomes unclear. More drastic are the problems associated with bonds containing an interest-rate or exchange-rate guarantee. The stock-market crisis originated with the sharp rise in U.S. interest rates forced by the falling dollar. Now that interest rates and the currency markets are swinging wildly in the wake of the stock-market crash and the end of the February "Louvre" agreement among central banks to stabilize currency prices, the meaning of such "guarantees" against interest-rate shifts disappears, along with the value of paper containing such guarantees.

A few Eurobond issues, ordinary fixed-income bonds issued by the largest, and supposedly soundest, corporations, benefited from the flight to such "quality" paper as government bonds, in the wake of the stock-market crash. The rest of the market, particularly the "exotic" issues, but also second-tier bonds, have now become virtually untradeable.

One modest bankruptcy of a second-tier brokerage house active in Eurobonds would force the liquidation of securities which now sit illiquid in its portfolio, forcing a price collapse of those, and similar, securities. Commercial banks, whose overseas offices count such securities as a substantial portion of their portfolios, would see the value of their portfolios collapse overnight.

## Re-regulation

Some observers believe the central banks will step in and force the "re-regulation" of the wildcat overseas markets. The London *Financial Times* warned Oct. 24 of a "sea change in social and political attitudes," away from *laissez faire* and "market forces," toward greater government involvement in the economy. "If this week's market crash does not presage another Great Depression, it might still represent a turning point in the history of ideas. . . . It might be that economic policy is in the process of turning full circle," toward more "government intervention and managed markets."

The Swiss daily *Neue Zürcher Zeitung* warned Oct. 27 of the "end of deregulation," arguing, "The tumult on the stock markets has shown that in the context of global interdependence and advanced deregulation of the markets, the pursuit of nationally autonomous economic policy has increasingly become impossible, because the markets sooner or later force an adjustment. The problem is that the markets by no means present an efficient corrective. In the last few years, market developments have repeatedly become absurd, especially the extreme overvaluation of the dollar and its related correction, the development of interest rates, the inflation of stock market indices, and their ensuing collapse. . . . London market observers conjecture that economic policymaking circles could now conclude, that the tearing-down of the overregulation of the postwar period has gone too far, and will be replaced by a stronger involvement of governments in market developments. On the practical level, that means that the events of the last week will lead to a phase of re-regulation of the markets, beginning with the futures and options markets, but also in the form of sharply higher capital requirements for banks and brokerage firms."

But U.S. Federal Reserve officials, who have reason to be less sanguine than the Swiss, warn that the banking system cannot absorb higher capital requirements at the precise moment that it must absorb untold losses. Their proposals include no increase in capital requirements. From the standpoint of the market bubble, re-regulation is like prescribing a sugar-free diet, for a diabetic found dead of insulin shock at the candy-counter.

At this stage of the crisis, it is not difficult to forbid the banks to do, what they can no longer do anyway. The problem is to ensure that a large enough portion of the banking system survives, and can be made to do what it must, namely provide low-interest credits to revive hard-commodity production and international trade.

# García, Funaro take the point in Ibero-American integration drive

by Gretchen Small

With the dollar collapsing even faster than Wall Street's paper, bringing debt refinancing agreements down with it, the debt fight is on again in full in the Western Hemisphere. At the rate the crisis is currently developing, when the Presidents of Ibero-America's eight major democracies meet in Mexico on Nov. 26, the primary item on the agenda is shaping up to be how to create a unified Ibero-American economic power bloc, to defend these nations from further collapse, and to tip the balance away from a policy of usury and austerity within the West as a whole.

Certainly, that is what the "audacious" faction of Ibero-America's political elite has set out to assure. The moment the stock market crash began, the two leaders whom creditors fear the most in South America—Peruvian President Alan García and former Brazilian finance minister Dilson Funaro—jumped into action, demanding that the continent take a leadership role in the international financial crisis.

"Now that we see this world crisis, I say that we were right to limit the payment of the foreign debt, reduce imports, control the sale of dollars and the direction of bank credit, to organize an economy of defense and resistance, to face the inevitable world crisis," President García told a meeting in the town of Chíncha on Oct 22.

García's speech was televised nationally, but the reverberations were felt throughout the continent. The crash, he said, "means the beginning of a very difficult stage in the international financial world, and now the capitalist world has begun to experience a crisis whose consequences the poorest countries will feel." He likened the crisis to 1929, but said that, unlike 1929, Peru is now prepared to defend itself.

Several days later, García called in foreign reporters to discuss the implications of the world crisis on the Nov. 26 presidential summit. "Peru and Latin America are a small part of the world system, and what has occurred in the last few days with the fall of prices of U.S. companies on the New York stock market, means that a new phase of recession, a very great economic depression, could begin, and the prices of raw materials and of Latin American and world labor will fall dramatically, and with it, our income," he said. Ibero-

Americans do not forget that the 1929 stock market crash ultimately forced every one of their governments into debt moratoria.

"I believe that this is a theme that, as Latin American Presidents, we must inevitably address," García continued. "I am convinced that the unity, not only of eight Presidents, but of all the peoples of Latin America, will give our continent the presence that will allow us to defend our labor, that will allow us to defend the price of our raw materials, and our role in world trade and world politics, so that we will not be the backyard of decisions in which we did not participate."

## Speculators weakened

The crack of the old financial order has weakened more than the creditors' power, hitting also local oligarchs who had put their money into international speculation, instead of domestic investment. That point was noted in both Peru and Venezuela, where capital flight by oligarchic families has sucked billions from investment.

"Fortunes taken out of Peru and placed in financial and other transnational enterprises in the U.S. and other foreign countries, are in clear risk of disappearing, in view of the precipitous fall of the dollar and the stocks of those companies," the Peruvian daily *Hoy* commented on Oct. 23. The crash "will punish terribly those Peruvians who for decades have preferred to invest outside of the country."

The implications of the crash for economic strategies have been noted by others. As the dean of Peru's Engineering School, Gonzalo García Nuñez, stressed to the press, the deflation caused by the crash "is the result of extremely high profit rates for financial and monetary capital, while rates of production have been mediocre."

## Enter Funaro

Creditors thought they had successfully isolated García from other governments in the region, when they forced Finance Minister Dilson Funaro out of the Brazilian government last May. Funaro, a man of fighting temperament similar to García, had been the architect of Brazil's debt moratorium, which President Sarney had announced on Feb. 20.

With Funaro out, the creditors had hoped to reverse the moratorium by Oct. 26, the date U.S. bank regulators are required to declare Brazil's loans "value-impaired," if no interest has been paid.

Then came Wall Street's crash. Funaro launched a nationwide campaign to bring Brazil back to his strategy. "Brazil has the obligation to lead on the debt problem," he said during a dramatic national television interview on Oct. 25, the day before Brazil's big payments deadline. "We can't leave it to smaller countries to do it. It is our duty, because we are the world's eighth economy." Like García, he emphasized the lessons of the New York stock market crash. "The facts show that Brazil was correct in seeking new paths for renegotiation. That whole [stock market] problem illustrates the maladjustment of the U.S. economy."

Funaro demanded that the Brazilian government consider the long-term interests of the nation, stand up to creditor pressures, and stick to its moratorium policy, until the Western industrial nations finally agree to create a more just international world order.

The interview, two hours long, was orchestrated for maximum effect. A full-page advertisement run in *Gazeta Mercantil* announced the interview with a huge banner headline featuring one thing: Funaro's name. The ad read: "This Sunday . . . former finance minister Dilson Funaro, who inspired the Brazilian moratorium, will analyze the perspectives created by this worrisome economic situation. The collapse of the stock market worldwide this week is being interpreted as a probable signal that the financial and economic systems in the world could confront serious problems in the near future, with consequences for the developing countries. . . . What will be the impact of the international financial collapse on the negotiation of the Brazilian foreign debt? Must Brazil make the symbolic interest payment suggested by the international creditors?"

Polls already show Funaro as the most likely winner of presidential elections, if they were held today. Under these intensified conditions of crisis, Funaro's continued intervention may prove enough to bring Brazil again to the fore of the international debt fight.

### **Gluttons for punishment**

The effect of the world financial crisis has sunk in, to varying degrees, across the continent. Some among the governments clearly still cling to the delusion that if they assume more of the burden, the present financial order can be salvaged.

Mexico's Planning Secretary announced, for example, that Mexico will use \$11 billion of its \$15 billion reserves to buy back its own debt at 50-55¢ on the dollar, in the secondary market, thereby supposedly lowering Mexico's total indebtedness by up to \$22 billion. Planning Secretary Pedro Aspe Armella did not explain either why he thinks the banks will permit this, or why he thinks anywhere near that much

of Mexico's debt is available at that price.

This, as Mexico's Labor Congress issued a report warning that "major structural imbalances, combined with galloping inflation, have caused the looting of the masses and made government plans unviable."

Similar confusion was demonstrated in Colombia. On Oct. 22, Public Credit Director Mauricio Cabrera announced that his nation's request for more than \$1 billion in new loans had entered a "virtual frozen zone," following the stock market crash. Oct. 26 had been the deadline to conclude the deal with the lead banks, but because of the stock market situation, that deadline has been postponed to the first quarter of 1988, he reported.

Colombia, the only country in Latin America that has not requested a single debt rescheduling and has made every debt-service payment on time, has been expecting release of the jumbo loan for nearly six months.

Nonetheless, the Secretary of the Presidency of Colombia, Enrique Peñalosa Lozano, happily announced to the press that Colombia will benefit from the stock crash, because the country will now be seen by the banks as a safer place to put their money than the stock market!

### **Common market on the agenda**

A similar kind of schizophrenia was seen at an Oct. 24 meeting in Uruguay of the foreign ministers of the eight countries whose Presidents will be meeting on Nov. 26. Those nations—Mexico, Venezuela, Panama, Colombia, Peru, Argentina, Brazil, and Uruguay—make up the Contadora Group and the Contadora Support Group, originally founded to provide a regional framework to help end the Central American crisis. As the economic crisis deepened in 1987, the governments decided to broaden the areas of their cooperation, to include trade, debt, and foreign policy matters.

The foreign ministers met to prepare the agenda for the upcoming summit, and chose Uruguay's foreign minister, Enrique Iglesias, a former top official of the U.N.'s Economic Commission for Latin America (ECLA), as their spokesman for the meeting. Iglesias, whose political preferences frequently line him up with the Socialist International, is viewed as a useful "house radical" by the creditor banks. For 30 years, ECLA economists, with Iglesias often in the lead, have opposed the industrialization of Ibero-America, and the common market concept which could turn the region into an economic superpower.

Despite Iglesias, however, there was no doubt what the issues on the agenda would be. Brazil's Foreign Minister Abreu Sodre told his colleagues that discussion of the foreign debt issue must now lead to "designing rules, principles of unity, to defeat the resistance of the creditor nations. If we have Latin America united in this way, we could achieve good results for the development of Latin America."

An Argentine foreign ministry spokesman pointed out

that "Latin America has paid \$180 billion in debt service over the last five years, and yet the debt rose from \$300 billion to more than \$400 billion in that period, the equivalent in constant dollars of two Marshall Plans."

Brazil's President Sarney has reportedly announced that he will be bringing to the Mexico summit proposals for the creation of "a regional common market, since Latin America can only find solutions to its economic problems through integration," Mexico's press reported Oct. 27.

More than one idea for Ibero-American integration will be on that agenda. Brazil's *Gazeta Mercantil* floated the proposal that the Presidents discuss the creation of a Latin American reserve fund similar to the Andean Reserve Fund recently established. It would work as a support mechanism for the central banks of the member countries, and could be the embryo of a future development bank for the continent.

### The LaRouche factor

Add to this discussion the "LaRouche factor," and the potential for a dramatic turning point in Ibero-American history comes clearly into view. Recognition is widespread that LaRouche, the author of "Operation Juárez," a 1982 proposal which detailed the monetary, economic, and scientific measures necessary to build an Ibero-American common market, also predicted the crash. His views have circulated widely on the continent for over a decade.

On Oct. 23, Brazil's *Jornal do Comercio*, in its "Confidencial" column (authored by the daily's editor), reported, under the subhead "Warned": "In an article printed on June 9 in this paper, the American economist Lyndon H. LaRouche foresaw everything that happened in the New York stock market over the last days. The title of the document—'Global Financial Crisis Predicted for October'—contains LaRouche's forecast. He is currently a pre-candidate for the presidency of the United States in the Democratic Party. When informed of the Wall Street disaster, LaRouche observed for this column the precision of his somber forecast."

Likewise, in Venezuela, on Oct. 23, *Ultimas Noticias*, a paper of the Capriles chain, reproduced in two full pages excerpts from LaRouche's "Global Financial Crash Predicted for October," published in *EIR* on June 5, 1987.

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## Documentation

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*The following are excerpts from recent interviews with former Brazilian finance minister Dilson Funaro, the man popularly viewed as a likely next President of Brazil. On prime-time Brazilian television, Funaro described Brazil's current*

*debt negotiations with the creditor banks from the perspective of his country's responsibility to take a leadership role on the debt.*

A symbolic payment to the creditor banks "would be a disaster. What we are discussing is the future of the nation. They pressed me very hard to make a deposit after 40 or 50 days of the moratorium, but I refused, and said that Brazil had shown good will by sitting down and negotiating. Good will is not exchanged with a check. . . .

"What is now being discussed is not a symbolic payment in itself, but everything else tied to it, the return to the [International Monetary] Fund, etc. . . . If Brazil wanted to return to the Fund, it would not need to send a mission to negotiate. A phone call would be enough, and . . . the financial community would applaud the fact that Brazil returned to the Fund and the 1983 path. . . . When Brazil signed with the IMF, its conditions were to reduce wages. . . . Then there came recession; Brazil separated itself from the technology to modernize its industrial plant. With the IMF, exports must grow to pay interest on the debt. . . . The recession created immense social traumas in many countries which are returning to democracy. . . .

"The suspension of interest payments is what today permits the moratoria to be discussed calmly, because the debt committee is the worst place to discuss the Brazilian debt, since it does not represent any important level of decision-making. . . ."

Asked whether Brazil could arbitrarily repudiate its debt, Funaro responded: "First, it is a moral question. . . . The Vatican published a document on the debt, showing that the U.S. problem led nations to lay off their workers. Thus, in a moral context, Brazil was transferring 5% of its GNP abroad, and no country has done that. . . . The bankers are offering no solution to renew the new money. The only solution they have offered, is that Brazil transfer 5% of its GNP in the form of interest.

"The U.S. is making a mistake by increasing interest rates. It will have to stop this, even if for moral reasons, because Brazil is suffering a great deal. Brazil wants to get out of this crisis, not coexist with it. The moratorium is helping, for example, in getting the U.S. to discuss international financing. In this context, we have to discuss the future, so that Brazil protects itself from the crisis which is coming."

To France's *Libération* daily, Funaro also denounced the U.S. shift toward high interest rates to attract money into the United States as "catastrophic for the indebted countries. . . . Since 1982, no more voluntary credits have been accorded to Brazil, only loans destined to pay interest. . . ." Funaro criticized the industrialized countries for having "used the International Monetary Fund in order to avoid their part of the responsibility for the crisis created by the explosion of interest rates. The IMF is not the appropriate organism for resolving the crisis."

# Will U.S. taxpayers pay banks interest on Brazil's debt?

by Mark Sonnenblick

The long-awaited U.S. government decision on whether to force commercial banks to downgrade Brazilian debt was postponed, once again, on Oct. 26. The Interagency Country Exposure Risk Committee extended its semi-annual meeting for a week to facilitate last-minute efforts to get Brazil to break the debt moratorium it declared Feb. 20. The committee is to decide whether U.S. banks can continue to count as good assets over \$20 billion of Brazilian debt on which not a penny has been paid since Feb. 20. The Brazilians would like the committee to let the matter ride until its next meeting in March. The banks would like Brazil to simply pay up.

The talks in New York and Washington have revolved around designing Halloween costumes to mask the bankruptcy of Brazil and its equally insolvent creditors. The United States is seeking "a diplomatic deal" to hold up the market value of banks' stocks, a Wall Street banker told *O Estado de São Paulo* Oct. 26. He noted, "The U.S. government is very apprehensive about the stock market. A crisis unleashed by Brazil being reclassified at this time would be . . . an earthquake in the banking industry. With that, the exchange might once again deflate." To prevent market disturbances, the U.S. financial media virtually blacked out the negotiations.

If Brazil's debts were declared "value impaired," it would also "worsen the chances of ending Brazil's suspension of interest on its \$68 billion longer term debts. That, in turn, could mark a further weakening of strategy for handling the five-year-old developing country debt crisis . . . [which] could make bank shares more vulnerable," London's *Financial Times* remarked. In fact, Washington has no "strategy for handling the debt crisis," except for bludgeoning debtors to pay what they cannot.

Brazilian president José Sarney is profiled by creditors as so scared of being blamed for collapsing the stock market, that he is willing to tolerate Rube Goldberg debt schemes which do nothing to stop Brazil's steadily declining economy from getting out of control. Sarney pleased Wall Street by sending Fernão Bracher (who was thrown out as central bank president in March for trying to sabotage the debt moratorium) to run the debt talks. But the deals are actually being cut by Brazil's lawyer, William Dill Rogers, formerly Henry

Kissinger's Assistant Secretary of State for Inter-American Affairs, now senior partner in Kissinger Associates, Inc.

Federal Reserve chief Alan Greenspan and Assistant Treasury Secretary David Mulford proposed, and Bracher accepted, the idea that Brazil would make a large deposit into a blocked account at the Federal Reserve or the Bank for International Settlements in Switzerland, *Jornal do Brasil* reported Oct. 24. The banks would only get their hands on the money after they had agreed with Brazil on refinancing up to \$10.4 billion of the interest due in 1987, 1988, and 1989.

## The political snag

The banks are unwilling to negotiate seriously on any medium- or long-term debt problem so long as the forces led by ex-Finance Minister Dilson Funaro are strong enough to keep the government from accepting any deal which does not permit Brazil to resume economic growth.

Sarney put his government through a debilitating month-long cabinet crisis in an effort to purge nationalists from the government coalition. The move aborted. Part of the banker faction left the government and busied itself plotting military coups, while the forces backing Funaro lost nothing. The fact that Sarney still needs the cooperation of the Brazilian Democratic Movement Party (PMDB) rules out his publicly accepting banker demands that Brazil simply end its moratorium now and later put Brazil back under the genocidal programs of the International Monetary Fund.

The PMDB has vetoed any "symbolic payment" by Brazil of part of the \$4.3 billion in interest withheld by the moratorium. As far as can be ascertained from the Brazilian press, Bracher, Rogers, Greenspan, Treasury, and the 14-bank Brazil advisory committee have agreed that Brazil would deposit up to \$1.5 billion in some escrow account, and the banks would deposit new loans of about \$3 billion in the same account. The "big snags" which the *Journal of Commerce* reported on Oct. 29 seem to be over how much each side would deposit, under what conditions, and what kind of medium-term debt settlement the banks would have to accept before they would get the escrow money in their cash drawer.

Brazil declared a moratorium Feb. 20 when its reserves fell below \$4 billion. Since Brazil has paid \$4.2 billion interest on its short-term lines and debts to governments, reserves are now not even \$5 billion. Sarney is in no position to give the bankers a large part of Brazil's monetary reserves, especially when the Reagan administration is threatening to restrict key exports from Brazil and the Brazilians see the U.S. market entering a deep recession, in any case. Thus, the talks have ended up seeking to have the United States government to pay a large part of the interest arrears. The Treasury would give "a kind of a bridge credit, but with a more complicated formula," a banker explained. The problem is, the bridge goes nowhere; the bailout of the banks would end up as part of the U.S. budget deficit.

# The Soviet leadership takes stock of the crash's political dividends

by Luba George

On Oct. 22, the first day of Secretary of State George Shultz's arms-control talks in Moscow with Foreign Minister Eduard Shevardnadze and General Secretary Mikhail Gorbachov, a *Pravda* article appeared on the "Black Monday" crash on Wall Street. Citing the *New York Times*, it stated, "On Wall Street, the fire alarm went off, and President Reagan is behaving like H. Hoover in the year 1929."

Soviet television and radio were by then already describing the extent of the crash as "greater than that of Oct. 28, 1929." Daily Soviet newspaper articles have appeared comparing the current crash to the "Great Depression" of the 1929-33 period. The Soviet press has also drawn the parallel between the phony Hoover recovery of 1927-29, featuring the late-1920s stock market boom that preceded the 1929 crash, and the nonexistent U. S. economic "recovery" of the Reagan years, with its even bigger stock market bubble.

Soviet Gosbank (state bank) economists B. Korolev and E. Myagkov, writing in *Izvestia* Oct. 24 under the title, "Symptoms of a Crisis," stated that the "liberal" economic policies of leading "conservative" governments in the capitalist world have resulted in a rise of "speculative activities" of such proportions that a "colossal gap" has been created "between the growth of fictitious capital and real economic processes." Gorbachov's chief economic adviser, Abel Aganbegyan, made the same point. In recent years, he wrote, the movement of capital became "separate from the trends of manufacturing economy. Sooner or later, reality had to return."

Gosbank's predictions: continuing "instability of the capitalist economy" and "worsening economic conjuncture in the future."

Another article in *Pravda* Oct. 24, citing the French communist paper *L'Humanite*, also predicted "the consequences of today's stock market crash": "mass unemployment, cutting down production, price rises, decrease in allotments for social programs."

The new Soviet post-crash line was summarized by Central Committee member Vadim Zagladin, the first deputy director of the Central Committee's International Department. In an interview with the West Berlin Communist Party (SEW) paper, *Die Wahrheit*, he announced, "Capitalism is reaching the end of the road. This is not surprising.

There is a fundamental trend in the direction of socialism."

Zagladin was writing on behalf of his boss, former Ambassador to Washington Anatoli Dobrynin, the head of the Central Committee International Department and unofficial czar of Soviet foreign policy.

## Big opportunities

With the onset of the crash, the Soviets see big political opportunities arising. In the United States, Moscow is counting on Congress to make deep cuts in the Pentagon budget, above all at the expense of the Strategic Defense Initiative (SDI) program. In Western Europe, Moscow now sees the potential for pro-Soviet socialist governments to come to power before the end of the decade. In countries like West Germany and Great Britain, prior to the onset of the crash, the likelihood of such political developments was near absolute zero.

The crash as such did not catch Moscow by surprise. The Soviet leadership knew before the end of the summer that a financial maelstrom was on the Western agenda for the near future. This was signaled in a little-noticed article by Central Committee member Yevgeny Primakov, the head of the Institute for World Economy and International Relations (IM-EMO). Writing in *Pravda* Sept. 15, he declared, "Attempts to stabilize the U.S. dollar have failed," and "lagging production" and "rising interest rates" would "bring about a general breakdown" crisis in the West.

At about the same time, the Soviets went into a policy-pattern that prioritized political-strategic collaboration with the socialist and social-democratic parties of Europe. What has transpired in this game since the beginning of October is staggering. To name but a few of the high points in top-level Soviet-social democratic coordination of activities:

- Ingomar Hauchler, Third World affairs spokesman for the West German Social Democratic Party (SPD), proclaimed on Oct. 5: "An Anti-American bloc has to be formed between Europe and the Third World." The statement was made immediately following Soviet Foreign Minister Shevardnadze's tour of Brazil, Argentina, and Uruguay, the first trip ever by a Soviet foreign minister to South America.

- On Oct. 8, Anatoly Dobrynin, at the invitation of the SPD, arrived in Bonn for a five-day visit. The SPD and

Dobrynin signed a document proclaiming SPD readiness, should they again become the government, to support Moscow's U.N. "initiative" for a drastic cut in defense budgets to create a Third World "development fund."

- One day earlier, Oct. 7, a Supreme Soviet delegation led by Lev Tolkunov, chairman of the All-Union Supreme Soviet, arrived in Brussels. The Soviet delegation had been invited by the Socialist Caucus of the European Parliament for one week of talks in Brussels and Strasbourg. The talks were intended to move toward establishment of official relations between the East bloc "common market" (Comecon) and the European Community (EC)—itself a step toward the "economic decoupling" of Western Europe and the United States. The Soviet delegation, whose invitation was spearheaded by the West German SPD, was returning the December 1985 Moscow visit of a 170-member socialist delegation from the European Parliament, which had inaugurated the Comecon-EC talks.

- Hot on the heels of the Brussels and Strasbourg discussions, Oct. 14-16, talks were held in Moscow between representatives of the Socialist International and the Communist Party of the Soviet Union to work out "common positions" on international affairs and the issue of Third World debt.

### On the road to 'economic decoupling'

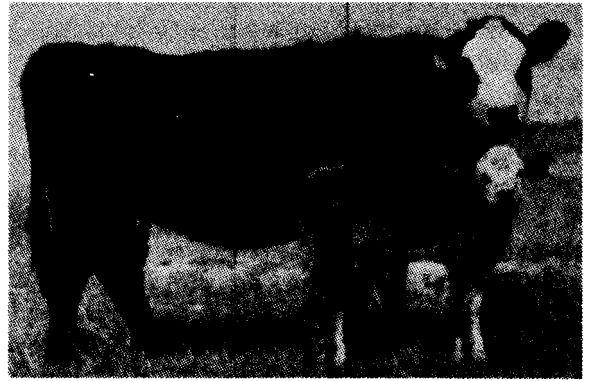
The "informal" talks held by the Soviet delegation at the European Parliament centered on moving toward formal relations between the Comecon and EC. Such formal relations must be viewed in the context of a Soviet/Socialist International strategy of promoting U.S.-European economic, as well as political-strategic, decoupling. In other words, the satrapal integration of Western Europe into the Soviet Empire.

On Oct. 22, the day that *Pravda* compared Reagan to Hoover, *Pravda* commentator Yuri Zhukov, a member of the Brussels delegation, laid out Soviet strategy: Europe is facing great economic instability. Western European countries, instead of coming closer to "eliminating national economic barriers" by the 1992 target, will be faced with cut-throat competition with one another for a shrinking market. In the "next three years," Europe will be hit by a massive rise in unemployment. For example, 80,000 steelworkers will be laid off. The plight of the farmers will continue to worsen, etc. The way out for Europe? Zhukov answers:

"Sober-minded politicians in the European Community are more and more talking about how the situation could be greatly alleviated if companies and countries developed mutually beneficial economic ties with the Socialist countries."

Thus, the purpose of the Tolkunov-Zhukov visit to Brussels: offering Soviet economic deals to a depression-ravaged continent, codified through a "normalization of relations between the European Community and the Comecon countries"—for a very high political price.

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# Currency Rates

On Oct. 24, right after Shultz departed Moscow empty-handed, Yevgeny Primakov, the author of the September *Pravda* "breakdown crisis" article, arrived in Brussels to pick up where Tolkunov had left off.

## Blaming all on the United States

The ever-opportunistic leadership of the West German SPD has not failed to seize the occasion of the stock market panic to press the economic decoupling campaign forward. The turbulence on the world's stock markets, said SPD chairman Hans-Jochen Vogel, shows that a "grave instability of the world economy is spreading from the United States," and that Europe must now think of "economic self-assertion against the United States." He accused the Reagan government of stealing capital from Europe through its high interest rate policy, making the United States responsible for the mass unemployment of the European countries.

Vogel's remarks echoed statements made by former West German Chancellor Helmut Schmidt at an Oct. 26-27 Aspen Institute Conference in Berlin, which was attended by U.S. Ambassador to Bonn Richard Burt and former Secretary of State Henry Kissinger. Schmidt demanded that the U.S. administration reduce its budget deficit by 50% in the next 24 months, implying, among other things, cutting the U.S. defense budget by upward of \$50 billion: "Nothing else will work," Schmidt proclaimed.

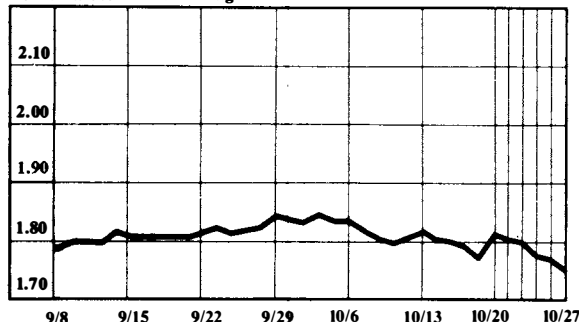
The dimension of the total U.S. debt is "far larger than the total debt of the Third World, far more dangerous for the world economy," said Schmidt, "and the main debt problem has to be resolved in the United States, therefore." Schmidt's budget-slashing passions emerged in other recent statements on the U.S. economy, in which he praised Paul Volcker's policy at the Federal Reserve as "paradigmatic," and described the Gramm-Rudman-Hollings bill as "still lacking teeth."

With a "Herbert Hoover" in the White House and the treason of the Socialist International in full bloom, one can see the reasons for the optimistic perspective for conquest outlined by Zagladin in *Die Wahrheit*. With "capitalism approaching the end of its historical road," Zagladin used the "historical materialist" language of the old Comintern to proclaim the advent of a new epoch in which socialism shall become a "world system." Already, he declared, "one-third of mankind has cut loose from the chains of capitalist exploitation. . . . Capitalism has outlived itself as a social model," and is increasingly taken over by "crisis phenomena."

But the crash of the Western economies also gives Moscow headaches. The Soviets' biggest worry is that the crash might hold many unpleasant surprises that would not suit their plans. Their comparison of President Reagan to Herbert Hoover reveals this. After all, a Herbert Hoover can be followed by a very different kind of American President, who would mobilize the United States for an industrial and military recovery.

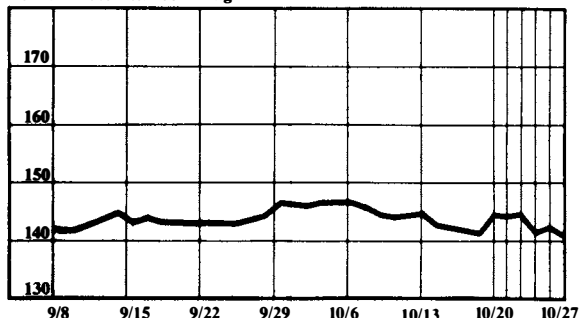
**The dollar in deutschemarks**

New York late afternoon fixing



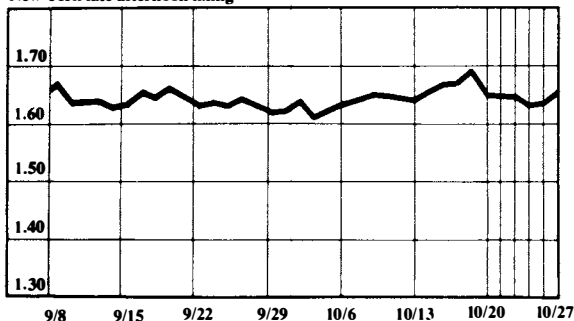
**The dollar in yen**

New York late afternoon fixing



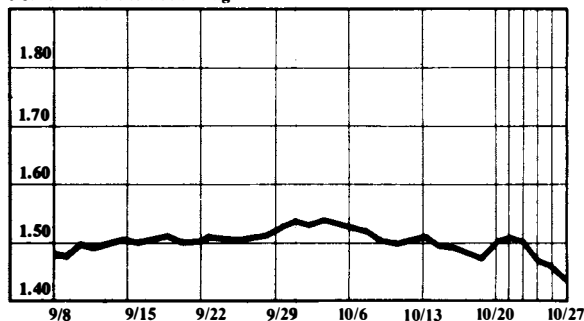
**The British pound in dollars**

New York late afternoon fixing



**The dollar in Swiss francs**

New York late afternoon fixing





## Juggling the books at FCS

*The Farm Credit System is doing some "creative accounting," in order to close its books at year-end looking good.*

Recently, orders quietly went out to the many divisions of the Farm Credit System, the largest agricultural debt-holder in the nation, consisting of Production Credit Associations, Federal Land Banks, and various intermediate banks, to re-categorize and shuffle FCS farm debt around the ledger sheets, in order to give an "aura of solvency" to the system at its year-end close-of-books. Since Washington's policy has bankrupted the farmers, the FCS is also bankrupt. But, it has decided to engage in a little creative accounting to hide the fact.

It's like shuffling the deck chairs when the whole ship is sinking.

The Farm Credit System accounts for about \$60 billion of the national farm debt of \$180 billion. The rest is held by commercial banks, the federal government, the Farmers Home Administration, insurance companies, and some other lenders. In the last two years, as growing numbers of farmers proved unable to service their debt, the FCS has posted billions in losses, taking over record numbers of foreclosed farm properties.

What the FCS needs is a pro-production, government-mandated reorganization, orienting it toward keeping farmers in operation to preserve and expand the nation's food output capacity.

Instead, most of the 12 districts of the FCS are operating in the red, and sinking the surrounding farm areas into disaster.

As the October stock market crash proceeds, the FCS insolvency crisis

may be dwarfed by national media headlines about bankruptcies of famous-name brokerage houses and financial figures. However, these famous companies do not produce food or other necessities. The FCS collapse process is less dramatic, but far more deadly.

The bookkeeping maneuvers now under way in the FCS may buy a few months' time—depending on other factors in the economy—but will not restore needed credit, prosperity, and output to the farm sector.

Under its former policy guidelines, a loan was considered either an asset accruing interest (income to Farm Credit System), in liquidation (non-accrual status), or in charged-off status. During the last two years, there has been a management policy of very conservative loan analysis, with the result that a majority of the PCA (Production Credit Association) loans ended up in liquidation status or were charged off. The PCAs (short-term lenders) have almost been wiped out in some areas.

The FCS books will be closed for the 1987 accounting year in late December, and by then, there will be a changeover in accounting procedures to minimize the number of loans declared in liquidation or charged off. The trick is simple. FCS will change accounting procedures to match those of agriculture banks. There will still exist an account for loans accruing interest, but there will also be an account for loans which are not accruing interest, and yet, not in liquidation or being

charged off. These non-accruing loan balances (non-earning assets) will be sitting in an asset account until some future date when a decision will be made about what to do with them. This decision could be made years down the road.

Coupled with this change in accounting procedure is a management policy to analyze the loans more liberally, to make them look better and to produce some new business.

The net effect of these changes will be to make the financial condition of the system appear better than it is, and to indicate that the farm economy is doing better than it is.

The personnel profile is also radically changing as the FCS disintegrates. FCS staff members warn *EIR* that there are fewer and fewer people in the FCS capable of making the proper decisions about the disposition of these non-earning assets.

The people hired to make and manage operating loans were ideally trained to think and make sharp decisions in service of credit for seasonal farm output. The FCS people making land loans (Federal Land Banks) could generally simply follow the policies set by the central banks. They did not make credit decisions, they just submitted their paperwork to the central bank. As the volume of short-term lending has dropped to practically nothing, the short-term loan officers are being eliminated from the system.

Gone, or leaving, are the very people who had their hands on the pulse of the farm economy and were capable of making recommendations and pushing for needed changes affecting farm output potential. This process parallels the "restructuring" of manufacturing companies to convert their smokestack factories for service-sector activities. But you can't eat services, any more than you can eat accounting tricks.

# Business Briefs

## Domestic Credit

### **Bank of England demands U.S. austerity**

A confidential assessment from senior Bank of England sources says that the major problem in the U.S. financial crisis, is that "the Americans' consumer living standard is beyond its obvious means to be supported."

According to the in-house memo, made available to this news service, the British central bank says that three steps could be taken to lower living standards as required: 1) Raise taxes: This would work immediately, but has the disadvantage of possibly triggering an early recession; 2) cut welfare and social services: This would be more gradual, but would ultimately trigger renewed interest-rate increases; 3) undertake a several-year process of serious cuts in the budget deficit, including cuts in defense spending.

According to this report, the West German authorities were prepared to cooperate on the third option, but Washington's failure to act convinced the Bundesbank to end its support for Washington, and tighten its monetary policy.

## Banking

### **Referendum challenges the Federal Reserve**

Voters in the state of Washington on Nov. 2 will vote on a referendum titled, "Shall the State challenge in the United States Supreme Court the constitutionality of authority delegated to the Federal Reserve System?"

The text of the referendum motivates the challenge with the following argument:

"1) A sound money system is absolutely vital to a free people. Symptoms of an unsound money system abound: budget deficits, recurring recession cycles, farm foreclosures, business bankruptcies, bank, savings and loan, and insurance company failures, trade deficits, and dramatic fluctuations in interest rates, inflation levels, and unemployment statistics. These represent a

clear and present danger to the people and to the government of the State of Washington and the United States of America.

"2) The Federal Reserve Act of 1913, and other acts of Congress, purport to delegate the nation's monetary authority to the Federal Reserve System, with no oversight or control by any elected body or official. The Federal Reserve Board is assumed to have the power to create money and thus exercise absolute control over the economic activity of this nation, whereas the United States Constitution nowhere authorizes Congress to delegate such power.

"3) The Federal Reserve Act of 1913, and other acts of Congress, purport to delegate authority, without oversight or control, under which large, private United States multinational banks have made unrestricted loans all over the world which, now in danger of default, threaten the United States with a collapse of its whole banking structure."

## International Credit

### **Peru gets loan, says economy will grow**

The Inter-American Development Bank (IDB) on Oct. 25 announced a \$55 million credit to Peru, to allow investment projects in the country to continue, despite the cut-off of credit from the International Monetary Fund and some creditor banks. The decision was a sign of confidence in the economic policy of the Peruvian government, declared Peruvian Economic Minister Gustavo Saberbein.

The IDB gave \$10 million to Peru's Agricultural Bank, \$11.9 million to the Industrial Bank, \$3.5 million to a hydro-energy project at Crahuacuero, and \$9 million for other investment projects.

President Alan García, in a speech Oct. 23, stressed that despite financial warfare against the country by terrorists, drug traffickers, and narco-bankers, the economy will keep growing, as it did in 1986. "We grew 8.2%, despite the bad predictions of some economists; this year we will grow 7%."

At the end of October, the Peruvian cen-

tral reserve bank ordered the 25.5% devaluation of the national currency, the inti, in an effort to increase exports while protecting essential imports. Grains and other essential foods, military weaponry, and medicines will not be affected. The devaluation was also designed to stem the fall of reserves; on Sept. 21, they were estimated at \$521 million, the lowest since García came to power in 1985.

## Gold

### **Price remains stable as markets panic**

Informed gold-trading sources in London and Switzerland report that the price of gold has remained relatively constant over the period of the unprecedented financial market panic, primarily because of massive liquidation of gold holdings by large investment houses to cover their stock trading losses.

In the first hours of "Black Monday," Oct. 19, gold soared above \$490. The next day, within minutes of the opening of the New York market, it dropped \$20 in 10 minutes. "This was because of huge liquidation from New York houses to cover stock losses," reports a source from a London gold-trading bank. There is no sign yet of any concerted Russian intervention into Western gold markets in order to dampen price rises, the source reports, contrary to rumors that the Soviets are cooperating with Western financial circles to blunt a panic run into gold.

## Economic Warfare

### **Frost and Sullivan: Don't invest in Panama!**

A report issued by the Wall Street financial analysis firm Frost and Sullivan joins the campaign of the U.S. State Department against the government of Panama, and especially against Gen. Manuel Noriega, chief of the Panamanian Defense Forces.

## Briefly

"While General Noriega is in power, U.S. multinational investments in Panama are at risk," says the report, predicting that the Panamanian economy will be in recession in 1988. Political agitation would diminish if Noriega was out of power, according to the firm, but while he is in power, the government is characterized by more populist and nationalist politics. The tract forecasts that Noriega could be out of power by 1988, and that there is a 40% chance that once Noriega is out, a more "moderate" regime could win the elections, such as one headed by the National Democratic Union.

### Foreign Exchange

#### 'Peg Ibero-American currencies to yen'

Lyndon H. LaRouche suggests that the nations of Ibero-America should peg their currencies to the value of the yen, at the highest yen value of the dollar during the recent two years.

"The implications should be obvious enough," he said, "both the basis for the choice of pricing, and the implications of debt-reorganization under such pricing. The impact upon James Baker's policy of the falling dollar, vis-à-vis 'the Baker Plan,' should also be obvious enough. This is the time to strike, for those with the brains and guts to do so. Even the proposal to do this should produce a most desirable effect."

### AIDS

#### German doctors score delay in prevention

A one-year delay in preventive anti-AIDS measures in West Germany will mean at least 13,000 more AIDS deaths in the next 10 years, according to a team of German and Scandinavian researchers writing in *Spektrum der Wissenschaft*.

According to the report: "Even if this year a vaccine were developed and the entire world's population vaccinated, the AIDS

epidemic would reach its highest point in 1997, and would be stopped, at the earliest, in the year 2007.

"The number of people sick with AIDS today reflects the extent of the AIDS infection in 1977, when there was a single case known in Europe. Today's rate of infected will not be visible (in terms of actual AIDS cases) before 1997. . . . For this reason, it is always later than we believe."

### Energy

#### British government will underwrite BP losses

The Bank of England agreed to underwrite losses ensuing from the sale of the state-owned British Petroleum company to private holders, in an eleventh-hour compromise Oct. 29, designed to head off a financial catastrophe of international proportions.

BP is the world's third-largest oil company, and Britain's top industrial concern. The crisis began Oct. 15, shortly before the stock market crash, when the British government secured 21 underwriters for the sale of the 31.7% of BP's stock that it still owns. Among the underwriters were the New York-based Goldman, Sachs & Co. and Salomon Brothers. The underwriters agreed to sell all the shares at an offering price of \$5.54/share.

But then the stock market crash hit, and the investment banks toppled on the brink of bankruptcy. BP's stock went down to as low as \$4.04/share. Since underwriters must buy all shares they don't sell, the BP "privatization" threatened to send them off the deep end.

The "solution" was reportedly reached after heated international consultations, including phone calls between British Prime Minister Margaret Thatcher and President Reagan. Thatcher, and her chief budget officer, Nigel Lawson, want U.S. taxes increased and the budget deficit decreased.

The British central bank agreed to rebuy any unsold shares for a period of 30-60 days, thus protecting especially the vulnerable U.S. houses Goldman, Sachs, Salomon Brothers, and Morgan.

● **WE HEAR** that some East Coast banks are giving loans at variable interest rates that shift from the prime rate on a *daily* basis!

● **THE SOVIET GRAIN** harvest will total 200-210 million tons, an informed grain trader reports. While this is lower than the 250 million predicted in Soviet publications, this is not good news for Western grain export orders. "The Russians have ample stocks, and can decide when and where to intervene into our markets. . . . People who predicted Moscow would be forced to import again some 40 million tons are simply way off."

● **YUGOSLAV PRESIDENT** Lazar Mojsov, in an address Oct. 26 to the Argentinian Parliament, called for "a solution to the foreign debt problem that insures the development of all countries." He said that "the division of the world between developed and developing countries is not less dangerous or less fatal than that which separates countries from East to West." Mojsov is also visiting Peru, Mexico, and Cuba.

● **CONTINENTAL ILLINOIS** plans to sell four of its overseas operations and five suburban banks, in order to concentrate on commercial and investment banking. Conti, the 14th largest U.S. bank, had to be bailed out by the FDIC in 1984. It plans to leave the municipal market completely and concentrate in corporate finance, risk management, market-making, and transaction support.

● **BOLIVIAN** and Soviet representatives met at the end of October in Santa Cruz to plan the expansion of economic cooperation. Spokesmen from the Soviet embassy said that they are ready to give a credit of \$220 million to finance economic development and social projects. Bolivia, which is seeking help in oil exploration, has been cut off from all economic assistance by the United States.

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## New hypothesis shows geometry of atomic nucleus

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*Part 2 of an interview with Dr. Robert Moon, a pioneer in American nuclear and fusion energy development, on his recent discoveries.*

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*In Part 1 of this interview, nuclear physicist Robert Moon discussed some of the formative experiences in his life which led to his becoming a scientist. Dr. Moon was one of the pioneers in the development of nuclear energy. Before World War II, he developed the most advanced cyclotron then known, and plans to build a synchrotron, which were prevented from being realized, by the outbreak of war. After the war he became intensely interested in research in neurophysiology, and was involved in the development of the CAT scan. He is a professor emeritus at the University of Chicago, and the editor-in-chief of the International Journal of Fusion Energy. Dr. Moon was interviewed by Carol White.*

**White:** Before going into your most recent discoveries, would you please mention some of the work which you took part in during the war, for example the Manhattan Project.

**Moon:** During the 1930s we discovered that the cyclotron was a very good source of neutrons. We worked with deuterons, which are “heavy” isotopes of hydrogen. Their nucleus contains one proton and one neutron (the neutron is really a proton with an electron condensed on it) as opposed to ordinary, “light” hydrogen (whose nucleus contains just a single proton).

We found that by accelerating deuterons in the cyclotron, the charged part of the nucleus, the proton, would be left behind when the accelerated deuteron beam passed through a material target. Thus only neutrons emerge from the material target.

**White:** So you were able to turn the cyclotron which you had built at the university to good use, for the Manhattan Project?

**Moon:** Yes, indeed! We were able to utilize cyclotron-generated neutron beams to carry out many of the researches that were essential for the success of the World War II Manhattan Project. For example, with the cyclotron-generated neutron beam, we were able to explore the properties of graphite, in particular how neutrons interacted with the carbon nuclei in graphite. This was most crucial for the development and realization of the first nuclear pile—the first nuclear fission reactor.

**White:** The first nuclear reactor in the world was the one you built at Chicago, wasn't it?

**Moon:** It was. In order to get a chain-reaction going, we had to be able to slow down the neutron flux sufficiently to allow fission to take place; but on the other hand, we could not let the process get out of control, or we would have had a major accident. So we were very concerned with questions of nuclear safety even then.

One of the things we worked on with the cyclotron, was the development of a graphite moderator which would slow up the neutrons. At the time of the Manhattan Project, this was one of the three ways of doing this available to us.

We rejected the alternative of using beryllium, although this is a beautiful metal. We had the abstract possibility of using beryllium as a moderator, but unfortunately, at that time we knew nothing about its metallurgy. No one had produced the metal yet, and we didn't have enough of it for a reactor.

There was the possibility of using heavy water. This was the route which the Germans took in their attempt to build an atomic bomb. Heavy water is water in which the ordinary light hydrogen in the H<sub>2</sub>O is replaced with deuterons—heavy

hydrogen. We had some, but not enough for a nuclear pile.

The third, graphite, was the one we chose. One reason was its availability to us. Chicago was then a great steel-producing center. This is no longer the case. They have shut down the Southworks and other major steel-making facilities. In any case, at the time, they were producing large blocks of graphite, about four feet long and four inches square, for use in steel-making. These blocks had rounded corners.

We tested this graphite and we used the cyclotron to do it. We would place a pile of these graphite blocks in front of the neutron beam emerging from the cyclotron target and see how long a neutron would last—bounce around within the graphite pile. That is, we would measure the lifetime of the neutron within the graphite pile.

This led—to our very great surprise—to the finding that the graphite blocks taken from the center of a production batch contained very pure carbon—graphite with very few impurities. This is quite important, since it is impurities which generally absorb neutrons, and we wanted to slow them up but we did not want them to be absorbed. When the graphite was produced, carbon would be pressed into blocks and a large electrical current would be passed through a pile of these blocks.

In this way graphite would be formed. But also the impurities in the carbon would diffuse out from the center of the pile, leaving very pure graphite blocks in the center—very close to pure carbon. And it was these pure carbon graphite blocks that we used as the neutron moderator in our first fission pile.

We built the first nuclear pile out on the squash court. They had to stop playing squash so we could build a reactor. It was a cubical design. But actually, since it was supported from the outside, the pile of graphite blocks which supported the uranium lattice, looked something like a football. I guess this was very apropos, since the squash court was part of the football field.

The graphite was supported all the way round. If OSHA had been around I don't think we could have gotten the thing made, because we had to cut off these round corners on the graphite blocks. We did it by using an end-mill on the graphite, so we all came out pretty black. I am sure that if they knew what we were doing, they would have shut us down, that is, if OSHA had existed at that time.

But, anyway, the pile was built and first ran on Dec. 1, 1942. It may seem that I am getting too much into the history, but I just wanted to give you a taste of how exciting it was.

**White:** Not at all. Tell me, what was your reaction, in 1939, when you first learned that Lise Meitner and Otto Hahn had demonstrated the existence of nuclear fission?

**Moon:** We were very shocked. Remember, Hitler was in power in Germany then, and we all knew that war might break out at any moment. A colleague, Aristide von Grosse, went over to Germany to confirm the reports we were hear-

ing. He talked to the German physicists, Otto Hahn and Leo Strassman, and von Grosse brought the message that it was true, back to the physical chemistry department where I was then doing all of my work, all of my nuclear work.

We had several meetings in which we tried to decide what to do. We recognized the military potential of this even then. We checked out some of the things and found that it was really so, that nuclear fission was really taking place when neutrons bombarded uranium.

**White:** Were you worried?

**Moon:** Absolutely. The physicists had all decided never to tell anybody about it, but of course it wasn't really possible to keep such a major discovery a secret. We were given \$2 billion to do the Manhattan Project. We recognized the necessity of proceeding with the Project, because we learned that the work was ongoing in Germany.

I do want to emphasize that, on the whole, not only were we concerned about the implications of developing such a destructive weapon, but we always talked about the spiritual and the moral implications of nuclear power. We questioned whether the world was ready for nuclear energy. It produced more energy, about 5 million times more energy per gram of fuel than that produced by combustion. What would this mean to industry, how would it change our way of life? That was always a question. We talked about that all throughout the project.

**White:** What was it like to be working on the Manhattan Project?

**Moon:** The most important thing was the way in which we were able to share ideas. That's important in the whole development of anything, the sharing of ideas with one another. We met and freely discussed our thoughts three times a week, despite attempts by the Army representative, General Groves, to impose security guidelines upon us, which would have compartmentalized our activities. Everyone participated in these discussions, regardless of sex, race, religion, or anything.

That was very good. It created an atmosphere in which everyone's creativity was increased, and some of our best ideas came from some of the youngest members of the group.

**White:** What other lessons can be learned from the way that the Manhattan Project was organized?

**Moon:** Another thing was that this was a genuine crash program. Work was done in parallel rather than sequentially. We started building in Oak Ridge, Tennessee, and in Los Alamos, New Mexico, and in Hanford, Washington, all at the same time, all together. Each site concentrated upon a different aspect of the problem. We didn't worry about cost accounting, and making sure that no mistakes were made on the way. We didn't put them in series: "If that happens, and that, and it works, then we will do this or do that," but we

did it all together. And it worked very well.

I will say that when we first got the Hanford reactor going and then shut it down, we couldn't get it to start up again. That turned out to be caused by an isotope with a very high capture cross-section for neutrons. This isotope had a half-life of about three days. So the reactor stayed shut down for three days and then it started right up. So we learned a lot of things that we didn't know about in nature.

**White:** Can we jump to more recent times? Please tell us your thinking about the structure of the nucleus.

**Moon:** Let me review the von Klitzing quantum Hall resistance experiments, first.

We published several articles on Klaus von Klitzing's work in *Fusion* and the *International Journal of Fusion Energy*. He is a German who looked at the conductivity of very thin pieces of semiconductor. A couple of electrodes are placed on it. The electrodes are designed to keep a constant current running through the thin semiconductor strip. A uniform magnetic field is applied perpendicular to the thin strip, cutting across the flow of the electron current in the semiconductor strip. This applied magnetic field, thus, bends the conduction electrons in the semiconductor so that they move toward the side. If the field is of sufficient strength, the electrons become trapped into circular orbits.

This alteration of the paths of the conduction electrons produces what appears to be a charge potential across the strip and perpendicular to the original current flow.

**White:** This produces a resistance?

**Moon:** That's right. If you measure this new potential as you increase the magnetic field, you find that the horizontal charge potential will rise until a plateau is reached. You can continue to increase the magnetic field without anything happening, within certain boundaries, but then once the magnetic field is increased beyond a certain value, the potential will begin to rise again until another plateau is reached, where, within certain boundaries, the potential again does not increase with an increasing magnetic field.

**White:** What exactly are you measuring?

**Moon:** The Hall resistance measures the voltage across the current flow, horizontal to the direction of the original current, divided by the original current. That is the Hall resistance. It was this particular experiment which provided the immediate spark leading to the development of my model.

Of course all of this was done, by von Klitzing, at liquid hydrogen temperatures to keep it cool and prevent the vibration of particles in the semiconductor lattice, a silicon semiconductor. The current was kept constant by the electrodes embedded in it.

**White:** So what you had was essentially like a two-dimensional fluid.

**Moon:** Yes, and under these special conditions, as the cur-

rent is plotted as a function of the magnetic field, we find that plateaus emerge. There are five distinct plateaus. At the highest field strength the resistance turns out to be 25,812.815 Ohms. As we reduce the field, we find the next plateau at 12,906 Ohms, and so on until after the fifth, the plateaus become less distinct.

The theory is that the strong magnetic field forces the electrons of a two-dimensional electron gas into closed paths. Just as in the atomic nucleus, only a definite number of rotational states is possible, and only a definite number of electrons can belong to the same state. This rotational state is called the Landau level.

So what we have here is a slowly increasing magnetic induction, and resistance increases until plateau values are found. At these values, there is no further drop in voltage over a certain band of increased magnetic induction. Some electrons now appear to travel through the semiconductor as if it were a superconductor.

The question which I asked myself was, why at higher field strengths did no more plateaus appear? Why did no higher plateau appear, for example at 51,625 Ohms? At the lower end it was clear what the boundary was—at the point at which six pairs of electrons were orbiting together, the electrons would be close-packed, but the magnetic field was too weak to create such a geometry. However, I asked myself what the limit was at the upper end.

**White:** Is this what led you to your model of the structure of the atomic nucleus?

**Moon:** That's right. I started out by considering that the orbital structure of the electrons would have to account for the occurrence of the plateaus which Klitzing found, and I realized that the electrons had to be spinning together in pairs as well as orbiting. That was the significance of the upper boundary occurring at the value of 25,000-plus Ohms.

I first concluded that this happens because the electron has a spin. It spins around its axis, and when it spins about its axis, a current is produced by the spin, and a little magnet is produced by the spinning charges.

According to Ohm's law, the current is equal to the field divided by the resistance, so that the resistance is equal to the field divided by the current. Klitzing found that the resistance in the last plateau was 25,812 Ohms. I wanted to find out why this was the last distinct plateau.

First of all I realized that the electrons seem to like each other very well. They travel in pairs, so that one will spin in one direction and the other in the opposite direction. They seem to like to go around in pairs, especially in solid-state materials such as semiconductors. The spins will be in opposite directions, so that the north pole of one will match up with the south pole of the other.

**White:** Isn't this like the formation of Cooper pairs in a superconductor?

**Moon:** Precisely. When the Landau number is 1, we have

two spinning electrons oriented north to south pole, which also orbit each other. The resistance is reduced and the Landau number increases at the next plateau, so that two spinning pairs of electrons orbit each other, and so on until we reach the fifth plateau. I began to wonder what was really being measured here. The answer turns out to be very exciting.

Well, as long as we are limited to a two-dimensional space, then we see that by the time we get six pairs orbiting, we will have close packing. We see a geometry emerging, a structure of the electron flow in the semiconductor.

Now, the Hall resistance is determined by Planck's constant divided by the ratio of the charge squared. But we also find this term in the fine structure constant. Here, however, the Hall resistance must be multiplied by the term  $\mu_0 \times c$  [ $c$  = the velocity of light]; in other words we must take the ratio of the Hall resistance to the impedance of free space. We can look at this as a ratio of two different kinds of resistance, that within a medium to that within free space itself.

This led me to look for a three-space geometry analogous to that which I had found in the two-dimensional space in which the Hall effect takes place. I began to wonder how many electron pairs could be put together in three-space, and I saw that one might go up to 68 pairs plus a single electron, in order to produce 137, which is the inverse of the fine structure constant.

Well, that's the way ideas begin to grow. Then it becomes very exciting. And then you begin to wonder, why these pairs, and why does this happen?

It is common today to write formulae neglecting the units of measurement and values, such as magnetic permeability and the dielectric constant. The question of the standard of measurement is obscured, and even more important, the question of the structure of space is ignored. This takes the student away from the reality of an experiment, where the permeability of free space, or of a particular medium is crucial—for example, in the simple case of a condenser.

**White:** Am I correct that you were seeking a structure of space which would correspond to the way in which a semiconductor structured electron flow?

**Moon:** That's right. The velocity of light times the permeability of free space is what we call the impedance of free space. There is something very interesting about the impedance of free space. According to accepted theory, free space is a vacuum. If this is so, how can it exhibit impedance? But it does. The answer, of course, is that there is no such thing as a vacuum, and what we call free space has a structure.

The impedance of free space is called reactive impedance, since we can store energy in it without the energy dissipating. Similarly, radiation will travel through a vacuum without losing energy. Since there is no matter in free space, there is nothing there to dissipate the energy. There is nothing for the radiation to collide with, so to speak, or be absorbed by, so the energy just keeps there. This is what we call the reactive component.

It is "reactive," because it does not dissipate the energy, but is passive. And this equals  $376 + \text{Ohms}$ . This reactive impedance is one of the important components of the equation of the fine structure constant.

The equations for the fine structure constant will always involve the ratio, 1:137, and actually this ratio as Bohr looked at it, was the ratio of the velocity of the electron in the first Bohr orbit to the velocity of light. That is, if you multiply the velocity of the electron in the first Bohr orbit of the hydrogen atom by 137, you get the velocity of light.

**White:** So then the electron orbiting the hydrogen is held in place by something like the Hall resistance?

**Moon:** In the sense that the orbiting electron is bound to the hydrogen atom, around which it is orbiting. This stuck in my mind for several years. Immediately you begin looking at this ratio, you see that this is identical with the impedance in a material medium like the semiconductor, which von Klitzing experimented with compared to the permeability of space.

Since the Hall resistance is dissipative, then we have here a ratio between two different kinds of resistance, a resistance within a material medium and a resistance of "space." That being the case, we are entitled to seek a geometry of space—or in other words, we are no longer able to talk about "empty space." From looking at von Klitzing's experiment, I was led to these new conclusions.

This is the equation for  $\alpha$ , the fine structure constant:

$$\frac{1}{\alpha} = \frac{2h}{e^2 \mu_0 c}$$

Another conclusion which I was able to draw, was why the number "2" appears in the fine structure constant. Well, it turns out that the 2 indicates the pairing of the electrons.

And when you get this ratio, this turns out to be 1:137. So you have the ratio of the impedance of free space, which is non-dissipative, over the impedance in a material media, as measured by von Klitzing, which is dissipative, giving you approximately 1:137. We have seen major advances in semiconductors in recent decades which permit us to make very accurate measurements of the fine structure constant.

Today, we have even better methods based on superconductors. In a superconductor, the impedance will be very low, like that of free space. There is no place for the electron in the superconductor to lose energy.

As a result of this, I began to conclude that there must be structure in space, and that space must be quantized. Of course, I had been thinking about these ideas in a more general way, for a long time, but looking at von Klitzing's work in this way, allowed me to put them together in a new way, and make some new discoveries.

**White:** Weren't these ideas connected your original work in quantum theory?

**Moon:** Yes, I was led to reflect again on the ideas of de Broglie and Bohm on the quantum potential. To understand these, we must first take a look at some of the apparent





These are Greek terms used by Plato. *Kairos* is God's time; *chronos* is man's time. When your alarm goes off in the morning, or you have to meet someone at such and such a time, that is *chronos*.

This is where *chronos* and *kairos* come in. *Chronos* goes along as a linear function, which is increasing with the lapse of time; but if there is a gap between each instance of time, because time is quantized, how would we know it? There could be gaps in time right now, and since we are going by *chronos* we wouldn't know it, would we?

I began to explore the concept that time, like space, is quantized, since *kairos* is coexistent with *chronos*. In God's time, events occur virtually instantaneously. This is completely different from time as we ordinarily experience it. Information is not transmitted sequentially, as if a person were giving orders to a subordinate, or one biological system giving information to another.

It is a question of the velocity of transmission of information. In *kairos* time, this is instantaneous. I can't say how long the transmission period lasts, perhaps it is a microsecond, maybe a femtosecond. Anyway instantaneous transmission doesn't require much time, does it?

This means that every particle instantaneously knows about every other particle in the universe, which is exactly de Broglie's idea, and David Bohm is who rediscovered it. They worked together on this general idea up until de Broglie died, this past year.

**White:** This seems to me to have some very curious implications.

**Moon:** It would mean that every one of us must, to some extent, be aware of everything else in the universe. Of course, though we may be aware of it, we may not comprehend it. That is another thing.

**White:** I find that hard to believe.

**Moon:** At any rate this is the situation, I think, in which we live. There is a knowledge of what is happening in the universe.

Even though it was 155,000 light-years away, we had this supernova. And to think that the light coming from it, the radiation coming from it would keep together for 155,000 light-years. That's quite a distance. Just think how difficult it is to keep together, if you are just walking with somebody, even walking a block. But, these waves are keeping together. And there even seem to be some neutrinos coming along. And the neutrino is a particle. It seems to get here. At least a few did. I think there were seven at last count.

**White:** The neutrino's a curious little beast, isn't it?

**Moon:** It is a curious particle to say the least. It travels at the velocity of light. It is a particle without mass, and it never seems to collide with any other matter.

In any event, I was struck by the implications of the quantization of time as well as space. Perhaps this is a bit far

afield, for this discussion. The thing that seems absolutely clear to me, is that if space is going to be quantized, it should be quantized with the highest degree of symmetry. This leads immediately to the Platonic solids, since these are the only regular solids which we can build in three-space, the only solid figures, with the exception of the circle itself, which have perfect symmetry. It seems very obvious how these solids should fit. You start out with the tetrahedron. And the tetrahedron fits into the cube. Two tetrahedrons fit into a cube.

The tetrahedron has this kind of symmetry, doesn't it? The four corners of one tetrahedron would take up four of the eight corners of the cube, if we allow the two tetrahedrons to intersect. So that one crosses the other and the cube is made up of two tetrahedrons.

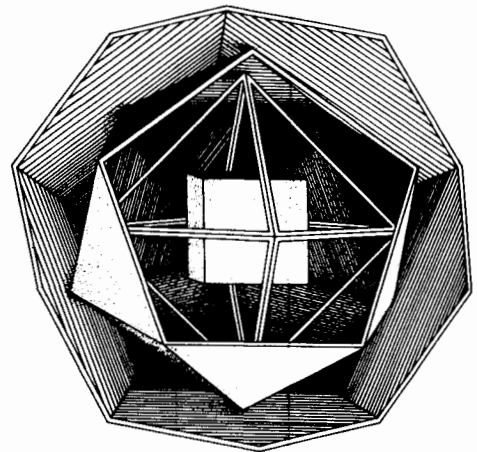
The first tetrahedron has just one proton on it. That's hydrogen. Sometimes it gets another neutron. That's deuterium. With two neutrons added to the proton you have tritium. But these neutrons don't have to be on a vertex. The neutron has no electrical charge and therefore they can be scattered about. When you have two protons and two neutrons on the tetrahedron you have helium.

I want to say, with helium, that with this structure, we have known for a long time that among all the elements there is a periodicity of four, in terms of atomic weight—two protons, two neutrons.

The way the model which I have developed works for the nucleus, is that there is a series of nested Platonic solids, one inside the other (**Figure 1.**) Each succeeding inscribing solid is placed such that the vertices of the inscribed solid fall on the face centers of the outer solid [except for the icosahedron-octahedron, discussed below]. This acts as an exclusion principle. There is only one proton per face center. One and only

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FIGURE 1  
**Nested sequence of four Platonic solids**



one. This is an exclusion principle. The protons are on the vertices of a solid which is inscribed so that it touches the face.

We need not worry about the neutrons, because they have no force acting upon them really, other than the gravitational force. Therefore, their position on the structure is not constrained.

Just imagine a cube with four protons on its upper edge and four below. When all of the vertices of the cube are filled we have eight protons, which gives us oxygen.

Now we fit an octahedron around the cube, and each one of its faces will touch the face of an icosahedron that circumscribes the octahedron. Of course, since there are six vertices of the octahedron, it will not be centered within the icosahedron, but will tilt (**Figure 2a.**) When the vertices of the octahedron are filled we come to silicon, which is the most abundant element on Earth, in the form of sand—silicon dioxide. The icosahedron is directly related to the Golden Mean, because its structure is composed of pentagons. It is therefore intriguing to find that, when we fill the first vertex of the icosahedron, we have phosphorus, which is a major source of energy for nerves and muscles within the body.

We fill up the 12 vertices of the icosahedron, thus getting iron, and then, the 20 vertices of the dodecahedron give us the 46 element, palladium (**Figure 2b.**) Some astronomers believe it to be the building block of the universe.

Now we wish to add a second set of nested solids to the first. We place a second dodecahedron on the first, and find that we can fill up an additional 10 positions on the new dodecahedron, and one more to begin to close the face. This gives us minimal stability; however, we don't wish to close up the second dodecahedron until we have placed an icosahedron, octahedron, and cube within it. Therefore, we fill up 11 positions on the second dodecahedron, leaving an additional four to be closed up at the end.

These 11 positions bring us to lanthium, and following this we begin building up the inside of the second dodecahedron first with a cube and then an octahedron around it as before. These 14 additional positions give us the 14 rare earths. When we finish filling up the second series of nested Platonic solids we reach element 86—the last of the noble gases.

In this nucleus, the two sets of nested solids share a dodecahedron face (**Figure 3a**)—that is five vertices of one face are shared by each of the nested sets—and one vertex of the two icosahedrons (the ones located on that face) is also shared by a proton. This configuration generates 86 available places for protons.

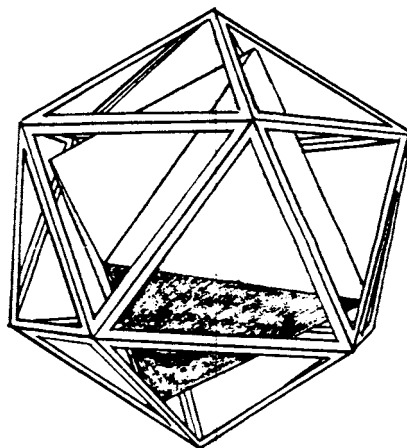
**White:** You've used up your two dodecahedrons, but there are still more elements left. What happens now?

**Moon:** Now the fun begins. How do we place the next six protons? We must open up the shared face. Perhaps it opens like a door on a hinge. This would free four vertices and take us up to element 90, thorium, since three of the vertices of

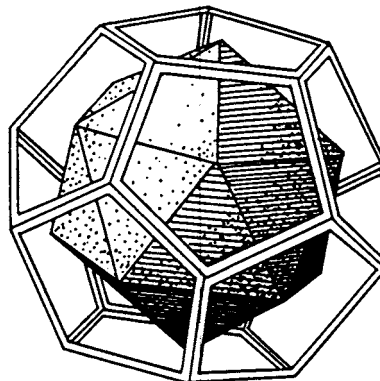
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FIGURE 3

**a) Nesting of octahedron in icosahedron**



**b) Nesting of icosahedron and dodecahedron**



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the shared dodecahedron face and one of the shared icosahedron face would have become available. In order to get element 91, protactinium, the hinge is broken and the two sets of solids only share one vertex (**Figure 3b.**)

This brings us to element 92, uranium. In this case all of the vertices of the two series of nested Platonic solids must have occupied vertices. This means that none of the vertices can share a proton. Therefore, if our rule about only one proton to a vertex is to hold, uranium must represent a situation in which the two dodecahedrons inter-penetrate each other. This inter-penetration of the two dodecahedron vertices provides the linkage between the two complete sets of the four nested Platonic solids.

This configuration leads quite naturally to the possibility of fission. The configuration is not very stable. Simply adding a low-energy neutron to uranium-235 produces nuclear fission. When the two dodecahedrons break apart—when nuclear fission occurs—it is very unlikely that both of the outer dodecahedrons will survive intact; and that is what we find

in the spectrum of fission products. Very few of these products are, or are near, palladium. That means that a large part of one of the outer dodecahedrons shatters during nuclear fission, which is what you would expect from the model of two inter-penetrating vertices.

There is another extremely interesting feature of this model. Back in the early 1930s, an effort was made to describe a kind of periodic table for the nucleus. Certain key values either of neutrons or protons give particularly stable configurations. These are known as magic numbers. The nuclear magic numbers are 2, 8, 20, 28, 50, 82, and 126. Two and eight are obvious, giving helium and oxygen. Twenty, in my model, falls in the sixth position of the icosahedron, filling up a pentagon (if we consider the edges of the icosahedron). The element calcium falls here, one of the most crucial for the health of bones and tissue. Zinc, number 50, is positioned on the second dodecahedron, as we complete the first five positions of the new dodecahedron, circling it once. Tin, number 82, occurs as the point at which we have encircled the second pentagon of the icosahedron which is placed inside the dodecahedron, right before we move to close the dodecahedron, and move to close the last vertex of the octahedron, which will rest on the upper face of the dodecahedron.

**White:** What other significance do you see in your model, besides the question of the symmetry of the five regular, Platonic solids?

**Moon:** I was quite delighted to note that the ratio of the edge of the dodecahedron is in the Divine Ratio to the edge of the inscribed cube. This is the best ratio you get after you have completed the model, so that the solids fit together. You get the Divine Ratio, that is,  $(1 + \sqrt{5}) \div 2$

Here are the measurements which I used in building the model.

Edge length in millimeters: cube—100; octahedron—117.106; icosahedron—131; dodecahedron—61.8033

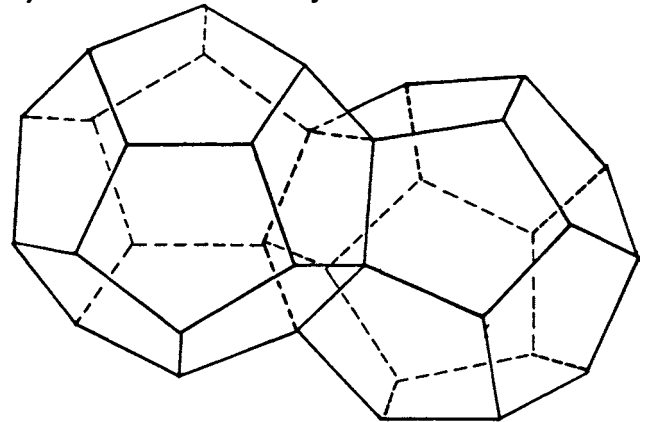
Now notice that, as you proceed inward from the dodecahedron, the edge length at first increases. Now the idea is that they all fit together well with one vertex in each face. We really begin to have fun when we have to choose the best symmetry for fitting the octahedron inside the icosahedron. We can have quite a bit of wobble, when we place the octahedron inside the icosahedron. But we are dealing with a very peculiar type of element here in this transition.

**White:** In a sense, you have a break, something like a register shift in music or a phase-shift like the asteroid belt in the solar system.

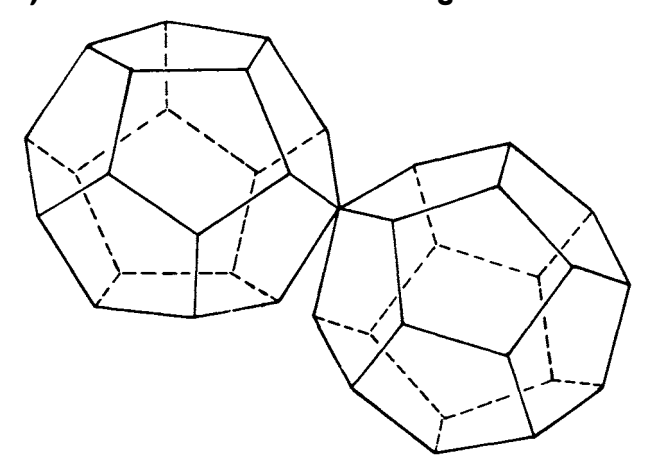
**Moon:** Yes. If you look at the properties you find that they vary, very, very, very rapidly with this element. We have 8 with the cube and 6 with the octahedron, to get 14 altogether before proceeding to the 15th element, the first with part of the icosahedron. What is element 15? Phosphorus. Phosphorus, which is so important in living things.

FIGURE 4

**a) Twin dodecahedra joined at one face**



**b) Twin dodecahedra with "hinge" broken**



**White:** We have been talking about particles which fill up points in space. How does this accord with de Broglie's insight? From each other?

**Moon:** The particles are really singularities in space. They are not really particles, it is only more convenient to refer to them in that way. These singularities are where these particles can go. When you go beyond the icosahedron, you have the dodecahedron. The icosahedron will fit exactly into the dodecahedron because there is an exact fit between the vertices and faces.

We can now see the problem more clearly. There is a proton flux in the universe, cosmic rays in outer space. It is from this that the elements are created. It is as if they have to find a "parking place." The protons find their parking place at what corresponds to the vertices of these nested Platonic solids. And the neutrons, which are also out there, we simply fit in, because they have no charge and they can go almost anywhere.

## Brazil's debt crisis in the world's financial crash

by Lyndon H. LaRouche, Jr.

*Lyndon H. LaRouche, Jr. issued the following analysis, on Oct. 26, under the title, "The Strategic Significance of Brazil's Debt-Crisis under the Present World Financial Crash," in his capacity as honorary co-chairman of the republican philosophical association, the International Caucus of Labor Committees.*

Radical shifts in U.S. policy during 1982 opened the door for a massive Soviet strategic penetration of Central and South America. One key break was the Reagan administration's handling of the Malvinas War. Most decisive was the Reagan administration's rejecting the option for dealing with the debt crisis which I detailed in my August 1982 *Operation Juárez*. Instead of the *Operation Juárez* solution, in October of 1982, the administration backed the Boston and New York financial speculators' plans for looting Central and South America, launching the international financial bubble which has now burst, 60 months later.

The Soviets have been increasingly successful in exploiting the opportunities created by those two shifts in U.S. policy. In the case of Peru and Colombia, the Soviets are presently seeking to push the establishment of short-lived military regimes, as a means for building up mass political and logistical support for the growing, Soviet-directed guerrilla and terrorist forces in those nations. Moscow has moved into a strategic position in the economy of Argentina. Recently, Moscow has moved into Brazil, seeking to grab up control of that nation's strategic minerals production, while also preparing the way for possible civil war and other developments in Moscow's geopolitical interest.

Now, with the world gripped by the opening stage of the biggest worldwide financial crash in history, the nations of Central and South America are faced with a new ratchet of "IMF conditionalities"-pivoted austerity and foreign looting, at the same time that the present policies of the OECD nations and IMF are about to be obliterated in the next major wave of the global financial crash.

The governments of these developing nations are placed so in the following sort of paradoxical situation. On the one side, common sense says, "Why should we enter into agreements based on current monetary policies which are about to



Philip Ujanowsky

Boston, Oct. 20, 1987, the day after the U.S. stock market fell more than 500 points. Anxious citizens line up to watch a moving sign of stock market quotations.

be overthrown by the present financial crisis?" On the other side, common sense says, "At this moment, the Reagan administration is so hysterical about defending the illusion of a recovery which never occurred, that, for the next weeks, the banker-controlled Reagan administration will be more brutal than ever before in demanding savage austerity from nations it has already looted down to the bone over the past five years."

The natural inclination of most of the governments caught in this vise, is to ask if there is some way to pretend to be willing to submit to more foreign looting, without actually doing so. "Why not make token concessions, to appear to go along with the demands long enough for these inhuman IMF policies to be obliterated by the financial crash?"

These questions of monetary and economic policy, can not be answered in the constricted terms of reference of monetary policies as such. Issues of monetary and economic policy must be examined in a larger framework: how choices made in these areas of policy now, bear upon the broadest and most profound aspects of strategic questions.

The nations of the continent know that were Western civilization in general to collapse, their own nations would each be doomed. Yet, at the same time, they think to themselves, "We have the immediate particular interests of our nation to consider. We are much too small and poor to imagine that we could do anything to change the direction of things on so broad a scale as civilization as a whole." This is the old question: How is it possible that we might simultaneously deal with our own immediate affairs, the microcosm, and the

macrocosm of developments on the scale of civilization at large?

Complex as that expression of the ancient microcosm-macrocosm paradox might first appear to be, the solution to this riddle can be seen rather clearly, if we arrange the facts in the proper order.

We begin with the strategic question in the large, and proceed from that standpoint to the issues immediately facing each of these nations.

### The East-West strategic crisis

*A posteriori*, what we term "Western civilization" appears to be a mixture of conflicting cultural heritages and tendencies, some of these apparently representing mutually irreconcilable philosophies. Yet, if we take the rise of Western civilization since the classical Athens of Solon, and, most emphatically, since the writings of St. Augustine, a meaningful definition of "Western civilization" emerges clearly.

What we ought to point toward as the essence of *Western civilization*, is that current which has been directly responsible for the rise of Western European culture as the most powerful culture on the face of this planet, the culture which raised the moral and material potential of the individual person to the highest level ever known.

An economist or physicist might say, that to see the superiority of this specific cultural force within our civilization, it is convenient to imagine ourselves in a debate with those who call themselves "anthropologists" or "ethnologists," and insist that the earliest form of society was what

they label “hunting and gathering society”: a form of society below the level of the simplest sort of production.

The science of physical economy permits us to estimate the size of such a society’s population. Approximately 10 square kilometers of land-area, on the average, would be required to sustain the life of an average human individual. It would be a very wretched and precarious mode of existence, with life-expectancies averaging well below 20 years of age. This places an upper limit upon the total human population of this planet under such conditions: approximately 10 million individuals.

Today, more than 5 billion individuals exist. Despite the considerable poverty among that population as a whole, with existing technologies we could sustain a population larger than the present size, at an average life-expectancy and standard of living comparable to or better than that prevailing in the United States at the beginning of the 1970s, the high-water mark of real consumption standards so far. We have more or less immediately available to us, the greatest rate of technological progress in the existence of mankind.

So, the potential human population of our planet today is about three orders of magnitude (a thousandfold) greater than for a “hunting and gathering society.” If we measure the energy content of the production of a 1970 U.S. per capita market-basket, this amounts to an improvement of several orders of magnitude more. It is fair to say, as a rule of thumb, technological progress has raised the potential of humanity by approximately one million times above the level of “hunting and gathering society.”

The central feature of this advancement, is what we call today “scientific and technological progress.” Through the development and application of the creative powers of the individual human mind, we are able to discover laws of the physical universe less imperfectly. We use that creative improvement in our knowledge to guide us in making changes for the better in our daily habits of productive and other practice.

No lower form of life can do this. From the standpoint of the science of physical economy, this potential for scientific and technological progress is what distinguishes the human species absolutely from the beasts. This shows man to be a qualitatively superior species, peculiarly, uniquely suited to exert dominion over nature and all creatures within it. Technological progress is indispensable for the successful continuation of human existence, under conditions of population growth and depletion of natural resources.

This compels science to look more closely at the creative mental powers of individuals. We wish to know exactly what occurs in the mind, while a valid creative discovery is being developed, and how to foster the development of such mental powers. We wish to know how to foster the increased role of such powers in the work of society; we wish to know how we might estimate the rates of increase of productivity caused by advances in technology.

The obvious place to turn first, to conduct such studies, is example of some valid fundamental discoveries in physical science. We must identify the difference between the way physical science defines laws of the universe before such a discovery, and the new way those laws are defined after such a valid discovery.

This comparison is readily made, especially if we use the kind of mathematics associated with the complex domain of Karl Gauss and Bernhard Riemann. We can state the way scientific opinion defines the laws of physics before and after the discovery, describing both cases in terms of this choice of mathematics. We then examine closely the differences between the two sets of formulations.

From the standpoint of deductive logic, we observe that the essential difference has the form of a change in the axioms of the geometry. Our next task is constructing a kind of mathematical function which makes the change from one set of formulations to the new ones an intelligible one in the language of physics. This formulation will belong to a very special class of what we call “nonlinear” functions.

We then compare creative discoveries in physical science with creative discoveries in such artistic media as classical musical polyphony, the classical painting, sculpture, and architecture we associate with the tradition of Leonardo da Vinci, and so on. We are able to show that both classes of creative discovery, scientific and artistic, are exactly the same form of mental activity.

We are also able to show, psychologically, that the production of scientific and artistic discoveries of this sort is associated with a specific sort of emotion known in the classical Greek as *agapē*, the opposite to *eros*. This is the emotion we associate with “tears of joy,” the joy of witnessing this sort of pleasure in a child who has accomplished what is, for that child, an original, problem-solving or kindred discovery. We recognize this as the emotion evoked by a sense of beauty of a work of classical art. It is the emotion of love of God, of love of mankind, and the emotional state of a mind engaged in valid creative scientific discovery.

It is for this reason, that scientists are sometimes correct in identifying the emotion of creative moments as akin to a “religious feeling,” or that one associates the same sort of “religious feeling”—*agapē*—with the great musical masterworks of a Bach, Mozart, or Beethoven.

From this standpoint, we are able to understand better how and why the anti-Roman principles of statecraft elaborated by St. Augustine take us beyond the best contributions of classical Athens, to establish a form of society and state so ordered as to promote this kind of creativity. It is this which evokes tears of joy during the singing of the Latin Creed, especially as the *Filioque* is uttered. This is the joy of St. Paul’s sermon on faith, hope, and *agapē*.

Thus, the far greater potential of our culture for promoting scientific and technological progress, is more readily identified. This is the genius of Western civilization; it is that

we must defend in Western civilization. Strategic thinking properly begins, by defining that to which this genius of Western civilization is most directly opposed, and the which opposes it maliciously.

The typical adversary is the degraded conception of God and of man associated with ancient Mesopotamia, with the ancient Canaanites, with those Greeks who saw the mythical gods of Olympos as the model for the ordering of society, and with those Roman empires which based their ordering of society upon the Mesopotamian, Phoenician, and Olympian models.

In the history of medieval and modern Europe, this has been the perpetual East-West conflict, up through the present time. Western Europe's missionaries spread Western Christianity into the Ukraine and up to the borders of Muscovy generally. About nine centuries ago, Muscovy was established for the specific purpose of serving as a bastion and point of counteroffensive against the influence of these missionaries.

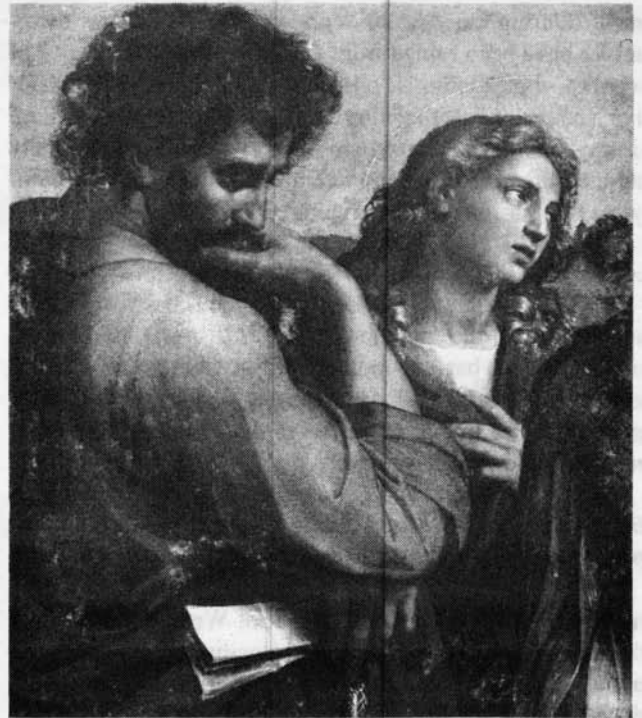
Western Europe made important cultural inroads into Russia under Peter the Great, and under Czar Alexander II during the last century. Those forces inside Russia's aristocracy and "Old Believer" cults who represented the tradition of hatred against Western civilization, unleashed the Revolutions of 1917, which destroyed the Westernizing state established by Peter the Great, and which brought the old paganist cultural currents of Muscovy to dictatorial power.

So, Moscow today is the principal armed adversary among all the forces dedicated to the extermination of Western civilization. Every other aspect of that conflict but the one we have just summarized, is secondary to the principal issue: two mutually exclusive conceptions of God and the individual person.

Today, humanity as a whole is suffering many deadly afflictions. One of these, the AIDS pandemic, has the potential for rendering the human species extinct. Others, such as deepening material wretchedness, the general spread of famine and disease, and the upsurge of various forms of mass, homicidal irrationalisms, threaten to plunge humanity into some deep and prolonged dark age.

Assume that we might come under Moscow's global domination, either by default, or by submission for sake of avoiding warfare. What would the condition of humanity become under Russian domination? Would mankind be mustered to undertake those mobilizations of scientific research and multi-trillion-dollar programs of care and economic development indispensable to save mankind from the doom of the AIDS pandemic? Would the nations of Europe, the Americas, Asia, and Africa, be mobilized to crush the forces of homicidal irrationalism, and to launch the vigorous scientific and technological progress in economy needed to prevent the slide into a new dark age?

That is the essence of the strategic issue; that is the macrocosm.



*St. Paul and St. John the Evangelist, from a painting by Raphael of c. 1512. The concept of "agapē," developed by St. Paul in his famous sermon, is the creative emotion associated with scientific and artistic discovery, whose fostering is the key to Western statecraft.*

## **Erosion within**

On the surface, it is curious that Moscow could be the serious threat to civilization it has become today. The OECD nations represent approximately twice the population of the Russian empire. The labor force of the OECD nations has demonstrated potential productivities per capita approximately twice that of the labor force of the Russian empire, and this chiefly because of the indicated superiority of the culture of Western civilization.

The population of Ibero-America, now approximately 350 million, has the same cultural matrix as Western European culture. This signifies that that population has the potential rates of growth of productivity of Western Europe and the United States. The population of non-communist Asia is massive, and parts of this, such as India, have great productive potential. There is Africa. Together with the OECD nations, our potential wealth is many times that we presently possess. Also, the traditional allies and friends of the OECD nations represent most of the land-mass and ocean choke-points of the planet.

How could Moscow have become so great a strategic threat? The answer is, essentially, we have rotted ourselves from within. Through revival of neo-colonialist policies of rentier-finance during the postwar period, we have denied the developing nations the full right to economic develop-

ment. During the past 20 years, the OECD nations themselves have been ruined from within, under the guidance of a policy of promoting a "post-industrial" sort of utopianism. For about a quarter-century, much of the generation born during the immediate postwar period was crippled culturally through the promotion and toleration of the synthetic, dionysiac rock-drug-sex counterculture.

During the past 16 years, since the U.S. monetary crisis of August 1971, the evolution of what has been called a "floating exchange rate" monetary system, has fostered the acceleration of the "post-industrial" drift. Agriculture, manufacturing, and basic economic infrastructure are now in ruin among all OECD nations excepting Japan; the pre-1967 growth trends among some developing nations have been reversed, sometimes massively.

It is this material and moral erosion from within, which has so weakened Western civilization that the Russian imperial threat has become an immediately credible one.

Although the Soviet Union has developed an expanding military capability greater than that of Western Europe and the United States combined, the principal strategic weapon used by Moscow is cultural warfare intended to accelerate the erosion of Western civilization from within.

It is exemplary that Soviet subversion in Central and South America is guided by Sergei Mikoyan's superiors in the Soviet Oriental Institute. In part, this reflects the heritage of N.M. Roy's activities in Asia and the Americas before and after the Bolshevik insurgency of 1917. Essentially, it reflects the commonality of method, of Soviet subversion in Asia and in Ibero-America: the emphasis on particularist insurgencies and strange religious cults, as well as drug-traffickers and terrorists, as the principal Soviet assets of destruction on the ground.

The erosion of Western civilization by such degrading influences, echoes the potential for Nazi recruiting in 1920s Weimar Germany. The collapse of the commitment to scientific and technological progress as the driving force of economic growth, the erosion of conditions of life under this circumstance, has fostered a deepening cultural pessimism and associated susceptibility to irrationality within the affected populations.

In all strategic conflict, the proportion of total effort devoted to military exertions as such does not exceed about 20%. Eighty percent or more is consumed in cultural, economic, and political measures, for strengthening our society, and for weakening the threat posed by the adversary. Today, there is much reference to the collapse of the military potential of the West, relative to the rapid and accelerating growth of the military capabilities of Russia. This observation is a true fact, but it draws attention away from the more important fact, that it is in the dimension of cultural, economic, and political factors that our civilization has been losing the war even before it were fought.

The United States and other OECD nations, by tolerating

and fostering the austerity and looting imposed upon developing nations, has been acting against the most vital strategic interests of the Atlantic Alliance. The OECD nations, as nations, gain less than nothing from such oppressive actions.

These developing nations are traditional markets of the OECD nations. The greater the per capita output and income of these developing nations, the greater the market they represent for "technology transfer" qualities of exports from the OECD nations. Those exports are not only income from sales to developing economies; as those exports of capital goods are increased, the rate of turnover of capital goods production in the OECD exporting nations is increased, thus raising the levels of productivity throughout the OECD economies as a whole, an arrangement of the greatest mutual economic benefit.

The developing nations are thrust into resisting the oppressive folly of current OECD nations' policies toward the developing ones. That for which the developing nations fight is in the greatest strategic interest of the OECD nations.

So the external debts of the developing nations are to be seen. It is in that context that we must view the impact on the debt policies of the presently erupting worldwide financial crash.

## **The financial crash**

The present financial crash has been caused solely by the fact, that the leading rentier-finance interests of the U.S.A. and other OECD nations induced their governments to avoid the implications of the 1982 debt crisis, by launching the biggest "John Law"-style financial bubble in history. For the same reason that all such bubbles must burst, this one has now exploded.

At the moment, there are many conjectures as to how the crash was triggered. "Who did it, and why?" is the nature of such speculations. Some attempt to blame "computerized stock-trading." That certainly helped to increase the volatility of secondary markets in securities; it did not cause the crash. Some say that German, or Swiss, or Venetian, or British, or other financier interests decided to prick the bubble; such charges are irrelevant; there are always pin-pricks darting back and forth in financial markets. The question should be, why were the markets so vulnerable to such pin-pricks now, if they were not vulnerable to the same kinds of pin-pricks a few years earlier?

The bubble burst because it was a very much overstretched bubble, floating about in increasingly unregulated financial markets. The fruit fell because it was overripe.

If we look at the individual prices of securities, it might appear that the price-earnings ratio was floating below 200:1. If we trace the sources of what appear to be earnings on particular securities, or if we simply examine the markets as a whole, it is clear that the price-earnings ratio has risen to levels of approximately 1,000:1. Financial markets, especially those in securities and speculative real estate ventures,



represent a “John Law”-style bubble stretched to the bursting-point.

When that sort of bubble reaches that kind of critical value, anything done by governments, central banks, or private investors, must make matters worse. Rising exchange values of currencies threaten to trigger collapse, but so do falling values. Monetary constrictions threaten to set off the crash, but so does monetary expansion. Deficits suggest that budgetary cuts, or higher taxes, or both, are need to stabilize bond markets, but all such measures merely make the situation worse. Some scream that action must be taken to reduce trade deficits, but such supposed remedies produce the same kinds of results as the notorious Smoot-Hawley tariff enacted under President Hoover. Anything governments, central bankers, and private investors do is wrong, but doing nothing sets off the crash immediately.

Confront an investigating team of physicists with these facts. That team will say, “Your system has reached a critical value,” analogous to those sets of absolute, critical values, at which water becomes ice, or vaporizes, and so on. The process has reached the level at which a physical change in state is inevitable.

The crash now in progress occurred because it was inevitable, no matter what governments, central bankers, and private interests did to attempt to stabilize the markets. It is the biggest, worldwide financial crash in history, threatening to plunge the entire world into a prolonged depression much worse than that which emerged over the 1929-32 period of successive financial crises.

Who caused this crash? Who first introduced the utopian dogma of “post-industrial” change? Who proposed to remove the gold-reserve policy from the Bretton Woods monetary system, and to create and maintain a “floating exchange rate system”? Who proposed to introduce what are called the “Volcker measures” to the U.S. economy in October 1979, and to perpetuate these over the past eight years? Who introduced the “IMF conditionalities” doctrines? Who introduced deregulation of the U.S. banking system back during 1978? Who introduced, also beginning 1978, deregulation of U.S. interstate and foreign commerce?

Those are not frivolously academic questions. Those listed changes in policy are the direct cause for the creation of the vast financial bubble now exploding in markets around the world. These policies affected the behavior of economies and financial markets in the same way the adopted rules of any game affect the way in which the game is played and scored.

In a formal Euclidean geometry, or any neo-Euclidean geometry based on deductive analysis of a system of fixed axioms and postulates, every theorem constructed to be consistent with the axioms and postulates is no more than a “hereditary” consequence of what was already implied in the adoption of that set of axioms and postulates. If any consistent theorem in a deductive geometry is shown to be false,

that is conclusive proof that one or more of the axioms and postulates of the entire geometry is false.

The same is true of all deductive mathematics, or any system of formal logic. A monetary system, and the financial markets associated with it, are games conducted according to a set of rules. The rules of the system are based upon a set of underlying, more basic assumptions which mimic the axioms and postulates of deductive systems generally.

When the financial system recently reached the critical limit, at which the crash became inevitable, the point was reached at which no economic recovery will be possible until most fundamental economic and monetary policies of the past 20 years have been replaced by appropriate new policies. Therefore, now that this critical region has been reached, the economy will simply continue to collapse until the old set of policies (axioms and postulates) are discarded, and replaced, in the most sweeping way, with an appropriate set of new policies.

The financial bubble now disintegrating, was set into motion during the years 1967-72, from the November 1967 devaluation of the British pound, through the 1972 Azores monetary conference. The basic structure of the bubble is defined by two axiomatic features of continuing policy: those 1966-67 decisions by the Johnson administration which introduced the doctrine of “post-industrial” utopia, and the Nixon administration’s decisions of the period from August 1971 through the Azores conference, which eliminated the gold-reserve system, and established the “floating exchange rate” system in its place.

These axiomatic changes in policy directions were worsened by the U.S. government’s bungling response to the 1973-74 oil price shift, and the follies of the 1975 Rambouillet, France monetary conference which sealed the doom of the developing nations for more than 10 years to come.

Until 1979, the financial bubble was of the form analogous to a benign tumor. It was causing severe organic disorder in the world economy, but was not a malignant growth. The tumor began to become malignant with the October 1979 adoption of the so-called “Volcker measures” by the Carter administration. The malignancy became “metastatic” with the Reagan administration decisions of the period from about October 1982 through April 1983.

The difference between a very serious “benign tumor” form of financial bubble, and the kind of “metastatic malignancy” of the past 60 months of Reagan’s folly, is that in the latter state the price-earnings ratios prevailing in financial markets of the world are determined increasingly by almost a purely speculative growth in nominal, financial capital gains. In this phase, the tumor’s growth is fed by “geometric pyramiding” of this mode of rise of price-earnings ratios. The tumor becomes almost purely a “John Law”-style bubble.

In the benign tumor form, the bubble can kill the patient, but it does not skyrocket into the critical region of a catastrophic, financial chain-reaction of reversed financial lever-

age, as is occurring now. It is the shift from the linearly parasitical tumor-form of the pre-1979 period, into the geometrical rates of highly leveraged pyramiding of the past 60 months, which defines that special kind of "metastatically malignant tumor" which races, fatefully, into the kind of critical limits zone reflected in the worldwide financial crash we are experiencing now.

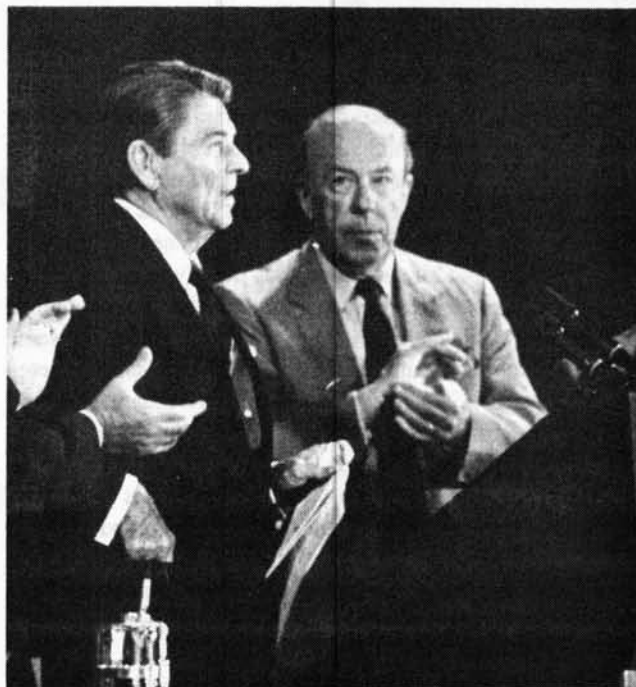
In this state of affairs, the patient can not survive unless we excise totally the malignant portion of the growth. No assets should be used up in the effort to prevent stock markets or the highly inflated portion of real estate speculation from falling to whatever levels of price it may choose to seek out. The problem is to prevent the excision of the malignancy from destroying the patient, too.

The regulatory powers inherent in the sovereign powers of government, must force order upon the financial markets arbitrarily. This regulatory action must defend a limited number of essential, defensible parts of the financial system from the collapse occurring within the stock markets and highly speculative portions of real estate markets. The values which must be defended at all costs, are the value of the national currency and of the principal portion of instruments of governmental debt; under no circumstances, must the national currency or government indebtedness be used in the effort to prop up collapsing portions of the stock and real estate markets, or markets in private bonded indebtedness.

In addition, the government must act to preserve the most essential elements of institutional structure of the credit and banking system. No effort should be made to defend, or "bail out" financial brokerage or kindred firms; let them sink or float on their own resources. It is not critical that major money-center banks be defended, but it is essential that the local banking institution keep its doors open for routine business, even if that institution faces probably years of medium-term financial reorganization before it is fully self-sufficient once again.

Although the government must defend the structure of the most essential institutions, it must not attempt to "bail them out" with more money, or by causing the government to assume fiduciary liability for the indebtedness of any institutions but the national currency and the principal value of the government's own debt. Government must rely solely on the inherent power of sovereign governments to regulate financial markets. If the government does not adhere to these rules, efforts to bail out private sectors will result in the bankruptcy of the state, the one thing which must never be risked, or allowed to occur.

For example, the government's method of keeping open the doors of financially troubled local banks, is solely a matter of employing regulatory authority. By means of regulatory action, the government declares that the insured levels of deposits of depositors are to be claims settled at 100% of the principal amount. It may be necessary to declare these ac-



*President Reagan and his secretary of state, George Shultz. The tumor in the economy that became malignant with the October 1979 "Volcker measures," turned "metastatic" with the Reagan administration decisions of the period from October 1982 to April 1983.*

counts non-accruing, but they must be settled at 100% of principal value over the medium term of financial reorganization, at the worst.

The government's approach to regulatory action is shaped by knowledge of the method of economic recovery to be employed.

### **Organizing U.S. recovery**

In the United States, we are entering a critical interval, during which relatively no private sources of credit will be available. Yet, everything depends upon steering large volumes of credit at very low borrowing costs into agriculture, manufacturing, other physical goods producing industry, and into the role of federal, state, and local governmental agencies, and public utilities, in capital improvements in basic economic infrastructure.

Yet, despite the acute shortage of private credit, the United States has large and now-expanding resources in the form of unemployed and mis-employed labor, and idled productive workplaces in industry and basic economic infrastructure. The recovery depends entirely on putting those available resources to work, chiefly in producing physical output, or in capital improvements in basic economic infrastructure.

This problem can be solved, and must be solved quickly, to ensure that that transition from the financial crash to the

recovery is very brief. The means for mobilizing the resources of expanded physical output is the issuance of several trillion dollars of U.S. Treasury currency-notes, and the steering of those notes, as low-priced loans, into selected categories of lending in a “dirigist” way. Whoever opposes that course of action is opposed to permitting an economic recovery of the United States; that is their choice, and they must be judged as they choose.

The means of organizing a recovery is illustrated by summarizing the principal steps which must be taken by the President of the United States now.

■ **1.** The President declares a *National Economic Emergency*. This proclamation activates both the President’s relevant powers implicit in the Constitution, and special statutory authorities.

■ **2.** The President acts under this authority, to “federalize” the Federal Reserve banks. He suspends their authority to create Federal Reserve notes for the duration of the emergency, and transforms the Federal Reserve banks into a national bank like the Bank of the United States under President George Washington.

■ **3.** The President, acting under his emergency authorities, imposes exchange controls and capital flight controls, and institutes import-export licensing regulation, as a means of defending the U.S. currency, government debt, and controlling trade balance deficits.

■ **4.** The President, acting under his emergency authorities, imposes tariffs on large-ticket imported items, probably including a tariff on imported petroleum setting the effective domestic price at some level above \$20 a barrel.

■ **5.** The President, acting under the same authority, reestablishes regulation of interstate commerce, especially in transportation.

■ **6.** The President, acting under Article I of the Constitution, sends to Congress an emergency bill, authorizing the Secretary of the Treasury to issue \$1 trillion of an initial issue of a new series of gold-reserve-denominated U.S. Treasury currency-notes.

■ **7.** The President, acting under emergency powers, sets the price of monetary-reserve gold at a price consistent with the average price of production of gold in quantities consistent with world needs under a reestablished gold-reserve monetary system.

■ **8.** The President directs the Federal Reserve System to lend lines of credit at charges of between 1% and 2% per annum for application to investments on an approved list of priorities. The new series of issues of U.S. Treasury currency-notes, deposited with the Federal Reserve System, are the security for these lines of credit.

■ **9.** These lines of credit are offered to the following categories of borrowers: a) agricultural loans for purchases of operating and fixed capital of production; b) loans to manufacturer and other physical-goods-producing firms in the

same way; c) loans to agencies of the federal, state, and local governments for capital improvements in basic economic infrastructure; d) loans to public utilities for capital improvements in basic economic infrastructure; e) loans to domestic producers to finance production and lines of export credit of approved classes of exports.

■ **10.** In general, these loans are negotiated through private local banks. These banks establish fiduciary accounts on behalf of the Federal Reserve System, from which the authorized disbursements are issued on behalf of the borrower’s purchases. The local banker is allowed to charge a nominal fee to the borrower for this service. It is the intent, as rapidly as possible, to draw local bankers into participation in the issuance of these loans.

■ **11.** The President issues an emergency tax reform, providing a higher per-dependent exemption for households, providing investment tax credit incentives shared by both investors, bankers who lend for such purposes, and depositors in those banks. Although the income tax rate for higher brackets is raised generally, the persons in this bracket whose savings share in investment tax credits will pay no more than under previous rates. The object is to induce the nation to save, and to direct those savings into areas of investment which assist the growth of the tax revenue base in production.

The screen of regulation, including exchange controls, capital flight controls, export-import licensing, investment tax credit reforms, and tariffs, protects the value of a new issue of currency being loaned through the indicated mechanisms. Wealth is not money. Wealth is the productive powers of labor, it is production of physical improvements, it is technological progress, it is converting idled productive potential of labor and capacity into useful output.

For the sake of clarity, we should detour briefly from this line of discussion, to clear away the fog with which most so-called professional economists have surrounded the issues involved.

### **Academic pseudo-economics**

Some contemporary professional economists are intelligent insightful individuals, despite the incompetence of everything taught as “economics” in universities and the professional’s textbooks and journals today.

In *political-economy*, we are confronted with the interaction between two distinct kinds of phenomena. In the one part, *physical economy*, we are dealing with economics as a branch of physics: per capita consumption and physical output per square kilometer of land-areas used, variously, for production and for human habitation. In the other part, we are dealing with a political fiction, *money* and *monetary forms of credit*. *Political-economy* is the study of the interaction between these two distinct kinds of processes.

Modern academic “economics,” is largely based upon, or consistent with some version of Adam Smith’s *Wealth of*

*Nations*, and the doctrines of *marginal utility* developed by John Stuart Mill, William Jevons, et al. In these dogmas, the assumption is central, that the money price of physical items or personal services bought and sold, correspond asymptotically to some intrinsic *value* of the item bought and sold.

These monetary-utility assumptions are used in the attempt to construct a system of *linear simultaneous inequalities*. It is assumed, as all *econometrics* today is based on such assumptions circulated by Prof. John von Neumann, that all problems of analysis in economics can be treated as solutions to such systems of linear inequalities. Thus, all academic "economics" takes the money-market of buying and selling, as the ontological basis for construction of all professionally acceptable statements about economic processes.

Modern economics began during the 15th century, in papers on the subject presented by George Gemistos ("Plethon"), successively, to the Paleologue emperor of Constantinople and Florence's Cosimo de' Medici. The first advance beyond the level of Plethon's work, was contributed by Leonardo da Vinci's work on the design of machinery and related capital goods. Out of this, during the last half of the 16th century, the studies of political-economy by the so-called *Cameralists* emerged. Beginning 1672, and continuing through to the last year of his life, Gottfried Leibniz effected a scientific revolution within Cameralism, establishing what became known as *physical economy* as a branch of physical science, and establishing the conception of *technology*, or *polytechnique* as the central feature of *physical economy*.

U.S. Treasury Secretary Alexander Hamilton merged the principles of Leibniz's *physical economy* with an American practice established under the pre-1680 Massachusetts Bay Colony, and promoted later by Cotton Mather and Benjamin Franklin. The Massachusetts Bay Company pioneered successfully in the issuance of a paper currency, as the means for mobilizing productive resources to promote development of production and inter-colony commerce. This integration of the American experiments in monetary system with Leibniz's principles of *physical economy*, is called "The American System of political-economy," as associated with the names of Hamilton, the two Careys, and Friedrich List, among others.

The teaching and practice of this *American System* vanished after the 1870s passage of the U.S. Specie Resumption Act.

In effect, this act revoked that issuance of U.S. Treasury currency-notes which had accomplished the successful U.S. industrial revolution of the 1860s. The U.S. currency, national credit, and public debt, were subjected to control by the London gold standard. European interests operating largely through the London financial market bought up the U.S. railways, metals industry, and mineral assets at bargain prices. The financial and economic power concentrated in the co-conspirators of the London interests took a controlling position in the economy, and consolidated their control over the

leading universities and news media, as well as the U.S. Treasury. The teaching of Adam Smith's "free trade" dogma took over the economics curriculum, and the influence of dogmas of marginal utility was added. Over the course of the 20th century, monetarism took control of the teaching and practice of professional economics worldwide.

The uniqueness of my own professional work in economics has been twofold. I have revived Leibniz's science of physical economy, and have added to that a crucial original discovery: the feasibility of measuring the cause-effect relationship between advances in technology and the rate of increase of the rate of increase of productivity.

The presently ongoing collapse of the financial bubble virtually wipes out monetarism, Adam Smith, and marginal utility, at least for the immediate future. Economies, if they function in any meaningful sense, will now function on the basis of the use of credit generated through government issues of Treasury currency-notes to promote technological progress and expansion of the physical-economic base.

Heretofore, even most patriots of the United States and other Western nations have objected most strongly to my proposals as "dirigistic," as unacceptable violations of the principles of "free trade" and "marginal utility." The collapse of a financial system which represents "free trade" at its absolute worst clears away most of the political force of the objections previously made to my proposed reforms. President Reagan, by carrying the policies of "free trade" to their most obscene limits, through his "economic agenda," has now buried the faith in "free trade" under a falling avalanche of bankrupt paper. Such is the way in which the laws of the universe intervene in history to sweep aside terrible policies which have been hitherto sacrosanct to the overwhelming majority of academic and other popular opinion.

The reason that the malignant tumor form of financial bubble developed, is that it was permitted to develop by a ruling body of opinion based on the teachings of British economic liberalism. The fanatical defense of that monetarist liberalism was so obsessive, that even the collapse of entire productive sectors, and deepening human misery, was not to be considered as evidence that prevailing economic policies had been failures. In face of such obsessive adherence to monetarist liberalism, nothing could persuade the dupes of Adam Smith that "free trade" is a failure, until the monetary system itself collapsed as a result of those policies, eliminating thus the very institution around which the monetarists had rallied their defense.

Now, if we are to survive as a civilization, we will base the future economic policy of our nations upon considerations of physical economy. We shall subordinate money to its useful function as an aid to the functions of physical economy. We shall turn everything which was until recently the most admired economics thinking upside-down. We may do this because we have learned a lesson from the experience; or, we may do this simply because we have no alternative.

## 'Profit' in physical economy

In physical economy, the net operating profit of an economy as a whole is the margin of increase of output over the required input consumed to produce that output. If the amount of product produced were no greater than the physical costs of producing it, there would be no profit.

This margin of gain is ultimately the result of technological progress. The point is made clear by listing a few of the hypothetical and actual actions required to generate and sustain a constant or growing margin of such profit.

In the hypothetical case, that the entirety of a nation's labor force were always optimally employed, using the current state-of-the-art technology, the rate of advancement of the level of state-of-the-art technology would be, directly, the rate of profit in the economy as a whole, the rate of real (physical) growth of the economy as a whole.

Economies are never in this blissful state of optimal employment of the available labor force, although we should always strive toward reaching that goal. Therefore, other considerations, in addition to the general rate of technological progress, enter into the determination of the net rate of growth of the economy and of the average rates of productivity within it.

By optimizing the percentage of the available labor force employed as operatives, engaged in either production of physical goods or capital improvements in infrastructure, we increase the rate of physical output per capita for the population as a whole. By bringing elements of the labor force employed with less than state-of-the-art technology up to current levels of progress, we increase productivity and the rate of growth of the economy as a whole.

Meanwhile, the potential rate of assimilation of technology is delimited by both the physical circumstances of production, and structural changes in the composition of employment of the labor force as a whole.

The chief physical constraints are three. First, the potential level of technology and productivity is delimited by the degree of development of basic economic infrastructure, as measured in the energy-density of such development per square kilometer of land-area and per capita. Second, the total usable energy per capita. Third, the level of energy-flux density available at the point of production.

The limiting features of the structure of employment of the labor force are, first, those which apply directly to employment of operatives. As technology advances, the urban employment of operatives must increase relative to rural employment. The employment of operatives in production of capital goods, must increase relative to employment in production of households' goods. Within the employment for production of capital goods, the machine tool sector must increase.

This presumes that the percentage of the totality of all other forms of employment (plus unemployment) does not increase significantly, and that the per capita market-basket

of households' goods increases in combined quality and quantity.

However, certain classes of services, unlike administration, sales, and services generally, do have a directly positive impact upon productivity of operatives. These, which I have given the standard classification of "the economic sub-classification of 'overhead burden,'" include science, engineering, technicians, direct administration of production and physical distribution, teaching, and professional and para-professional health services. The required percentage of total employment in this sub-classification of services must increase as the modal level of technology and productivity is raised. Just as generalized increase of productivity of operatives is associated with capital-intensity, so the rise in the absolute level, and rate of growth of capital-intensity is associated with a required increase in knowledge-intensity.

It is urgent that the percentage of employment in other categories of administrative, sales, and services be optimized, not to exceed approximately 30-35% of the total under standard conditions.

For example, the optima to be realized in the U.S.A. by approximately the close of this century are suggested by the following budgetary estimates:

General classification	Percent
Operatives (production, infrastructure)	>45%
Research and development	>10%
Other "economic" overhead burden	< 7%
Non-"economic" overhead burden	<35%

The progress from the present state of affairs, to such optimization, is achieved chiefly through the establishment of a consensus among government and leading employers to this effect. Government contributes its part to achieving such agreed results chiefly by the following means:

- Public credit policies
  - Taxation policies
  - Regulation of interstate and foreign commerce, as defined in Article I of the federal Constitution
  - Capital improvements and maintenance of basic economic infrastructure
  - Research and development programs of government
- "The American System of political-economy," as established under President George Washington, neatly defines a division of labor between the economic functions of government and those of private entrepreneurship. Government is responsible, at variously the federal, state, and local levels, for basic economic infrastructure; this obligation is met either through governmental agencies, or regulated public utilities. Government, especially the federal government, is responsible for promotion of progress in science and technology. Everything else is left to private entrepreneurship.

In addition to its economic function, government coordinates economic development through its fiscal, monetary,



*Brunelleschi's dome of Florence cathedral (15th century). Brunelleschi was the first inventor in recorded history to receive a patent. Patents were granted to unleash technological progress and to free manufactures from the stagnation promoted by feudal guilds.*

and regulatory powers and responsibilities.

This arrangement was developed during the 15th and 16th centuries, as an integral feature of the definition of the modern form of sovereign nation-state. The idea of such a state, and the notion of representative forms of self-government for such states, was chiefly an outgrowth of the successive influences of Dante Alighieri and Cardinal Nicolaus of Cusa. The division of economic labor, between state and private entrepreneurship, was conceived in 15th-century Florence, and set into motion by the reforms of France's Louis XI during the second half of that century.

It was recognized, that to unleash technological progress manufactures must be freed from the stagnation promoted by feudal guilds. So, patents granting inventors and their business partners limited monopolies for production and marketing of their useful inventions were introduced, both to break the power of the guilds, and to avoid the pestilences of state bureaucracies in this field. The state could not divest itself of its unique responsibility for development and maintenance of basic economic infrastructure, but entrepreneurship in production, and distribution of produced goods by their manufacturers, was the best mode for promoting technological progress in quality and quantity of goods, unleashing the inventiveness of the individual to the greatest degree possible.

The function of governmental regulation is twofold. On the one side, there are included the government's duty to defend the national currency, public debt, and the development of basic economic infrastructure. Simultaneously, the government is the only agency competent to maintain the protective climate needed for fostering technological progress and general growth in the production and physical dis-

tribution of goods. On the latter account, the regulation of foreign and interstate commerce, as provided in Article I of the federal Constitution, the government's responsibility for organizing the creation and flows of public credit, and the government's obligation to shape policies of taxation, not only to provide the needed revenues of government, but to shape the collection of those revenues in such a manner as to foster healthy technological progress and scale of growth of physical output in the economy generally. The science of physical economy affords us today a much more meaningful way of measuring the performance of government on these accounts, than the crude and misleading methods of national income accounting heretofore recently in general use.

The economic history of mankind, since the hypothetical "hunting and gathering" mode, is a history of the increase of the potential population-density per square kilometer of land-area. This increase reflects an increase in the productive powers of labor, the increase of the power of the average individual per square kilometer of resources available. This increase corresponds to what we define today as scientific and technological progress.

However, the human individual is not a beast. To use the methods of animal ecology, based on the notion of fixed needs of some biological individual, for society, is an ignorant sort of bungling. Human economic needs are increased with an increase of the average productive power of labor, such that continued increases in productive powers depend upon improvements in the quality and quantity contained within an average market-basket of per capita household consumption.

In particular, the quality and duration of the maturation of future members of the labor force rises toward a limit of about 25 years, within greater knowledge-intensity as technology advances. To sustain a more productive mode of existence, life-expectancy must be increased, and the health of individuals at all age levels improved.

The human individual to be considered in studies of increase of potential population-density, is a developing individual, with developing needs. The measure of the human individual required, is associated with the notion that the existence of that individual as a person of relatively increased productive powers, is premised upon increase of quality and quantity of the content of the per capita market-basket of household consumption, in correlation with increase of the productive powers of labor.

This sort of correlation can be formulated in the following way. We must measure all events both in terms of their per capita values, and their values per square kilometer. This twofold aspect requires us to measure in terms of per capita unit of potential (and actual) population-density. This measurement presumes a correlation between rises in potential productivity per capita, and a relative improvement in the quality and quantity of the modal, per capita, market basket of household goods.

The rate of increase of potential population-density, de-

fined in terms of that correlation, serves as the general constraint for all competent forms of mathematical-economic functions. The function is defined in terms of

Variable Rate of Increase of the rate of increase of potential population-density, in terms of per capita values of population-density.

Functions in that form are the only competent sort of mathematical economics.

This function is elaborated in terms of five additional, subsumed constraints. Each of these additional constraints is one we have summarily identified above. Increase in effective productivity (potential population-density) depends upon:

- Increase of the energy-density per per-capita unit of population-density.
- Increase of the effective energy-flux density at the point of production.
- Increase of the urban component of employment of operatives relative to the rural, on the condition that the quality and quantity of rural components of market-baskets of both households' and producers' goods is increased per capita.
- Increase of the capital goods-employment of urban operatives, relative to households' goods, subject to improvement in the households' goods market-basket.
- Increase of the level of technology, as Leibniz defines technology.

It should be obvious to the mathematical physicist, that the metrics of these functions are not defined in scalar terms. Similarly, it is obvious that the function is nonlinear. Those are merely problems of the mathematical formalities. The results of the calculations are readily usable by all relevant functions of government and entrepreneurship, and no different sorts of calculations are competent ones.

The laws of universal creation are rigorous ones, which we may refuse to observe only at our peril. The Creator who devised these laws was not a functional illiterate, who designed the universe's laws to conform to the desires for easy comprehension by the illiterate. Economic science is a branch of physical science, and in some respects necessarily more advanced in its learning requirements than the physics of simple inorganic objects on the ordinary macroscopic scale. To master economics, one must master the science required; one fails to meet that challenge, only at one's peril.

Despite the learning difficulties associated with the mathematical function indicated, the general rudiments of economic science are readily comprehensible by any person who is sufficiently qualified to be tolerated in a function of entrepreneurial management or relevant policy-shaping functions of governments. The latter can readily understand the practical significance of the results of the calculations delivered by the economic science specialist. In any case, the world has suffered more than enough from an age of

functional economics illiteracy among professional monetarists and their credulous admirers.

## The strategic implications

The present financial crash tends to sweep from the stage an age of rule by a bungling rentier-financier interest. The pyramid of financial speculation is destroying itself, and the political-economic power associated with that pyramid is greatly weakened in the process. To survive, we must clear this rubble from the political stage; the enfeeblement of that ruined interest encourages us to make appropriate changes in institutionalized forms of practice within and among nations.

The specific changes we must introduce, if we are to survive, are fairly described as a shift from domination of economies by monetary interest, to enslavement of monetary functions to service of the real economic processes. The sturdy, independent member of the labor force, and the entrepreneur progressing in the technology of production of goods, are the millions of kings who rule each nation.

The new arrangement we must adopt even for our immediate, bare economic interest, is an ordering of events consistent with the genius of Western civilization since Solon, and, more emphatically, since St. Augustine. The creative mental powers of the individual person assume center stage, as the ruling measure of social values, of morality, and in direction of representative forms of self-government of sovereign nations.

As we are each impelled to adopt this course of action as our urgent self-interest, the so-called developing nations especially so, but also the OECD nations, we are impelled to recognize this as our common interest. This impels us to form the *Concordantia Catholica* envisioned by Nicolaus of Cusa, a universal system of sovereign nation-states, each subject to no higher authority than common submission to the universal principles of natural law.

It is that sort of unity which must bring us together as a single community of principle, the community of Western civilization. All alliances, all other treaty agreements, and the general shaping of our dealings with one another, must be so shaped.

We must so recover the source of our civilization's potency, and cling to that more stubbornly than ever before, because we know we have come so near to losing everything as a consequence of neglecting that commitment to our precious heritage.

The greatest degree of that power lies not in any one of our nations. Divided, we are each weak, including the United States. It is the concurrent rallying of each of our nations to this common purpose, which is the source of our potency. Restoring that potency to rulership over our common affairs, is the most urgent interest of each among us.

Let us therefore recognize that ridding ourselves of a malignant cancer, rather than attempting to live with it a bit longer, is the only fundamental self-interest of each among our nations.

## Moscow buying time for strategic shift

by Jeffrey Steinberg

Senior Washington intelligence sources have reported to *EIR* that Moscow's erratic on-again-off-again behavior regarding the superpower summit and the signing of an INF (Intermediate-range Nuclear Forces) treaty before the end of the year reflects an ongoing strategic-military reassessment by the Soviet military command. According to these sources, as early as August-September, when Mikhail Gorbachov performed his still unexplained two-month disappearing act, top Warsaw Pact officials were quietly informed by Moscow that all decisions on the INF deal would be delayed until after the November celebration of the 70th anniversary of the Bolshevik Revolution—at which time all Pact officials would receive detailed instructions as to the “new” Soviet policy direction.

According to Washington sources, the key to the August-September decision to stall was the recognition by senior Soviet military officials, and particularly Marshal Nikolai Ogarkov, recently appointed to the reconstituted “wartime” post of Deputy Commander-in-Chief of all Soviet armed forces, that President Reagan would never trade off or even slow down the U.S. Strategic Defense Initiative. Up until that point, apparently Ogarkov and other senior Russian military planners had held onto the slim possibility, nurtured by U.S.-Soviet back-channels, that the SDI might be slowed down and eventually quashed.

A firm Reagan administration commitment to proceed at an accelerated SDI deployment schedule forced a military reassessment on the part of the Russian General Staff: If the United States, Western Europe, and Japan were to deploy a first-generation Strategic Tactical Defense System, coincident with the implementation of an INF accord withdrawing short- and intermediate-range missiles from Europe and Asia, what—if anything—would Moscow gain?

Two other factors reportedly weighed heavily in the Russian decision to reevaluate.

First, the continuing Weinberger deployment in the Per-

sian Gulf. By August-September, the U.S. and Western European reflagging effort had already reversed significant Soviet Middle East gains, achieved since the 1985 Geneva Reagan-Gorbachov summit, where the United States signaled through the “regional matters” discussions that it would concede to the Soviet Union a superpower status within the Middle East. The Weinberger-directed Gulf Policy steamrolled the State Department's crisis management approach to the Gulf and laid the basis for a revival of strong U.S. ties to the member-states of the Saudi-led Gulf Cooperation Council.

As Moscow undoubtedly knows, and probably knew as of August, Weinberger's principal goal in the reflagging effort is to lay the basis—before the end of the Reagan presidency—for a U.S.-Gulf Cooperation Council treaty establishing long-term U.S. naval and air force basing rights in the Gulf. Saudi Arabia, Bahrain, and Oman have been most frequently named as preferred sites for American military facilities. In return for this long-term security commitment—which no subsequent American President could reverse due to the treaty status—the United States would have a guaranteed source of off-budget funds to secure the financing—on schedule—of the SDI.

These two underlying objectives of the Gulf policy have profound long-term military implications for Moscow's war planners: When Washington abandoned the traditional crisis management approach to the volatile Gulf region, Moscow was forced to do likewise, in reaction. With the mid-October dumping of Geidar Aliyev, the Soviets' top “Muslim handler,” from the Politburo, many senior Western analysts believe that Moscow has been forced to abandon its previous policy of balancing its Iranian, Arab, and Israeli assets off against one another, and is now being forced to throw in its lot with Iran.

This, they report, is a military decision first and foremost. Soviet military planners correctly view Iran, Afghanistan,



and Pakistan as one single theater of operations. That theater is of vital importance to Moscow and cannot be subordinated to other regional considerations—when the United States is making a major policy move to reestablish strong Western military presence in the region.

While Washington's recent waffling in response to Iranian Silkworm missile attacks against Kuwaiti ports may once again throw Weinberger's Gulf initiative into jeopardy, it is unlikely that this failure to execute an instant response based on standing military rules of engagement will alter Ogarkov and company's overall reevaluation process.

According to one senior U.S. intelligence source, several of Marshal Ogarkov's leading advisers have emphasized that the continued U.S. and allied presence in the Gulf, combined with the increasingly unstable and unpredictable situation of the Khomeini regime, raises the possibility of a war breaking out in the short term—long before an INF treaty might be implemented. Therefore, these generals argue, Soviet military planning must take into consideration the shorter readiness time with respect to Europe, the U.S.A.—and China.

Under the Ogarkov Plan, the INF-spawned withdrawal of nuclear forces from Europe was to be the linchpin of a "separate peace" with both the governments of Western Europe and the P.R.C.—permitting the Soviets to carry out a first strike against the continental United States without having to survive retaliatory strikes from European and Chinese positions. Now, in response to the SDI and Weinberger's flank, Moscow has been forced into a fundamental reassessment of the viability of the Ogarkov Plan.

### Western Achilles heel

The third major factor weighing in Moscow's strategic planners since the late summer is the monetary and economic collapse of the West—the great strategic vulnerability that may offset the gains achieved by the SDI and Gulf efforts.

Lyndon LaRouche, the leading Western political economist, has recently warned that Moscow is about to shift its strategic orientation in response to the financial and economic crash officially inaugurated with the Oct. 19 Wall Street crash. Drawing the analogy to the 1929-32 "Third Period," LaRouche projects an immediate escalation of violent irregular warfare on the part of Moscow's proxies—both by the Communist parties and radical Maoists of the West, and Third World surrogate states such as Libya.

Among the likely targets of short-term Soviet-inspired destabilizations are the Philippines, South Korea, the Andean region of South America, and black Africa.

By hitting hard on these flanks, while at the same time continuing to send confusing and contradictory signals of Soviet intent toward superpower summitry, the Ogarkov group hopes to recapture the strategic offensive.

So long as President Reagan and his campaign-fixated Vice President George Bush remain largely oblivious to this larger strategic picture, Moscow will press ahead—cautiously but decisively.

## Shevardnadze admits Soviets have 'SDI'

*The following news bulletin was dispatched by our correspondent on Oct. 30 from Washington, D.C.*

Only hours after President Reagan and Soviet Foreign Minister Eduard Shevardnadze released a joint statement here today agreeing to complete treaties on Intermediate-range Nuclear Force (INF) missiles and strategic weapons within the next nine months—based on a statement by President Reagan that the U.S. is now "flexible" on negotiating a delay in the deployment of its Strategic Defense Initiative (SDI)—the Soviet foreign minister conceded for the first time at a press conference that the Soviets have been working aggressively for 17 years on their own version of the SDI, and may be preparing to deploy a nationwide anti-ballistic missile (ABM) system.

Shevardnadze made the admission under pressure from the Washington, D.C. correspondent for *Executive Intelligence Review*, who challenged him to admit to the contents of a recently declassified CIA report on the Soviets' aggressive 17-year laser-based ABM research and development effort, which has brought them to close to the point of deploying a nationwide ABM system.

After evading the question on the first try, Shevardnadze was pressed to respond specifically to the allegation that the Soviets have been working on an ABM system for 17 years. He then replied, "I think that I am revealing no secrets when I say that we have been working on our defense for that time no more or no less than permitted under the ABM treaty."

This represented the first time a leading Soviet spokesman has conceded that the U.S.S.R. has been developing an ABM system akin to the U.S. SDI. Prior to this, the Soviets have denied working on their own SDI, stating they would only undertake such a program if the U.S. insisted on pushing ahead with its.

Earlier in the day, the *EIR* correspondent confronted President Reagan with the same issue of the Soviet SDI effort during a press conference at the White House. After Reagan stated that the United States would be "flexible" in negotiating a delayed timetable for deploying its SDI, the *EIR* correspondent asked the President, "How can you say you will be flexible in deploying our SDI when the Soviets haven't even admitted that they've been working on their own system for 17 years?"

Reagan was rendered speechless by the question, only grinning and shrugging his shoulders. Shevardnadze, at Reagan's side at the time, mimicked Reagan's shrugged shoulders, pointing at him with a big grin on his face.

# China today: Deng's balancing act

by Uwe Henke v. Parpart

The 13th Congress of the Communist Party of China (CCP) convened on Oct. 25, and is expected to bring about some important leadership changes. But, according to pre-Congress reports coming into the Western press from Beijing, a compromise has been reached between Deng Xiaoping and his "rapid reform" followers and the party elders, such as Deng's fellow Politburo standing committee member Chen Yun, et al., who are of a more conservative bent. Reforms will continue, but the elders will retain certain key party positions. As far as it goes (not very far), the analysis is correct: It gives up the foolish notion of a sharp right-left Deng-Chen faction fight. However, it offers not even a hint of an explanation of the predicted leadership compromise. To understand this compromise requires looking behind the personnel chessplay and peering into the Chinese cultural matrix.

Both Deng and Chen are Confucian "centralists" with a "mandate from heaven" to restore a strong and prosperous China after the chaos of the 1960s and early 1970s. It is their shared view that this requires economic, scientific, and military modernization, as well as strong central (Beijing) authority.

However, both the Deng-Chen division of labor within their joint modernization project, and divergent interests of social forces set in motion by the modernization, have led to differences in point of view and emphasis between the two "old leaders," which Western observers have exaggerated and interpreted as a major factional struggle. The Chinese "faction fight" has more of the character of a family argument.

Deng himself has worn two hats throughout the entire process. He has been in the forefront of initiating and implementing economic reform measures—his better-known role. He has also, as head of the party's central military commission, overseen the process of creating leaner (major personnel reductions), better-equipped, and more centralized armed forces. Yu Qiuli, principal Army spokesman on the Politburo, has publicly attested to Deng's "high authority" in the armed forces. The People's Liberation Army (PLA) is presumably the conservative force. Is Deng, in his Army role, factionalizing against Deng, the economic reformer? Not to the extent of committing political suicide, but, yes, to the extent of using the Army's sway and authority to maintain

central control over the reform process.

Thus, it was upon the Army's insistence that former party chief Hu Yaobang (a close Deng associate in the fight for economic reform) was ousted after the 1986 student demonstrations. The episode did not diminish Deng's standing, and even perhaps enhanced it; but it certainly gave the jitters to Western "open door" watchers.

These fears are in a sense justified, and likely gave Deng a good laugh. Today's "open door"—unlike the one pried open by the Western powers in the late 19th century—is a revocable instrument of Chinese policy. But these fears are laughable at the same time, because the open door is regarded by both Deng and Chen as a necessary element of their joint policy of reconstructing a unified and strong Middle Kingdom, and not the subject of factional disputes.

## The dilemma

Deng and Chen are members of that peculiarly Confucian institution, the CPP's central advisory commission (presently chaired by Deng). They are resigning from the five-member standing committee of the Politburo, but are expected to retain their roles as advisers, with Chen replacing Deng as chairman. As advisers, their principal responsibility is to administer *li* (the law) in the legalist sense—the established (empirical) order devised to preserve and further the unity and strength of the Empire. This is a specific responsibility of the advisory commission, not shared in the same manner by governmental institutions, the party, or the military.

The task is difficult and complex: to advance the "four modernizations," while at the same time carefully checking centrifugal tendencies entailed by the reform process.

In this context, interaction with the overseas Chinese living in the Pacific Rim nations and elsewhere is considered as potentially more problematic than dealing directly with the "barbarians" of the different points of the compass. These overseas Chinese, whose economic power and connections are expected to make important contributions to successful reform and development, will often deal directly with their extended families in the different Chinese regions, bypassing Beijing authority. This has already led to a disproportionate increase in and resurgence of the economic and financial power of Shanghai and several other south Chinese coastal cities and regions. And it can be expected to go hand in hand

with reinvigoration of old family and secret society networks not necessarily under Beijing control. Such networks, of course, will be exploited by Taiwan and others not just for economic, but also for political gain. Chen, an early reform leader, has addressed this and has openly attacked certain "corrupt" tendencies.

Similarly, the advisory commission has become increasingly wary of the implications of the large and growing (20%-plus) foreign trade dependency of China on Japan. Anti-Japanese student protests on almost any pretext, e.g., the elevation of a property dispute in Kyoto into a major international incident, are designed to prevent any resurgence of Japanese influence, especially among the younger generation.

### **Foreign policy: caution**

In the same vein, but more broadly, the Confucian advisory commission during the past 10 years has subjected, and for the foreseeable future, will continue to subject virtually all dealings with the outside world to the requirements of its modernization balancing act. Chinese attention is largely absorbed by the dynamics of their internal process. It is therefore idle to analyze specific Chinese foreign policy maneuvers from the standpoint of trying to discern longer-term strategic international alignments vis-à-vis either the United States or the Soviet Union. These will not be alliances with, or even sustained leanings toward, either superpower in the coming years. In substance, though not necessarily in appearance, Chinese foreign policy will be cautious and non-committal, evaluating Chinese advantage on a case-by-case basis. This was the attitude toward the Kissinger-Brzezinski "China card" policy, as well as toward last year's more skillful Gorbachov approach in his Vladivostok speech.

Historically, this foreign policy stance is consistent with policy attitudes during earlier periods of restoration and reconstruction, most notably the mid-19th-century Ch'ing restoration under Tseng Kuo-fan, a role model for Deng.

Hence, U.S. enticements and urgings that China align itself with the United States against the "common enemy" produced no tangible results. And the essential response to Gorbachov's talk of the "boundless potential" for Soviet-Chinese cooperation is captured in constant Chinese reminders regarding the "three obstacles"—Cambodia, Afghanistan, and Soviet troop concentrations on the Chinese border.

### **Securing the Rim**

An activist foreign policy will be practiced only on the immediate periphery of the Empire, both to protect already realized gains and to secure bargaining positions for future attention. Prototypes are Chinese policy toward Indochina and South and Southwest Asia. Both areas (along with the Northeast) are crucial to Chinese security and the exercise of regional control.

Failing to exert dominant influence, Chinese policy will

be to keep the areas unstable and China's adversaries off balance, and wait for another day. Since, in the shorter run, Soviet influence will be difficult to dislodge from Indochina, settlement of the Cambodia issue is not in the Chinese interest. It could only consolidate the Soviet position and even bring the United States (and possibly France) back into the picture. Thus, China, while not wanting to appear as a spoiler, has consistently thrown cold water on ASEAN initiatives on Cambodia and urged "caution."

More recently this occurred when Thai Foreign Minister Siddhi Savestila traveled to Beijing to present an ASEAN

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## *Deng has worn two hats throughout the modernization process. Is Deng, in his Army role, factionalizing against Deng, the economic reformer?*

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proposal for a "cocktail party," involving all parties to the Cambodian conflict. He registered lack of Chinese enthusiasm, and commentators concluded that a cocktail party would not take place any time soon. In the meantime, China continues its significant support for the Khmer Rouge, resupplying them to the extent of enabling constant harassment but no large-scale damage to the Vietnamese troops in the Cambodian countryside.

Chinese policy on the western borders and toward South and Southwest Asia is similarly dictated by security concerns and determination to exert influence, at least to the extent that conflict resolution without Chinese assent is impossible. Sinkiang Province borders on India, Pakistan, Afghanistan, and the U.S.S.R., in a militarily highly sensitive area. China wants to see Soviet troops leave Afghanistan, but not on the basis of a three-way deal between the United States, the U.S.S.R., and Pakistan, and possible Pakistani concessions that would leave the entire region in a neutral "Finlandized" state. Recent high-level Pakistan-China discussions were clearly aimed at forestalling such a development.

The present turmoil in Tibet fits into the same pattern of shoring up border security and projecting power on a limited scale into adjacent regions. A secure Chinese position in Tibet is crucial in their border conflict and territorial disputes with India, as well as possible intervention into Burma in the not-too-distant post-Ne Win era. While anti-Chinese sentiment in Tibet is endemic, it appears that the recent unrest was actually provoked by Chinese security forces. The dual reasons would be to preempt more serious insurrectionist problems, while at the same time moving sizeable military forces into position, where they might exert pressure on India or Burma as might be required.

# Crisis builds up around Pakistan

by Mary McCourt

United States and Soviet efforts to “settle” the Afghanistan conflict, climaxing in October with the shuttle diplomacy of Kremlin associate Armand Hammer, have foundered on one fundamental issue: The Soviets are not likely to withdraw their 100,000 troops from Afghanistan any time soon. Pakistani President Zia ul-Haq, for one, realizes this. As he said in Bangkok Oct. 25, it would be the “miracle of the 20th century” if the Soviets left Afghanistan, Agence France Presse reported, given that the Soviets have never before pulled back from anywhere. Zia said the Geneva U.N. talks were “practically completed,” but since 1979, troops have been fighting in Afghanistan to protect the “soft southern underbelly” of the Soviet empire.

The problem is certainly not due to any steadfastness of the United States behind its ally Pakistan. Secret U.S.-Soviet negotiations, were already going on even before the United States halted a \$4 billion aid package Sept. 30. The Soviet news agency TASS reported Sept. 10 that “within the framework of the practice of Soviet U.S. consultations on regional issues,” Soviet Foreign Ministry official Yury Alekseyev, head of the Middle East department, and U.S. Deputy Secretary of State Edward Djerejian, were to meet in Geneva Sept. 10-11 on the Afghan situation.

Soviet Foreign Minister Eduard Shevardnadze’s visit to Washington, D.C. Sept. 15 began unprecedented secret consultations on Afghanistan, the *Baltimore Sun* reported Oct. 4. Moscow-based sources told the *Sun* that the Gorbachov leadership considered the Afghan invasion a mistake, now adversely affecting Moscow’s ability to maneuver in the world. The Soviets’ terms for withdrawal reportedly were, that the People’s Democratic Party—the current Soviet puppet government in Kabul—retains four key posts in the interim cabinet: internal affairs, defense, finance and justice, and Afghanistan’s “neutrality”—meaning no future government would accept anti-Soviet foreign military bases.

This was the backdrop for Armand Hammer’s travels this month, involving seven nations: the Soviet Union, United States, Afghanistan, Israel, Pakistan, Sweden, and Italy. Hammer claimed in an interview with the *Jerusalem Post* Oct. 18, that Shevardnadze had asked his help in disengaging the 100,000 Russian troops in Afghanistan. Hammer agreed to lend his services—in exchange for the release of several Jewish Soviet dissidents. Hammer flew to Kabul Oct. 12, where he found Afghan leader Dr. Hajib Ahmadzai “receptive” to the Soviet-endorsed plan to reinstate the deposed monarchy of Afghan King Zahir Shah as a neutral government in Kabul, the *Post* said.

Hammer proposed that Swedish troops be brought in as a “peacekeeping” force, to protect Soviet troops as they withdrew. Swedish Foreign Ministry undersecretary Pierre Schori, in Moscow during the week of Oct. 12, discussed the option with Soviet officials, according to the British *Daily Telegraph* Oct. 19. Schori, a top figure in the Socialist International, said Moscow had endorsed the proposal, although the Swedes are still undecided.

However, as Hammer was launching his peacekeeping schemes, Afghan Defense Minister Mohammad Rafi was himself in Moscow, Oct. 5-7, meeting with his Soviet counterpart, Dmitri Yazov. An indication of the visit’s purpose was that Rafi visited the Soviet Voroshilov defense academy, the center of Soviet military planning.

### World flashpoint

As one high-level British policymaker told *EIR* earlier in October, “Watch the Indian Ocean region”; it will be the next world flashpoint, after the Persian Gulf. The core of the tensions is Pakistan, which has become the target for escalating irregular warfare.

Like that other betrayed Western ally, Turkey, Pakistan is being hit from all sides.

True to their methods of punctuating peace negotiations with military threats, the Soviet military paper *Krasnaya Zvezda* reported Oct. 9 that helicopters had twice entered northern Pakistan, to make “emergency” landings near the Afghan border, although Soviet Deputy Foreign Minister Yuli Vorontsov had apologized for the intrusions in a note to the Pakistani ambassador to Moscow.

Terrorism and ethnic conflicts have also been stepped up in an attempt to cow the Pakistani population into demanding a settlement on any terms. Government officials cited by the *Far Eastern Economic Review* Oct. 29, have privately suggested that “the Soviets were deliberately conveying the impression of increased involvement” against Pakistan. Intelligence sources, the *Review* reports, say that “there is some evidence that the Soviets have increased their direct involvement in the recruitment and training of Pakistani tribesmen for terrorist activities in the country. . . . Recently arrested terrorists have told interrogators of receiving instructions from the Afghan secret police in the presence of Soviet personnel

and some have named Soviet instructors who allegedly trained them in subversion.”

President Zia publicly accused the Soviets of terrorism, in an exclusive interview to the English-language *Saudi Gazette* in Jeddah Oct. 14. Zia was returning from a visit to Turkey, where he discussed joint defense production with President Evren.

Zia said the Soviets were using terrorism “because they have seen in the past eight years they have not been able to move Pakistan from its principled stand.” Pressure on Pakistan was coming “mainly from the U.S.S.R.,” Zia said. “So now they come out with new tactics, tactics of terrorism. I call it state-sponsored terrorism—to make bomb blasts, terrorize the people, create a rift between the local people and the [Afghan] refugees, sowing all kinds of uncertainties. Through this they want to achieve what they have been unable to achieve politically or militarily.” Because of the bombings in Pakistan, a small minority in the country had begun calling for resolving the crisis on the terms offered by Kabul or in favor of the Soviet Union. “But we cannot accept any such agreement,” Zia said. “It is not possible.”

Zia said Pakistan had made “major breakthroughs” in investigations into recent bomb blasts in Baluchistan and Punjab, but did not elaborate, the *Middle East Mirror* reported Oct. 14.

Fifty Afghan nationals were arrested Sept. 20 for subversion, Interior Minister Raji Nadir Parvez Khan told the Pakistani National Assembly. Police have recovered explosive materials and timing devices from them.

Terror took a high toll in September. On Sept. 10, ten people were hurt in a car bomb explosion in Peshawar, and two were killed and another 25 injured in a bombing at a market in Lahore. On Sept. 21, five persons were killed and 16 injured when a bomb exploded in the bus station in the northern city of Rawalpindi.

Ethnic violence broke out again in the last days of August, when police arrested more than 400 people after riots that took 30 lives and injured hundreds in southern Pakistan over three days. The fighting broke out between local Urdu-speaking Mohajirs (Muslims from India who settled in Pakistan in 1947), and Punjabi and Pakhtoon settlers, from the northwest area of Pakistan. Police raided the homes of activists belonging to three ethnic parties—the Mohajir Qaumi Movement (MQM), the Mohajir Ittehad Tehrik (MIT), and the Pakhtoon-Punjabi Ittehad (PPI) in Karachi, Hyderabad, and Sukkur. The presence of some 3 million Afghani refugees in Pakistan has exacerbated the ethnic clashes. Last December, Afghan refugees were at the center of ferocious riots which killed over 160 persons, and Pakistani police moved the refugees en masse from the southern cities where they had migrated, to camps on the northern border.

Renewed separatist activity in Baluchistan was reported by the *Far Eastern Economic Review* Oct. 29. Five thousand Baluchi tribesmen are believed to have gone to Afghanistan

to join separatist leader Khair Buksh Marri for more fighting against Pakistan.

## More war threats

Other South Asian regional conflicts are also threatening to break out into full-scale military conflict. Between Sept. 23 and 25, the worst fighting in years broke out between Pakistan and India, when Pakistan launched a battalion-strength attack on India on the disputed Siachen glacier. The attack was the second in two weeks. Indian spokesmen said that Pakistan lost 150 men in the fighting, and troops used heavy artillery and surface-to-surface rockets.

The glacier lies at a very strategic point at the northern extremity of the ceasefire line agreed to by Indian and Pakistan in 1949, re-drawn in both 1965 and 1971. Siachen is close to the Karakoram Pass into China, and overlooks a valley where Chinese troops are stationed, just below Indian positions. The situation is complicated by the fact that on Sept. 13, Pakistan signed a border protocol with China, for the first joint inspection of the boundary between those two nations—a boundary disputed by India.

India herself is feeling heavy pressure from China. Border talks between those nations are to restart in November, over the territory India lost in the 1962 war with China. The recent riots in Tibet, were another source of anxiety. India was subdued in its response, despite unofficial agreement with the Tibetans on their fear of and opposition to the massing of Chinese troops, nuclear capabilities, and Chinese civilians in Tibet.

## The third power: China

Pakistan, meanwhile, is not standing totally idle as the United States and Soviet Union yield nations to each other. It is fast consolidating another alliance: with China, the emerging power in the region as the United States pulls out. In his Bangkok statement Oct. 25, Zia indicated the strength of Pakistani-Chinese relations, by saying that the Soviet Union should learn from China how to play a constructive role in providing economic assistance to less developed countries. The Bangkok daily, *The Nation*, quoted Zia's declaration that China has “no intentions” of playing any political role outside its border. Given China's well-known imperial ambitions, the assertion translates as Pakistan's proclamation of China's right to domination in the region—especially given U.S. retreat.

Pakistani National Assemblyman Hamid Nasir Chattha confirmed the same close Sino-Pakistani ties, with his statement from Islamabad Oct. 3 that the Chinese leadership has given its assurance of fully supporting Pakistan in the event of difficulty from any quarter. China will stand shoulder to shoulder with Pakistan in any crisis, the official Chinese news service Xinhua quoted Chattha, just back from six-day visits to both Japan and China. Chattha said China's foreign policy gives a solution of the Afghanistan issue high priority.

# Soviets again show fear of LaRouche

by Vivian Freyre Zoakos

We quote below a self-revealing article which appears in the latest issue of the Soviet magazine *New Times* (No. 42/87) which makes unmistakably clear what Moscow's true concerns and fears are today.

The article refers to the Soviet victory in a lawsuit brought in France against *New Times* by Lyndon LaRouche and his friends in the European Labor Party. After long deliberation, and much political pressure, the Paris court ruled against the plaintiffs, who had contended that they had been slandered massively by an earlier *New Times* article which claimed LaRouche and his associates were "Nazis without swastikas."

As the excerpts below amply demonstrate, Moscow's ceaseless campaigns against LaRouche stem from their fear of his growing political power—which the current *New Times* piece demands be rapidly crushed. In particular, the article, like many Soviet slanders before it, vents special virulence against LaRouche for his role as the intellectual author of the Strategic Defense Initiative.

The work of LaRouche's European friends, misidentified in *New Times* as the European Workers Party (EWP), in fighting to keep Western Europe inside NATO, also comes in for special attack, understandably, since decoupling Western Europe from the United States—after destroying the SDI—is uppermost on Moscow's strategic agenda.

"What is . . . worrying . . . is that such a small group, using dubious methods, can act so freely on the political scene. It regularly takes part in parliamentary and even presidential elections in various countries. . . .

"The argument advanced time and again is that this is merely a manifestation of democracy. Our invariable answer to this is that such democracy can destroy itself as happened in Europe in the 1930s. That is why the Soviet journalist Ernst Henry, whose articles have for many years denounced fascism, saw fit to remind our readers of the grim lessons of the past [referring to the article which prompted the LaRouche suit against *New Times*]. . . .

"We are convinced that democracy is obliged to defend itself, and not to pave the way for those who wish to destroy it.

"Political developments in many Western countries give grounds for such concern. Democracy is often used by anti-democratic forces spearheaded by anti-Communist organizations. They go on the offensive, resorting to law courts. . . . LaRouche and the EWP brought lawsuits first against us,

then against the Soviet magazine *International Affairs*. And we have learned that Jean-Marc Varaut, the lawyer who represented LaRouche's interests, is involved in litigation started against the Soviet paper *Literaturnaya Gazeta*. In the U.S., a lawsuit has been brought against the Soviet newspaper *Izvestia*.

"One cannot help thinking that it is an orchestrated campaign.

"The campaign is not being waged in the law courts alone. *New Times* correspondent Vladimir Zhitomirsky, who recently visited Chautauqua [New York], found that LaRouche's supporters were active at the Soviet-American meeting there. From that meeting we received a curious document. . . .

"The Commission's [to Investigate Human Rights Violations] aim was to prove the violation of the rights of Mr. LaRouche, who is allegedly the target of a virulent campaign by the U.S. authorities (notably by the Department of Justice) in conjunction with *New Times*.

"The American press has recently published some intriguing facts about these new 'champions' of democracy. An investigation into their financial swindles has long been under way. They are suspected of pocketing the money raised for 'research in energetics' (LaRouche is an active backer of SDI) and for combatting AIDS (a popular charity). . . .

LaRouche and his followers are consolidating their presence in Western Europe. We have already had occasion to write about a book by the West German authors Helmut Lorscheid and Leo Mueller, *Codename: Schiller*, about the EWP's activities in the F.R.G. (see *New Times* No. 28, 1987). To attract attention, the EWP has set up a 'Schiller Institute,' one of whose activities was to organize a conference to 'save the Western alliance.' Its main tasks are to strengthen links with the U.S., oppose the 'decoupling' of Europe from the U.S., and ensure NATO gets the particle beam weapon, which would make it possible to 'resolve' the conflict between East and West.

"These are just some of the details about those who brought and lost the Paris case. . . .

"Finally, we would like to raise a question that concerns Soviet journalists and lawyers. LaRouche and his followers pressed legal charges on what was clearly a fabrication. They accused us groundlessly of libel. But the Western press is full of slander of the Soviet Union and its citizens. And we often leave it unanswered. We should not do so. This was suggested to us by our French lawyers who have brought a counterclaim against the plaintiffs. . . .

"An element of risk remains, as it cannot be ruled out that LaRouche will appeal, and the case will then be heard in another chamber of the Palais de Justice. But, as in the first case, we count on common sense. . . .

"It is not customary to thank the court, but we would like to thank our defense lawyers. . . . Our thanks are also due to our fellow journalists in France, Sweden, the U.S., and the F.R.G., who helped us collect evidence. . . ."

# House of Windsor reaching end-phase?

by Mark Burdman and Mary McCourt

The crisis confronting Britain's House of Windsor is approaching dimensions far greater than the 1986 "Palacegate" controversy over Buckingham Palace's unwarranted interference in British political affairs.

Over the Oct. 24-25 weekend, Harold Brooks-Baker, editor of *Burke's Peerage*, genealogical bible of the British elites, warned that the public scandals now hitting the House of Windsor, could create a constitutional crisis. If Royal Family members continue to be perceived in the popular image as "the protagonists of Dallas and Dynasty," Brooks-Baker said, "we will come to the end of the monarchy." He warned that Britain is nearing a crisis of the magnitude of the abdication of King Edward VIII.

The immediate issue that has provoked this stern warning, is the rash of scandal stories throughout the British press about the marital difficulties of Prince Charles and Princess Diana.

The implications of a split-up of the marriage of an heir to the throne could become so politically sensitive, that the Queen organized a "Windsor summit" between herself and the Windsor clan, for the Oct. 31-Nov. 1 weekend. The Oct. 25 *Sunday Express* reported that members of the British Parliament were privately saying that, should there be a serious rift in the Charles-Di marriage, it would be doubtful that Charles could succeed to the throne.

On Oct. 28, top gossip-insider Jean Rook, the self-professed "First Lady of Fleet Street," wrote in her *Daily Express* column that, because of her "very silly family," Queen Elizabeth II would be undergoing the "most traumatic" year since she took over the crown 35 years ago. Rook denounced Prince Charles as "feeble-kneed" and "selfish," and blasted the rest of the royal brood and kin. It was not the scandal-mongering press that was to blame for the Windsors' woes, but their own actions: "No newspaper can make a pig's ear out of a genuine silk purse," Rook commented, warning in conclusion that the Queen had better get her family under control at the weekend summit, "if the monarchy is to go on at all."

## All-out factional war

As the October 1987 global financial-economic crash worsens, the tensions and fissures among factions in the British Establishment are coming to a head. Such tensions

have not been seen since the abdication of the pro-Nazi Edward VIII in 1938, and the subsequent dumping of appeaser Neville Chamberlain.

The Windsors, historically and now, represent a gnostic "New Age" element in the West, hostile to the values of Judeo-Christian civilization, a hostility expressed on many occasions by both Prince Charles and his father, Prince Philip. In another sense, the Windsors are key components of a powerful grouping in international Scottish Rite Freemasonry and Anglicanism, that seeks a global strategic-cultural deal with the Soviet Union and a secular diminution of the power of the United States.

Pitted against this, is a traditional "old boys" element in Britain's intelligence and military establishments, what might be called the "British nationalist" crowd, which opposes the U.S.-Soviet New Yalta rapprochement, and supports a strengthened Atlantic Alliance and Anglo-American relationship.

The factional warfare plays itself out on many fronts, many of them taking on odd "cabinet warfare" aspects. In the visible political world, only the shadows of the reality are seen. Notably, as was the case in the 1986 "Palacegate," one trigger is the issue of the Commonwealth.

Queen Elizabeth II is monarch of Britain and of many member-nations of the Commonwealth. The Commonwealth is a treasured institution for Buckingham Palace. It is a good institution through which to uphold certain questionable historical practices, as the drug-trafficking *cum* money-laundering complex in certain of the Commonwealth countries testifies to.

So, the Queen is most sensitive to attacks on the Commonwealth, as when Mrs. Thatcher opposed the Commonwealth majority on sanctions against South Africa in 1986, and as Mrs. Thatcher, even more resolutely, repeated this opposition during the Commonwealth summit in Vancouver over the Oct. 17-18 weekend.

By the same token, the Queen is not permitted, under British law, particularly under the 1701 Act of Settlement, to meddle in politics. In July-August 1986, when Buckingham Palace's press spokesman indicated Palace displeasure with Mrs. Thatcher, in statements made to the press, this triggered "Palacegate." This year, the Queen twice made political statements while at the October Vancouver Commonwealth annual conference, one pertaining to the political troubles in Fiji, and one pertaining to an internal battle in Canada. But it is, still, the war over South Africa policy, with the Queen fearful that Mrs. Thatcher's attitude will break apart her precious Commonwealth structure, that raises the most tension.

On Oct. 25, soon after the conclusion of the Commonwealth conference, the *Mail on Sunday* weekly reported that the Queen was preparing for a "confrontation" with Mrs. Thatcher, and that Her Majesty was "very angry indeed" about Mrs. Thatcher's uncompromising attitude on South Africa at Vancouver.

# The Uwe Barschel case is a clue to the Palme killing

by Lyndon H. LaRouche, Jr.

Nearly two weeks after the death of West German political celebrity Uwe Barschel, the evidence points to a direct link among a series of ritual executions of prominent Europeans, including Roberto Calvi in London, in 1982, Olof Palme on the streets of Stockholm on Feb. 28, 1986, and Uwe Barschel in Geneva on Oct. 11, 1987.

In the Calvi case, the evidence of a ritual Freemasonic execution is conclusive. In the Barschel case, all of the evidence now available permits no conclusion but that Barschel was victim of a similar ritual execution. In the Palme case, there is a crucial, firmly corroborated fact pointing to the same conclusion. Furthermore, all three were involved, in various ways, in what is called here the "Irangate" scandal.

Insiders of the U.S. intelligence community know that Ayatollah Ruhollah Khomeini was brought to power by orders of President Jimmy Carter and National Security Adviser Zbigniew Brzezinski, as part of a policy which Brzezinski called "the Arc of Crisis" doctrine, and which Carter adopted as "the Islamic fundamentalism card." Since the Khomeinians came to power, the U.S. government, under both Carter and Reagan, continued to back weapons-shipments to the Khomeiniac regime.

U.S. circles are so preoccupied with U.S. guilt and still-continuing official cover-up in the affair, that the larger dimensions of the operation are pushed aside.

For example, the original planning of the destruction of Lebanon, Iran, and other nations of the region was done by British intelligence, through channels including the SIS Arab Bureau of Sir John Bagot Glubb Pasha and his Arabist associate, Bernard Lewis, presently situated at Princeton. From the beginning, this operation was conducted in part through back-channel arrangements with Moscow, specifically with a key protégé of the late Yuri Andropov, Azerbaijani Heidar Ali (a.k.a. Geidar Aliyev). The other key player, working closely with British SIS, Moscow, and Washington, was the Israeli faction associated today with Ariel Sharon, Armand Hammer, Meshulam Riklis, the U.S. AIPAC cabal, and Charles Bronfman.

Beginning 1980, and increasing during 1981 and later, the Israeli gun-runners coordinated a brisk international weapons-trafficking into Teheran. The partners of this operation included, in addition to U.S. and Soviet accomplices, a southern European Freemasonic network centered around the P-2 lodge cronies of Michael Ledeen, and a northern Freemasonic network concentrated in Britain, Bremen, Hamburg, and Sweden. French-speaking Switzerland and Hamburg served as the chief European centers for this trafficking.

All parties to this arrangement were working closely with the Soviets in coordinating the weapons-traffic. Moscow, for its own reasons, had a policy of keeping the Iran-Iraq war bleeding the Middle East region indefinitely, just as Israel did, for its own, somewhat different motives. The European and U.S. governments accepted this Soviet and Israeli policy for the Iran-Iraq war, with Syria's President Hafez al-Assad the key coordinating point for orchestrating the adjustments to be made within the Middle East region.

When Roberto Calvi was faced with the fact, that his financial operations were integral to an effort to bankrupt the Vatican, he repented, and was placed under death sentence by the northern Scottish-Swedish Freemasonic blocs for "speaking out of turn" in telling secrets. Nonetheless, for some reason, he went to London, where he was the victim of a ritual execution at symbolic Blackfriars' Bridge. The assumption in Italy is, that Calvi knew he was under such a death sentence, and went to London to have it carried out as a price for saving the lives of others who would have been killed had he avoided the execution.

Sweden's Prime Minister Olof Palme came into the picture in two ways. First, as prime minister of Sweden, he was situated amidst the Iran weapons-trafficking by the network of both Soviet, and Swedish, Hamburg, Bremen, and London wings of the weapons-traffickers. Second, he was a key figure in a commission formed in the effort to bring the protracted Iran-Iraq war to an end.

Did Palme walk intentionally to his death that night? Why



did he dismiss his security guards, an act without which the assassin could not have both reached him and escaped? Was the life of his wife—and others—saved, by his allowing himself to be killed in this way?

The facts surrounding the Barschel case are much more conclusive than even the Calvi case.

A close friend of Palme's states that Barschel was a friendly acquaintance of Palme. The source is a highly reliable one. This does not signify that the Schleswig-Holstein Christian Democrat was a political co-thinker of Palme's, but does suggest the ordinary contacts we would expect on account of their political positions and the geography of the matter.

In any case, first of all, it is certain that the key to the Barschel case is the involvement of business interests of Schleswig-Holstein in the Malmö-Hamburg-Bremen-London side of the weapons-trafficking into Iran. The cities of Kiel and Lübeck are most notable. Barschel was nominally a political protégé of the Schleswig-Holstein CDU machine of Stoltenberg, who is close to all of the relevant business connections as well as to Bremen's West German Foreign Minister Hans-Dietrich Genscher. Barschel also had significant family connections to prominent figures in the Hamburg side of this trafficking.

Generally, this German traffic in weapons is more or less

legal in West Germany, dirty as it is. However, Moscow considered Barschel a key obstacle to Soviet infiltration of Schleswig-Holstein. The plan to open up Schleswig-Holstein for Soviet strategic infiltration through nearby East Germany was not proceeding as successfully as Soviet massive penetration of Bremen and Hamburg.

This probably accounts for the first assassination-attempt on Barschel, in a suspect aircraft crash this past June. Having survived the crash, Barschel then came under a scandal orchestrated by a planted aide who has been recently exposed as a suspected longstanding East German agent. Barschel reacted to this orchestrated scandal by trying to clear his name, using his knowledge of Iran weapons-trafficking operations to assist in producing the evidence he needed.

### The death of Barschel

The facts then march in step. Barschel first went to the Canary Islands, a place not unfamiliar to him from past travels. There, numerous sources positively confirm, he met with Iran weapons-trafficker Adnan Khashoggi, a key figure in Ollie North's Irangate scandal. Then, a telex was sent in his name to the CDU party leadership in West Germany. The telex announced that he was going to Geneva to meet "an important person" whom he hoped would assist him with facts to be used to clear his name on the following Monday, in Kiel. He made the trip to Geneva on Saturday afternoon.

Curiously, a political figure under death threat went, of all places, to the Beau Rivage Hotel in Geneva, and traveled without security. Here he was, ostensibly about to blow major secrets of the Iran weapons-trafficking operations, but traveling without security into the hotel where he was assuredly a probable target of assassination. Did he go knowingly to his death, as Roberto Calvi had in the fateful trip to London?

At this point, amid the jigsaw puzzle pieces, a curious fact turns up in the hotel records. That Saturday evening, he ordered a bottle of Beaujolais to be sent to his hotel room. According to Geneva police, that bottle has not been found, although the fact that Barschel's bed was made up suggested he did not sleep in it that night.

Beaujolais! French table-wine! A man of Barschel's aristocratic household connections and habits does not drink Beaujolais on the evening of the night he expects to commit suicide or be murdered. He would choose something much more elegant, such as an exceptional Bordeaux or well-aged Burgundy. Swiss hotels pride themselves on having a selection of the best in their cellars, especially those of Geneva, Lausanne, and Sion. The only elegance in a selection of Beaujolais is the symbolic significance of its name, like the copy of Jean-Paul Sartre's *Being and Nothingness* found by police on the middle of Barschel's unused bed.

Did he allow himself to be drugged? Later, others came into the hotel room and finished the arrangements. No facts have been released so far, to indicate whether the drugging

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## Who Killed Olof Palme?

### A Classical KGB Disinformation Campaign:

NBC-TV and the Soviet military daily *Krasnaya Zvezda* both blame LaRouche. . . .

Swedish Police Chief Hans Holmér suppresses major lines of inquiry, becomes a laughingstock. . . .

Twelve Stockholm investigators resign from the case, in protest against Holmér's cover-up. . . .

The British press breaks the story of Emma Rothschild's love affair with Palme—and the possibility that her father is a Soviet spy. . . .

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had killed him, or whether it proceeded differently. The missing bottle of Beaujolais, the ritual-execution arrangement of the body, and the copy of Sartre in the middle of the unused bed, combined with the circumstances of the incident, tell the story vividly enough. Were the lives of Barschel's children saved by his willingness to register, unattended, at the Beau Rivage hotel? What might Adnan Khashoggi be able to tell?

### Collateral leads

The *modus operandi* of the Barschel execution has prompted Austrian investigators to reexamine two recent deaths with almost identical characteristics. One was the July 1985 death of an Austrian ambassador, Herbert Amry, in Greece. The second, was the death of an executive of an Austrian arms-trading firm, Heribert Apfalter, on Aug. 26, 1987. Three very strange deaths, each with the body found in a similar ritual arrangement, and all three trapped in the center of desperate efforts by some very highly placed circles to cover up their deep involvement with Moscow in running weapons into Iran.

Moreover, it all leads directly back into the middle of both the Irangate and Conragate scandals inside the U.S.A. It takes us directly into the center of what Senate investigator Joel Lisker attempted to conceal during his trip to Denmark, a crucial aspect of the case which the joint committee of the Congress scrupulously kept out of the public side of the Irangate hearings. It is well known that AIPAC was at the center of some parts of the congressional side of the cover-up. Why was the Soviet participation in Ollie North's shipments of arms to Khomeini and the Contras also covered up?

So far, officially, a lid has been put on the death of Barschel, just as the deaths of Calvi and of Palme were so vigorously covered up earlier. "Suicide" by gunshot wound was the verdict handed down by the West German press, until the Geneva commissioner of police gave a press conference to announce that there was no pistol, no projectile, and no blood. "Suicide" was the official verdict in the end, according to the press reports at least, although almost no experts in such matters believe a word of it.

Did the Soviet KGB do it? The finger of suspicion is very strong. However, the Soviet KGB's "special purpose" units rarely carry out such assassinations directly; they either use resident assassins in the West, or order their Western business partners, "It is your problem; you take care of it." I know; the Soviets have put out such orders for legal and other operations against me to their Western business partners.

Calvi, Palme, and Barschel, are only three notable figures on a long list of mysterious deaths which have occurred since the Malmö, Sweden office of Karl-Erik Schmitz was raided. The epidemic of Iran weapons-trafficking linked deaths continues—perhaps my own included for reporting this story. Sooner or later, one of these cases will break wide open; when it does, all of the trees in the forest will fall.

## Panama 'opposition' shows desperation

by D.E. Pettingell

The Panamanian oligarchic opposition, entering its sixth month of defeats and unsuccessful attempts to overthrow the constitutional government of Panama, is desperate and demoralized. The demonstration called Oct. 22 by Panama's Civic Crusade, an umbrella organization of rich bankers and businessmen, to demand the resignation of Gen. Manuel A. Noriega, the popular nationalist head of Panama's Defense Forces, was a total flop. Fewer than 400 youngsters showed up to what had been billed as the "beginning of the end" for Noriega.

After several incidents that strongly suggested that opposition activists were planning terrorism and sabotage, the government deployed security forces throughout Panama City. Order was maintained, despite the Civic Crusade's insistence that blood would run in the streets.

"The government of General Noriega won a major test of strength today when a protest march and general strike here fizzled," reported the *New York Times* in an article datelined Panama Oct. 23. "I'm embarrassed" at the lack of turnout, an opposition leader told Associated Press.

The cosmetic nature of the elitist opposition in Panama was best seen in the fact that the entire leadership of the Civic Crusade left Panama before Oct. 22 to come to Washington, preferring to continue their lobbying with Congress and the U.S. government rather than leading the "outcry" against Noriega. "We are concerned with the level of frustration of the Panamanian people; anger and fear have historically led to terrorism," Crusade leader Roberto Brenes said Oct. 26 in Washington. Although "violence is not our goal," nothing can guarantee that "things can't get out of control," Brenes threatened.

### 'Democracy' by force

The day of the failed demonstration, the Senate Subcommittee on Western Hemispheric Affairs, chaired by Christopher Dodd (D-Conn.), sponsored hearings on Panama to push bills that, if enacted, would make the suspension of economic assistance to Panama U.S. law—a measure Congress has not even taken against such terrorist adversaries as Iran or Libya. At the hearings, Sen. Jesse Helms (R-N.C.) asked Crusade leaders to stand up so that the audience and press could identify them. Helms explained that unfortunately they could not testify, because they are foreigners, but

that others would take up their cause at the stand.

Senators Edward Kennedy (D-Mass.) and Alphonse D'Amato (R-N.Y.) were two of those. Referring to the demonstration scheduled that day, Kennedy said, "The whole world is watching. . . . I fear the worst. I fear that the events of today in Panama will write one more sad and tragic chapter of bloody repression in a national history already filled with stories of murder, corruption, drug-running, and fraud."

Sen. Alan Cranston (R-Calif.) introduced bill S.1650, entitled "Democracy in Panama Act of 1987." Co-authors of the bill are Senators D'Amato, Kennedy, Helms, Dodd, Daniel Inouye (D-Ha.), Spark Matsunaga (D-Ha.), Bennett Johnson (D-La.) and John Breaux (D-La.). The bill states that "no sugar, syrups, or molasses that are products of Panama may be imported into the United States after the date of enactment of this Act. . . ." The bill concludes that the prohibition shall terminate if the President certifies to Congress that:

"(1) the Government of Panama has demonstrated substantial progress in the effort to assure civilian control of the armed forces and that the Panama Defense Forces and its leaders have been removed from nonmilitary activities and institutions;

"(2) the Government of Panama has established an independent investigation into allegations of illegal actions by members of the Panama Defense Forces;

"(3) a nonmilitary transitional government is in power; and

"(4) freedom of the press and all other constitutional guarantees to the Panamanian people are restored."

In addition, Senator D'Amato testified in favor of S.1614 which complements S.1650. His bill calls for cutting all economic assistance to Panama, including assistance under the Foreign Assistance Act of 1961; sales, credits, and guarantees under the Arms Export Control Act; sales of nonfood commodities under the Agricultural Trade Development and Assistance Act; financing programs for export sales; financing under the Export-Import Bank Act; and assistance provided by the Central Intelligence Agency or by any other entity of the U.S. government.

Both bills are aimed at enforcing the non-binding resolution adopted by the Senate Sept. 24 by a vote 97-0. It is expected that both bills will be voted on and adopted by the full Senate before the 100th Congress adjourns.

The U.S.-run Panamanian opposition is relying on blatant U.S. meddling to overthrow the government since, as they have admitted, Noriega enjoys the broad support which the opposition lacks. "There is no way a solution to the crisis in Panama can not come from the U.S. . . . it is up to the U.S. to get rid of Noriega," said Crusade leader Roberto Brenes Oct. 19, before a jet-set like audience of Panamanian youth at Georgetown University.

On Oct. 27, the Washington-based Crusade leadership called a press conference to try to convince the U.S. media that although the Oct. 22 demonstration had been "poorly

attended," it was really "a step forward in the process of democratization." The speakers included Aurelio Barria, president of the Panama Chamber of Commerce; Eduardo Vallarino, former president of the National Caucus for Private Enterprise; Gilberto Mallol, former president of the Panamanian Chamber of Commerce; José Pretto, a private businessman; Roberto Brenes, head of the Crusade in Washington; and Rafael Zuniga, executive director of the Chamber of Commerce of Panama.

The "businessmen," all of whom claimed to have fled Panama in fear for their lives, explained their "strategy" to take power, which consists of calling for many "demonstrations" inside Panama in order to "militarily immobilize" the country. They plan to lobby at the Organization of American States Annual Assembly in Washington, D.C. Nov. 8-10 to try to force the OAS to call for the resignation of the Panamanian government.

Barria, Mallol, Vallarino, and Pretto have visited Venezuela, Colombia, Norway, and Spain to ask those governments to intervene into Panama to help the oligarchy overthrow the government. They claimed to have gotten a good reception from Venezuelan ex-President Carlos Andres Pérez and Spanish Premier Felipe González.

The Crusade leaders bitterly accused the U.S. government, particularly the Central Intelligence Agency and the Pentagon, of backing Noriega. "Noriega has been a member of the CIA for 19 years," Mallol stated. "But our fight is for democracy, our fight is to free our people of the type of support Noriega receives from abroad."

### 'Noriega ain't ours'

It has been a long-standing rumor in Washington that Noriega is an "asset" of the CIA and the Pentagon and, according to media analysts, the Reagan administration is torn between pulling the plug on Noriega in favor of the banker-dominated opposition, while risking chaos and violence, or keeping him as a reliable friend of U.S. interests. The administration has denied such rumors.

"Noriega is not our baby . . . this guy ain't ours, we deal with all kinds of characters around the world," an infuriated National Security Council Latin American director Ludlow Flower told his Panamanian friends at the Georgetown Oct. 19 forum, in response to the audience's hostile accusations. "Noriega is a Panamanian creation, an unwanted offspring of your own nationalism," Flower concluded. Indeed. Noriega is the heir of the Panamanian nationalist movement built in the 1970s by the late Gen. Omar Torrijos, the Panamanian leader who won the Panama Canal back for the Panamanian people, a right that will be fulfilled in the year 2000.

Like any Ibero-American anti-communist nationalist, Noriega believes, or probably believed, that the United States is Ibero-America's ally and friend. Thanks to Moscow's "useful fools" in the Senate and the U.S. government, in Ibero-America the assumption is no longer taken for granted.



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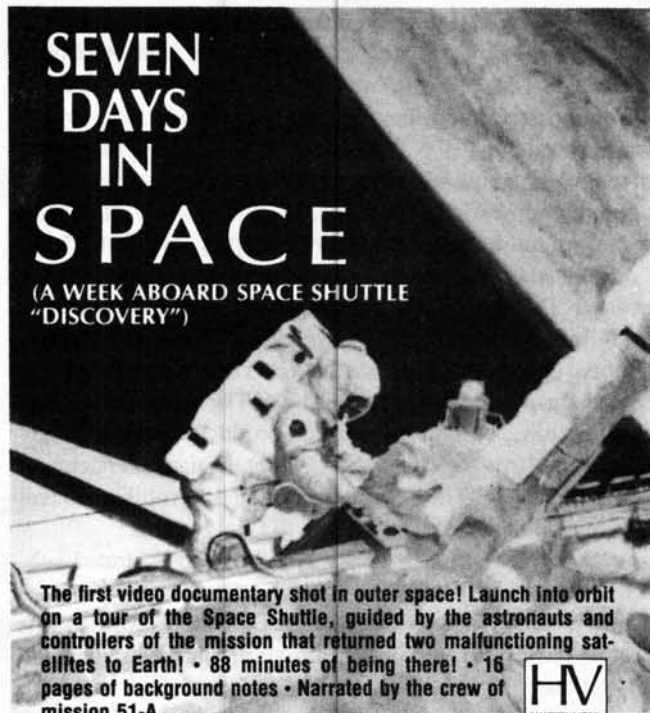
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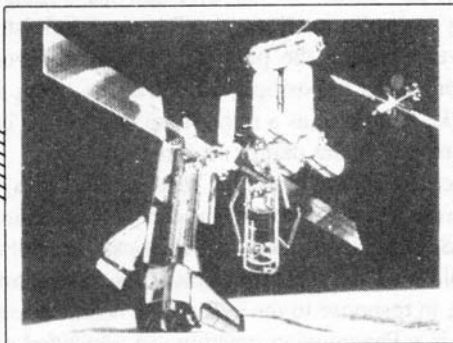
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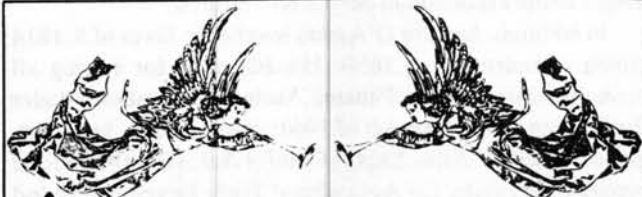
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### Arms scandal clouds over Bonn

*The government seems certain to face a political tempest over German involvement in arms sales to Iran.*

On Oct. 28, Heinrich Boge, the head of the federal anti-crime bureau (BKA) here, gave a very unusual press conference. Reporting on the BKA's successful operations against several networks of illegal arms dealers in the previous several weeks, Boge indicated that "just the tip of the iceberg" has been touched. German arms dealers are "big bosses in this international network," the German sub-branch of which he described as a "multibillion business."

Without giving details, Boge hinted at international connections between the weapons salesmen and the Middle Eastern drug trade.

Though cautious, Boge's remarks touched on a very explosive matter. An important part of illegal Western weapons deliveries to Iran runs through West Germany, the more so since late 1986, when U.S. investigators first began looking into the Irangate affair.

Having run into high-level trouble with illegal arms purchases in Britain, France, Sweden, Austria, and the United States, Iranian envoys preferred to diversify their purchases by contracting trade partners in Germany. An important section of the arms underground was thus shifted into Germany, and the time-pressure under which the arms dealers operated in restructuring their "business networks" exposed more and more to the eyes of the police. The political apparatus of this illegal arms business in Germany is also being more and more exposed.

For example, on Oct. 24, it was made public that the office of U.S. special prosecutor Lawrence Walsh is

looking into secret talks between U.S. and Iranian envoys that took place at the Hilton Hotel in Mainz, West Germany (Oct. 28-30, 1986). The American team consisted of Lt. Col. Oliver North, Gen. Richard Secord, and Robert McFarlane; the Iranians were represented by Albert Hakim and Manucher Ghorbanifar.

Of this group, Hakim, at least, was no stranger to Mainz, nor to the Mainz Hilton. He had had meetings there many times before, negotiating illegal arms deals on behalf of the Shah, and then Khomeini. Hakim is an arms dealer operating at the level of governments.

Therefore, the question now is, how much of his talks at the Mainz Hilton went on with the knowledge of the West German government, and specifically, the foreign ministry of Hans-Dietrich Genscher, which has been involved in secret and not-so-secret dealings with Iran since 1979-80.

The revelations about the Hakim-North talks in Mainz are not likely to be welcome at the office of Chancellor Helmut Kohl, whose government is being hit by many scandals amid the bad news from the stock markets. Another affair related to his own political home-base, Mainz, is the last thing the Chancellor needs at this moment.

Kohl's government has also come under attack in connection with the death of Schleswig-Holstein Gov. Uwe Barschel, which has brought to light various scandalous matters involving Kohl's Christian Democrats in Barschel's home state. Kohl's minister of finance, Gerhard Stoltenberg,

has come under special attack, not only because of his austerity policy, but because of the role he played in arms deals with Khomeini's Iran between 1979 and 1982, when he was Schleswig-Holstein governor.

Thus, any close look into German-Iranian affairs involving the shipyards in that northern German state, at the very least exposes cabinet member Stoltenberg in a very obvious way.

The left-wing parliamentary opposition here, the Social Democrats (SPD), have found in these weapons deals a welcome lever against the government. Their vehicle is the parliamentary subcommittee on illegal arms deals, which reconvened after a pause of six months on Oct. 15. The subcommittee, which started looking into illegal submarine deals with the Republic of South Africa more than one year ago, now has access to shipyard documents that will shed some light on details of these and other weapons deals.

On Oct. 23, the first set of documents was delivered to the committee. The committee found that the companies, names, and institutions involved in the South African deals are the same as those mentioned on the German side of Irangate.

During the month of November, the SPD is planning to make contact with the relevant committees of the U.S. Congress, to gain access to additional documents on illegal weapons affairs involving German dealers. The Social Democrats plan to have members of the Schleswig-Holstein state government testify before the subcommittee, as well as Chancellor Kohl and Finance Minister Stoltenberg.

The SPD is considering various other parliamentary and legal steps to keep the issue "hot," so there is little doubt that the government will soon face a big tempest.

## The parallel state

*The drug trade's "true strategic center is finances," states the head of Venezuela's national anti-drug council.*

With a year more to govern, President Jaime Lusinchi of Venezuela is not only severely weakened politically, but is facing economic disaster under the burden of an unpayable foreign debt and a global oil price collapse. After ramming through a highly unpopular refinancing of Venezuela's foreign debt with the creditor banks, in return for which his administration received not a penny in new credit, Lusinchi lost his bid to impose his favorite as the next presidential candidate of the ruling Democratic Action party (AD) to a bitter rival, ex-President Carlos Andres Pérez.

Venezuela's economic and political vulnerability, combined with intense pressure from international creditors to "open up" to greater "investment" from abroad, has allowed the drug-trafficking mob to surface as a "parallel state," in much the same way as in neighboring Colombia.

In September, a scandal blew up when seven convicted drug traffickers were freed from jail by a judge. Justice Minister José Manzo González scored the penetration of corruption into national institutions. Manzo presented President Lusinchi with a list of nearly 500 judicial decisions favoring drug traffickers in the previous six months. Without a persistent anti-drug commitment from the executive, he warned, "... the country would truly become a *parallel state*, and drugs would have penetrated to such an extent that it would be impossible to control."

An inventory of cocaine coming out of Venezuela and captured abroad over the past year, suggests how big the problem is: 3,100 kilograms of cocaine seized in Florida, in October 1986; 400 kilos in Curaçao, in April 1987; 1,060 kilos in Miami, in September 1987; and important seizures in Portugal, England, Holland, and Greece, all originating from Venezuela. These seizures reflect no more than 10% of the actual cocaine flow out of Venezuela.

Cattle raisers from the states of Táchira, Barinas, and Apure—all bordering on Colombia—have denounced purchases of border farms by strangers with "cash in hand." A special congressional commission reported that numerous cocaine-refining laboratories were being discovered along the border. Apparently, Venezuela no longer serves as just a transshipment point for Colombian cocaine, but is now a mafia base of operations—refining, and possibly production, of the drugs themselves.

Both the transshipment and production of cocaine in Venezuela are merely the advanced symptoms of a more deep-rooted disease, namely, the corruption of the Venezuelan financial system going back at least five years. Bayardo Ramírez Monagas, the head of Venezuela's national anti-drug council, identified the problem from a global standpoint, in an address to the fourth regional conference on preventive education against drug abuse and trafficking:

"The true strategic center of [the drug trade] is finances. This is what must be attacked. . . . Urgent measures are required to help establish controls on international financial capital. . . . For this, it is necessary to reform banking laws and to eliminate the so-called secret banking, reform the laws of the central banks of each country, establish control of taxes, and develop sanitary control of the pharmaceutical industry, to verify the destinations of certain products. . . ."

The degree of corruption in high places needed to cover up the vast amount of drug-money laundering through the Venezuelan banks is hard to hide. A series of scandals has broken out in recent weeks, implicating judges, police officials, retired military officers, congressmen, even ministers, in complicity with the drug trade. Some of the accusations, no doubt, are true. Others are likely serving the mafia's purpose of knocking anti-drug forces out of the ring.

Where the scandals will lead, given the vulnerability of the Lusinchi administration, is anybody's guess. What is clear is that by complying with the looting dictates of the international banking community, Venezuela has stripped itself of any capacity to fight the "parallel state."

On Oct. 2, Manzo told the press: "We can pay our debts, and make ourselves solvent, but if the country and its fundamental institutions are penetrated by drug traffickers, and the majority of the population—above all its youth—are addicted to drugs, it would be very difficult to call ourselves a free country. . . . Not only is this a problem of the state, but, fundamentally, it is one of national defense, since a country dominated by drugs is incapable of fulfilling its priority function, which is defense of its borders and of its national sovereignty."

## **A fillip for Indo-U.S. ties**

*Prime Minister Rajiv Gandhi's visit to Washington was brief, but potentially a great deal was accomplished.*

**R**ajiv Gandhi's one-day official visit to Washington on Oct. 20 has given a dramatic thrust to relations between the two democracies that have seen qualitative, if halting, improvement since the 1982 initiatives of President Reagan and the late Indira Gandhi and the 1985 American tour of Rajiv Gandhi.

In two working sessions and a luncheon, President Reagan and Prime Minister Gandhi decided to renew the Ronald Reagan-Indira Gandhi Science and Technology Initiative for an additional three years beyond 1988, expand defense cooperation in technology and other military areas, step up joint work against drug trafficking and abuse, expand two-way trade and technology transfer, expand education, research and other exchange programs, and, finally, to undertake joint research in agriculture, water management, and evolution of ground-water resources.

The atmospherics surrounding the visit pointed to new gains. White House support for the Gandhi-Jayewardene initiative to resolve the crisis in Sri Lanka was complemented by a subdued Indian approach on U.S. policy in the Gulf and Afghanistan. The Pakistan bomb and related Non-Proliferation Treaty issue was handled in a low-key manner, to the discomfiture of some on each side. Though India made its concerns clear, this did not appear to have included a challenge to Washington's view of Pakistan's strategic importance.

In formal remarks following the meetings, Gandhi went out of his way to endorse Reagan's commitment to elimination of nuclear weapons as a

commitment well known, despite the adoption of the Strategic Defense Initiative, otherwise the butt of demagogic attacks from Indian officials.

Even more interesting, in a press conference Oct. 21 in New York, Prime Minister Gandhi reported that he accepted Vice President Bush's assurances that the CIA was not engaged in destabilizing India—thus ripping a big hole in Moscow's attempts to stoke anti-American sentiment here.

Besides sessions with Reagan and Bush, Gandhi met separately with National Security Adviser Frank Carlucci, Defense Secretary Caspar Weinberger, and a group of congressmen. In Boston, Gandhi addressed a Harvard forum, and in New York he spoke at the U.N. and a joint meeting of the Asia Society, Indian Chamber of Commerce of America, and Foreign Policy Association.

One measure of the impact of these events can be taken in the dust kicked up back home. Gandhi's assertion that the talks were a success raised the hackles of some members of the parliamentary consultative committee attached to the External Affairs Ministry, whose portfolio the prime minister presently holds. Former Foreign Minister B.R. Bhagat, a pro-Moscow Congress socialist, reportedly led the pack, recording "reservations" about the U.S. attitude toward India where Pakistan is concerned.

The Pakistan bogey was seized on by the opposition Janata Party gaggle, too. News that the United States would comply with a previous agreement to supply certain military hardware to Pakistan, even while the new aid package was stalled in the U.S. Con-

gress, was cited to prove Gandhi's Washington visit "a singular flop."

The Communist Party of India-Marxist (CPM) targeted the defense cooperation agreement, demanding it be scrapped by Parliament. In an editorial, the party organ described the agreement as "anti-national." Negotiations on defense equipment, defense projects, and research would help the United States penetrate the country's vital defense capability, the CPM shrieked.

Indeed, expanded defense cooperation, particularly in light of deepening high-tech and scientific R&D ties, is one of the most significant results of the visit. This underscores the breakthrough made with Secretary Weinberger's visit to India last October, and the decision to collaborate on India's Light Combat Aircraft project. Indian requests for additional sophisticated defense equipment are already under discussion at the Pentagon.

Gandhi, in his White House remarks, identified "collaboration at the frontiers of technology" and "the tradition of scientific interaction" as the hallmark of the Indo-U.S. relationship. Significantly, export of the Cray XMP-14 supercomputer to India was cleared days before Gandhi's arrival, after protracted negotiations. According to U.S. officials, there has been a fivefold increase in export licenses issued for transfer of such high-technology items since the two countries signed the Memorandum of Understanding on High-Technology Transfer in 1985.

Ronald Reagan-Rajiv Gandhi Development Fellowships to promote exchanges in specialized areas of science and technology of mutual interest and regular consultations to keep supercomputer exports up to date and secure were also established. President Reagan's science adviser is scheduled to visit India in early 1988.

## The Vatican plan to save Lebanon

*The Maronite Church and its Catholic allies have a proposal for preventing partition of the country.*

**M**aronite Patriarch Nasrallah Sfeir's visit to Moscow at the invitation of the Russian Patriarchate, mooted for months, finally began on Oct. 21. For the Russian Orthodox Church, it is one of many visits by church leaders worldwide, to prepare for next year's millennium celebrations. In recent months, there were the visits of Lebanese Greek-Melkite Patriarch Hakim, and Constantinople Patriarch Dimitrios. But for the Maronite church, representing the largest group of Lebanese Christians, the future of Lebanon is at stake.

Officially invited at the end of last year, Patriarch Sfeir postponed his visit several times, in part because of Lebanon's political crisis, and in part because of the negotiations involving Beirut, the Vatican, and Moscow. Although they are Syria's main sponsor, the Soviets have made overtures to the Lebanese Christians, through their ambassador, Vladimir Kolotucha. Were the Maronites to recognize the Russian Orthodox Church as *primus inter pares* in the Middle East, notably in its efforts to gain "spiritual" control over Christian sites in Jerusalem, the Soviet Union would take them under their protection, and keep the Syrians at bay. This was the substance of Moscow's message earlier this year.

Such a deal cannot be accepted by the Uniate Maronites, associated with the Vatican for centuries, but it cannot be rejected out of hand either.

In response, the Maronite church and the Vatican have been busy working up an alternative proposal. Only when the general shape of that initiative was ready, was Nasrallah Sfeir

told to consider making his visit to Moscow, the first-ever by a Maronite patriarch. On July 1, a special Council of the Maronite Bishops convened in Bkerke. Officially, according to the proceedings published in the Vatican-linked *Osservatore Romano*, the Council focused on Lebanon's economic crisis. It especially warned that the collapse of the Lebanese economy allowed "outside forces" to buy Lebanese land at cheap prices. Between the lines, a three-point initiative was taking shape: 1) to guarantee the national integrity of Lebanon, 2) to sponsor a fundamental economic reform aimed at developing Lebanon's rural areas, and 3) to pave the way for a national unity government.

Not yet elaborated, the third point has most bearing on the present situation. Intelligence sources report that in order to maintain Lebanon's national integrity, especially to avoid a partition between Syria, Israel, and the various militias, the church is considering a reform of the presidential system. While nominally keeping the presidency in the hands of the Christians, it is considering backing a Greek-Orthodox or Greek-Melkite candidate for the 1988 presidential election.

Immediately after the Council of the Bishops, Nasrallah Sfeir embarked on a religious diplomatic mission to non-Christian communities in Lebanon. Local reports indicate that he gathered some support among predominantly Sunni Muslims, who are victimized by the Iranian extremists or Nabih Berri's Shi'ite militia.

It was to report on that diplomacy that Sfeir flew to the Vatican in early

October to attend the Synod, then went to France to attend the Council of French Bishops in Lourdes. In Moscow, he does not expect either support or neutrality on the initiative. Given that the Russian Orthodox Church is the protector of the Greek Orthodox Church in Lebanon, he expects to be involved in tough bargaining.

Though the initiative has met with mixed feelings within the Christian community of Lebanon, it remains the only one which envisions a way of preventing Lebanon's partition. Indeed, besides Israel and Syria, which each has its designs on the country, the initiative directly challenges Washington's unstated policy. In recent meetings at the U.N. General Assembly, U.S. Secretary of State George Shultz told the Syrian foreign minister, Farouk al Sharaa, that Washington considers Lebanon to belong to the Syrian sphere of influence. Intelligence sources report that Washington has indicated to Syria that it can do whatever it wants with the Lebanon, after the Nov. 8 Arab Summit.

Indeed, the U.S. government does not want the Lebanese issue discussed at all. When Lebanese President Amin Gemayel dared to call for an international peace conference on Lebanon, he was accused by U.N. Ambassador Vernon Walters of trying to "damage the new understanding between Washington and Damascus." Nothing could be clearer. However, neither the Lebanese Christians nor the Vatican are ready to accept Lebanon's disappearance. Public and less public diplomatic rows with Washington are to be expected. This might be tied to the sudden mention of the name of U.S. State Department consultant, Michael Ledeen, in course of the ongoing trial of those responsible for the August 1980 Bologna railway bombing, which killed 84.



## **PRI faction admits there's no recovery**

*Nationalists in the ruling party are breaking ranks with the government's disastrous austerity policy.*

Veracruz Gov. Fernando Gutiérrez Barrios, the man who is mooted for the powerful interior ministry post in the next Mexican cabinet, set off a political shockwave on Oct. 20, when he demanded a reversal of Mexico's disastrous economic policy. He was speaking before a gathering which included President Miguel de la Madrid and his designated successor, Carlos Salinas de Gortari, known to all as the architect of the current economic debacle. Salinas is the presidential candidate of the PRI, Mexico's traditional ruling party.

Gutiérrez Barrios said that a policy of economic development would have to be adopted, to halt the dangerous splintering of the party and the nation. Without national unity, he said, Mexico would become a severely weakened state, whose "logical result would be a people lacking in creative energy, unable to grow and progress."

Under the austerity regime of de la Madrid and Salinas, food consumption has plummeted; investment fell 9.4% in the first six months of this year; and during that period, machinery and equipment imports fell 30% in state-sector industry, and 15.3% in the private sector.

Gutiérrez Barrios's challenge to the ruling Establishment represents a "calling in the chips" of the political faction which he represents. That faction is known as the "Echeverrista" wing of the PRI, associated with former President Luis Echeverría (1970-76); its enormous influence among the nation's peasant organizations helped secure the PRI presidential candidacy

for Salinas de Gortari on Oct. 4.

In a parallel development, the Mexican Labor Congress, made up of Mexico's 36 leading trade union organizations, released a document asserting that "great structural imbalances, combined with galloping inflation, have caused the looting of the masses and have made the government's plans unviable." The document was released on Oct. 26, in time to have an impact on the PRI convention of Nov. 7-8, at which Salinas's candidacy will be made official.

However, the survival of the "Echeverrista" group in the circles of the next President of Mexico, and the fate of the peasant and labor federations, will depend on the measures that President de la Madrid takes now, given the collapse of the illusion of "economic recovery" caused by "Black Monday" in stock markets around the world, including Mexico's. As one PRI official put it to this columnist, "No one foresaw it. Now, the field is wide open for whoever first fills in the vacuum of ideas for confronting the catastrophe."

In an attempt to fill that vacuum, Budget and Planning Minister Pedro Aspe—a graduate of MIT and member of the financial aristocracy which has been imposing its policies on the Miguel de la Madrid government—announced Oct. 26 that Mexico would use \$11 billion of its reserves, out of a total of \$15 billion, to repurchase its own foreign debt at 50-55¢ on the dollar, on the secondary markets. Allegedly, this would reduce Mexico's foreign debt by some \$22 billion; in fact,

it would condemn the already moribund Mexican economy to permanent collapse, while condemning the PRI to an electoral disaster in 1988.

The question of whether to use the reserves accumulated by five years of brutal austerity for economic growth or to pay the foreign debt, has been at the center of the political battle in Mexico for many months. In fact, the very existence of the reserves is the only political stock upon which Salinas depends to give credibility to his claim that he will preside over an economic "recovery" over the next six years. Aspe's announcement, delivered before the National Congress of Economists, was received with frigid silence.

Marivilia Carrasco, presidential candidate of the Mexican Labor Party (PLM), issued a call for urgent measures to reverse the crisis. On Oct. 21, the Monterrey daily *El Norte* published her proposal to President de la Madrid that he declare a national economic emergency, to include protection of the national currency and reserves, through exchange controls, "suspension of payment of the debt until the shady movements of the international financial system are clarified," and formation of a common debtors' front at the upcoming summit of Ibero-American Presidents in Acapulco, at the end of November.

President de la Madrid continues with his head in the clouds. On Oct. 27, speaking before a gathering of industrialists, he rejected "spectacular measures," insisting that the economy was in "recovery." Yet that same day, the battle within PRI ranks erupted anew: An article published in the weekly *Punto*, controlled in part by Interior Minister Manuel Bartlett, revived charges of "political espionage" against Fernando Cordoba Lobo, a collaborator of Gutiérrez Barrios and the PRI president in Veracruz.

# International Intelligence

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## **Rabin: Iraq manipulating U.S.**

Israeli Defense Minister Yitzhak Rabin claimed Oct. 28 that the United States has been manipulated by Iraq into attacking Iran in the Persian Gulf. Rabin's comments, made at a press conference in Jerusalem for foreign journalists, was the first public criticism of U.S. policy in the Gulf by a senior Israeli official.

Rabin has been a leading figure in the faction in Israel which has been running arms to Iran since the 1979-80 period.

"None of those fleets that came to the Persian Gulf protect the Iranian right of free navigation, which is under attack by the Iraqis," said Rabin. "They protect only the right of navigation of Kuwait, Saudi Arabia, and the oil princes on the western side of the Gulf that might be attacked by the Iranians in response to the Iraqi attacks."

Rabin added, "Iran today is a bitter enemy of Israel in its philosophy; I believe that as long as Khomeini is in power there is no hope for any change. But at the same time, allow me to say that for 28 of 37 years, Iran was a friend of Israel. If it could work for 28 years . . . why couldn't it work once this crazy idea of Shi'ite fundamentalism is gone."

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## **Russian 'observatory' is weapons site**

Photographs of the U.S.S.R.'s Nurek Laser Complex, taken by French satellites and released Oct. 22, show a sprawling mountain-top complex whose features strongly indicate that it is a weapons site, not meant for civilian observatory work.

The complex, located near the Soviet border with Afghanistan, is replete with roads, buildings, laboratories, and a battery of 10 domes to hold lasers and tracking telescopes. The site is surrounded by double fences and is linked by power lines to the 2,700-megawatt Nurek hydroelectric plant.

According to *New York Times* coverage, the photographs strongly suggest that the site is designed for weapons research, or is itself a prototype weapon.

Defense experts say that the main question is whether the lasers are there for research, or prove to be strong enough to damage space satellites and the rudimentary space-based weapons systems envisaged for the first phase of deployment of the American Strategic Defense Initiative.

Analysis of the photographs by the Swedish firm Space Media Network did not rule out the possibility that the lasers might be capable of destroying incoming ballistic missiles.

"It appears to be larger and more elaborate than any comparable facility in the West," said John E. Pike, head of space policy for the Federation of American Scientists. "Whether or not this facility will be capable of shooting down satellites, it most certainly is developing the kind of technology that would eventually be able to do so."

Peter D. Zimmerman, physicist with the Carnegie Endowment in Washington, stated, "It clearly has a military mission. The question is what that mission is."

In 1987, the Soviet Union has built at least two new ABM laser testing stations. The Nurek site is the latest.

The U.S. Air Force believes that the lasers are strong enough to knock out satellites up to 600 km above the Earth, and the complex could be used to test much more powerful laser ABM weapons. Hence its linkage to the Nurek hydroelectric station 30 km away. The Pentagon's annual report for 1987, *Soviet Military Power*, had mentioned the existence of only one such ABM laser testing facility, and that in Tadjikistan.

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## **Radicals take over on British left**

British Mineworkers' communist leader Arthur Scargill has called for industrial action and "mass resistance to the machinery of the state," as the core of the policy of left-wing

socialists' in the next period. Speaking before the Conference of Socialist Economists and the Independent Socialist Society in Chesterfield the weekend of Oct. 24, Scargill attacked the British Labour Party leadership for a "strategy of class collaboration," and said socialists should "mobilize the British people" to take their campaigns "out into the streets and across the nation."

According to *The Independent* newspaper, the conference was dominated by "Socialist Workers Party hardliners." One such SWP leader, Paul Foot, also criticized the Labour Party leadership, saying, "We are not interested in taking office under capitalism, but subverting it." *The Independent* stresses that the mood at the event, was "glee at the stock market collapse."

"Events of the last week on the stock market are the most important political event since the Second World War," Labour Party radical parliamentarian Ken Livingstone told the conference Oct. 25. The inevitable economic crisis now unfolding, he said, would allow Britain to sever links with the United States, and, "within a year, monetarists will be almost impossible to elect." At the same conference, Labour parliamentarian Anthony Wedgwood Benn said that the radical left had been re-established as a "powerful force in British politics."

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## **Strange doings at euthanasia conference**

On Oct. 24, the "World Association for the Right to Die" drew some 200 Nazi-euthanasia advocates to its international congress in Paris. The subject was macabre, the participants were macabre—many prepared to boast of their exploits in killing patients—and the event was marked by a number of spooky incidents.

The meeting was first interrupted by a young man in the audience who shouted out that he had AIDS and wanted to protest the reluctance with which he had been allowed in the room. "I have AIDS and I have the right to stay among you." Just as everyone

was getting nervous, another spooky incident occurred.

A rosy-cheeked student went up to the podium, stood behind the panel of speakers, and threw something quite bloody, possibly a dead sheep's head, onto the speakers' dais. "Look what you did to my grandmother," he yelled at the speakers, each of whom had, indeed, killed many people.

Since there was no reaction at all, another young fellow began to throw eggs at the chief speaker. As he left the room, he ward off with stink-bomb spray all those in the audience who tried to grab him.

Outside the room, the literature table of an anti-euthanasia group had been kicked over by the AIDS-carrier. There, the young egg-thrower was finally pinned to the ground by at least 10 people, who took turns twisting his wrist, kneeling him in the stomach, and other exemplars of martial art. But to the dismay of the kicking, twisting crowd, a third young fellow suddenly appeared with eggs, one of which he promptly broke over the head of a woman who looked like the head of the French "Right to Die" movement, a certain Mrs. Caucanas.

As eggs splattered everywhere, the police arrived, and, as they rescued the young man who had been pinned to the ground, the other two escaped.

So, an international meeting for planning thousands of deaths had been seriously disrupted, the more so in that the conference was supposed to have been held in secret. A French member of the Chamber of Deputies had asked the health minister in parliament to deny the euthanasia advocates an official meeting room, following attacks on the euthanasia association in the newspaper *Nouvelle Solidarité*.

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## **Moscow unleashes dogs against Peru's García**

Before the financial crash in the West, Soviet news media were generally giving favorable coverage to the President of Peru, Alan García. After the financial crash in the

West, the reverse is occurring.

*Pravda* on Oct. 22 hailed the "growing strength" of the left opposition Liberal Party in Peru, moving toward "next year's elections" against García. "The ranks of the opposition forces are growing," and it is calling for a "United Front of Progressive Parties and Organizations" as a "counter to the dictatorial regime" of García.

Only a few weeks earlier, *Izvestia* had run a high-profile interview of García.

The new Soviet line typifies what Democratic presidential candidate Lyndon LaRouche predicted in recent writings, which stressed Soviet escalation of "revolutionary movements" and destabilization operations in light of the perceived "weakness of capitalism" following recent stock market plunges.

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## ***Soviet-Iran military cooperation to grow***

Soviet-Iranian military cooperation is expected to increase dramatically in the month of November, following an Oct. 15 visit to Moscow of Iranian Oil Minister Aqazadeh, and subsequent talks between Iranian Prime Minister Mir Housein Mousavi and Soviet Deputy Foreign Minister Yuli Vorontsov in Damascus, Syria.

Vorontsov arrived in Damascus on Oct. 17, at the end of a regional tour that took him to Cairo, Egypt and Amman, Jordan. He reached Syria just as U.S. Secretary of State George Shultz was arriving in the region.

One military deal between Iran and the Soviet Union now mooted is Soviet delivery of the modern version of the Scud missiles already in use by Iran.

Recent reports also say that Teheran was interested in buying old T-54 and T-55 tanks.

Meanwhile, economic cooperation went a step further with the ratification in Moscow of several joint projects, including "joint oil drilling" in the Caspian Sea, Soviet imports of 100,000 barrels of Iranian oil per day, and Soviet export of lubricating equipment.

# Briefly

● **TURKEY** has begun to signal growing concern that an INF agreement will leave its conventional forces particularly exposed to superior Soviet forces. Turkish Foreign Minister Vahit Halefoglou recently stated that an agreement on eliminating nuclear weapons in Europe should be accompanied by "a similar agreement on conventional forces."

● **MARSHAL OGARKOV** has been awarded the highest order of the U.S.S.R., according to Soviet radio and TV. The Order of the October Revolution was awarded to Nikolai Ogarkov, the designated wartime commander of all Soviet forces directed against the West, on Oct. 30, his 70th birthday. The award was made by Andrei Gromyko, President of the U.S.S.R.

● **WARSAW PACT** foreign ministers, meeting in Prague, Czechoslovakia, "expressed hope" that an INF agreement could be signed "shortly," according to the Soviet news agency TASS. It is "necessary . . . to put on record an accord on the main provisions of the future agreements on strategic offensive arms and the non-deployment of weapons in outer space," said their communiqué.

● **MUAMMAR QADDAFI** now claims the Tremiti Islands off Sicily, and is threatening to kidnap Italians unless "colonial war reparations" are paid to Libya, says Italy's *Corriere della Sera*. The islands are inhabited by 4,000 Libyans.

● **SOVIET SCIENTISTS** Roald Sagdeev and Vitali Goldanski have objected to their own government's charges that the U.S. Pentagon created AIDS. "No expert worthy of the name has published such affirmations in our country. If anybody could have written this, it would have been journalists, not scientists," said Sagdeev.

# Wall St. looks to D.C., finds panic and vacuum

by Criton Zoakos

During the entire week of Oct. 26-30, a series of tragi-comic events transpired in Washington, which, to the horror of all serious persons concerned with the looming dramatic consequences of the stock market crash, demonstrated to the whole world, that the present political leadership steering the institutions of American public life is not only inadequate to the crisis at hand, but is downright oblivious to the horrible reality facing us. These events, for the most part, centered around the so-called "domestic economic summit" between the Reagan administration, on the one hand, represented by James and Howard Baker, and the Democratic and Republican leadership of Congress, on the other.

Let no one deceive himself: After six days of a bipartisan "economic summit" between administration and Congress, exactly nothing has come down by way of even a hint of a suggestion of badly needed economic policy direction.

On the contrary, every indication is that all the best brains that can be found in the officialdom of both Democratic and Republican Parties, in both the Executive and Legislative branches of the United States government, have been meeting for all these days now, and have been demonstrating that the only thing they agree on is that Democrats will not blame Republicans, and Congress will not blame the Executive, and vice-versa. All the contending factions and groupings of the political institutions have struck a temporary non-aggression pact and are calling it an "economic summit."

No set of policies seems to be coming out of this group of frightened officials. Meanwhile, the leaders of the international business community, the erstwhile high priests of *Haute Finance*, are lying discredited, drowned in a sea of worthless, bankrupt paper, declaring their impotence to do anything, and demanding that the "political leadership" find solutions to the crisis. Most characteristic of the self-discred-

iting of the national "business leadership" of the United States, in the aftermath of the Oct. 19 "Black Monday," was a lengthy, hysterical, editorial in the *Wall Street Journal* of Tuesday, Oct. 27, titled "Reagan for President."

That editorial asserted that Ronald Reagan "should understand fully that he is standing in the middle of a panic. . . . And when fright prides the hinges of rational minds, big mistakes can be made. . . ." What's needed, the *Wall Street Journal* editors intoned, is government—and especially presidential—action. Calling "presidential credibility" the "missing ingredient" in the current crisis, the *Journal* demanded that Reagan "take a position, defend it and fight for it. The Founding Fathers invested great political authority in the presidency for times such as these."

Concrete actions Reagan should take include changing top personnel, and scrapping "the Gorbachov INF sellout." That treaty "isn't George Shultz's creature; it's Ronald Reagan's leadership. The world wants to see what anyone would want to see—the President himself standing up to Gorbachov."

## The defenestration of Adam Smith

What was most ironic, in this panicked outburst of this reputed "business leadership," was that their sudden and uncharacteristic call for strong, dirigistic actions on the part of the political leadership of the country, in favor of the discredited and bankrupt "business community," came after many and tedious years of preaching the gospel of "free enterprise," "magic of the marketplace," in which, "dirigism," "government interference," and the like were proclaimed excommunicate and anathema.

Suddenly, the confused, frightened, and near bankrupt Wall Street, began to appeal to the Founding Fathers, the

Constitution, the office of the Presidency, and all the other high and mighty “political powers that be,” to save them from the remorseless clutches of that very “invisible hand” which they had worshipped.

The funny thing is that, neither presidency, nor Congress, nor any other institutional “power that be,” had any idea of what to do about the wobbling economy.

The following day, the London *Financial Times*, supposedly more sophisticated, followed the *Wall Street Journal* with a very similar editorial, and launched into a panicked attack against President Reagan for failing to provide any acceptable economic policies in this crisis. It seems only yesterday that the *Financial Times* and the *Journal* were proclaiming Reagan their great hero, the man who created the great “prosperity.” Now, here is what his erstwhile admirers say:

“Unless his statement last night acknowledging the gravity of the situation is a harbinger of better things to come, the only charitable description of President Reagan’s performance over the last week is that it has amply demonstrated his known limitations. Once the beneficiary of favorable circumstances, he appears to lack the capacity to handle adversity, and setbacks have been coming thick and fast over the last 12 months. There is, sadly, a fundamental inability at the top to grasp complex issues, not seen at a presidential level since Herbert Hoover. Historical comparisons with previously incapacitated chief executives like Woodrow Wilson may now seem relevant.” (Editorial of Oct. 28, 1987).

### ‘Out will come a mouse’

None of these exhortations, so far, has succeeded in shaming or inspiring the participants in the, still ongoing as of this writing, “domestic economic summit,” into any type of action, whatsoever. The first two days of the “summit,” were spent with all sides, Congress and administration, Democrats and Republicans, making solemn public declarations that they are all united in this effort, that their approach will be immaculately “non-partisan,” and “bi-partisan,” that there will not be any recriminations by Congress against the administration, nor vice versa.

On the third day, this “non-aggression pact” began to crumble. After failing to convince the administration on the dubious wisdom of raising taxes, Jim Wright, the Democratic Speaker of the House, engineered the equivalent of a legislative coup d’état, to force the passage, in the House of Representatives, of something called “The Guaranteed Deficit Reduction Act,” which, if it ever were to be made into law, would increase taxes by \$12.5 billion and cut spending by \$11.5 billion, presumably to produce a deficit reduction of \$23 billion.

Both the Reagan administration and the Republicans promptly protested that the dubious passage of this bill was “not serious,” that it was a cheap Democratic Party “political maneuver,” intended to undermine the ongoing negotiations

at the “domestic economic summit.” Many Democrats admitted that the vote for the “Guaranteed Deficit Reduction Act” was indeed frivolous.

And so it was. The vote for the bill was 206-205, with all but one Republican opposing, and with 41 Democrats opposing as well. Before the final vote, a revolt against the bill started emerging among Democratic Party ranks. Speaker Jim Wright, in order to overcome it, employed an unprecedented parliamentary maneuver, which amounted, in fact, to manipulating the voting process of Congress. Jim Wright’s parliamentary maneuver, tantamount to extending the calendar day by fiat, was likened to the feat of the biblical Joshua who ordered the Sun to stand still over Gabaon.

Following that piece of theater, greater dissension was reported on all fronts in Washington. Among congressional Democrats, growing resentment against Jim Wright; among Republicans, growing clashes over the issue of what kinds of taxes and what kinds of cuts; within the administration, clashes between the two Bakers on the one side, and anti-tax administration conservatives. At the “domestic economics summit,” total paralysis. From the President, nothing.

By the end of Saturday, after six days of posturing, the summiters announced, “There was no decision on a specific policy or outline of a package,” and “we don’t want a Halloween surprise.” By Saturday, recriminations of Democrats and Republicans replaced the spirit of “bi-partisan” harmony of the previous Monday, as the Democrats, in their weekly radio message to the nation, blamed the Republicans for the failure to reach agreement.

From the White House, an official, apparently opposed to Howard and James Baker, leaked to the press that “if the President signs off on significant taxes, there’ll be a lot of screaming and shouting.” One senator, discouraged by what he saw all week long at the “domestic economic summit,” shook his head stoically, and provided an inspiring example of leadership, by saying, “The trumpets blare and the headlines scream and, in the end, out will come a mouse.”

Neither the *Wall Street Journal* editors, nor the London *Financial Times* got from the Reagan administration what they so desperately demanded early in the week. Hence, the Democratic Party officialdom attempted to fill the vacuum: “Yes, we want to calm Wall Street jitters,” said the official Saturday party statement, crafted by Rep. Pat Williams of Montana. “. . . [A]nd we Democrats believe that the only sure way to calm Wall Street is to reassure Main Street . . . that the Congress is going to continue to reduce the deficit . . . We Democrats have understood for more than half a century now that when Main Street is reassured, the message will soon percolate up to Wall Street.”

However, House Budget chairman William Gray, one of the Democratic participants in the “summit,” was not so perky. “If we don’t reach an agreement,” Gray said after a frustrating negotiating session, “we risk another Black Monday, Tuesday, and Wednesday.”

# Political committee to rally Democrats for economic recovery

by Katherine Notley

Warren J. Hamerman, the chairman of the National Democratic Policy Committee (NDPC), announced Oct. 26 that his organization plans to publish a pamphlet reprinting his July 14, 1983 testimony against the renomination of Paul A. Volcker as chairman of the Federal Reserve. The pamphlet includes written material that was submitted to Sen. Jake Garn's (R-Utah) Banking Committee, detailing emergency measures the President and Congress need to take to get the country out of the collapse brought about by Volcker's policy for "controlled disintegration" of the economy.

"I delivered the *only* testimony from a national organization in opposition to the renomination of Paul A. Volcker as chairman of the Federal Reserve," said Hamerman, whose multi-candidate political action committee has been one of the fastest growing since its founding. The NDPC was founded by Democrats in August 1980 "who opposed the renomination of the Carter-Mondale ticket in large part because of its commitment to the bone-crushing austerity policies of Paul A. Volcker. Among the founders of the NDPC were 'LaRouche Democrats,' 'FDR Democrats,' 'Jackson Democrats,' 'Kennedy Democrats,' civil rights leaders such as the esteemed Hulan Jack, trade union leaders, farm leaders, and scientists."

Hamerman enumerated the documents published in the Senate Record that appear in the pamphlet, including two items by Lyndon H. LaRouche, Jr., then the chairman of the Advisory Council of the NDPC: "LaRouche Opposes Volcker Reappointment," and "A Programmatic Policy for Recovery," which consisted of three items of proposed national legislation, The U.S. Bank Act of 1983-84; The U.S. Tax Reform Act of 1983-1984; The U.S. Foreign-Banking Act of 1983-1984 (see **Documentation**).

Hamerman's summary continued, "A 15-page prepared written testimony by myself summarized Lyndon LaRouche's argument in detail, that the brutal austerity policies of Paul Adolph Volcker, if not changed immediately, would lead to a financial-monetary crisis before the end of the 1980s. Furthermore, this financial crisis would be exploited by the Soviets, who wished to sabotage the Strategic Defense Initiative (SDI), which had been officially announced by President Reagan only four months before I delivered the testimony. In my written text, I presented, as well, a detailed summary of a policy document entitled *Operation Juárez* authored by Lyndon LaRouche the previous summer.

There were also "17 pages of telegrams supporting the NDPC opposition to Paul Volcker's mismanagement of the U.S. and world economy. International telegrams were included from the president of the Union of Engineers of the State of Rio de Janeiro in Brazil, the president and general secretary of the UTRABOC trade union of Colombia, other trade unions, agriculture and industrial leaders from West Germany, Italy, and Sweden, as well as from Gen. Revault D'Allonnes of France. Telegrams from around the United States, which were introduced into the Senate Record, included statements from labor leaders, NAACP and other civil rights organization leaders, farm organization leaders and political leaders. . . .

"In my introductory oral testimony I stated,

Mr. LaRouche demands that Paul Adolph Volcker not be confirmed for a second term as Chairman of the Federal Reserve System, as I do as well in the statement which I am submitting, on the grounds of the national security of our Republic as well as the national sovereignty of our allies and trading partners in Ibero-America, Asia, Africa and Europe. . . . We are currently in the midst of a worldwide economic depression that at any moment could ignite into a full-fledged global financial crisis. Mr. Paul Volcker is the symbol of the cause of that worldwide depression. He is so viewed by the nations of Ibero-America, Africa, and Asia. He is viewed as a Malthusian mechanic who, if in the position of Federal Reserve Chairman, would institute policies which would cripple the economic well-being of those nations.

"In my oral testimony, I also presented an analysis of why the Russians would wish to exploit the financial weakness of the United States to sabotage the Strategic Defense Initiative in the budget-cutting surgery room of the U.S. Congress."

While the NDPC's package will center around Hamerman and LaRouche's 1983 testimony, the economic analysis and program dates back seven years, from LaRouche's economic legislation proposed during his 1979-80 presidential campaign. Said Hamerman, "Because of today's urgent financial crisis following the 'Black Monday' stock market crash," the pamphlet will include an introduction by presidential candidate LaRouche, an Oct. 23, 1987 "urgent

open letter 'On the Crash of 1987-1988' " to Democratic Party and trade union figures.

### 'The DNC is snoring'

One day after LaRouche issued his open letter, and in response to a discussion with the Democratic presidential candidate, Hamerman announced that the NDPC was prepared to serve as the rallying point for all Democrats who demanded emergency political action to deal with the current financial chaos. Hamerman's Oct. 24 statement, headlined "The DNC Is Snoring Away After the Stock Market Crash. If You Want Emergency Policy Action, Join With the NDPC!" is the only other contemporary piece included in the pamphlet.

"The DNC is snoring away and Chairman Kirk is in deep slumber, despite the fact that the 'Black Monday' stock market crash signals that we have entered the greatest financial crisis in our nation's history. Simultaneously, President Reagan and his administration are pathetically marching step-by-step down the same pathway as Herbert Hoover did.

"We know that Wall Street and their international banking allies will move quickly to try and 'solve' the financial chaos by extracting blood, bone, sinew, and nerve from our citizenry. We also know that the Soviet Union will seek means to exploit our financial weakness to their strategic advantage.

"In this great crisis, the NDPC is prepared to step forward and become the vehicle to rally the traditional constituencies of the Democratic Party. We have three immediate objectives.

"Firstly, we must ensure that the living standards and interests of our nation and our constituencies are defended.

"Secondly, we must lead our nation out of the wilderness of the two-decades-long 'post-industrial society' policy which has caused the current financial crisis.

"Thirdly, we must at last say a final farewell to the nightmare of the McGovern Reforms in our Party and institutionalize in our Party statutes a restoration of those traditional values and policies of the Democratic Party which allowed us to lead our nation out of the 1930s depression, lead our civilization to victory over tyranny in World War II, and lead our mission to place a man on the Moon in the 1960s. . . .

"Today, I am announcing that I am placing the NDPC on a full-scale political mobilization and committing its resources to the following specific actions:

"1) We cannot wait until the summer of 1988 for our Party platform, especially its emergency economic planks. The NDPC calls for an open debate *now* on the 1988 Democratic Party Platform, and will bring this debate to the top of the agenda of every Party or local club meeting, union gathering, and so forth. The NDPC is prepared to publish materials, prepare policy slide shows, sponsor meetings, and serve as a clearing house for national Democratic Party debate on emergency economic planks to reorganize our national economy, while protecting the standard of living of our farmers,

workers, small industries, and putting our unemployed reserves back to work.

"2) The NDPC is prepared to back citizen candidates for federal, state, local, and party office who are in common agreement with the policy objectives outlined in this statement.

"3) The NDPC is prepared to defend candidates from being capriciously excluded from ballot access because of their commitment to the broad policy objectives in this statement.

"4) The NDPC is prepared to sponsor an open and thorough review of the Party rules and procedures, so as to re-establish traditional 'pre-McGovern Reform' guidelines.

"5) NDPC members, supporters, and volunteers are encouraged to organize rallies, meetings, and events . . . to recruit more and more citizens to these perspectives."

Hamerman proposed that LaRouche's Oct. 23 open letter can serve as a discussion guideline for the policy substance of Democratic Party political action. "Mr. LaRouche proposed that the following actions must be taken, even long before the January 1989 inauguration. . . .

"1) The President must declare a national economic emergency.

"2) The President must use the regulatory powers of government, to defend the value of the U.S. dollar, defend the value of U.S. government bonds, and ensure that even seriously troubled local banks continue to conduct ordinary day-to-day business under such measures of medium-term reorganization as may be required.

"3) The President must employ his emergency powers to 'federalize' the Federal Reserve System.

"4) An emergency tax-reform must be included as part of the emergency actions. This must include restoration of investment tax-credit incentives. . . . It was the combination of the Kennedy round of tax-credits with the technological stimulants spilling over from aerospace research and development, which caused the Kennedy recovery to be the most vigorous of the postwar period to date.

"5) Sound economic objectives of maximizing the physical output of our farms and factories, as well as encouraging exports, must be pursued. . . .

"6) We should foster technological development. Despite the severe constrictions on federal expenditures . . . we should adopt the proposed Moon-Mars space exploration and colonization program as a technology-driver for the U.S. economy's growth of productivity."

Hamerman concluded, "We must return, in short, to the days before the tyranny of the 'KGB Democrats,' the 'Hong-Kong economy Democrats,' and those 'pro-sodomy Democrats' who took over the party with the assistance of the FBI and Justice Department who targeted and chopped up traditional Democratic machines. We must return to the days when the Democratic Party stood for a strong dollar, strong civil rights, and traditional public health, strong industry and agriculture, a rising standard of living *and* a strong defense."

# A programmatic policy for recovery

*What follows is the text of the legislative package by Lyndon H. LaRouche, Jr., submitted to Congress on July 14, 1983 as part of the NDPC's testimony against Paul Volcker's renomination.*

During the 1979-1980 period of the campaign for the 1980 presidential nomination, Democratic candidate LaRouche issued a series of programmatic proposals, together with analytical prognoses for the consequences the nation would suffer if such remedies were not adopted. If we, today, compare the programs and prognoses of the various candidates for the 1980 presidential nomination, honest men and women will agree that the LaRouche prognoses were correct, and the competing prognoses flatly wrong. In principle, nothing need be changed today in the proposals offered during 1979-1980. Only a few points need be added, to bring the proposals up to date with the problems which have been added to our national repertoire of daily agony since. . . .

## The U.S. Bank Act of 1983-1984

A single act of Congress, in accordance with Section 1, Articles 8 and 9, transforming the Federal Reserve System in entirety into the *Third Bank of the United States*.

1. The Federal Reserve System is "federalized," made a subsidiary institution of the Executive Branch of the Federal government, subject to the inalienable constitutional powers of the Congress.

2. Limitations on Bank Lending. No banking institution which is or has been formerly a member of the Federal Reserve System, shall make any new loan, except as a renewal of an existing loan, which is in excess of its actual deposits of currency plus specie, less required reserves.

3. Creation of Credit. The only means for creation of new volumes of lendable credit by banks within the territories and possession of the United States, shall be the issuance of gold-reserve-denominated currency-notes of the Federal Treasury of the United States. Each issuance shall be authorized by an Act of the Congress, and such notes shall be placed in circulation through the rediscount functions assigned to the Third Bank of the United States.

4. The Rediscount Function. The Third Bank of the United

States (the "federalized" Federal Reserve System), shall employ new issues of Treasury currency for rediscount action only against new individual loan-agreements, for which the specified and restricted application of loaned funds is consistent with both general principles of prudence applicable to any bank loan, and according to lists of categories of approved types of loans eligible for such rediscount-treatment.

5. Loan-Agreements Approved for Rediscount. Except for such purposes of national defense or other national emergency, as authorized by Act of the Congress, all rediscounting of loan-agreements with use of new issues of Treasury currency shall be for investment in such forms of improvement and expansion of public and private ventures as increase the per-capita production of tangible goods of the nation as a whole.

6. Loan Procedures for Rediscount. In the case an individual loan-agreement is approved for rediscount participation by the Third Bank of the United States, the authorized disbursements officer of that Bank shall draw a check against the issue of Treasury currency authorized to be distributed for this purpose. The sum advanced by means of this check shall bear a prime charge of not less than 2% and not more than 4% per annum. Ordinarily, this check shall be issued to a private bank which is a corresponding bank of the Third Bank of the United States, and that corresponding bank shall be authorized to make a reasonable service-charge for administration of the Third Bank's part of the total loan-agreement on account of which such disbursement is made.

### Comment:

This proposed Act:

(a) Eliminates the intrinsically monetary-inflationary "Keynesian multiplier" from the operations of the banking-system as a whole.

(b) Implicitly obliges the U.S. Federal Government to issue new volumes of lendable currency, adequate to the indicated classes of increased borrowing-requirements of the U.S. domestic economy and its export-activities in connection with tangible-goods production. This "compensates" the economy for the sharp constriction of lending-power caused by condition (a).

(c) Restricts the main flow of newly created credit, either to the national defense, or to investments in infrastructural or agro-industrial tangible-goods production investments at competitive levels of technology. It limits loans for other applications to lending-power generated by deposits of currency placed physically with private banks. The included objective is to shift the composition of employment of the labor-force from a 28% employment of productive operations to the range of between 40-50% over the remainder of the century.

(d) Allows unlimited expansion, provided it occurs in a climate of advancing technology, and under the impact of the credit-expansion and lending stipulations of this Act is counterinflationary within the limits of impact of national defense



spending. It is therefore, also, implicitly a full employment Act.

### The U.S. Tax-Reform Act of 1983-1984

1. General Purpose of Tax-Reform. (a) To exterminate taxable-income advantages from parasitical investments in ground-rent, usury, and monopolistic forms of commodity-price speculation; (b) To afford preferred tax-treatment to such portions of private savings and corporate profits which are invested in the manner stipulated for rediscount-action by the Third Bank of the United States; (c) To shift the burden of taxation from the basic income of households to parasitical forms of capital-gains income associated with ground-rent, usury, and commodity-price speculation.

2. Personal Income-Tax of Households. To increase the per-capita exemption of income of households step-wise to \$5,000 per annum.

3. Investment-Tax Credits. To provide tax-credits for investments in technologically-progressive production of tangible goods and infrastructural improvements bearing upon the production and transportation of such goods, and to extend these benefits to the household saver and private lending-institution—in ratio to paid-in balances of the investment in which they share. This investment tax-credit provision shall replace capital-gains treatment except for the case of reali-

zation of inventions and research-and-development.

4. General Taxation. The operating budget of the Federal Government, as distinct from the capital investments budget, should be balanced. A general, graduated income tax adequate to this purpose, adapted to the afore-listed conditions, shall be drafted to meet this requirement.

### National Infrastructure Projects Acts

1. General Purpose of Acts. These acts shall establish or refurbish Federal Authorities in such areas of either public works or privately-held utilities, which bear directly upon the following categories of infrastructure:

2. National Fresh-Water Supplies and Management.

3. National Transportation: including canals, harbors, railways, and Federal highway systems, and interfaces and warehousing functions providing the interface among modes of transport.

4. National Energy-Production: especially facilitating completion of nuclear-energy and related high energy-flux density generating modes, with Federal override over costly impediments; giving priority to low-cost, long-term construction and permanent-financing loans for this purpose.

5. Urban Basic Infrastructure. Utilities, public transportation, and urban infrastructure for technologically advanced modes of tangible goods-producing industries.

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## The U.S. Foreign-Banking Act of 1983-1984

1. General Purpose of Act: (a) To facilitate the establishment of a new international monetary system, based on gold-reserve relationship among states, and a system of fixed currency-values; (b) to provide for reorganization of debts of nations indebted to the U.S. Government or to financial institutions which are private institutions established within and according to the laws of the United States; (c) to protect the United States from unwholesome practices of foreign financial institutions.

2. U.S. Currency. Henceforth, the only form of lawful currency issued by the United States shall be gold-reserve-denominated U.S. Treasury notes. Imbalances on national account, involving this new issue of currency shall be resolved by gold-reserve transfers to nations which have entered into agreements to conduct their affairs in the same mode.

3. Gold-Reserve Value. Monetary gold shall be priced at a market-price based on the price determined by cost-plus-profit by gold-mining, taking into account the volumes of gold bullion which must be produced.

4. Reorganization of Foreign Loans. If a debtor-nation shall require reorganization of its debt-balances, it shall issue gold-reserve-denominated bonds from a national bank based on the same principles as the Third Bank of the United States. These bonds shall be rediscountable security for authorized export-loans within the U.S. banking-system, and shall be eligible for use of purchasing the old loans to be reorganized. The old loans shall cease to accrue charges after the cut-off date established for such exchanges by agreement of the Federal Government of the United States, and the bond-issues presented in purchase of the old loans shall be equal to accruals up to that cut-off date. The bonds shall bear a yield of between 2-4% per annum, on the basis of gold-fixed parity of currency in which the bonds are denominated.

5. No foreign financial institution which does not maintain the standards of banking specified for banks of the United States may acquire any part of the ownership of a bank doing business in the United States, and may not itself conduct business within the United States. Any foreign bank doing business within or sharing ownership of a bank established within the United States must provide full transparency of its total operations to bank-auditing agencies of the Federal Government of the United States.

These several Acts adequately outline the policy for recovery, otherwise explicitly or implicitly stated in preceding portions of this policy-memorandum.

What needs to be stressed is that the depleted infrastructure and goods-producing capacity of the U.S. economy prohibits a genuine, sustainable recovery unless investment-capital is contracted to a high degree in the most advanced capital-goods technologies, the same spectrum of technologies implicit in the development and deployment of a full-scale strategic ABM defense-system.

## New AIDS initiative

By the close of the workday on Oct. 28, thousands of phone calls had criss-crossed the United States, in and out of the state of California. While the stock market and dollar collapse was continuing, market developments were not the direct cause of these frantic calls. The news however was about panic. Throughout the state, the electronic media carried the story that a new "LaRouche AIDS Initiative" was being filed, with hundreds of thousands of petitions bearing the signatures of California voters delivered to county registrars.

At press conferences in Los Angeles and the state capitol of Sacramento, AIDS Initiative Statute co-proponents Khushro Ghandhi and Brian Lantz announced that over 720,000 signatures had been gathered and filed. Ghandhi and Lantz were the authors of last year's famous "Proposition 64" AIDS initiative, instrumental in forcing an international debate of the true nature and extent of the hideous AIDS pandemic, exposing the cover-up orchestrated through the World Health Organization and Atlanta Centers for Disease Control. The new initiative's campaign committee is appropriately named PANIC, Prevent AIDS Now In California.

In Los Angeles, Khushro Ghandhi, president of the PANIC initiative committee, told the assembled press that traditional public health measures were long overdue in stopping the AIDS epidemic. "This bill applies existing, proven traditional public health measures to AIDS. Current state law in California concerning 'confidentiality' of HIV test results make it impossible for health authorities to even ascertain the extent of infection in the population. We cannot afford to close our eyes to reality. By making HIV carriers reportable to health authorities, this initiative measure will end this medical absurdity."

In Sacramento, Brian Lantz, vice president of PANIC, was asked who he thought would be the major opponent of the new initiative effort. "The Reagan administration. Even after the crash, the President is still talking about 59 months of economic recovery. The same administration is still hoping that AIDS will just go away. . . ."

Co-proponents Ghandhi and Lantz had the following to say in their prepared statement announcing the speedy completion of petitioning:

"The collection of these signatures over the past three-and-a-half months has demonstrated that most Californians are acutely aware of the threat posed to all citizens by this

# filed in California

hideous pandemic, and are committed to the application of traditional public health measures to stop the disease. With close to 1 million infected carriers estimated in the state, it is already very late for even such obvious measures. . . . It is highly appropriate that this measure is being filed at the end of what some wits term 'AIDS Education Month.' As Lincoln said, 'You can't fool all the people all the time.' "

Summarizing the new initiative, the proponents state, "The AIDS Initiative Statute defines AIDS, and the condition of being a carrier of the HTLV III (HIV) virus, or any other virus which may be found to cause AIDS, as legally 'infectious and communicable,' as they are in fact, and places this disease and this condition on the reportable diseases and conditions list, according to statute. This list already contains virtually all dangerous communicable diseases and conditions, such as German measles, typhus, tuberculosis, syphilis, plague, etc. Once AIDS and the condition of being an HTLV-III (HIV) carrier are on this list, those existing public health statutes and codes which presently apply to every other communicable disease, will apply to AIDS and its carrier form, as well."

## Response from left and right

Response to the filing of the new California AIDS Initiative was immediate, and in some ways very predictable. "The problem here is that it is becoming increasingly clear to the voters that the federal government and the state government have not done enough about AIDS . . . causing a vacuum," moaned Gary Wood, a spokesman for the San Francisco Bay Area Lawyers For Individual Freedom, in a *San Francisco Examiner* interview. "I'm overwhelmed," responded a spokesperson for the notorious San Francisco AIDS Foundation. Bruce Decker, Chairman of Governor Deukmejian's AIDS Taskforce, charged that the new AIDS Initiative was a "dangerous and ill-intentioned measure." Mr. Decker has publicly identified himself as, "the governor's house-fairy." Decker, who led the anti-Proposition 64 effort, no longer has the uneasy support of his party, however. California Republicans, at their recent Anaheim state convention, adopted a resolution almost identical to the AIDS Initiative Statute, calling for AIDS and HIV carriers to be made "reportable" to health authorities, and for traditional public health measures to be applied to AIDS. The proponents of the new

measure, who are both Democrats, expect broad, bipartisan support for the measure.

The California Medical Association, which was a leading opponent of Proposition 64 last year, also adopted a resolution this year calling for reportability and application of traditional public health measures.

California Democrats meanwhile are all over the proverbial map, reflecting the disarray of the national party. But perhaps indicative of things to come, San Francisco Mayor Dianne Feinstein, once a defender of that city's notorious homosexual bath houses, called for mandatory AIDS testing in her State of the City report Oct. 5. She is known to be considering a run for statewide office.

## The impact of Proposition 64

Observers emphasize that the full implications of the new California AIDS initiative can only be appreciated against the backdrop of the "David and Goliath" battle waged last year over Proposition 64. Drawing upon the most competent international research and field work on AIDS, Proposition 64 supporters had called, beginning with the initiative's filing in 1986, for a "Manhattan Project" AIDS research effort and the application of standard public health measures, including quarantine, in stopping the spread of the AIDS epidemic.

Proposition 64 was defeated in the November 1986 elections by what the proponents charged was "a well financed campaign of lies" and massive illegal interference in the election process by government agencies. Proposition 64 foes, bankrolled by mob-linked Hollywood studios, porno magazines, and the likes of movie queen Elizabeth Taylor, outspent Proposition 64 backers 20 to 1. State Attorney General John Van de Kamp, who according to investigators is himself tied to Hollywood organized crime circles, through his office wildly charged Proposition 64 backers with election fraud, took part in star chamber hearings against the ballot measure and then raided offices of the Prevent AIDS Now Initiative Committee (PANIC), backers of Proposition 64.

The witchhunt politically backfired. Opponents who labeled Proposition 64 "the LaRouche Initiative," succeeded in turning economist and Democratic presidential candidate Lyndon LaRouche into a California folk hero. To date, no charges have ever been brought against Proposition 64 backers. If charges were to be brought now, it would only underscore in the public's mind the totally political nature of the "Get-PANIC, Get-LaRouche" effort. The Commission to Investigate Human Rights Violations has taken detailed testimony from representatives of the Proposition 64 effort, as part of their investigation of the ongoing Soviet-authored witchhunt against Lyndon LaRouche, his associates, and supporters.

The open secret now driving powerbrokers to hysteria is that the citizens of California may very well vote up the new AIDS Initiative in the June 1988 California presidential primary election.

# Elephants & Donkeys

by Kathleen Klenetsky

## Selective leaks from the Cuomo dossier

In a sure sign that Mario Cuomo's protestations that he is *not* running for the Democratic presidential nomination are a fraud, portions of the "Cuomo dossier," the mass of material documenting the New York governor's links to organized crime, have begun to surface in the press. The leaks come more than a year after *EIR* published its own exposé of "'Don' Mario Cuomo and the dope mob" (*EIR*, Aug. 1, 1986).

Rupert Murdoch's *New York Post*, no friend of Cuomo, let loose on Oct. 27, reporting (as *EIR* had detailed previously) that before he entered government service in 1975, Cuomo had been part-owner of a concrete company that later figured in a construction scandal. Cuomo served as part-owner and director of Grand Prestressed, along with Vincent DeLillo, who was convicted in federal court in 1979 of conspiring to supply standard concrete pipe to Suffolk County.

According to the *Post*, FBI and New York Police Department sources said that DeLillo was an associate of the Colombo crime family, and that his father, Andrew, was an associate of the Gambino organized crime syndicate.

Cuomo's connections to the company were not included in a *New York Magazine* article which hit the stands one day before the *Post* story. Written by "mafia expert" Nicholas Pileggi, a close personal friend of Cuomo, the article sought to preempt the expected attacks on Cuomo's unsavory associations by itemizing the various allegations against him, and "proving"

them to be unfounded.

"The most prevalent rumors about the 'mob' skeletons in Cuomo's family closet turn out to be misleading or false," Pileggi claimed. But he was also forced to concede, "Of course, no one can scrub anyone completely clean."

Pileggi reported that rumors of mafia ties to Cuomo or his family are so common that "several major news organizations have hired private detectives and former city cops to help investigative reporters sort out stories."

According to Pileggi's account, the most widespread rumors about Cuomo and his relatives are these:

- The May 22, 1984 mugging of Cuomo's father-in-law, Charles Raffa, "was a mob beating that grew out of a dispute over arson."

- Cuomo "interfered with the police investigation of the beating."

- Raffa was arrested for arson, but the record has been erased from the state crime computer.

- As a young lawyer, Cuomo represented organized crime hoodlums in Queens.

- Mobster Michael Franzese, stepson of Sonny Franzese, contributed \$30,000 to Cuomo's 1982 gubernatorial campaign.

- Cuomo's former law firm used an escrow account to pay money to a mobster who was later acquitted of murdering an undercover detective.

Pileggi claimed to have found no substantiation for any of these stories.

Cuomo aides hailed the Pileggi piece, saying that the governor was relieved. But they blew a gasket over the *New York Post* article. Meyer Frucher, a top adviser to the governor, scored the article as "another example of . . . this absurd McCarthyistic process. . . . This is ludicrous—beyond anything I've seen in my life." But the *Post's* executive editor, Frank De-

vine, retorted that the story was a "public service and possibly even a service to the governor," since the "rumors do exist and I think that by bringing them out into the open we are probably contributing to a kind of exorcism."

Cuomo still has lots of fans, though, including among the terrorists of the Jewish Defense League. A "Draft Cuomo" committee has been set up in New York by the JDL's Victor Vancier, who was recently convicted of firebombings in New York.

## Bush defends INF accord

George Bush defended the INF Treaty during the Republican candidates' first televised debate Oct. 28. Earlier in the month, the vice president had challenged his Republican rivals to support the treaty.

During the debate, Bush claimed that, on a recent trip to Europe, he had found that all of the allied leaders support the accord. This statement was challenged by former NATO commander Al Haig, who said that he had just been in Europe, and "they are unsettled by this treaty." Haig said Europe's professed support for the accord was a result of "unprecedented armtwisting" by Washington.

But Haig undermined this carefully cultivated pro-defense position in the next breath, when he decried the Strategic Defense Initiative as "pie-in-the sky."

None of the candidates had anything intelligent to say on the stock market collapse, purveying the standard idiocies about cutting spending. Sen. Bob Dole (R-Kan.) demanded that West Germany and Japan hyper-inflate their economies "dollar for dollar," for every dollar cut from the U.S. budget deficit.

## Pro-SDI documentary feeds pablum

"SDI: A Prospect for Peace" is the title of an expensive 30-minute television documentary produced by the American Defense Preparedness Association (ADPA) and previewed for the press and ADPA supporters here Oct. 26.

Ostensibly designed to overcome the bias of the major news media against the Strategic Defense Initiative, the film is supposed to present a thoroughly fair, pro-SDI argument "at last."

Its first broadcast is slated for Washington's ABC affiliate on Nov. 1—in the middle of Sunday afternoon when the majority of television viewers will be tuned into a football game.

Now, I regret folks wasting their time watching football. But I don't regret their missing this documentary. For all the \$250,000 worth of effort put into it, the film peddles a simplistic and painfully inadequate view of SDI.

The documentary talks down to the American public with a patronizing, "Golly, gee, wouldn't it be great if we could protect ourselves against the threat of nuclear missiles?" While the film acknowledges that the Soviets are aggressively developing their own SDI, it uses this information only to suggest to the viewer, "Doesn't this convince you that we, too, should at least be researching this effort, to find out if it will work or not?"

Everyone knows it will work. The film should have been more frank, laying out the facts with the same objective candor contained in the annual *Soviet Military Power* reports by the

Pentagon. It should have suggested to the viewer that there is something pretty ominous about the fact that the Soviets are working so feverishly on their own SDI while both lying about their effort and insisting that we stop ours.

The film never says that the Soviets are preparing an effective first-strike nuclear war-winning capability, and that the SDI is the only thing that can deter them. This might be more unsettling than the pablum dished out in the ADPA film. But given the downward budgetary direction of the SDI program, and the U.S. defense budget as a whole, a little shaking up is in order.

Another vital point overlooked in the film is the single most common argument of SDI opponents: "It is impossible for SDI to be 100% effective, and since even just one nuclear warhead getting through would kill millions, it is a waste of money."

Spending a few minutes answering that phony objection would have done more to advance the case for SDI than all the 15-second statements by the "experts" paraded across the screen by the ADPA. SDI does not need to be perfect to be "100% effective." The Soviets would launch a nuclear attack on the United States only if they were *certain* that they would win, that they could destroy enough on the U.S. side in a first strike that, given their own SDI defenses, a U.S. retaliatory strike would produce what the Kremlin views as "acceptable" losses.

On the other hand, if the Soviets are not certain of victory, they will never consider launching a first strike (unless they thought they were about to be attacked). Therefore, even if the SDI is only partially effective in the technical sense, it introduces a critical element of indeterminacy into Soviet military planning. That represents a *deterrent* that is "100% effective."

But the most glaring thing the film does not do, is to state clearly and simply that SDI is a program we should pursue no matter what the Soviet Union or anyone else is doing, for its revolutionary economic benefits, as well as its unique contribution to national security.

But apparently, the "Madison Avenue" approach of the outfit that made the film for the ADPA doesn't allow for any of this.

It also occurred to me, that maybe the ADPA was being very deliberate. Nobody could explain to me why, the night after screening their documentary, the ADPA's Washington chapter had a bash at which they gave an award to Sen. Sam Nunn (D-Ga.), the SDI's public enemy number-one!

## Daring to cut middle income entitlements

Former Commerce Secretary Pete Peterson has called for the creation of a commission which would do the dirty work of cutting into Social Security, Medicare, pension funds, and other so-called "middle income entitlement programs."

Peterson made this proposal for "deep and abiding cuts" in the federal budget deficit Oct. 25 on CBS's "Face the Nation." The secret, he said, was finding a way that politicians could avoid taking the blame—since there are 39 million voters on Social Security.

House Minority Leader Robert Michel (R-Ill.) told me the next day that Peterson's ideas are being given a lot of consideration. "The only time it could happen would be in the first 100 days of a new President's administration," Michel offered.

Like Peterson, he thought the important thing was that the "will of the people" not be a factor.

## Congress takes action on China's arming of Iran

The Senate voted unanimously Oct. 22 in favor of a resolution which urges the United States to hold up all transfers of military technology to China, until it agrees to support an arms embargo against Iran.

The resolution was prompted by growing concerns over Beijing's ongoing sale of weapons to Iran, especially Silkworm missiles. Chinese-made Silkworms have proven to be a most dangerous weapon in the Iranian arsenal, and have been deployed in force against non-belligerent shipping in the Gulf, including the Oct. 15 attack on the American-owned tanker *Sungari*.

Citing administration sources, the *Washington Times* reported Oct. 28 that China has resumed arms sales to Iran, and may be on the verge of supplying a new batch of Silkworms to Teheran. The paper also reported that on Oct. 27, Iranian spokesman Ali Safavi announced that Iran was transporting more Silkworms to the Faw peninsula in preparation for new attacks, and also boasted that 100 Iranian soldiers had been secretly trained in China to operate them.

Besides calling for the United States to "review all transfers of United States military-related technology" to the P.R.C., the Senate measure says the administration should make a "strong representation" to Beijing that the continued transfer of Silkworms "may seriously jeopardize United States-China relations."

Rep. Gerald Solomon (R-N.Y.) introduced an identical resolution to the House of Representatives Oct. 27. "The carnage" of the Gulf war "has gone on long enough," Solomon said, "and China should stop being a party to it."

## Budget negotiations: at a dead end?

Budget negotiations between Congress and the White House were headed nowhere—at least nowhere constructive—as *EIR* went to press. Congress got the White House to agree to its demands for a "budget summit," which is supposed to work out an agreement on how to cut an additional \$23 billion from the FY 1988 budget, in order to avoid the Gramm-Rudman automatic sequestration process, but the ensuing hours of meetings had yet to produce any significant result.

After a four-hour meeting on Oct. 29, the best that White House Chief of Staff Howard Baker could say about the negotiations, was that, "I feel good about them." Sen. Pete Domenici (R-N.M.), felt compelled to warn that, while "I feel a little more optimistic . . . we're a long way from a conclusion."

On the same day, the House passed a \$23 billion deficit reduction package of its own—partly to put more pressure on the White House to accept Democrat demands for a tax hike, but also in anticipation that the budget summit process would break down in a dispute over tax hikes, or how much spending to cut from various programs. House Speaker Jim Wright (D-Tex.) hailed the House measure, which included \$12 billion in new revenues, as "honest-to-God deficit reduction."

That is baloney, as Wright well knows. The ratcheting stock market collapse which began Aug. 25 has wiped out massive amounts of tax revenues. The budget deficit which will result is beyond anyone's imagining. For Congress and the White House to play around with cutting the budget is a useless, irresponsible, and dangerous game.

Wright actually has a somewhat

better understanding of what's at stake in the Wall Street debacle than many of his colleagues. In a statement issued Oct. 20, Wright stated that the "unprecedented plunge in the stock market" reflects the country's "severe economic problems." The most challenging problem "is the bubble of debt" both public and private. "The only way these debts can be repaid is for the American people to produce at least as much as we consume."

Another serious problem, said Wright, "is the erosion of America's industrial strength. We have allowed the marauding acquisition of companies to substitute for the basics of manufacturing and producing. Speculation has replaced real investment and America's competitive edge has been blunted."

If Wright really believes that, why doesn't he do something about reversing the nation's slide into the post-industrial society?

## Rep. Brown may probe x-ray laser charges

One of the Strategic Defense Initiative's bitterest foes is about to take up the cudgels against one of the program's key components: the x-ray laser.

California Democrat George Brown wants to investigate charges leveled by the Southern California Federation of Scientists, charging that Dr. Edward Teller and his collaborator, Dr. Lowell Wood of Lawrence Livermore National Laboratory, have consistently lied about the potentialities of the x-ray laser. The Federation's charges are reportedly based on information supplied by, among others, Ray Woodruff, a scientist who used to work at Livermore on the program.

According to his office, Brown, together with Rep. Charles Bennett (D-Fla.), held "private and confidential" talks with Woodruff in Washington Oct. 23.

Brown—who travels in the circles of Carol Rosin, a Washington-based conduit for Soviet disinformation against the SDI—might want to exercise some caution: Two years ago, similar charges were leveled against Teller and Wood. But an investigation carried out by the General Accounting Office exonerated the two men completely.

## House Appropriations adopts arms-control steps

Anyone hoping that Congress's insanity on defense issues might run into snags in Rep. Jamie Whitten's House Appropriations Committee must be sorely disappointed. On Oct. 29, the panel approved a defense appropriations bill for FY 1988 which contains severe restrictions on the development of U.S. military capabilities, and a direct challenge to the President's constitutionally mandated authority to make treaties.

The restrictions would halt final-stage tests of anti-satellite weapons; require adherence to the defunct and unratified SALT II Treaty; halt all but the smallest tests of U.S. nuclear weapons; and block tests of SDI systems that violated the "narrow" (i.e., Russian) interpretation of the ABM Treaty.

Those same four provisions are included in the defense authorization bill passed by the full House; while the Senate endorsed two of them—those requiring compliance with SALT II and the restrictive reading of the ABM Treaty—in its Pentagon authorization measure.

The full House is expected to take up the defense appropriations bill in early November. President Reagan has already vowed to veto any bill containing these provisions.

## Specter proposes post-Irangate CIA 'reform'

Sen. Arlen Specter (R-Pa.) has introduced two related bills that would revamp the post of Director of Central Intelligence, give Congress greater say-so in covert operations, and send government officials who lie to Congress to jail.

Specter introduced S.1818, the "National Security Reform Act," and S.1820, the "National Intelligence Reform Act," on Oct. 27, motivating both on the basis of the Irangate experience. The two bills aim at greatly increasing Congress's involvement in intelligence activities; they fail utterly to address the key question of the intelligence community's overall mission.

S.1818 would require the President to provide written findings in cases where he wishes to authorize the CIA to expend funds for covert activities. Many of the subsequent problems that arose in the Iran arm-for-hostages fiasco, he argued, stemmed from the fact that the President's finding was first made orally. "This specific provision," Specter claims, "would preclude any future argument that the delivery of arms to Iran was legally justified, after the fact, by a retroactive finding or that other entities or actors were not bound by the same limitations affecting the CIA."

The measure requires that Congress be informed within 24 hours after the President authorizes a covert operation. In addition, it establishes an Independent Inspector General for

the CIA, on the grounds that currently, the IG is usually appointed internally, which "is not conducive to objectivity." The measure "would greatly increase the independence and credibility" of the post, Specter says, by making the IG a permanent, statutory official, who would be appointed by the President and would also require Senate approval. To increase accountability to Congress, the bill requires the IG to submit semi-annual and special reports to the Intelligence Committees, as well as to the DCI.

The bill also provides for a mandatory jail sentence for any officer or employee of the United States "who provides false information" to any committee or subcommittee of the Senate or House.

Specter's second bill concerns mostly the office of DCI, and is directed at severing any connection between intelligence gathering and analysis, and operations.

It would divide the DCI into two separate posts: one responsible solely for advising the President on foreign intelligence matters; and supervising all intelligence-gathering matters; the other charged with managing the agency and carrying out covert activities.

"We cannot afford to have two secretaries of state, two foreign-policy makers who may be attempting to move the country in different directions, one overtly and one covertly," Specter argues. "The problem is particularly acute when the DCI is a foreign-policy activist. Director William Casey was not the first DCI who desired to be involved to some degree in the formulation of implementation of foreign policy, nor is he likely to be the last. Recognizing this, we should take steps to ensure . . . some structural separation of the DCI's current function."

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# National News

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## General exposes Soviet laser breakthroughs

Air Force Gen. John Piotrowski, chief of the U.S. Space Command, warned in Washington on Oct. 23 that the United States must take measures immediately to deter "Soviet aggression in space." Piotrowski said that the Soviets have developed lasers powerful enough to destroy U.S. satellites in low orbit, and to attack satellites at altitudes of 22,000 miles.

The United States needs to be able to launch replacement satellites, to counter Soviet actions in event of war, he said, adding that the Pentagon must convince Congress of the need to carry out anti-satellite testing and related actions, to deter "Soviet aggression in space."

Piotrowski told reporters that Soviet ground-based lasers could knock out reconnaissance satellites at an altitude of 400 miles and damage those at 750 miles. Within five years, he said, Soviet lasers will be able to knock out U.S. military communications in geosynchronous orbit, and could threaten American satellites that are part of the Strategic Defense Initiative.

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## Twenty million Americans are hungry

A study released under the auspices of the Harvard School of Public Health, by the Physicians' Task Force on Hunger in America, documents that 20 million Americans do not get enough to eat. Worst affected are infants, the elderly, and former blue-collar workers who have dropped out of manufacturing into the service sector.

According to the study, the number of Americans living under the poverty level has increased by 36% since 1979. Of all 13 million new jobs "created" since 1981, 8.2 million bring in earnings of less than \$7,000 per year, so that even families with a relatively secure income are facing problems.

As the study reports, consumer prices

have gone up by 32% since January 1981, which means that many families cannot afford more than one meal per day.

The data for the study was drawn from field investigations in four regions: Texas and Louisiana, where oil and natural gas industries are in decline; Minnesota and Iowa, where farms are endangered; Pennsylvania, Ohio, and West Virginia, where steel and mining jobs are disappearing; and California's "Silicon Valley."

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## Peacelinks boosts ties to Mother Russia

Elizabeth Leach, wife of Iowa congressman Jim Leach, held a press conference on Oct. 27, announcing the results of a tour of the Soviet Union by the Peacelinks organization. The tour was touted as the first such exchange between U.S. and Soviet women's organizations.

Leach said that Peacelinks hopes that the agreement reached with the Russians will lead to increased visits to the United States by "grass roots" Soviet women and their families, and to publication exchanges in American and Soviet women's magazines.

Another member of the delegation was Elinor Bedell, wife of a former Iowa Democratic congressman.

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## AIDS set to explode in New York City

The AIDS epidemic will explode in New York City within the next four years, overwhelming city hospitals with more than 109,000 patients, according to a secret city report published in the *New York Post* on Oct. 28.

The report estimates that 414,794 city residents are infected with AIDS, but have yet to show symptoms. "We are going to have a major rupture of the health care system—lack of beds, not enough nurses, doctors, beds, x-rays—none of them will be available if these projections are accurate,"

said Kenneth Raske, president of the Greater New York Hospital Association. "Patients may not ever get in or may not receive adequate treatment. . . . The occupancy rates in New York City hospitals now are at or near capacity and the emergency rooms are backed up."

The report was prepared under the auspices of New York City Health Commissioner Stephen Joseph, who has recently said that he would favor notification of spouses and sexual partners of those testing positive for the AIDS virus.

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## U.S. denounces Iran's role in terrorism

The State Department on Oct. 27 issued a report on Iran's sponsorship of international terrorism, stating that "Iran is currently one of the world's most active states supporting international terrorism and subversion against other countries," and has been since "the revolutionaries who came to power in Iran with the Ayatollah Ruhollah Khomeini" seized the U.S. embassy in Teheran in 1979.

"The Government of Iran regards terrorism as an integral tool of its foreign policy," the report charges, and "has shown exceptional readiness to use terrorism and subversion of other governments." The report lists numerous terrorist incidents in which Iran and its terrorist arms, such as Hezbollah and the Islamic Revolutionary Guard, have been involved.

It was the U.S. State Department's own policy of fostering Islamic fundamentalism which toppled the Shah of Iran and brought Khomeini to power—a fact which, naturally, the report does not admit, but which *EIR* has documented. In our issue of Nov. 28, 1986, for example, we published documents showing that Carter administration officials had met in 1978 with Dr. Ibrahim Yazdi, one of Khomeini's closest associates, to brief him on U.S. efforts to overthrow the Shah. Such channels were maintained during the Reagan administration, by the covert intelligence operation which is now under scrutiny in the "Irangate" affair.



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## Pentagon may have to fire 150,000

The Defense Department will lay off between 100,000 and 150,000 civilian employees—more than 10% of its civilian workforce—if the provisions of the Gramm-Rudman-Hollings budget-cutting amendment are put into effect on Nov. 20, the *New York Times* reported Oct. 25.

Under the "automatic sequestering" provisions of the law, \$23 billion will be cut, divided approximately evenly between defense and other programs, if the administration and Congress do not come up with any alternative formula before the cutoff date.

According to the Pentagon, about \$2 billion would also be cut from contracts with local companies that paint barracks, maintain and clean buildings, and operate support services on military bases throughout the country. Repairs on ships, tanks, aircraft, and equipment done by civilian contractors would also be delayed or canceled.

The states with the largest number of DoD civilian employees are: California, with 135,000; Virginia, with 106,000; and Texas, with 63,600.

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## Jesse Jackson backs 'Marshall Plan' concept

Democratic presidential candidate Jesse Jackson took a page from the campaign program of Lyndon LaRouche, in a speech in Atlantic, Iowa Oct. 27, which denounced the International Monetary Fund and called for a "Marshall Plan" for Third World development.

According to a report in the *Des Moines Register*, Jackson called his plan a Pan American Energy Security Alliance, and proposed that the United States, Japan, and West Germany take the lead in launching a "Third World economic development Marshall Plan similar to the postwar drive to restore the economies of Western Europe and Japan." Saying that the plan would per-

mit the Hemisphere to become energy self-sufficient, Jackson said that Third World countries could then afford to expand their oil production, which would further reduce their debt and make them hungrier buyers of U.S. products.

"If they're paying to buy grain and and tractors and oil rigs and drills and technicians, rather than paying all of their money back to the IMF and the banks," he said, "it reduces our deficit because it gives us a market."

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## Teamsters will rejoin AFL-CIO

The AFL-CIO executive board voted unanimously on Oct. 24, to allow the International Brotherhood of Teamsters to reaffiliate, after a 30-year separation. The Teamsters are currently the target of a Justice Department probe aimed at putting the nation's largest independent union under government receivership, on the grounds that it is "mafia-controlled."

The AFL-CIO denies that the Teamsters' motivation is the Justice Department's vendetta against it, and maintains that the main motivation was to make labor organizing more effective—they would no longer be trying to organize the same workers.

The Teamsters' political action committee is raising money hand over fist, while the AFL-CIO is having difficulty raising money from its membership. The IBT will thus bring a huge dowry to its marriage with the labor federation.

The *New York Times* quoted a senior administration law-enforcement official said to be closely involved with the government's suit: "It's an absolutely brilliant move by the Teamsters' lawyers. . . . It will render it much more difficult and politically unpalatable to bring an action against the Teamsters when they are under the AFL-CIO's umbrella." He said the Justice Department was having second thoughts about trying to take over the entire 1.8 million-member IBT, and was considering concentrating on individual locals.

## Briefly

● **TURKEY** faces a U.S. aid cut-off, should it fail to make \$400 million in back payments within the framework of the Foreign Military Assistance agreement. In recent negotiations, Washington rejected Turkish proposals to reschedule \$4 billion in debts and to decrease the interest rates on previous credits.

● **MICHAEL ARMACOST**, undersecretary of state for political affairs, left Oct. 24 on a tour of the Philippines, South Korea, Japan, China, Thailand, Singapore, and Malaysia. In Manila on Oct. 26, he announced the early delivery of \$75 million in aid to the Philippines, and affirmed U.S. support for President Aquino.

● **CYRUS VANCE** and Elliott Richardson continued their push for a U.N. peacekeeping force to replace U.S. forces in the Persian Gulf, in an appearance before the Senate Foreign Relations Committee Oct. 28. Defense Secretary Caspar Weinberger opposes the proposal, saying that peacekeeping forces could only work after a cease-fire had been reached.

● **AL KATZ**, who shot and killed a Merrill Lynch executive and himself on Oct. 26 in Miami, after losing \$4 million on the stock market, had a 10-year association with the Wall Street firm of White Weld, and the FBI. Katz (a.k.a. Arthur Kane) joined the Federal Witness Protection Program in 1976 after being nabbed for mail fraud, and was involved in illicit financial "sting" operations for the FBI. To finance his scams, Katz maintained a \$170,000 credit line with White Weld. The company's chief executive officer was the late David Weld, father of Assistant U.S. Attorney General, William Weld.

● **THE SOVIET UNION** is working to conclude an agreement with the United States for "joint anti-drug efforts" of the two countries' Customs services, according to Radio Moscow. A similar accord was recently reached with Great Britain.

## *The economics of AIDS*

A great deal has changed since the fall of 1986, when the frantic lying and lavish spending of the Hollywood mafia-linked "AIDS lobby" caused Proposition 64 to be defeated at the polls in California. Proposition 64 was a referendum calling for AIDS to be classified as a reportable disease, to which traditional public health measures are to be applied.

Fortunately, the state's voters will have a second chance to consider the measure, in the June 1987 primary. Over 720,000 Californians have signed petitions for the new initiative, which is almost identical to Proposition 64.

It has always been obvious that the California AIDS initiatives had a significance far beyond the boundaries of that state, and indeed beyond the United States. "Prop 64" and its successor require massive expenditures to care for, and isolate where necessary, the current victims of AIDS; to build up the healthy population's defenses against the disease; and to carry out the research in frontier domains of optical biophysics needed to find a cure. It is our firmly held view that we have no alternative but to face this, lest the entire human race be engulfed in a pandemic likely to destroy our civilization.

Clearly, we can afford this cost only if we begin the economic recovery Lyndon LaRouche maps out elsewhere in this issue, immediately.

However much the satanic irrationality of the organized "gay lobby" provided cannon fodder for California's anti-Prop 64 movement, it is the refusal of the Reagan administration and its Democratic opposition to consider spending the money to defend citizens from AIDS, that has blocked an effective public-health and research effort against the menace.

Two developments of early October, bear on this most crucial political issue: 1) the Reaganomics myth crashed through the floor with the stock market and the dollar; 2) there has been a fissure in the stone wall of the world health establishment's insistence that "AIDS cannot be transmitted by casual contact," and that therefore, there are no economic co-factors involved in the spread of AIDS.

As the financial markets began their dizzying slide, for the first time at an international conference, environmental factors were cited as a major contributing cause for the otherwise inexplicably rapid spread of AIDS in Africa. At the Oct. 8-9 conference in Naples, Italy, "chilling statistics" were presented showing that as many as 60 million Africans may already be infected with the virus—10% of the continent's population.

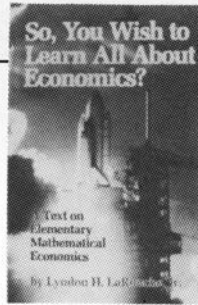
Scientists at the Naples conference rejected a cover-up statement issued in August by U.S. scientist Harold Jaffe, who argued the Reagan administration line that AIDS only threatens members of so-called high-risk groups: homosexuals, drug addicts, and those infected through use of dirty needles.

● Dr. Luc Montagnier of the Pasteur Institute in France, one of the world's top AIDS scientists: "There are nations on that continent [Africa] which were absolutely 'clean' up to three or four years ago, without one single case of AIDS registered. Now they are included in the pool of the worst-stricken countries, like Zaire, Tanzania and Uganda. This means that the transmission of the disease is taking place at breathtaking speed."

● An explosive report by a group of German doctors, withdrawn from the conference at the last minute but reported in the Italian press, detailed a study of several hundred people in the central African nation of Malawi, described as "generally at risk of disease, but not members of risk groups for AIDS." Of these, a horrifying 56% were infected with AIDS and 83% were carriers of hepatitis B virus.

● An expert from Zaire, Dr. Kapita, estimated that more than 2 million people are sick with AIDS in Africa, pointing out: "In 80% of the cases of infection with AIDS, the people affected are heterosexual and not homosexual, as in the U.S., or drug addicts, as in some European or Latin American countries."

The Belgian AIDS scientist Nathan Clumeck warned, "The black continent is the mirror of our own destiny in the very near future." The political movement manifested in California's AIDS initiative, is the one hope of stopping that prophecy.



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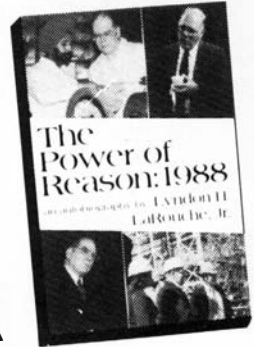
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