

# EIR

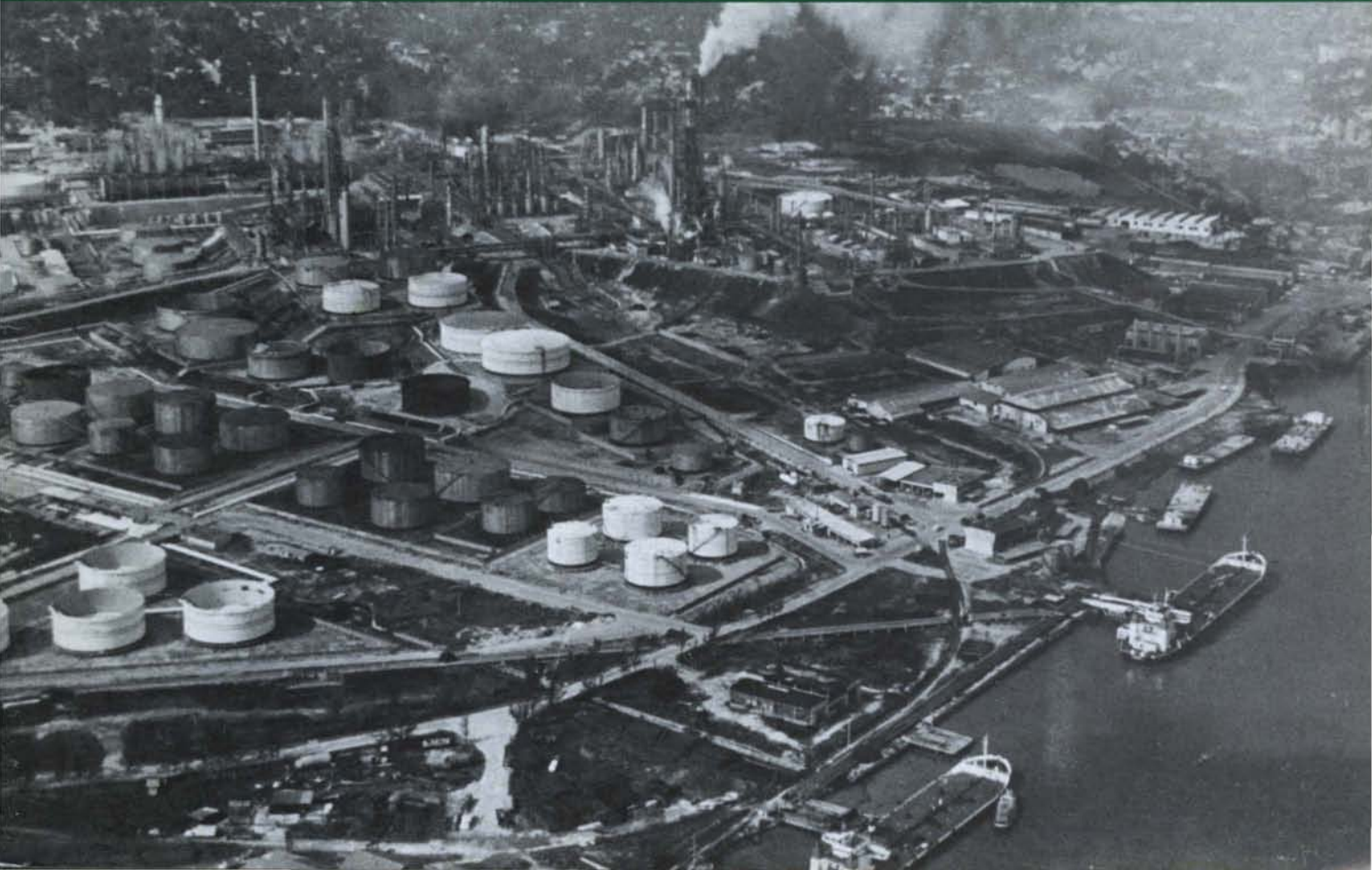
Executive Intelligence Review

May 26, 1981

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Budget maneuvers in Washington  
European Monetary Fund off the map?  
Mitterrand victory: the global damage

**The Reagan-Lopez Portillo summit:  
\$100 billion in trade on the agenda?**



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# EIR

## From the Editor

**T**his week's Special Report on the high-technology trade potential between the United States and Mexico—a potential that ought to dominate the bilateral summit talks next month—points the way out of the strategic defeat inflicted by the electoral loss of President Valéry Giscard d'Estaing in France.

Unless the Reagan administration masters the science of economic growth as the core of its diplomacy, the world economy will be held hostage to the Malthusians and their control of the international banking system. Industrial capitalist nations will be torn apart by economic collapse and Socialist International exploitation of that collapse. Leaders will be boxed into ideological cages instead of setting the agenda straight. The issue on the table, domestically and internationally, must be economic and scientific development of the kind that rebuilt a 19th-century Franco-German-American industrial push after the ravages of Jacobinism and the follies of Napoleon.

Our Special Report, prepared under the direction of Latin America Editor Dennis Small and *Fusion* magazine Editor-in-Chief Steven Bardwell, demonstrates in unprecedented detail, for the case of U.S.-Mexico relations, how this can be achieved.

In the Economics and International sections, you will find intelligence on the damage already under way as Socialist International leader François Mitterrand's controllers begin to set the pace for Europe, for North-South relations, and for "decontrol" of world finance. Our National coverage pinpoints danger areas for the Reagan administration and Congress: the destabilizing budget cuts, and the self-sabotaging attacks on labor traditionalists.



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**Correction:** Agriculture Editor Susan B. Cohen's exclusive interview with Secretary John Block, published in the May 12 issue of *EIR*, contained two mechanical errors. On page 8, the last line was dropped. The sentence should read, "It's not something we're insensitive to; we *are very sensitive to it.*" In the second paragraph on page 9, another line was dropped: the last sentence of the paragraph should have read, "We've done this in the past with countries that have ultimately become tremendous customers of *ours.*" Italicized words were missing in the May 12 issue.

## The EMS and the Ottawa summit are under the gun

by Kathy Burdman

The most important short-term implication of the May 10 victory in France by François Mitterrand, candidate of the Socialist International, is that the European Monetary System may have only a few weeks to live. Since its founding in July 1978 by French President Valéry Giscard d'Estaing and West German Chancellor Helmut Schmidt, the EMS has been the island of stability in the chaos of the international monetary system. With it stands or falls much of the growth potential of the world economy.

As capital streamed out of France this week in the wake of the Mitterrand victory and the franc collapsed, word circulated on the foreign-exchange market that Mitterrand "intends to let the franc fall right out of the EMS snake," as Bankers Trust in New York put it. If France does withdraw, "things look grim for the EMS," commented a source at West Germany's Dresdner Bank. "It might easily come apart."

The possibility that the EMS might disintegrate was heightened by the results of the West Berlin election May 10, where the SPD lost. This has in turn undermined West German Chancellor Helmut Schmidt's SPD majority coalition government.

The broader implication is that the end of the EMS would culminate in the inability of sovereign national governments generally to control the monetary system. "The EMS is lost," stated Citibank senior international economist Harold van Buren Cleveland this week. "But what is lost with the EMS is not stability in the markets, but the hope of stability.

"The International Monetary Fund can try to exercise some kind of currency surveillance now, but what can the IMF do, really? The IMF is merely a bunch of governments, and governments have no power whatsoever over these sorts of volatile markets."

### Summit gameplan

Further, the July Ottawa heads of state economic summit, originally intended to set the tone for all 1981 world economic development strategy, now stands in danger of paralysis by Mitterrand's election. Negotiations for the summit are already hardening into a classic "left-right" split, in which Socialists Mitterrand and Prime Minister Pierre Trudeau of Canada will promote "left-Keynesian" programs, while Britain's Margaret Thatcher will promote free-market "supply-side economics," hoping to draw in President Reagan.

The Ottawa summit will thus be stripped of all deliberative power over the real economic issues: world interest rates, currencies, and world trade. "We expect no discussion" of these major topics, said a U.S. Treasury source favorable to the Thatcher viewpoint.

In short, the Mitterrand victory has neatly shifted the world balance of economic power away from the nation-states, and into the hands of those who will be left by default in control over monetary affairs. These are the central banks, led by their policy center, the Swiss-based Bank for International Settlements, and the oligarchical ruling families of Venice, Genoa, London, and Geneva behind the BIS.



*Chancellor Schmidt with Ronald Reagan before the President's inauguration. Can international partnership for progress be revived?*

The European Monetary System was wracked this week as the French franc fell to the floor of the European snake against the West German mark and other currencies. The franc, which had already collapsed by 2.3 percent against the dollar in the week before the election from FFr 5.22 to FFr 5.34, plummeted another 3.4 percent days after the election to a ten-year low of FFr 5.53. The fall in the franc was stemmed not by central bank intervention, which appeared useless in view of the magnitude of capital flight, but by a sharp rise in the Banque de France's discount rate from 13.5 percent to 16 percent, an all-time high.

The collapse of the franc is deliberate Mitterrand policy.

The Mitterrand election will mean ongoing "monetary chaos," said a source at the White House, appalled at the Socialist victory. "Mitterrand is simply not going to worry about the exchange rate of the franc at all, the way Giscard did. He's going to let it go. Not only does he not care how far it goes, but he will probably talk it down, to try to get some kind of reflation program going and to artificially boost exports.

"This will not work. It will be totally chaotic, and cause tremendous inflation in France. Mitterrand plans to then deal with this by imposing wage/price controls." The prediction that France would soon be forced into some sort of currency control was widely echoed by foreign-exchange traders.

"Soon, Mitterrand will have to make a decision about the EMS," the official continued. His inclination

will be to let the franc just fall out." If the franc falls below its current parity vis-à-vis the German mark and other snake currencies, France will soon be forced under the EMS articles of agreement to either officially devalue the franc within the snake, or pull it out altogether.

The powerlessness of national governments to save the EMS was emphasized by Geoffrey Bell, chief economist and senior partner at Britain's Schroeder Bank, in an interview this week. "The pressure will remain on both the franc and the German mark," said Bell, executive director of the IMF's Group of 30 and foreign-exchange adviser to major governments. "But I don't think that the French or the Germans can intervene in this situation. If they try to defend their currencies, they are simply chucking good money after bad. The only thing that could stabilize the franc is exchange controls."

### **Ottawa headed for the rocks**

Similarly, the prospect for the July Ottawa economic summit is now that debate on real economic issues may be ruled off the agenda there, if a scenario now circulating at the U.S. Treasury is borne out.

Socialist Mitterrand, together with Canada's Trudeau, plans to lead a Socialist International front to stir up the summit with demands that the West move to implement the Brandt Commission report, which calls for a mass redistribution of resources from the industrial nations into the Third World, Treasury officials say. According to the scenario, this socialist plan is to be

loudly opposed by British Prime Minister Thatcher, to whose side President Ronald Reagan will be forced in his antipathy to the Socialist International.

"The result could be a potential fistfight between the U.S. and the U.K., and the rest of Europe," said the Treasury official, who sympathized with Thatcher.

Mitterrand and Trudeau, according to the Treasury official, who has responsibility for organizing Treasury input into the summit, will try to make the Brandt Commission report "the center of the summit. Trudeau is going to make a big international power play, and argue for focusing the summit, rather than on the economic problems of the West, on the need for increased North-South assistance."

No one would argue that Third World development is not an urgent topic for Ottawa, but the Socialist International/Brandt Commission's proposals, as *EIR* has documented, have nothing to do with development. Rather, the report demands a cutback in living standards in the West, within the Global 2000 framework of "limits to growth," and the transfer of financial resources into the LDCs for labor-intensive projects. That is, the transferred financial resources would be used not to industrially develop the Third World, but to pay off debts and impose low-technology programs.

"Trudeau will argue for, and Mitterrand especially will support, new transfer of aid to the LDCs, and labor-intensive energy development projects in the Third World, such as the World Bank Energy Affiliate," said the official. The Bank's proposed Energy Affiliate would spend \$25 billion in government funds, and a total of \$92.3 billion by 1985 to set up "soft" energy projects like gasohol, solar, and cow-dung recycling. Its goal is to cut off oil imports into the LDCs.

"The German delegation, given that the report was produced by Mr. Brandt of the ruling Social Democratic Party, will find it very hard to disagree," the Treasury official said, "and in fact West German Finance Minister Hans Matthöfer and the German Development Ministry have been pushing the approach."

Socialist International leader Willy Brandt himself has already begun to challenge the United States on the issue, in an interview this week in which he called President Reagan's recent rejection of the World Bank Energy Affiliate "regrettable." "This negative attitude should be challenged by the partners of the U.S.," the SPD chairman said.

Mitterrand will also call for a "Global Davignon Plan," modeled on the European Commission program of Count Etienne Davignon that over the last few years has rationalized and shut down more than 10 percent of European steel capacity on the excuse of "apportioning markets." Mitterrand's industrial adviser, Jacques Ortoli, helped write the Davignon Plan, said a source at Britain's Royal Institute for International Affairs this

week, but thinks "it can't be done by Europe alone. Mitterrand rejects the nationalism of Reagan and Thatcher, and now believes that the U.S., Japan, and the Newly Industrialized Countries (NICs) must be brought into a global framework. This should reorganize and rationalize world steel and other industries, such as automobile production and chemicals." The idea is to shut down a good part of Western production of these goods, he said, "and give it to the NICs."

Britain and the U.S. are profiled to react with outrage. Thatcher has already sent a formal proposal to the White House, which this source claims has been accepted under Treasury advice. The U.S. and Britain are to demand that the summit focus on free-market "supply-side economics" in the *domestic* programs of the West. Third World development and East-West security matters "must be subordinate to domestic needs," he said. "Budget constraints in the West mean that less can be spent on LDC aid and on subsidies for East-West trade. If domestic considerations come first, then the world economy will right itself.

"This means that Reagan and Thatcher will promote supply-side economics for the LDCs," said the source, "and stress less aid for the LDCs, more reliance on private investment. They will encourage the LDCs to remove their artificial domestic price-subsidy systems for energy and food, which cost too much. They will downgrade the World Bank and oppose the Energy Affiliate, arguing that if LDCs decontrol their energy prices, they'll produce more."

At this point, the summit is to break down in chaos; there will be no discussion of pressing economic issues. "We expect no discussion of interest rates or the international monetary system," said the Treasury official smugly. "While Chancellor Schmidt has complained about our interest rates, we have made it clear that we won't budge on this, and the Germans have not even tried to raise the issue in summit pre-meetings.

"So the German mark is weak, and the French franc is falling. This is a problem of their own making. The EMS is in trouble—that's their problem, we're not a member. With our attitude as it is, what is there to dialogue about?"

The socialists will return to their countries, and the supply-siders to theirs, if the scenario holds, and implement their respective policies—which have the identical outcome. As *EIR* has documented, the application of supply-side free-marketeering in the Third World will implement the Global 2000 doctrine of population reduction just as efficiently as the Brandt Commission. By removing vital life-support systems such as food and energy subsidies and import credits, millions not yet at the starvation level will be forced below the minimum standards necessary for life. Meanwhile, the Bank for International Settlements controls the monetary system.



## Dollar collapse is crisis endpoint

*Professional investors are certain the dollar will be the hardest-hit victim of current chaos.*

The election of François Mitterrand to the French presidency triggered—as expected—a precipitous downturn in the exchange rates of both the French franc and German mark this week. Mitterrand's enmity to the credit and trade needs of basic industry slates France for serious economic stagnation. From the day of his victory, a steady flow of capital has fled the country.

Rumors are widespread Mitterrand may devalue the franc to 6 to the dollar or even impose exchange controls. The defeated Giscard administration has beefed up customs monitoring to prevent a wholesale panic capital flight. On May 11, the Banque de France jacked its seven-day treasury bill rate up 2.5 points in a single day, and sold over 1 billion German marks to put a floor on the franc's collapse in the European Monetary System.

The current travails of the franc, however, obscure the underlying trend that is actually driving the increasingly chaotic market. By autumn, it is the U.S. dollar which is expected to take the full brunt of the global economic downturn which the Second International victory in France introduces.

The franc is merely the first in a series of dominoes poised on a playing board; at the end of the row is the U.S. dollar, and when it tips over, it is expected to fall to about DM 2.00.

"We don't think the program of

the [Reagan] administration will work," Bankers Trust foreign exchange advisory service reports. "The honeymoon" between Reagan and the business community "will come to an end before long." At that point, European currencies will simply stop falling because the dollar will go under.

A leading British merchant bank reports that it began moving funds out of France three months ago in anticipation of the collapse of the franc. Now the firm is massively hedged into short-term U.S. paper, but has no intention of making any long-term investments in the United States, because by mid-year, it expects the dollar to be in the barrel.

A Swiss investment banker from one of Zürich's leading private firms concurs he is doing the same. All investment funds, he reports, have been put into Swiss and U.S. Treasury bills and gold. "Everything else will go bankrupt," he predicted.

The arrangement which currently ensures a dollar crisis is the fact that the world is operating in an "interest-rate-controlled" global foreign exchange market.

Ever since the U.S. Treasury announced mid-April that the United States would no longer intervene in behalf of "orderly" exchange rates, interest-rate manipulation has become the single and only monetary mechanism affecting placement of

international capital flows.

Following the Treasury implementation of this policy of "benign neglect" of currencies, both Germany a hike interest rates another ratchet to halt capital outflows. Had they not done that, their governments would have been forced to cast billions of dollars worth of central bank reserves against speculators, with no prospect of actually stemming the tide of speculation.

Presently, in the U.S. and Germany, "real" interest rates—that is interest earnings above the rate of inflation—are at record highs. Manufacturers Hanover economists point out that with a prime rate of 19.5 percent, interest on these loans is 10 percent over the most recent change in the personal consumption expenditures deflator, which is at 9 percent.

During the 1970-80 decade, this differential was on average only 2.11 points.

This differential is even larger now in Germany. For the real economies in the industrialized nations, this interest-rate penalty induces an extraordinary toll on production, orders, and investment. *Fortune* magazine reports that U.S. companies have slashed their second-quarter spending plans to zero in response to the credit crunch.

The outstanding question that remains is: if the dollar starts falling, after Europe's currencies are hit, then where will international capital seek a haven?

Our Swiss and British investment sources see gold, the Asian stock markets, raw materials, and buildup of positions in "newly industrializing countries" in the developing sector as the safehouse of the future.

## For a lucky few, a buying opportunity

*Those who are long on memory are taking the opportunity to accumulate.*

**T**he relatively small corps of investment managers who preserve old European family fortunes view the present gold market as a buying opportunity, despite the obvious risk of a significant drop in prices in the near term. Essentially, those houses which look for results over a period of years rather than months are convinced that the present price is comparatively cheap.

Of course, the failure of gold to sustain the very modest price gain (to the \$501 level on May 11) following the electoral victory of François Mitterrand indicates that portfolio managers' interest in gold is still limited.

What is often missed in market analysis, however, is that the same general market conditions—uncertainty and potential illiquidity—are a sell factor for some investors and a buy factor for others.

For short-term purposes, gold is no better than pork-bellies, and in some senses worse, because price movements often involve political factors beyond the information of most investors. Gold behaves as a commodity in periods of tight credit, i.e. when market participants have little incentive to tie up funds in a nonaccruing investment.

But the likely collapse of the European Monetary System and the great uncertainty to which all currencies are now subject create a new set of circumstances which point to a sharp gold price increase.

Of course, the timing of a new

price rise is indeterminate. It could take a year, or three years, for a major price rise to appear. This is immaterial to the Geneva, Amsterdam, Paris, and London banks whose concern is not next year's balance sheet and dividends, but the preservation of fortunes which hail back very far indeed. Those houses with a memory that extends to 1931 are buying gold and think today's price a bargain, no matter whether next month's market will present a greater bargain still. They recall Nathan Rothschild's explanation of how he became wealthy: "I always sold out before the top," or bought before the bottom.

Bank of England adviser Sir George Bolton, one of Britain's canniest financiers, circulated a memorandum in July 1978 which forecast a *run out of all currencies* benefiting gold and equity holdings in the periphery of the old British Commonwealth.

Now he believes the present market validates his prediction. According to his present scenario, the rise in the dollar's value (to DM 2.30 at deadline) merely highlights the dollar's role as a transactions vehicle for all forms of flight capital, rather than the intrinsic wholesomeness of the dollar itself. He points to the spectacular bulge in America's money supply during the first quarter of this year, noting that it came about through short-term inflows into the dollar. The artificiality of the dollar's strength, the

likelihood of exchange controls in France and their inevitable spread elsewhere should Mitterrand take that step, and the insolvency of the international markets point to a termination of confidence in all currencies.

In a similar vein, Tucker, Anthony Day gold analyst August F. Arace comments in a May 4 newsletter, "The failure over time of this 'new' experiment in joined conservative fiscal and monetary policy could lead to one of two occurrences . . . the final question is whether or not the U.S. returns to the gold standard by choice or by the pressure of uncontrollable financial events."

The more conservative of the private bankers are already shunning Eurodollar certificates of deposit and bank paper generally in favor of shortest-term treasury bills on the U.S. and Swiss governments and gold. Their criteria that absolute safety must come before all else is perhaps premature—since the flight of large amounts of capital presents the best of all speculative opportunities for substantial gain—but it is far from misplaced.

We have entered a 1931-like period in which anything is possible. The Bank for International Settlements staff, the high command of monetary crisis management, do not know whether the crisis is controllable, i.e. whether the vast interbank Eurodollar market of some \$600 billion can be defended in the event of a major national or commercial bank failure. To maintain their own credibility in the process they must even admit that such an eventuality is possible. It is significant, then, that their *own* private fortunes are in gold and treasury bills.

## 'Pathetic Earthlings, who will save you?'

*'Wired society' global banking techniques are making national markets a fossil.*

Strategic planning departments at major commercial banks are producing—and acting on—scenarios that make the science fiction most of us grew up with look tame. By the early 1980s, the global banks will implant “voice chips,” micro-electronics that decipher human speech, into the telephones of foreign exchange and money traders. Worldwide telecommunications will assemble an instantaneous update system on the behavior of all markets into arbitrage and money-purchasing decisions, with instructions communicated to branches through central computers.

If this sounds unfathomable, consider what initiatives the London-based foreign exchange brokers—the market operators who place orders between commercial banks—have set into motion.

The most important part of the globalization program, a principal of one of the leading brokerage firms told *EIR*, is already in operation. The national boundaries of markets formally disappeared late in 1980—only a few months after this publication first sounded warnings to that effect. International operations by the London brokers meant that a single firm, for the first time, centralized its information and its trading positions on a 24-hour basis, enabling the brokers to take advantage of opportunities for arbitrage (playing small differentials in different markets) in a fashion not seen before.

The commercial banks began to follow suit, and adopted operating methods, including pricing of loans at the London Interbank Offered Rate rather than U.S. prime, global management of liabilities, and global centralization of information. Major U.S. and British commercial banks no longer ask their branches to fund their own day-to-day operations by going out on the most convenient market to obtain funds. All funding operations now proceed via a central computer.

Every bank's liability and asset management group starts the day with complete updates from every national market and every sector of the Eurodollar market, treating the Singapore-based Asia-dollar market on a par with the domestic market in certificates of deposit. A well-trained staff, and in some cases a computer monitoring system, calculates exchange risks and interest differentials, and fund *all* the branches' requirements for lending on what appear to be the most advantageous terms available anywhere in the world.

A business loan in the United States, under this system, might be funded through the interbank market in Hong Kong, and a project loan to Brazil might be funded through small savers' certificates of deposit in the United States.

This has already produced dramatic effects in terms of U.S. money management, or lack of management. The money supply bulge in

the first quarter is due to currency inflows arising principally from foreign bank lending to American nationals, something not even counted in the lending figures published week to week by the Federal Reserve. Yet this Euromarket-related phenomenon was the basis for the Federal Reserve's decision to push up interest rates again.

As bankers point out (see Foreign Exchange), the flow will reverse later this year, and banks' foreign lending operations will probably benefit from the shakeout of deposits from small U.S. commercial banks and thrifts.

Now that the dam has burst, the prospects for further globalization are mind-boggling. Bankers now talk of two-hour money instead of overnight money, as computerization and bank cash-monitoring systems reduce the level of required transactions balances in corporate checking accounts. Banks might lend funds to cover a midmorning deficit in a major customer's account, and fund the loan by taking advantage of the time lag in crediting the account of retail merchants who have taken payment for purchases through their customers' computer-linked “debit cards”!

The Flash Gordon aspect of the technology is fascinating, and in some ways useful. But the economic consequences are much more dangerous than most observers realize. We are watching the terminal collapse of the world's long-term credit markets, and the end of capital formation prospects for many sectors of industry. The commercial banks now have an electronic blank check to walk over the rules central banks used to make to protect credit for capital formation in domestic markets.

## Stockman's threat to Social Security

*Payments to retirees will be slashed—and basic needs of our senior citizens won't be met.*

**D**uring his campaign, President Reagan pledged to maintain the integrity of the Social Security system as the most important "safety net" in our economy. But during the last week, he has proposed, on the recommendation of Office of Management and Budget Director David Stockman, cuts between 1982 and 1986 from \$81 to \$111 billion. These cuts include cuts in benefits and eligibility, reducing the benefits of someone who retires at age 62 from the 80 percent paid if he were to retire at age 65 (current law), to 55 percent of the benefits he would receive if he retired at age 65.

The cuts closely parallel the report of the Carter administration's National Commission on Social Security, released in March 1981. Donald S. MacNaughton, former chairman of Prudential Life Insurance Company, the nation's largest manager of pension monies, sat on the board of that commission.

The proposed cuts are the harbinger of a dismantled or reduced benefit system. Social Security may be converted into a "private" pension system—as was recently done by the Chilean dictatorship. In Chile, workers who paid 5 percent of their income to social security now pay 17 percent into a private British-run system.

Few people—except perhaps the 12 percent of our population over the age of 65—realize the effect of slashing Social Security. Despite the increase in private pension

assets in the United States, to \$600 billion, private pensions cover only 17 percent of the total income of our retired citizens. Social Security contributes 76 percent of our elderly citizens' income, an average \$4,000 a year.

More than a third of all retired persons in the U.S. have no other income than Social Security, an average benefit of \$3,300 per year.

Social Security cuts mean loss of medical care, transportation, heat, home repair, clothes and even food for our elderly. Under the economic collapse that monetarists like Stockman have brought upon America, income loss means disease or death to retired citizens.

This brings us to Stockman's argument. The budget director argues that the Social Security fund will be bankrupt by 1984, because there are an increasing number of retirees relative to employed workers, and that the Social Security system is indexed to the Consumer Price Index while the wages that contribute to the system are rising more slowly.

This is true. The only way a pension can remain solvent under such conditions is to pay benefits non-indexed to inflation. But this would mean that workers who contributed real dollars receive valueless dollars in benefits.

Only in a growing economy can a pension plan work, since the beneficiary does not get out the actual money he puts in the pension plan,

but puts in money invested to create more wealth that he may later draw from as a pension beneficiary.

The critics of the Social Security system are screaming that it will soon blow up, yet the Social Security system is at most a couple of billion of dollars into deficit. It is the *postindustrial policy outlined in the tax, budget, and monetary policy by Stockman that will significantly bankrupt the Social Security system*. At the moment, there are approximately seven to eight persons paying into the system for every one recipient. Stockman's alleged nightmare is that this proportion will be reduced by the year 2000 to two people paying into the system for every person getting payment.

However, there is no reason there should not be a growing and expanding labor force. It is Stockman's zero-growth ideology, expressed in real policy, along with Fed Chairman Volcker, Treasury Undersecretary Sprinkel, and others who are reducing the potential of a growing labor force.

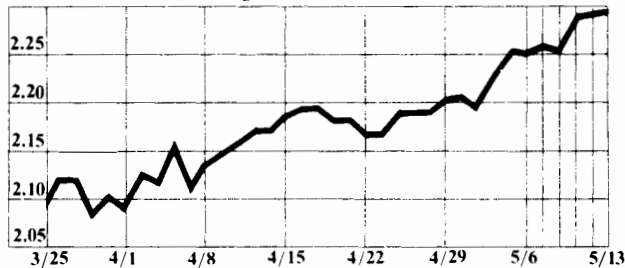
If the labor force were expanding, with growing family formation and child rearing, and if wages consistently rose, then the Social Security system would be as financially sound as Fort Knox.

This is eminently possible with a gold-based, two-tiered Hamiltonian credit system. But under the Stockman plan, which includes the untargeted Kemp-Roth 10 percent per year, three-year tax cut, the majority of U.S. credit investment flows out of basic industry into real-estate speculation, insurance leasing, currency arbitrage, and so forth. Since Social Security compete with speculation, Stockman requires that payments to our nation's elderly be liquidated.

# Currency Rates

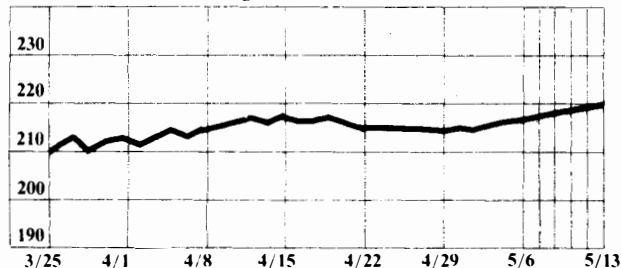
## The dollar in deutschmarks

New York late afternoon fixing



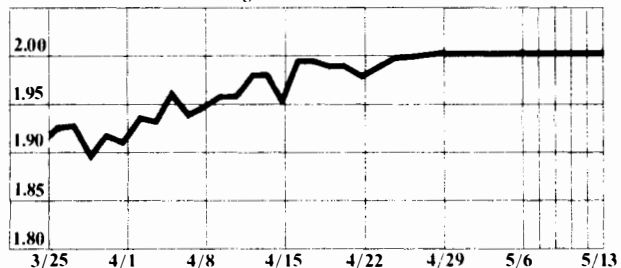
## The dollar in yen

New York late afternoon fixing



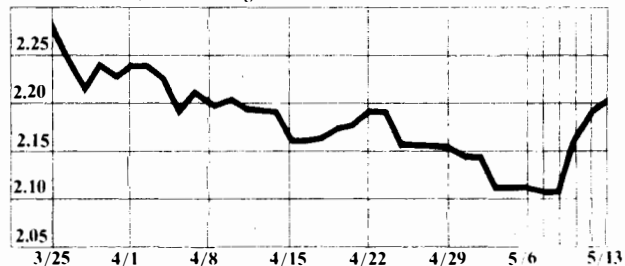
## The dollar in Swiss francs

New York late afternoon fixing



## The British pound in dollars

New York late afternoon fixing



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Michael Liebig, European Contributing  
Editor, EIR

12:00-2:00 p.m. luncheon

### Keynote Address

Lyndon H. LaRouche, Jr.  
Founder and Contributing Editor, EIR

**U.S. Fiscal Policy** 2:00-5:00 p.m.

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Criton Zoakos, Editor-in-Chief, EIR  
Wednesday, June 10 Frankfurt 6:00 p.m.  
Thursday, June 1 Bonn 6:00 p.m.  
Reception to follow

For further information, call Peter Staaleicher,  
06121-306035 or Peter Ennis, (212) 247-8820

## Interest rates strangle livestock

*The new upward ratchet has jerked the noose around the \$35 billion U.S. industry.*

**F**or more than a week now, livestock prices have registered limit declines on the Chicago commodity markets. Prices are pacing the across-the-boards fallout in other commodities because of the cattle industry's particularly dire straits and special vulnerability to usurious interest rates. Traders anticipate that the new spurt in interest rates will force a selloff of animals to feedlots or for slaughter at the same time that economic austerity is cutting markedly into consumer demand for meat.

Cattlemen have been losing money since 1974 when the oil hoax and monetary turmoil provoked a stampede of investment capital out of the industry. By now, the longest and most severe liquidation phase in the history of cattle cycles has reduced the U.S. cattle herd to its lowest level in 10 years—even below the trough of the previous cycle.

Ranchers hoped that the tight supply would start producing a profit, and got some encouraging indications in 1979. They began preparing to rebuild their herds. In 1980, they were greeted with the Volcker interest-rate program which shot rates up to the 20 percent range for the first time since the Civil War. With drought, high-priced feed, and slack consumer demand, instead of rebuilding herds, ranchers were forced to continue liquidating, where they weren't driven out of business altogether.

In the past year, according to the U.S. Department of Agriculture, at least 20,000 cattle ranchers and feedlot operators have been forced out of business. There are now about 1.27 million remaining, down 14 percent from 1975.

So far, 1981 seems to be bringing more of the same. In some parts of the country, drought is combining with interest rates in the unprecedented 21 percent range to force ranchers to slaughter cattle or sell them to feedlots at a loss rather than hold them and feed them, risking even greater losses down the line.

Since March 1980, according to the National Cattlemen's Association, the index of prices cattle raisers paid for feed, interest, wages, and taxes rose 11 percent during the same time that the index of prices received for cattle *dropped* by 7 percent.

Producers today are losing at least \$200 on every calf they raise. Dependent on adequate supplies of reasonably priced credit because the industry's capital investment is high, lead time long, and margins paper-thin, cattlemen are trying to survive by mortgaging their land, borrowing more than ever, switching more rangeland to crops, and further reducing their herds.

The glut of meat supplies in the market has fueled the price declines, exacerbating the crisis. Consumers experience this as a reduced cost of meat at the supermarket. But

the further the price spiral descends, the closer we approach the point where bankruptcies will disrupt meat production altogether, sending prices into the stratosphere and disrupting supplies.

Before interest rates started zooming up again, the March 13 USDA cattle-on-feed status report pointed to the glut of meat supplies. At that time, fed cattle marketings were lagging 9 percent behind year-earlier levels at the same time that cattle being placed on feed was only down by 3 percent—a net gain at the feedlot. Meanwhile, larger than usual supplies of nonfed beef continued to pour into the market.

This week, interest-rate developments were compounded by anticipation that the May 14 USDA report of cattle-on-feed would again show an increased rate of placement of animals on feed during April, this time by as much as 10 to 25 percent above the year-ago level.

Feedlot operators are no more fortunate than the cow-calf men who raise feeder cattle for them. Operators of the feedlots where young animals weighing about 600 pounds are fattened to slaughter weight of about 1,000 pounds are squeezed by the same high feed and financing costs. As Kenneth Monfort, president of Monfort of Colorado, Inc., a large cattle feeding and meatpacking company, told the *Wall Street Journal* recently, "A story about the beef industry belongs in the obituary column."

Monfort, which closed one of its beefpacking plants in December because, as the company said, high interest rates prevented the necessary capital spending, was also forced to shut down one of its two feedlots recently.

# WorldTrade by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
<b>NEW DEALS</b>			
\$53 mn.	Iraq from West Germany	A consortium of German consultants has been hired by Iraq to plan the Iraqi auto industry, which will involve investments of more than \$5.3 billion in near future. Plans are to manufacture 120,000 cars, 25,000 trucks, and 15,000 tractors per year. Group led by Weidleplan of Stuttgart; includes Kohlbecker and Integral Architekten. Industry will be in a greenfields city.	Weidleplan says Iraq plans auto industry as core of general industrial development.
\$1.9 bn.	Indonesia from U.S.A.	Pertamina has signed contracts with Bechtel and Fluor for doubling Indonesia's refining capacity to 800,000 bpd. Each will build a 200,000 addition to an existing refinery. Bechtel's job is \$1 bn.; Fluor's is \$857 mn.	Siemens of West Germany will build \$60 mn. electric plant for Balikpapan refinery.
\$1 bn. investment	Holland/U.S.A.	Fokker and McDonnell Douglas will go 50-50 to design, produce, and market a 150-passenger airliner. The MDF-100 will combine planned DC-11 and F-29; will be produced in parallel assembly lines in Long Beach, Calif. and Holland for U.S. and EC market access. Joint venture hoped to pull both companies out of nosedives.	Will compete with similar craft designed by Boeing and European Airbus.
	India/Saudi Arabia	Economic and technical agreement signed by foreign ministers identifies joint project priorities in agriculture and industry. Deal encourages private capital flows.	Saudi Fund for Development has made \$132 mn. low-interest loans to Indian hydroelectric projects.
\$10 mn.	Saudi Arabia from U.K.	British Electricity Intl. will coordinate 39 electrical projects in central Saudi Arabia in addition to 60 British electrical engineers already working on Riyadh expansion.	
	China/U.S.A.	Avon Products will make and market face cream in China in joint venture with govt., as first step to full-scale Avon calling in China. Chinese will sell Avon jewelry.	China has been losing face on canceled heavy industry projects.
\$224 mn.	Jordan from Japan	Mitsubishi and Kobe Steel will build 2 mn. tpy cement plant.	
<b>UPDATE</b>			
\$3.6 bn.	U.K./France	Tarmac and George Wimpey of England plan joint venture to finance, build and operate English Channel tunnel. Bankers Robert Fleming and Kleinwort Benson are sponsoring the dig.	Thatcher govt. has not approved project, but might be inspired to build a bridge to Mitterrand.
	Pakistan from U.S.S.R.	The Soviets have offered Pakistan nuclear and thermal power plant aid on same concessionary terms given India and other Soviet customers.	Attractiveness of offer embarrassing to Zia anti-Soviet govt. and to U.S. antinuclear policy.
	India/U.K./U.S.A.	British subsidiary of Eaton Corp. will manufacture 20,000 axles per year for medium- and heavy-duty trucks in India. Eaton, Wheels India and Sundaram Finance will each own 1/3 of venture.	Replaces axles imported from U.K. for Ashok Leyland trucks.
\$18 mn.	Ireland from U.S.A.	Perkin Elmer setting up minicomputer assembly plant in Ireland. Irish say won out over Puerto Rico and Singapore because of tax advantages, and EC privileges.	

# U.S. views conflict at AIF fusion conference

by Marsha Freeman

The future of nuclear fusion as a source of unlimited supply of energy was debated at a conference sponsored by the Atomic Industrial Forum (AIF) May 3-6. What emerged at that meeting is that while Japanese and European representatives are strongly committed to developing an operational fusion reactor by the 1990s, the U.S. program is jeopardized by the Reagan administration's research and development to the bone.

The world fusion community had optimistically expected a strong program to be led by the United States following the passage of the McCormack bill, the Magnetic Fusion Energy Engineering Act of 1980, sponsored by former Rep. Mike McCormack of Washington State. The McCormack bill commits the United States to develop a commercial demonstration fusion reactor by 2000, and mandates Congress to spend \$20 billion over the next 20 years to achieve that goal. Instead, the fight in Congress is to restore cuts made in the Department of Energy's (DOE) fusion budget, cut from \$525 million to \$460 million in Reagan's fiscal 1982 budget.

The strong dissension between those in the DOE itself who favor an "Apollo-style" crash development program and the "cost-benefit" budget-cutters, who say the R&D emphasis must be on relatively low-technology conventional military weaponry, instead of basic scientific research, was expressed in remarks made to the AIF conference by DOE fusion director Dr. Edwin Kintner, and by the DOE acting director of the Office of Energy Research, Dr. N. Douglas Pewitt.

Dr. Kintner expressed dismay at the cuts in the fusion program, now "less dramatic or rapid than we had hoped." "Fusion is unique. It is a test of the ability of society and the government to marshal resources for a long-term program that has no military justification. It's difficult to see this kind of progress and conclude that it can't be done."

Dr. Pewitt urged a go-slow approach and stated that

the proposed Center for Fusion Engineering, to be run by industry for the DOE, "will not be considered until all the information is available or until it is absolutely necessary."

Pewitt's view was challenged by nearly all the speakers at the conference. Dr. Harold K. Forsen, president of Jersey Nuclear Isotopes and Exxon Nuclear, called fusion a "national commitment." He stated, "This is a \$20 billion program over 20 years. It is a national commitment. Fusion people should report to someone on the assistant secretary level, or a NASA-administrator type of manager. The Office of Fusion Energy in the DOE should report to the same high-level manager and continue to oversee the physics research."

Former Rep. Mike McCormack, who addressed a luncheon session of the conference, expressed hopes that "everyone will commit themselves to work enthusiastically for the year 2000 goal of commercial demonstration of fusion, the same as Jack Kennedy did for the goal to reach the Moon." Fusion is "of paramount concern for our nation's security, stability, increasing economic health, and the security and stability of the world."

"This is a fundamental chance for world peace," McCormack stressed. "We have a moral obligation to future generations to hold for them their share of the world's precious hydrocarbons." Fusion, whose fuel, hydrogen, is derived from water, "will bring us abundant supplies of energy, of water, of minerals not now worth developing. It is not responsible to wait" to implement the fusion bill. "We are in critical danger of even deeper budget cuts in fusion," McCormack emphasized. "We need a public protest. Most people in this country have not been informed of the damaging possibility of these budget cuts. . . . We've been conditioned not to stand up and fight. Fusion is real. We know it will succeed."

According to Dr. Allan Mense, the battle over the fusion budget is not finished. Mense is the fusion staff member of the House Subcommittee on Energy Research and Production formerly chaired by McCormack and now headed by Rep. Marilyn Bouquard of Tennessee. Mense stated, "The fiscal year 1982 budget in no way reflects Congress's view of fusion." He stressed that "the Japanese are planning for future generations. We have to look 100 years ahead like the Japanese."

Dr. Kenzo Yamamoto, a member of the Nuclear Fusion Council of the Japan Atomic Energy Commission and an adviser to the Japan Atomic Energy Research Institute, which conducts Japan's major fusion tokamak research, confirmed that Japan is considering having its Fusion Experimental Reactor on line by the early 1990s. "We would begin construction in about 1988, and plan to burn deuterium-tritium fusion fuel by 1994-1995." In addition, he reported, five major Japanese nuclear reactor suppliers will be involved in the new machine.





# Who's Who in the Reagan Administration—

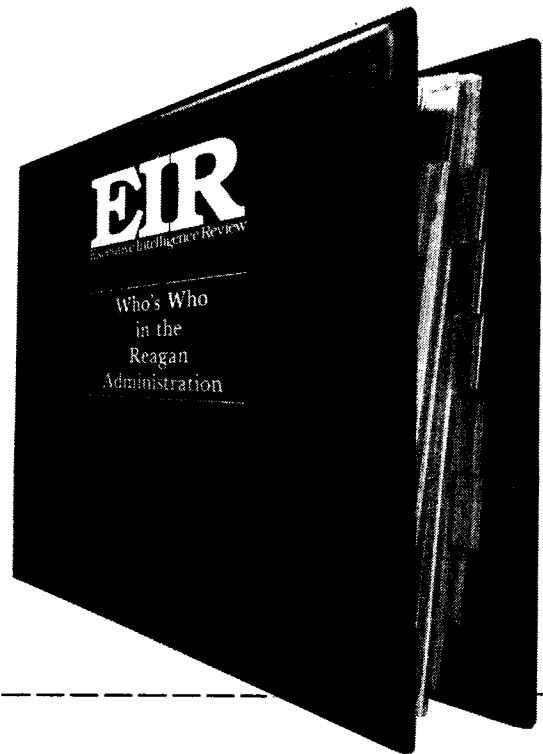
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# Business Briefs

## *Transportation*

### **Conrail sale to be delayed two years?**

A leading participant in the huge profits realized by the 1970-1978 Penn Central bankruptcy and the subsequent creation of Conrail told *EIR* on May 14 that Transportation Secretary Drew Lewis had two reasons not to sell Conrail to competing railroads for two years.

Before they cherry-pick the best lines of the Conrail, he said, the competing railroads want the federal government to invest another \$2 billion in rail and equipment upgrading. Since it would tarnish the "free enterprise" image of the private railroads if they received the subsidy, they are willing to wait.

Lewis's second reason was described as a desire to continue using the Conrail bankruptcy to gain wage givebacks from the rail workers to set an industrywide precedent. Pleading bankruptcy and operating under Secretary Lewis's threat to sell the company, Conrail negotiated a three-year wage freeze with the rail unions, which at present inflation rates will reduce wages by one-third. The unions also agreed to 5,000 layoffs, instead of 10,000 demanded by Conrail.

## *Agriculture*

### **USDA reveals new export promotion plan**

On May 8 the USDA revealed preliminary plans for an "intensified campaign" to expand grain exports to five countries. This is part of the department's concerted effort to recoup the loss of trust in U.S. suppliers caused by the ill-fated Soviet grain embargo. The five countries slated for increased wheat and feedgrain sales are Algeria, Brazil, Chile, China, and Morocco—which together already buy about 12 million tons of U.S. grains a year. Secretary Block is planning "several high-level consultations" with officials of these countries.

The visits are expected to result in specific plans for expanded trade servicing, improving credit programs, and determining set quantities of grain to be purchased during the 1981-82 marketing year, USDA sources told the press.

Secretary Block, will be in Europe from May 23 to June 4 to attend the World Food Conference in Yugoslavia, meet with French, British, and European Community officials, and attend a meeting of U.S. agricultural attachés from Europe, Africa, and the Middle East.

## *Banking*

### **German banks warn of 1931 crisis**

After months of U.S. Federal Reserve Chairman Paul Volcker's high interest rates, which have forced German rates to historic levels twice their levels of inflation, the West German banking system is facing a severe financial situation.

The latest monthly report of the Berliner Handels und Frankfurter Bank is titled "1931-1981: The Similarities Are Coincidental." "Simplified," writes the bank, "the economic situation in the Federal Republic can be called an economic tailspin—a racing climb of interest rates absolutely unparalleled in the history of the Federal Republic."

The report states that external economic conditions now facing Germany, led by high U.S. rates and the high price of oil, are comparable to the situation in 1931. High British interest rates, they write, and the enormous burden of foreign debt repayments due under the Versailles reparations agreement, were then bankrupting Germany.

"The Reichsbank, then too, had to explain its high interest-rate policy as based on 'foreign forces,' which led to real interest rates of 20 percent."

As a result, West German banks are facing huge losses this year. The Commerzbank this year was forced to declare no dividend, due to an 11 billion mark loss on their holdings of fixed-interest long-term government paper, which

were sold off too slowly in the midst of a bond market collapse. "Uncomfortably high interest rates are going to be necessary to finance capital imports," Commerzbank President Paul Lichtenberg recently told the bank's shareholders meeting.

## *Public Policy*

### **Bank presidents polled on U.S. interest rates**

A survey of 369 chief executives of U.S. banks conducted by the Conference of State Bank Supervisors found a strong consensus that the high cost of money is the main barrier to banking growth.

Further, 84 percent of the executives supported the current state-organized banking system and opposed change in the McFadden Act, which prohibits interstate branch banking, or in the Douglas Amendment, which bars interstate subsidiaries.

Only the nation's largest commercial banks, those with assets of over a billion dollars, favored interstate banking.

The bank executives also cited competition from nonbanking financial institutions and interest-rate ceilings as depressive factors.

## *International Credit*

### **IMF mandates marijuana revenue in Jamaica**

The International Monetary Fund has consummated an agreement with Jamaica which includes IMF approval for the legalization of foreign exchange revenues earned from marijuana exports. The IMF staff has heralded the Jamaican loan package as a pioneer example of "supply-side economics" applied to a developing country.

Signed last month, the accord promised Jamaica no less than \$698 million in loans over three years. The IMF will

monitor the country's economic "progress" every six months to see if it is still loanworthy. The chief criterion will be the stability of foreign exchange reserves. Jamaica is expected to raise \$40 million in reserves in coming months at the same time that strict ceilings have been imposed on foreign borrowings.

Jamaica in recent years has been earning over \$1 billion annually in marijuana sales abroad. Prime Minister Edward Seaga recently legalized the "parallel" foreign exchange market, and has given the go-ahead to banks to handle deposits earned from marijuana sales.

Seaga's policy memorandum asserts that the government will not interfere in the "parallel" market. Jamaican press sources reported last month that it was appended to the accord with the IMF. The memorandum states, "While the informal market cannot by itself correct the shortage of foreign exchange, it can be a limited source for alleviating this shortage." During 1980, "about U.S. \$80 million" in imports "was financed . . . under a special licensing agreement" for goods paid for by the "informal foreign exchange" earnings.

## Energy

### Washington pledges to aid Japan's reprocessing

President Reagan pledged to lift Carter's obstruction of Japan's efforts to develop independent nuclear fuel-reprocessing facilities during a 90-minute private meeting on May 8 with visiting Japanese Prime Minister Zenko Suzuki. During the meeting, Suzuki complained that the restrictions, which Carter had imposed in 1977 under threat of ending U.S. uranium supplies to Japan, had made reprocessing uneconomical.

Reprocessing is necessary to make nuclear power economically feasible. At present, Japan relies on the U.S., and minimally on France, for reprocessing, but Tokyo had determined to develop independent facilities as part of its program for "energy independence." Under

the guise of nuclear weapons nonproliferation, Carter used the provisions of the U.S.-Japan fuel supply agreement to veto Japan's independent reprocessing.

When Foreign Minister Masayoshi Ito raised the question with Secretary of State Haig during Ito's March visit to Washington, Haig merely promised to "consider" the request. Japan took this to be a stalling tactic. Reagan, in contrast, pledged to lift the restrictions. Details remain to be worked out.

## Domestic Credit

### The soaring real cost of U.S. borrowing

U.S. corporations and consumers are now paying real interest rates of 9 to 10 percent, perhaps the highest level in the nation's history, as part of Paul Volcker's so-called war against inflation.

Real interest rates represent the prime lending minus the rate of inflation. The U.S. prime lending rate is now 19 percent. The inflation rate, as measured by the Consumer Price Index, is 10.5 percent for the first quarter. The most recent 12-month change in the personal consumption expenditures (PCE) deflator is 9 percent. Using the latter as the rate of inflation, for the moment, the "real" cost of borrowing is 10 percent.

Despite the recent money-supply bulge, the differential between the prime rate and the PCE is double the average magnitude that existed in 1980—5.04 percentage points—and almost five times greater than the average differential that existed during the 1970-80 period—2.11 points—the May 11 *Manufacturers Handbook Financial Digest* reports. Even if inflation has been understated, the jump in real interest rates is enormous.

With the prime lending rate in the U.S. so ridiculously far above the rate of inflation, other nations have been forced to follow suit, or lose capital flight to higher-yielding dollar paper. In Germany, customers are paying a "real" borrowing rate of above 7 percent, even though inflation is below 6 percent.

## Briefly

● **SEN. JAMES SASSER**, Democrat of Tennessee, introduced S.R. 1 in a surprise move on May 14, stating the resolve of the Senate that the Federal Reserve should halt increases in interest rates and pursue a "dual prime rate" to channel credit to sectors afflicted by "the Board's current monetary policies." The resolution was defeated 57 to 37, largely along party lines. However, Mark Andrews (R-N.D.) voted yes and five Democrats voted against it: Allen Dixon (Ill.), Ernest Hollings (S.C.), William Proxmire (Wisc.), John Stennis (Miss.), and Paul Tsongas (Mass.). Certain Democratic senators intend to raise the question as an amendment to every bill brought to the floor.

● **HENRY KISSINGER** addressed 200 Italian businessmen at a conference of the International Study Society at the Villa d'Este at Lake Como in Italy May 6. Among those attending was Gianni Agnelli, chairman of FIAT. Kissinger called for Europe to join the United States in an arms buildup.

● **JIM WOLFENSOHN**, executive partner of Salomon Brothers investment bank, has announced that he will set up his own "private shop" with about a half-dozen associates, to broker deals in Australia, which has become a favored site for British-run capital flight.

● **BRITISH PETROLEUM** has, in its January issue of its German-language monthly bulletin *BP Kurier* endorsed the Global 2000 plan for world population reduction. BP writes, "The time to prevent such a development is rapidly dwindling. If nations, alone and together, do not take bold and ingenious steps to improve social and economic conditions, to reduce fertility, and to economize with raw materials and the environment, humanity will have to be prepared for a very restless entrance into the 21st century."

## Billions in trade on agenda at the U.S.-Mexico summit?

by Dennis Small, Latin America Editor

Ronald Reagan will hold two days of summit talks with Mexican President José López Portillo at Camp David, on June 8 and 9, in an encouraging environment of improved relations between the two nations.

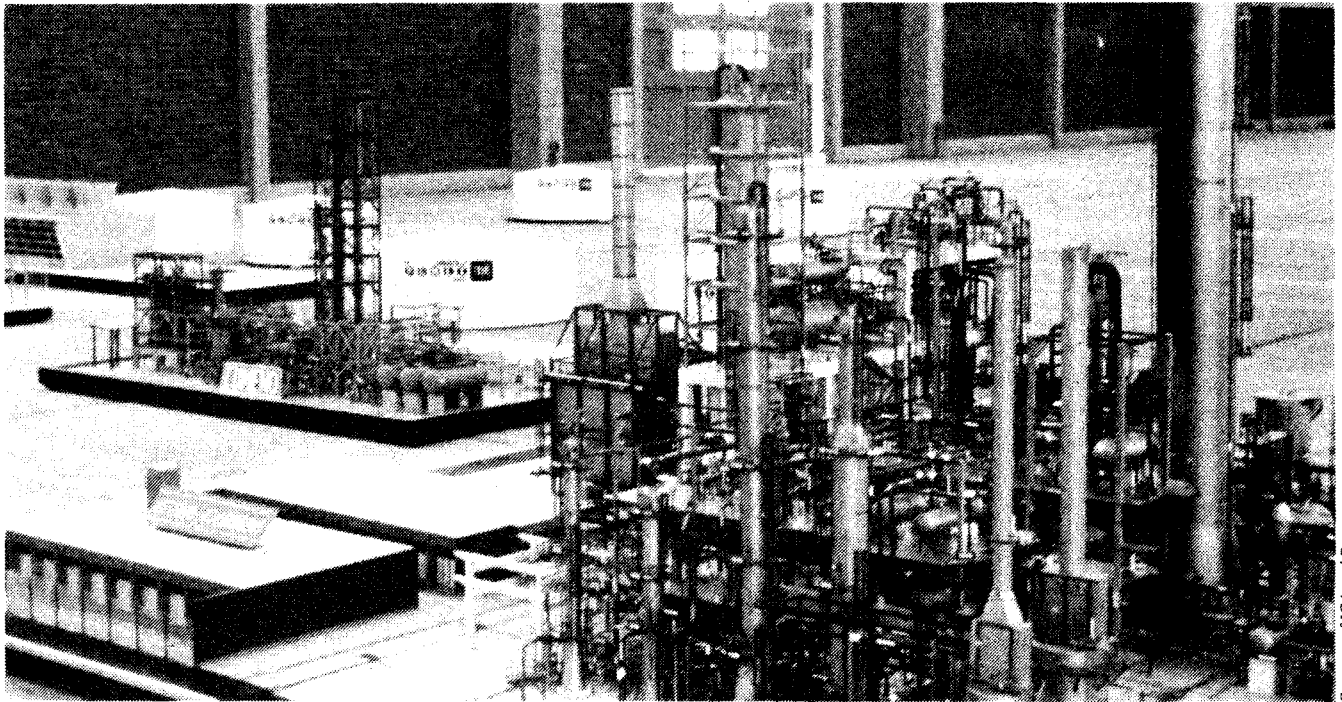
If the discussions go well—if they center on establishing an oil-for-technology accord between Mexico and the United States—then the presidential meeting and its aftermath could result in:

- American exports of capital goods to Mexico totaling \$100 billion over the next decade. In 1982 alone, the United States could sell Mexico nearly \$7 billion of such high-technology goods.
- The creation of *1 million new high-skill jobs* over the same 10-year period, as a direct result of these exports.
- The increase of Mexican oil shipments to the United States by an amount that *EIR* estimates could reach the range of an additional 1 million barrels per day.
- The stabilization of the explosive Central American region, as a result of U.S.-Mexican cooperation, making the area once again capable of sustaining economic growth.
- The creation of a durable, mutually beneficial bilateral relationship between Mexico and the United States, which would serve as a model for all North-South relationships.

Despite this enormous potential the U.S. media has chosen to black out virtually all news of the summit.

### **The LaRouche initiative**

The proposal for a meeting of the two heads of state that would focus on achieving a bilateral oil-for-technology accord was first issued last December by Lyndon H. LaRouche, Jr., the well-known American economist and politician who is also the founding editor of this magazine. LaRouche's initiative was partially taken up in the form of a Jan. 9 border meeting in Ciudad Juárez, Mexico, between President López Portillo and President-elect Reagan. Although the talks were positive, and a personal



Courtesy of ICA and Pemex

*Exact-scale model of planned expansion of the La Cangrejera petrochemical complex.*

working relationship between the two heads of state was established, the concrete dimensions of economic cooperation were not broached.

Since that time, LaRouche has argued the case for an oil-for-technology accord in both Washington and Mexico, where he traveled in early March to meet with government and business leaders. LaRouche also commissioned the preparation of a computerized study of Mexico's development needs, and of how the United States could help meet them. The resulting Mexican "shopping list"—totaling more than \$150 billion in capital goods imports alone over the next decade—is detailed for the first time in the pages that follow.

LaRouche's proposals have been well received on both sides of the border, where top officials are now preparing for the early June meeting in a climate increasingly shaped by the LaRouche initiative. For example, Texas Governor William Clements, a Reagan intimate, in early May told the Mexican press that both he and Reagan believe that the United States should "help Mexico to develop a solid industrial base" by "transfer of technology" to that country. Other agenda items for the summit, such as undocumented workers, drugs and contraband, and possibly Central America, will reportedly be treated as subsumed topics.

### **Mexico angered by Volcker**

In the weeks following the announcement of the U.S.-Mexico summit, the López Portillo government has reaffirmed its commitment to high-technology industrial growth. But there is a dark cloud on Mexico's

## **In this section**

- I. Billions in trade on agenda at the U.S.-Mexico summit**  
by Dennis Small
- II. Mexico's superports: a strategy of citybuilding for five million people**  
by Timothy Rush
- III. The shopping list for Mexico's development**  
by Dr. Steven Bardwell
- IV. Alexander Haig attempts to sabotage the Reagan-López Portillo summit**  
by Elsa Ennis and Timothy Rush

economic horizon that is increasingly disturbing.

A growing number of Mexican businessmen, politicians, and journalists are protesting the near-20 percent interest rates that Paul Volcker has created in the United States, since Mexican monetary authorities have felt forced to raise their own rates even higher, in order to remain competitive. Otherwise, they have argued, depositors will take their money out of pesos and put it into higher-interest dollar accounts across the border.

The only visible option would be to establish exchange controls—which the López Portillo government has repeatedly stated it will not do. Most analysts agree that an exchange control policy would be virtually unworkable in Mexico in any event, given the country's extensive linkages with the U.S. economy and the 2,000-mile border that the two nations share.

Mexico's official prime-rate equivalent has thus risen to the 35 percent range in the recent period. But effective interest rates, according to Industry Minister José Andrés de Oteyza, are even higher, often reaching de facto levels of 40 to 50 percent for many businesses—once commissions and other "add-ons" are considered.

José Porrero Lichtle, president of Mexico's leading industrialist association, Canacindra, told López Portillo in a recent private meeting that the rise in international interest rates "constitutes a brake on industrial development." Other industrialists are also demanding that the Mexican government do something to keep interest rates down.

The Mexican outcry has reached such proportions that it is possible that López Portillo will raise the issue with Reagan at their June meeting.

How President Reagan handles this Volcker problem will be crucial to the future of U.S.-Mexican relations—not only because of Mexico's concern with its own economic growth, but because the United States may well be *unable* to meet Mexico's import needs if U.S. industry is further dismantled by the Volcker measures.

Also critical will be whether or not President Reagan reins in Secretary of State Alexander Haig, who, along with his advisers, is violently opposed to Mexico's continued industrial growth. Under Jimmy Carter, a similar policy of enforcing "no more Japans south of the border" led to an unprecedented falling-out between the two nations.

There are, however, encouraging signs that Reagan and his closest collaborators are beginning to abandon some of the worst features of Carterite diplomacy. For example, it appears that the Carter policy of trying to establish a "North American Common Market" among the United States, Mexico, and Canada—a policy that the Mexicans have stridently rejected—has finally been scuttled by Reagan. National Security Adviser Richard Allen, for example, backpedaled furiously on his earlier strong endorsement of a "North American Accord" in

an April 29 press conference. He told the press that the accord idea had been "misunderstood," and that Reagan never intended to "usurp" bilateral talks on subjects like energy and technology transfer into a multilateral framework.

Reagan's recently confirmed ambassador to Mexico, John Gavin, in Senate confirmation hearings also backtracked on his earlier support for the Common Market. In answer to a question on the subject, Gavin said, "I think that the most important thing at this time is to continue with a bilateral approach on bilateral issues. . . . López Portillo in Canada has stated quite directly that Mexico is not interested [in the Common Market]."

As Governor Clements accurately noted in his press interview, Mexico, too, has its opponents of positive U.S.-Mexico relations. The command center for this disruptive faction, ironically enough, is the office of Foreign Minister Jorge Castañeda, who has consistently bucked President López Portillo's growth policies. Castañeda's fury at the summit preparations was reflected in a recent column in the Mexican press by well-known Jesuit Manuel Buendía—a notorious leaker of lines fed from Castañeda's office. Buendía, in an infantile display of pique, wrote: "The upcoming meeting of López Portillo with Reagan is another cause for concern, rather than hope. The fact that the original site was changed in favor of Washington, casts a shadow. . . . No valid reason was given for Mexico to accept the change." Buendía concludes: "This is an abuse by the White House."

## Texas governor proposes oil-for-technology deal

*The following comments by Texas Governor William Clements appeared in the April 30, 1981 edition of the Mexican daily Excelsior.*

**On an oil-for-technology exchange:** "[We must] substantially help Mexico to develop a solid industrial base. In the long run this will make Mexico an exporter of goods and will create jobs. We in the U.S. can help with that. We have the capital, the technology, the raw materials to be able to aid Mexico over the next 20 to 25 years. Capital investment, transfer of technology, transfer of people: that would help create the industrial base. And we would have future deliveries, for example, of oil and natural gas. Not necessarily today, or next year, but within 10 years."

**On Reagan's approach to Mexico:** "President Rea-

# Mexico's superports: a strategy of city-building for five million people

by Timothy Rush

For the foreign businessman, the evidence is in that Mexico is not just a partner with lots of oil and big projects on paper. Three years of solid investment are now reaching the maturation stage and the picture is impressive.

On April 29, 1981, Mexican President José López Portillo inaugurated Latin America's largest petrochemical complex at La Cangrejera, in Mexico's southeast. This giant undertaking, involving no fewer than seven separate major facilities, was finished in world-record time. The majority of engineering and all the construction was Mexican. The value of its initial output is \$1 billion per year. It is expected to replace a full 90 percent of Mexico's current petrochemical imports.

The same day the state oil company, Pemex, announced that commercially viable hydrocarbon deposits had been found in the Gulf of California between Sonora and Baja California. This is the first time Pemex has ever

officially confirmed what has been rumored for over two years: that Mexico's Pacific Coast, hitherto completely outside Mexican statistics of 68 billion barrels of proven reserves and 250 billion possible, is also oil-rich.

And on May 4, an extraordinary five-hour evaluation session at the presidential palace involving twelve cabinet ministers, three governors, and leaders of the business sector reviewed Mexico's historic city-building program centered on four new "industrial ports" and judged it moving ahead on target. The time is ripe to begin planning for three more, the head of the special development projects told the President (see map, page 22).

The week spanning the Cangrejera inauguration and the cabinet summit on ports provided a special concentration of events to underline Mexico's achievements, but it was not really unusual. As Pemex officials noted at the Cangrejera ceremonies, that facility was but one of 36 major Pemex facilities currently under construction. And hardly had the president finished the ports review when he flew to Saltillo, Coahuila, to mark the opening of four large auto and truck motor plants which will produce a total of 400,000 motors per year.

"We are convinced that a country which deserves to be a country, a country which wishes to be viable, must conceive of itself in the long term," López Portillo said as he summed up the ports evaluation session. "The industrial ports are an important and audacious way to do this. Enough of concentrating ourselves in the central highland areas and folding our arms in the face of fatalistic economic processes! Let's organize to export, let's induce and lead change. We are growing at extraordinary speed in a short time. We can normalize this to the degree we plan new initiatives."

These are the highlights of the progress report:

- Work has begun on all four of the port projects announced in 1979, Altamira and Laguna de Ostión on the Gulf Coast, and Lázaro Cárdenas and Salina Cruz on the Pacific. Altamira and Laguna de Ostión involve port and urban infrastructure built from scratch.

- By the end of 1982, at the end of the López Portillo term in office, the first phase of the program will have been concluded at a cost of \$1.8 billion.

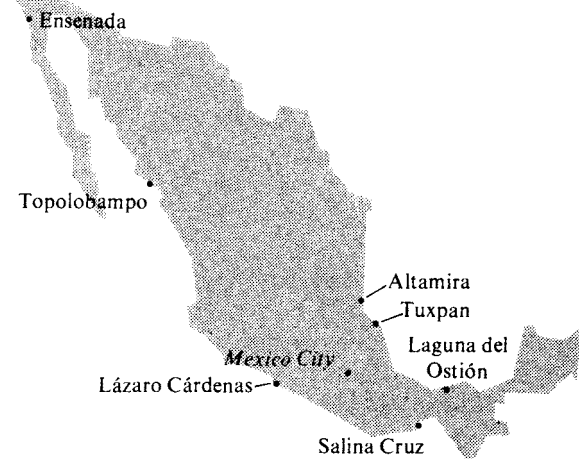
- By 1990 the ports will include four new steel

gan is extremely sensitive to all the things I have mentioned about Mexico. He understands relations with Mexico. Being governor of California is like being governor of Texas, because we have a great inheritance as part of our culture.

"I find nothing on which President Reagan and I disagree regarding what we have discussed on Mexico, and we've discussed everything, whether it be documentation of illegals, tourism, cultural exchange and the concept of great cities, or the industrial base."

**On those trying to sabotage relations:** "Even within the State Department, even within the business sector in the U.S., you can find people who are very critical of what I am saying and of what the President is saying. But so what? You are never going to find unanimity in these kinds of situations. . . . In Mexico [there are also] those who are opposed to improving relations with the United States. In fact, it serves their interests to have bad relations with the United States. They are trying to manipulate the situation."

## Current or projected development of Mexico's ports



**Lázaro Cárdenas:** Agro-industries; Sidermex steel complex; capital goods; Fertimex fertilizer complex; shipbuilding and repair; Pemex facilities.

**Altamira:** Basic petrochemicals; refining; capital goods; steel; aluminum.

**Laguna del Ostión:** La Cangrejera and Pajaritos ammonia; refining; fertilizer, sulfur, and methanol plants.

**Salina Cruz:** Tanker port for vessels up to 250,000 tons; refining.

**Feasibility studies:** Ensenada, Topolobampo, Tuxpan.

plants, an aluminum plant, giant petrochemical expansion, and a food-processing industry.

- This year \$68 million will be spent to dredge the Altamira channel to permit boats of 100,000 tons to dock in 1982. Laguna de Ostión will be dredged for initial docking of 50,000-ton boats while Salina Cruz is built to the 250,000-ton level, enough to handle super-tankers.

The focus on port development carries particular significance because ports are one of the primary bottlenecks in the country's economic growth as a whole.

### 'A true Mediterranean'

Coordinator of Development Projects for the Presidency Julio Rodolfo Moctezuma Cid stated that the surge in port-industrial activity will convert the Gulf of Mexico into a "true Mediterranean."

The advantages for U.S. business were illustrated by the simultaneous announcement by Galveston, Texas officials that the Galveston port in Texas is gearing up as a transshipment point for containerized freight which will begin crossing Mexico's Isthmus of Tehuantepec in a "land-bridge" later this year. From Galveston, container traffic from the U.S. Intercoastal Waterway grid will be loaded on larger boats for Tehuantepec, shuttled across on a new 150-mile rail connection, and re-em-

barked for Pacific ports at Salina Cruz—at less time and cost than shipment through the Panama Canal.

Moctezuma Cid announced that the industrial complexes around the new ports involve already spoken-for investments of \$25 billion before 1990. A keystone in this is Altamira, where a private-sector consortium anchored by Monterrey's Alfa Group is planning a sponge-iron plant to supply raw material for speciality steel finishing companies around the country, and the state has plans for a steel complex the size of Lázaro Cárdenas on the Pacific Coast.

And for the first time ever, he revealed that three other ports—Ensenada on the Baja California Norte coast near Tijuana, Topolobampo on the Pacific Coast in northern Sinaloa, and Tuxpan in Veracruz on the Gulf—are now being studied for incorporation into the industrial port effort.

López Portillo, in a followup session with business leaders later in the week, especially directed business attention to investment in the ports program as a way to "build another Mexico" the size of the existing one by the year 2000.

### Cities for five million people

The progrowth tenor of the cabinet review session obliged even population reduction ideologue Pedro Ramírez Vázquez, the Housing and Urban Development minister, to outline a striking perspective of population growth in the new port centers.

Ramírez Vázquez pegged Altamira regional population, currently 650,000 (including the city of Tampico), at 2 million by the year 2000. The Laguna de Ostión region will grow from 400,000 to 2.3 million by the same year, and Lázaro Cárdenas from 60,000 to 630,000. In total, Mexico is building new port cities to house no less than 5 million inhabitants over the next two decades.

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# The shopping list for Mexico's development

by Dr. Steven Bardwell, Fusion Energy Foundation

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## I. Introduction

In the next 20 years, Mexico can use the strategy of trading its oil, a 20th-century technology, for 21st-century technologies like advanced capital goods and nuclear energy, and in this way transform Mexico into a fully industrialized nation. In an earlier study prepared by the Fusion Energy Foundation (FEF) and the Mexican Association for Fusion Energy (AMEF), printed in this magazine, we demonstrated how this "oil-for-technology" approach could achieve such ambitious goals.

The present report elaborates on that study, and features two key aspects of a detailed program to achieve this transition to an industrialized nation: 1) assessments of the technologies required in each sector of the productive economy; and 2) the imports of strategic capital goods required to make this transition.

The result of our study, using the computerized LaRouche-Riemann model of the Mexican economy, is the elaboration of a "shopping list" for Mexico for the 1980s, a list of capital goods imports which Mexico requires if it is to embark on a successful program of industrial development. This shopping list, of course, has the greatest importance for the industrialized countries, like the United States, that will be called on to provide the high-technology exports to meet Mexico's gigantic demand.

Our calculations indicate that Mexico will need to import \$150 billion in capital goods over the next decade, \$100 billion of which can be provided by the United States, if we maintain our current two-thirds share of the Mexican market. This translates into *one million new jobs* over the next ten years, concentrated in high-technology sectors, and a rebuilding of critical U.S. industries whose survival at this point depends on exports. In 1982 alone, for example, Mexico will have a \$15.4 billion shopping list for capital goods (see Figure 6), only \$5 billion of which can be met by domestic Mexican suppliers. If the United States were to win contracts on two-thirds of the remaining \$10.4 billion Mexico will import, the United States would not only gain \$7 billion in badly needed foreign exchange, but would also create over 58,000 new high-skill jobs—in just one year.

And this leaves out the multiplier effect on the U.S. economy of receiving \$7 billion in capital goods export orders; it also doesn't consider other categories of exports to Mexico (such as food and consumer goods) that would increase significantly under an overall oil-for-technology accord.

What such an agreement would mean for Mexico is no less dramatic. Our study rigorously demonstrates the possibility of Mexico's successful development from a raw-materials exporting country into a full member of the community of industrialized nations. We have shown that this development can be substantially completed within 20 years, and have outlined an investment strategy to accomplish this.

Figure 1 summarizes the proposed three-tier strategy. We begin with a deployment of Mexico's currently available technical expertise, primarily her oil reserves, directed toward achieving an intermediate stage of industrial technology. These intermediate technologies are chosen so that they, in turn, lay the basis for full-scale industrial elaboration by the year 2000.

The three-tier, 20-year strategy requires that the implementation of the capital goods import policy be directed with military precision. To ensure the success of this investment strategy, capital goods must be imported in the initial stages of the program to begin to build Mexico's own capital goods industry, and to ensure the rapid growth of the petroleum sector. In the intermediate stages, heavy industry and major transportation projects will dominate the requirements of the Mexican import bill, while the Mexican capital goods industry itself shifts from agricultural equipment and metal fabrication to heavy boiler construction and heavy equipment fabrication. In the final phase, Mexico's investment must concentrate on the elaboration of a fully developed capital goods industry, which will leave Mexico, in the year 2000, with an economy that is broadly based and nearly self-sufficient in the critical areas of capital- and technology-intensive goods.

## The present situation

Mexico today has an industrial sector grossly distorted by large consumer goods production. Figure 2

shows this situation graphically: Mexico is one of the only major industrial or developing countries with more than 50 percent of its industrial output in consumer goods. Mexico's predicament is further indicated by the limited range of capital goods that can be manufactured domestically. Correcting this structural distortion requires a rapid rebuilding of the capital goods sector in Mexico.

In the short term, Mexico's demand for capital goods is estimated to rise at a rate of 14 percent per year, significantly higher than the rate projected for industry as a whole (12 percent per year) or the economy (11 percent). Because of the lead time required for manpower training and construction, Mexico's capital goods sector cannot be expected to grow at faster than 14 percent for the first decade, so that by 1985 the proportional dependence on imported capital goods will be as large as in 1982. At this point, however, the second phase of the proposed investment strategy begins to pay off, the growth rate in the capital goods sector accelerates to 17 percent, and Mexico will be able to reach a level of about 40 percent of its domestic demand for capital goods. In the late 1990s, with this sector now growing at more than 18 percent per year, Mexico will be able to supply over half its capital goods requirements domestically. The magnitude of that accomplishment is impressive: a 24-fold increase in domestic production, and a 14-fold increase in domestic demand.

The massive imports of capital goods represent Mexico's ticket for industrialization, and can easily be financed by oil exports. Using the figure of \$35 per barrel, the projected output figures and export estimates from our program show that Mexico's export earnings will generously provide for the import of capital goods in the large quantities required, at least until the late 1990s. By that time, the overall development of the Mexican economy will have substantially reduced the relative role of oil exports in Mexico's foreign trade.

This development is the most important indicator of a qualitative change which the Mexican economy will have gone through—that of shifting from a raw-materials exporting country to an industrialized nation.

### The method of the three-tier strategy

To accomplish the goal of the rapid industrialization of Mexico, we have assembled a profile of the key sectors of the Mexican economy in their present state, and plotted a path of capital investment for each as part of the national industrialization strategy. This process of sequential investment occurs in three distinct phases:

1) A rapid growth of the extractive sectors. Exemplified by the aggressive exploitation of oil resources by Pemex, the same strategy should be applied to nonferrous metals and capital-intensive agriculture. This first phase of capital investment lays the basis for the second stage of higher industrial development; without this phase, the inherited distortions of the Mexican economy

Figure 1  
**Three stages of Mexico's development**

	Phase I (1982-86)	Phase II (1987-93)	Phase III (1994-2000)
Target growth area .....	Agriculture Petroleum	Steel Chemicals	Capital goods
Electricity .....	Oil-fired power plants		Nuclear plants
Water projects .....	Groundwater recharge Southern area dams		Canals Northern area pumping
Transportation/ Construction .....	Rectify existing railroads, trucks Construct superports Construct plants	Build new railroads Upgrade highways Start new ports	Maximize railroad efficiency, add roads Start airports, ports
Capital goods .....	Farm equipment Steel furnaces Metal fabrication Small capital goods	Construction equipment, boilers Material-handling equipment	Motor vehicles Reactor vessels Specialized industrial machinery

Source: FEF/AMEF

would rapidly bog down any sectors that might have made progress. Several comparative scenarios analyzed using the LaRouche-Riemann econometric model show this effect dramatically in the case of agriculture. If the initial period of industrialization does not accomplish the interrelated goals of eradication of subsistence agriculture and establishment of a primary metals base, Mexico's further progress becomes impossible.

This first phase serves, in a positive sense, to provide the critical inputs for successful development; the aggressive exploitation and export of oil provides the funds for import of capital goods; the development of a high-productivity agriculture sector makes Mexico self-sufficient in food; and the primary metals industrial base serves as part of the foundation for the broader industrialization to be undertaken in the second and third phases.

2) The second phase of industrial investment must concentrate on the full-scale development of basic heavy industry in Mexico. Using the initial investments in steel and nonferrous metals begun in the first phase, Mexico must develop the capability to produce large amounts of the critical raw materials for an industrialized country—primary metals and chemicals. This phase, projected to begin in the mid-1980s and continue to the early 1990s, puts Mexico irrevocably on the road to industrialization. Accompanying the large-capacity metal and chemical industries are the more important manpower changes reflected in the achievement by 1990 of

large-scale urbanization and acculturation of the Mexican peasantry, and their replacement in the countryside by modern, highly productive farmers.

3) In the third phase of investment, Mexico can use the industrial base constructed during the preceding six years to begin development of the highest technological levels of industry and manpower. Especially critical in this regard are the nuclear industries. The machine tool, materials, and automation requirements for the nuclear industry make it the centerpiece of the third phase of industrialization, in the same way that petroleum was the key to the first phase and steel the key to the second.

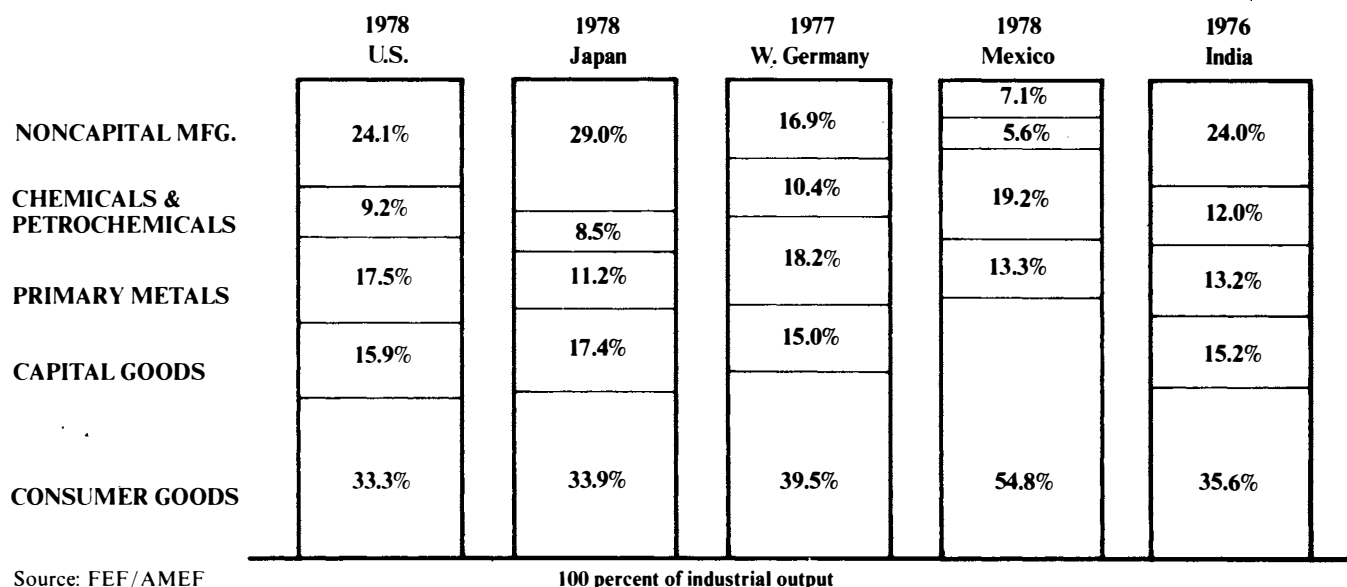
As summarized in Figure 1, this three-phase development strategy in industry implies a paralleled progress in infrastructure. To realize the investments projected in the first phase of this program, the present crippling bottlenecks in transportation must be overcome.

Over this same period, the energy production capabilities of the Mexican economy will be evolving toward a greater emphasis on nuclear electricity generation and process heat. This nuclear capacity in the late 1990s has, however, immediate implications for the capital goods imports necessary to lay the groundwork *now* for a healthy nuclear industry in 15 years.

Finally, the capital goods industry in Mexico will change significantly over the course of this three-phase program. Mexico's capital goods industry is now concentrated in the areas of small capital goods and electrical goods. Its relative dominance will change in

Figure 2

## Profile of industrial structure, international comparison



Source: FEF/AMEF

Figure 3

**Agriculture sector goals**

Goals	1980	1985	1990	2000
<b>Cultivated land</b> (in million hectares)				
Fully irrigated .....	5.4	6.0	7.0	10.0
Supplemental .....	—	1.0	1.5	5.0
Rainfed .....	8.0	8.0	8.0	6.5
Subsistence .....	6.0	4.4	2.9	0.5
Total .....	19.4	19.4	19.4	22.0
Total without subsistence .....	13.4	15.0	16.5	21.5
<b>Food production</b> (million metric tons/year)				
Grain .....	20.0	40.5	66.0	126.0
Animal protein .....	0.6	1.2	2.4	5.0
<b>Requirements:</b>				
Farm machinery (horsepower/hectare) .....	0.7	1.2	2.4	2.7
Fertilizer (million metric tons/year) .....	1.6	2.5	3.6	6.8
Irrigation water (billion cubic meters/year) .....	50.0	86.5	103.0	167.0
Farm improvements (billions of 1980 U.S. dollars/year) .....	—	\$2.2	\$2.3	\$2.8

Source: FEF/AMEF

the first phase of the program, during which the fabricated metals and large capital goods sections will be the larger fraction of capital goods output.

In the final phase of the industrialization of Mexico, the high-technology section of the capital goods industry assumes strategic significance.

## II. The steel sector

The overall goal for the Mexican steel industry, indicative of the whole primary metals sector, is the augmentation of Mexico's significant present steel output by a factor of 11.6 by the year 2000, representing an average annual growth rate of 12 percent.

### Technology assessment

There are several advanced technological features of modern steel production that must be introduced as rapidly as possible into the Mexican steel sector. Mexico must not try to replicate the historical development of the steel industry—it must always use the most advanced available technologies to construct a steel industry. There are no prerequisites in industrial development—the most advanced available technology is always the “appropriate” technology.

In the initial stage of the industrial development

program the electric arc technology can be developed. This technology, using high energy-density, allows for the processing of scrap steel, which will be of increasing importance in subsequent stages of the program. On the basis of this electric arc technology and the existing conventional plants, Mexico can, in the second phase, build full-scale continuous casting plants. Each of these plants, with output of 7 to 10 million tons, will produce not only steel, but also skilled manpower required for the transition into the specialty steel and alloy metallurgy characteristic of the third phase of the industrialization program.

We strongly recommend using the most advanced steel chemistry for these new plants, the HYL technology for direct reduction, and the use of nuclear-produced process heat. Mexico's pioneering role in the development of the HYL process—leading to its successful introduction in Venezuela and Brazil, as well as Mexico—should be taken advantage of.

The development and perfection of nuclear steel-making, especially advanced in Japan, should be the next step in the advancement of steel-making and toward the development of a clean, fossil-fuel-free steel technology.

By the end of this 20-year investment program,

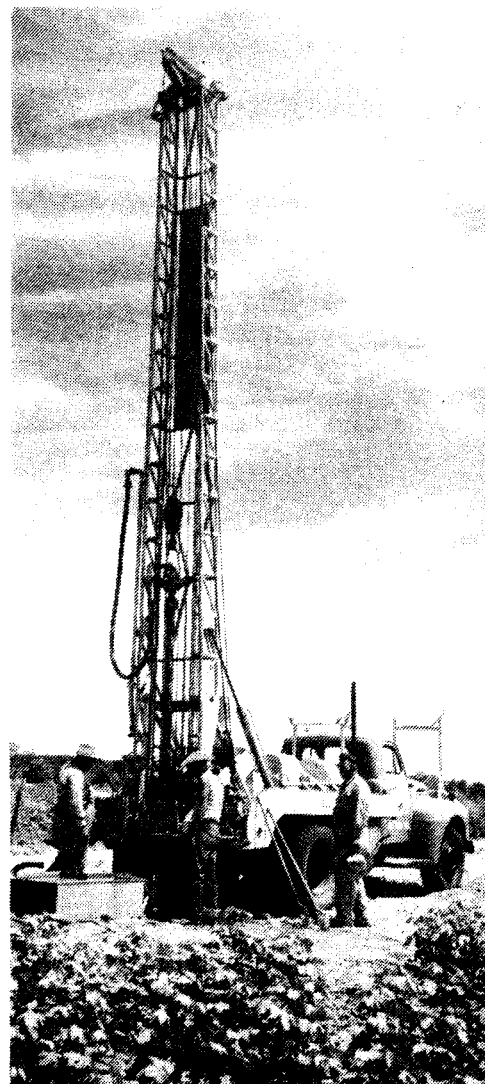
Figure 4  
**Agriculture sector shopping list**

(cumulative 1982-1985)

	Units	Total value	Value of imports*
<b>Farm machinery</b>			
Tractors, average 90 hp			
Additions .....	110,000		
Replacements .....	74,300		
Total .....	184,300	\$1,660	\$ 830
Combines & harvesters			
Additions .....	36,200		
Replacements .....	2,000		
Total .....	38,200	1,062	905
Tilling machines			
Additions .....	182,500		
Replacements .....	123,500		
Total .....	306,000	500	400
Farm trucks			
Additions .....	59,500		
Replacements .....	40,200		
Total .....	99,700	1,600	160
<b>Fixed improvements</b>			
Farm irrigation			
(thousand hectares) .....	5,400	2000	400
Farm drainage and erosion control			
(thousand hectares) .....	5,400	667	67
Farmstead upgrade			
(number of farms) .....	30,000	2,200	1,650
<b>Total spending .....</b>		<b>\$9,689</b>	<b>\$4,412</b>

\* millions of 1980 U.S. dollars

Source: FEF/AMEF



Mexican engineers and metallurgists must have developed the expertise to begin the transition to a plasma-based primary metals industry. Using the various plasma processes now available (for example, the arc furnaces and electric plasma furnaces), the problems of a fusion-powered plasma furnace and plasma torch can be solved.

### Shopping list for 1982-1985

The immediate capital goods requirements for Mexico's steel industry will involve the acquisition of two direct reduction plants of approximately 5 million tons per year capacity, and the initial siting and design for the direct reduction plants to be brought on line later.

Using standard figures for the design of steel plants, the shopping list for the steel sector was calculated in terms of furnaces, heavy machinery, electrical equip-

ment, and so on. These figures were then included in the cumulative figures for these categories that appear in Figure 6. Mexico's own capital goods industry will supply very little of the steel sector's requirements until the period after 1990.

### III. The agriculture sector

The goal for agricultural development in Mexico is the achievement of self-sufficiency and net export capability within the next 20 years. The production targets are 126 million tons per year grain and 5.0 million tons per year animal protein by the year 2000, representing increases of six- and thirty-fold over current levels. The goals and material requirements for this task are shown in Figure 3.

The key to increasing the production of Mexican agriculture is the rapid elimination of subsistence agri-

**Figure 5**  
**Capital goods**  
**average annual rates of growth**

	1980-1985	1985-1990	1990-2000
Large capital goods <sup>1</sup> .....	16%	17%	20%
Small capital goods <sup>2</sup> .....	16	17	20
High-technology goods <sup>3</sup> .....	60	21	20
Electrical goods <sup>4</sup> .....	10	17	15

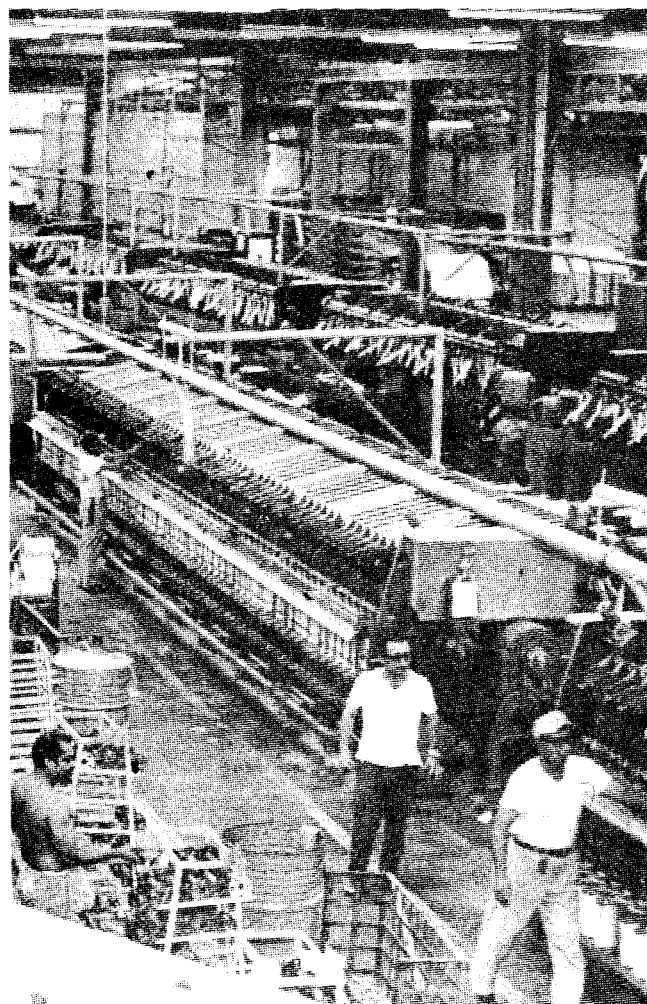
<sup>1</sup>Turbines, engines, construction equipment, farm equipment, materials-handling equipment, machinery, etc.

<sup>2</sup>Metal-fabricating machinery, machine shops products, bearings, gears, etc.

<sup>3</sup>Machine tools, industrial and precision instruments, etc.

<sup>4</sup>Generators, transformers, switchgear, motors, pumps, etc.

Source: FEF/AMEF



*Mexican textile production.*

culture. At present, the unirrigated, unmechanized farming sector represents a net drain on the economy, as well as absorbing the energies of 13 million workers who will be urgently needed for the anticipated expansion of industrial production. Therefore, rather than dissipating resources to ameliorate conditions in the least productive areas, investment must be concentrated in areas of high return, which will lead to the greatest increase in food production.

Although the technology of Mexican agriculture will develop its own characteristics, the U.S. farming sector can serve both as a preliminary model and a *minimum* level of acceptable technology against which to judge suggested innovations.

During the first 10 years of the program, development will be focused on the 13.5 million hectares of cropland which already receive sufficient water, either through irrigation or from rainfall above 700 millimeters per year, with an increase in intensively cultivated land of only 3 million hectares. Over this period, the numbers of tractors, harvesters, cultivators and other types of farm machinery in use will reach levels equivalent to those of the United States on a per hectare basis. Fertilizer use will double; and pesticides, improved irrigation systems, and improved seed and animal stocks will all be brought in.

During the second decade, the area under irrigation will be substantially increased, using both full and supplemental irrigation schedules to overcome "natural limits" to the available cropland. By 2000, over 21 million hectares will be under intensive agriculture, with each addition being brought up to the highest standards of efficiency and productivity. This expansion in irrigation will require a total of 170 billion cubic meters of water per year, and the installation of 40 gigawatts of pumping power to move it. Therefore, the successful completion of the second phase will depend not only on the previous development of the agriculture sector itself, but on major investment in water projects. The abundant water of the south must be captured and transported to the north, then raised to the arid plateaus of the north. Simultaneously, the ground water, which is currently being drawn down at a significant rate (3 billion cubic meters per year) must be recharged by increased permeability to natural rain and river flow. These ambitious projects can be accomplished by the use of peaceful nuclear explosions, which provide the immediate capability for massive earth-moving projects. As a signatory to the Nuclear Non-Proliferation Treaty, Mexico has the right to receive aid in these areas from the United States, aid which the U.S. has the obligation to supply.

Figure 4 gives the cumulative requirements for capital investments in agriculture, as well as the portion of that total that will have to be imported. For example,

Mexico produces tractors now, but not enough or of sufficiently large size to meet her own needs. The same is true for other agricultural implements, with particular deficiencies in the high-technology end of the spectrum. Thus, import requirements for 1982 include approximately two-thirds of the 46,000 tractors needed in that year, and three-quarters of the other agricultural machines.

Prefabricated buildings for farmsteads will be unavailable domestically, but small pumps and piping for improvements in local irrigation systems can be purchased from Mexican suppliers. However, the large pumps that will be necessary as the water projects are developed are not now made in Mexico.

#### IV. The electricity sector

Our program estimates that Mexican electricity capacity will grow from the current 11.0 gigawatts to 150 gigawatts by the year 2000.

#### Technology assessment

The map on page 30 portrays the geographic placement of Mexico's major industrial development projects. The energy component of these sites is grouped around three principal technologies: conventional petroleum deposits used for thermal electrical generation and steel-making (concentrated in the southern parts of the country); natural gas MHD-plex installations in the

north and northeast, and nuclear-agricultural (nuplex) installations in the north and northwest. These three technologies are approximately coexistent with the three phases of Mexican investment over the course of the program, and provide a nested set of technologies and technical expertise for energy development.

The key to the successful development of Mexico's energy sources is to plan "backward" from nuclear.

In the United States, as well as in France, Germany and Japan, the state-of-the-art commercially available nuclear power plant is the Light Water Cooled Reactor (LWR). This type of reactor is by far the most commonly built plant in the world today, and accounts for between 85 and 90 percent of all electricity from nuclear power plants now in operation. These plants therefore also represent the reactor type that has the greatest amount of operating experience overall, and are not only designed and built by the above-named countries, but also by the Soviet Union, Italy and Sweden.

The remaining 10 to 15 percent of the world's nuclear electric-generating capacity is made up primarily of either the Gas-Cooled Reactor (GCR), the Heavy Water Reactor (HWR), and to a lesser extent the Liquid Metal Fast Breeder Reactor (LMFBR). The LMFBR is an advanced technology reactor and is not yet considered to be commercially available, although it will be soon, at least in France and the U.S.S.R.

The HWR is now built only by India and Canada,

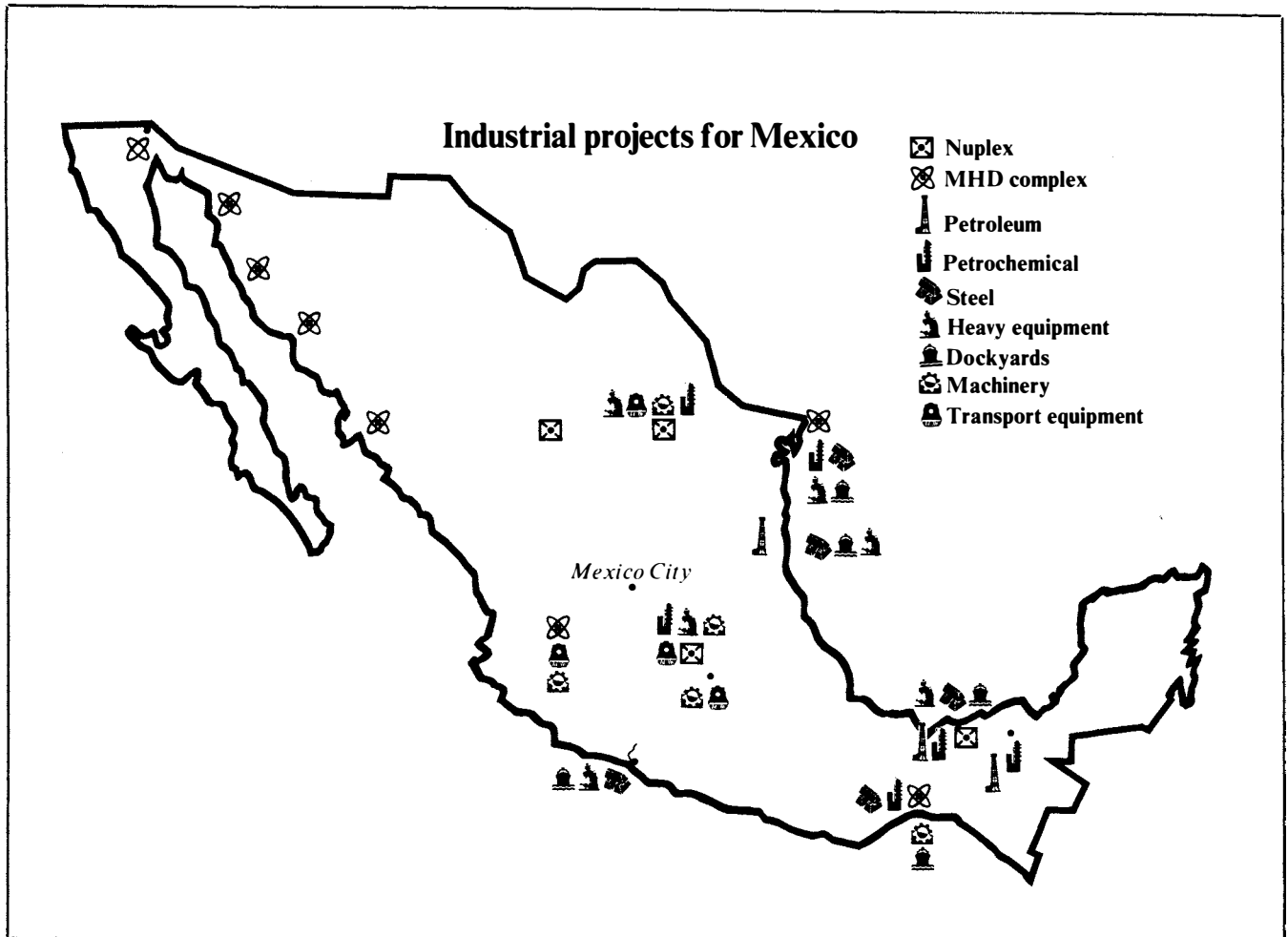
Figure 6

### Mexico's total shopping list of capital goods

(billions of U.S. dollars)

	1982	1985	1990	2000
Small capital goods .....	\$ 4,000	\$ 5,880	\$11,460	\$ 37,800
Agricultural and construction machinery .....	2,960	3,240	5,560	23,740
Trucks .....	1,900	2,040	3,750	7,000
Electrical goods .....	1,400	2,130	4,080	13,000
Materials handling and specialized machinery .....	1,100	1,590	2,750	8,300
Locomotives and railroad cars .....	1,050	1,050	2,000	7,000
Pumps .....	700	920	1,790	4,300
Engines and turbines .....	665	740	1,840	6,700
Furnaces .....	385	430	870	2,100
Boilers .....	360	400	1,840	4,350
Machine tools .....	330	460	950	4,200
Computers, measurement and control devices .....	300	380	830	2,900
<b>Total .....</b>	<b>\$15,430</b>	<b>\$19,620</b>	<b>\$38,260</b>	<b>\$122,050</b>

Source: FEF/AMEF



where it is called the CANDU. There are now only 14 of these power plants in operation, generating a total of about 5,590 megawatts, with most of these in Canada. Overall, electricity for CANDUs is on the order of 10 to 15 percent more expensive than from LWRs, but it has worked well in both Canada and India, as well as in the few other countries where it has been sold.

Another reactor type which is coming on line is the High-Temperature Gas-Cooled Reactor (HTGR). At this time produced only in the U.S. and Germany, this reactor has the advantage of producing a very high temperature gas that can be used directly as a heat source for many industrial and agricultural production processes. Because of this, it is an ideal reactor to be used as the central energy source for the future agro-industrial complexes, often referred to as Nuplexes.

The nuclear component of Mexico's electricity program must be accelerated during the first period, if the infrastructure and skilled manpower required for the later stages of industrialization are to be in place. The two LWR reactors now under construction should be finished as quickly as possible, and the siting plans and design studies for 18 reactors to be constructed in the 10

years following 1985 should be undertaken.

Our proposal is that about 75 percent of this increased capacity come from the LWR, since this is the reactor that is most tested and most widely produced, thus increasing Mexico's flexibility. The remaining 25 percent can be a mix of CANDUs and HTGRs, with perhaps a LMFBR coming on line around 1995.

During the successive five-year period, the number of nuclear plants coming on line will more than double, reaching a total of 45 gigawatts by the year 2000.

#### IV. The transportation sector

Over the coming 20 years, the transportation system of Mexico must expand its capacity approximately ten-fold. Import tonnage will rise from 18 to 175 million tons per year over the period covered by the development plan, and total freight moved from 140 to 1,350 billion ton-kilometers.

#### Technology assessment

The high-intensity development of the four super-ports now under way in Mexico is exemplary of the appropriate strategy for transportation development.



For the internal transportation system to function at the same level as the superports, the railroad network must be greatly upgraded and expanded by 40,000 kilometers; a series of barge canals must be made available for bulk freight movement; and the highway and air traffic networks must be improved.

For the internal transportation system, immediate action must be taken to deal with the rail car bottleneck that is now cutting rail transport efficiency below even that which would be expected from the existing rolling stock. Large numbers of cars must be purchased and a system of car tracking implemented. After these emergency measures, the next task will be the improvement of existing track and equipment maintenance. The rectification and double-tracking of existing lines can begin with little lead time for engineering studies, and can be carried out very rapidly by employing many contractors on the same line.

In the following phase, between 1988 and 1992, the emphasis will be placed on the construction of new railroad lines and the repair and upgrading of the highways. In the last phase, the emphasis will shift again, in part to the "consumer" transportation facilities, such as new roads and air traffic improvements. With the matching development of additional superports, Mexico can carry forward its resolve to "make the Gulf of Mexico into a new Mediterranean."

## V. The capital goods sector

Mexico's transition to industrialized nation status depends on the rapid, broad-based growth of the capital goods sector. Figure 5 shows the growth rates for the various types of capital goods which will be required for this industrialization.

### Technology assessment

Mexico's capital goods industry today is small (\$2.76 billion) and heavily concentrated in the small and generic capital goods. The most critical sections of the

capital goods industry, the machines that make other machines (machine tools) are almost nonexistent: in 1979 there were only \$13 million worth of machine tools domestically produced in Mexico.

Particularly critical will be the development of the high-technology section of the capital goods sector. Here the production of low-precision machine tools and electronic control devices will be the primary objective of the first phase of investment. In the second stage, numerically controlled, high-precision tools must be initiated, with an eye to Mexico's developing its own capacity to produce programmable machine tools and robots. Japan has perfected the technique of using the machine tool industry as the cutting edge of advanced industrial development, a strategy which will be appropriate for the Mexican economy during the third phase of industrial development.

### Capital goods shopping list

In 1982 a total of \$675 million must be spent on imports of capital goods by the capital goods sector itself, if the necessary momentum toward industrialization is to be created. Of this, approximately \$50 million will go to the high-technology sector, with major concentrations in the machine tool section. At least one large, state-of-the-art machine tool line should be built, as well as a series of smaller, simpler plants. The electronics component of the capital goods sector is unique in requiring a relatively large amount of unskilled labor.

During this first period, equipment must also be ordered for the construction of furnace plants, including one copper-refining furnace and one steel-refining furnace.

## VI. Can the U.S. meet Mexico's demand?

Mexico's total shopping list for capital goods is presented in Figure 6, covering from the present until the year 2000. Mexico's capital goods import and

Figure 7

### Capital goods consumption and import requirements

(billions of U.S. dollars)

Year	Total demand	Amount imported	Amount produced domestically	Percent of total produced domestically	U.S. jobs generated*
1980	\$ 7.75	\$ 5.0	\$ 2.75	36%	28,000
1985	19.6	14.1	5.5	28	79,000
1990	38.3	26.2	12.1	32	147,000
2000	122.1	54.9	67.2	55	309,000

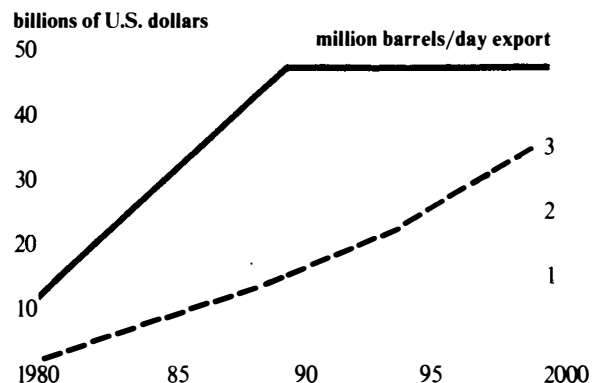
\*Assuming U.S. provides two-thirds of the amount imported

Source: FEF/AMEF

Figure 8

## Projected oil revenues and total capital goods import requirement, 1980-2000

— Value of exports    - - - Value of required capital goods imports



Source: FEF/AMEF

consumption statistics for this same period are summarized in Figure 7.

The requirements for capital goods quantified and projected in these figures raise two important issues for Mexican industrial development: the payment for these imports, and the ability of the advanced sector to supply the capital goods. The import financing capability, discussed above, is summarized in Figure 8 where the oil revenue generated by an aggressive petroleum exploitation program is seen to easily cover the costs of the capital goods imports. The capability of the advanced sector to supply Mexico's capital goods requirements is more problematic.

Figure 9

## U.S. ability to meet Mexican capital goods demand

(millions of U.S. dollars)

Selected items	1982 Mexican demand	U.S. idle capacity*
Agricultural machinery	\$2,960	\$5,953
Drilling machinery	280	0
Turbines	665	807
Railroad equipment	1,050	55
Trucks	1,900	1,906

\*"Full capacity" defined as 90 percent capacity

Source: FEF/AMEF

During 1980, the Mexican market was the most dynamic and healthy export market for U.S. goods anywhere in the world. While U.S. trade overall declined, and suffered with almost every country in the world, U.S.-Mexican trade increased 49 percent from 1979 to 1980! Mexico now accounts for almost 8 percent of the total U.S. exports, compared with a figure of 4 percent in 1977.

But the United States is going to have difficulty keeping pace with Mexico's rates of growth. Although difficult to calculate precisely, Figure 9 presents an estimate of the export capacity of the U.S. economy for the year 1982, based on putting existing idle capacity into production for export. On this basis, we find a wide divergence in the abilities of various U.S. capital goods sectors to meet Mexican import needs.

As Figure 9 summarizes, the U.S. farm machinery industry can easily expand to meet Mexican import needs. In drilling equipment, however, one of Mexico's most pressing needs, given the strategic role of the petroleum sector in subsequent investment, the United States has no spare capacity. Deliveries for drilling rigs are already backed up many months for U.S. customers.

By contrast, in turbines for electricity production, which Mexico also requires in large numbers in the early parts of the program, U.S. capacity utilization rates are under 60 percent, so that Mexico's requirements could easily be met.

The most profound qualitative impact on the U.S. economy of vastly expanded trade with Mexico will be in the revitalization of essential sectors of the U.S. economy which have been decimated by lack of capital investment, falling domestic demand, restrictive regulation, and growing obsolescence. The nuclear industry and the machine tool industry are two of the financially weakest sectors of the U.S. economy. A program for the rapid industrialization of Mexico would provide both of these sectors with a growing market, spurring production in sectors of the U.S. economy absolutely vital for continued U.S. economic health.

Transcripts of the proceedings of *EIR's* March 26-27 conference in Washington, D.C. on "The U.S., Mexico, and Central America: Conflict or Cooperation?" are available at \$100.00 per set.

Included are the presentation on Mexico's development potential by Uwe Parpart of the Fusion Energy Foundation; Editor-in-Chief Criton Zoakos's presentation on the controllers of terrorism in Central America; and a debate between *EIR* Latin America Editor Dennis Small and presidential adviser Albert Zapanta on prospects for stability in Central America.

Transcripts may be ordered from Peter Ennis, Director of Special Services, at (212) 247-8820, 304 West 58th Street, New York, New York 10019.

# Alexander Haig attempts to sabotage the Reagan-López Portillo summit meeting

by Elsa Ennis and Timothy Rush

In the weeks before the highly successful Jan. 5, 1981 meeting between Ronald Reagan and Mexican President José López Portillo, certain political forces on either side of the border attempted to disrupt the talks by introducing one divisive issue after another. At the time, *EIR* identified those forces as Foreign Minister Jorge Castañeda and his associates on the Mexican side, and National Security Adviser Richard Allen and Secretary of State Alexander Haig on the American side. We pointed out the worsening Salvadoran civil war as one such deliberate attempt to separate the two heads of state, and also denounced the proposed "North American Accord" as a disruptive red herring.

Reagan and López Portillo sidestepped virtually every trap placed in their way last January, and since then Reagan's top advisers have wisely backpedaled from their earlier support of the North American Accord.

But there are still pitfalls on the way to the June 8-9 meeting, pitfalls again actively cultivated by Castañeda and Haig.

For example, a top Haig adviser has told *EIR* that Haig, Assistant Secretary for Inter-American Affairs Thomas Enders, NSC Latin American staffer Roger Fontaine, and special envoy Vernon Walters are working together to undermine Mexican industrialization efforts and destabilize President López Portillo in the process.

"If Mexico doesn't slow its growth down," the adviser told *EIR*, "the top will blow off. They have an explosive economic situation. Look at all the key indicators: it's two-to-one worse than El Salvador was before it blew." The adviser concurred with the analysis of the Wharton School of Business: that growth leads to inflation which in turn will cause Mexico's "Iranization," and that the rate of economic development should therefore be slowed. "I think Wharton's is a pretty balanced look at Mexico," Haig's man noted.

As for special problem areas, the adviser employed phrasing identical to that of a London *Economist* handbook on how to destabilize Mexico (see box), and singled

out Mexico City as "a very volatile, dangerous situation," which could become the center of instability.

The most serious weapon that the Kissinger-Haig crew are aiming at Mexico is the Central American conflagration. "Mexico backs the insurrection in Central America," said the adviser, deliberately confusing the Castañeda and López Portillo positions. (Castañeda indeed backs the guerrillas, while the president has sought to stabilize the situation.) He asserted that this would invite the spread of Central American fighting up through Guatemala into Mexico. "It's going to be dicey. It's touch and go all the way to see if Mexico makes it."

The senior policy adviser—who has years of experience advising the Latin American military, particularly Guatemala's—expressed a scarcely veiled threat against Mexico's high-growth policies. "We have to first of all get the Mexicans to come to a realization that they are a target [of the left in Central America]. 'If we can bring them to reason,' as Henry Kissinger would say, then the next element is to try to assist them."

Within Mexico, Foreign Minister Castañeda is Haig's best ally in this goal. An open supporter of the Socialist International, Castañeda has maneuvered every possible issue to maintain the United States and Mexico in an "adversary mode which precludes effective economic cooperation."

What follows is a list of major current efforts to knock the summit off course.

## Trade

Watch this one closely. Trade warfare experts in the United States, promoted by the State Department, are charging that Mexico illegally subsidizes exports, and therefore is subject to U.S. retaliatory action.

The Commerce Department issued a finding April 10 that a 5 percent countervailing duty should be applied to American imports of Mexican leather goods on the grounds that Mexico had not adequately shown that its tax rebate program, called CEDIs, was not a de facto subsidy program.

Many will have a sense of déjà vu. In 1979, Carter administration officials encouraged Florida tomato growers to challenge the import of Mexican tomatoes as unfair "dumping" from south of the border. After a merry-go-round of hearings and findings, the U.S. Treasury ruled that no dumping was involved. In the meantime, various Carter negotiators had let Mexico know that the U.S. government would work to get Mexico "off the hook" if Mexico were forthcoming on issues such as natural gas prices.

Though no new countervailing duty decisions are pending at the Commerce Department, trade war experts such as Sidney Weintraub of Texas University are assiduously spreading the word to U.S. manufacturers that all they have to do to slap on such duties is press further on the CEDI issue. No specific injury to the American producers need be demonstrated in Mexico's case, the Weintraub types emphasize, because Mexico failed to ratify membership in GATT and the Tokyo round of protocols last year.

"Open season" is the message, and insiders report that State Department-led planning sessions for the U.S.-Mexico summit are stressing the potential for "big trouble" in this area.

John Plunkett of the American Chamber of Commerce in Mexico, an influential business group, last week issued provocative statements that "neither Reagan nor López Portillo" could avoid a growing trade confrontation.

### **Maritime boundaries**

Based on the modus operandi he previously used in his attempt to disrupt the first López Portillo-Reagan meeting, Mexican Foreign Minister Castañeda is using his "expertise" on "Law of the Sea" matters to inflame a dispute over maritime boundaries between the two countries. The last time around, Castañeda focused his attention on disrupting a bilateral fishing treaty with the United States.

At the end of April, sources in Mexico's foreign ministry gave the leftist daily *Uno más Uno* a green light to start writing inflammatory articles denouncing alleged U.S. plans to repudiate a bilateral maritime boundary treaty initiated in 1978 by the Carter government. With headlines designed to recall a 19th-century U.S. "imperialist" invasion, *Uno más Uno* "revealed" that a 1980 study by the U.S. Geological Survey allegedly demonstrated the existence of substantial offshore oil deposits in an area of the Gulf of Mexico which, according to the treaty, belongs to Mexico. However, *Uno más Uno* explained, the "greedy" U.S. Senate is seriously thinking of rejecting that treaty and of making an oil grab.

Mexican press, government, and political circles all joined in the protest.

The scandal reached such proportions that on May 9, Reynaldo Jáuregui, public relations director for Pemex, had to warn the press that claims of "fantastic" oil deposits in the disputed area were purely "games of the imagination," designed to serve political purposes. He coyly suggested that the foreign ministry might be able to provide a fuller answer. And a spokesman for the U.S. embassy in Mexico denied that the U.S. government would ever try to seize the oil, adding that the U.S. respects Mexico's 200-mile sea limit—with or without signing the treaty in question.

### **Immigration**

Groups on both sides of the border are attempting to enmire the Reagan-López Portillo meeting in a no-win confrontation over the issue of undocumented Mexican workers in the United States.

The Select Commission on Immigration and Refugee Policy, known as the Hesburgh Commission, established by President Carter, has delivered its final recommendations to the White House and the Congress. They amount to a formula for blowup with Mexico: the report gives no serious consideration to any form of guest-worker policing program, and instead places emphasis on a pervasive policing apparatus extending from the border up to workplaces that have high percentages of minority workers.

This would also set up conditions for antigovernment riots in Hispanic areas across the country, particularly in the Southwest; and the commission's backers would also like to throw American labor groups against the Reagan administration for advocating a guest-worker program.

On the Mexican side, leftist newspapers are whipping up a large-scale campaign over human rights violations against Mexicans in the United States. Totally unrepresentative "Chicano spokesmen" are quoted, with inflammatory statements about how Hispanics in the United States are treated "like Jews under Hitler." The Mexican leftist press now habitually presents the Hesburgh report as "Reagan administration policy."

### **Global 2000**

Over recent weeks, a group of Carter policy holdovers has been actively promoting among Mexican government and press circles the Carter-commissioned *Global 2000 Report*, a study which recommends extreme Malthusian policies. The U.S. embassy and the U.S. Information and Communication Agency (USICA) office in Mexico City is promoting the antigrowth report as official U.S. policy, which has left Mexican politicians puzzled as to how the Reagan administration can call for economic cooperation with Mexico while advocating global zero growth.

The damage such a misrepresentation of U.S. official policy could inflict on the two presidents' meeting cannot be overemphasized.

Given its leading role in misinforming Mexicans on White House policies, USICA's involvement in an upcoming U.S.-Mexico media symposium should be closely watched. The meeting, sponsored by the American Committee of the International Press Institute, will take place May 17-20 in Washington, D.C., only two weeks before the Reagan-López Portillo meeting. USICA is funneling funds into the symposium and actively promoting it.

Although some of the participants may not be aware of it, all indications are that the meeting will discuss propagandizing minor disagreements between the two

countries, and turn them into causes célèbres.

From the Mexican side, one of the main speakers will be Andrés Rozental, director general for North American affairs in the foreign ministry. Rozental, Foreign Minister Castañeda's stepson, is widely known to be a major "official" source of leaks to both U.S. and Mexican radical journalists, and has been accused of having close ties with Israel's Mossad.

Also helping to promote this editors' meeting is former U.S. ambassador to Mexico John Jova's Meridian House, nominally a cultural exchange center based in Washington, D.C. Meridian is now helping to organize an international symposium on solar energy to take place in Philadelphia at the end of May, to which Mexican officials have been invited.

## A scenario from the London Economist

*The Economist* of London, an outspoken and widely read outlet for British intelligence propaganda, devoted five pages to a major feature on Mexico in its April 18, 1981 issue.

From the outset it made clear London's hostility to a successful Reagan-López Portillo summit. Paragraphs of glib analysis portray cultural differences and historical grudges of overwhelming weight. The two neighbors are "ripe for misunderstanding," "Mexican history demands some psychological distance from its overpowering and wildly different Siamese twin. . . . This same reaction colors the whole familiar gamut of Mexico-United States relations: illegal immigrants, oil prices, prisoner exchanges, fishing rights, water, drug smuggling. Since it is a politically necessary reaction for the stability of Mexico, Washington's new-fangled attempts to 'improve' relations are self-defeating, a misreading of the Mexican mind."

After repeated calls for Mexico to get out of the business of heavy industry and into "decentralized industry" as "the answer to the deepening rural crisis," *The Economist* lays its cards on the table. "For all its 60 years of political stability, Mexico plainly has great problems—its extremes of rich and poor, its overcentralized political system, its long history of violence—which makes chaos a strong possibility, if

not a probability, over the next 20 years."

*The Economist* then helpfully provides a four-point manual on "different ways in which a revolution could start."

1) "**Urban violence.** Mexico's last revolution began among country peasants. The next one is likelier to spring up from the urban dispossessed. Mexico City, now with over 12 million people, the largest built-up sprawl in the world (as well as the most polluted and probably most chaotic), is a terrorists' seedbed. So far the occasional outbreaks of political violence have been contained," says the account. "But if bombings and kidnappings were to become a weapon of extreme left or extreme right they could rapidly grow out of control. One likely starting place is the 300,000-strong university in the heart of the city: an unwise concentration of political mercenaries."

2) "**The unthinking right,**" which "resent[s] the healthy explosion of a new middle class."

3) "**Sentimental Mexican expatriates,**" a favorite *Economist* phrase to refer to Mexican undocumented workers and Chicanos living in the United States. "Perhaps, like the Iranian students, they will start to rail against 'American imperialism' toward their homeland. . . . Perhaps they will demand that the human rights they enjoy north of the border should be forced upon a different system south of it."

4) "**A president who breaks the rules.**" "Great leeway is allowed to the president of Mexico during his six years in office." But what if, "say two-thirds of his way through his term," a president "went off the rails"? Then "the whole system would be in jeopardy." López Portillo just happens to be two-thirds of the way through his term. What does the *Economist* have in mind?

## The damage Mitterrand's victory can now inflict

by Christopher White, Contributing Editor

The election of French Socialist François Mitterrand has set off a chain-reaction transformation of world politics. Perhaps the most immediate impact has been first on the delicate factional situation within the political leadership of the Communist Party of the Soviet Union, and second on the equally delicately poised entanglements of Middle East politics.

Mitterrand's victory brings the world into a period of intensified chaos and strategic confrontation. The causes of the fundamental shifts that are now in the works are the following.

Mitterrand—a long-time associate of West Germany's notorious Willy Brandt, Sweden's Olof Palme, Italy's Bettino Craxi, and America's Alexander Haig—is a dedicated opponent of the policies adopted by Valéry Giscard d'Estaing, in line with the political traditions of de Gaulle's republic, of seeking to stabilize world strategic crisis potentials through reordering the world monetary system.

During the course of his tenure of the Elysée, Giscard, acting in alliance with West Germany's Chancellor Helmut Schmidt, had established the European Monetary System (EMS) as the kernel of such new credit and monetary arrangements. The EMS offered the basis for political accords based on long-term development-oriented economic agreements, through which potential catastrophic crises could be defused.

In large measure it was the emergence of the EMS from the period of early spring 1978 onward that enabled the world to survive the horrors of the outgoing Carter administration, dominated as that administration was by the psychotic combination of Cyrus Vance and Zbigniew Brzezinski and the monetary policies of the surviving incumbent, Federal Reserve Chairman Paul Adolph Volcker.

As conclusively demonstrated by the consistent opposition of such U.S.-based figures and institutions as Henry Kissinger, the editorial board of the *New York Times*, and the denizens of the lower reaches of the State Department, Giscard and Schmidt were to that extent acting on behalf of vital *American* self-interest.

The option thus created for a U.S. alignment with the EMS is now gone. As the free-fall drop of the French franc on the proverbial morning after the French elections showed, the European Monetary System, as conceived by Giscard and Schmidt, is no more. Gone too is the political conception of the alliance of European nation-states centered on Germany and France, whose own alliance had become something of a bastion of stability.

It is in this way that the victory of Mitterrand, a man identified in the French media in the concluding phases of the campaign as a British agent, will affect the internal Soviet situation and the Middle East.

The Warsaw Pact political command has been in the grip of a fierce battle for some time between two rival factions. The one associated with President Leonid Brezhnev and his allies, primarily from the Ukraine, had sought to build war-avoidance alignments through fostering long-term economic and technological cooperation agreements with Western nations. The Siberian gas pipeline deal, rejected earlier by Henry Kissinger but pursued by the French and Germans, was exemplary.

Brezhnev's opposition is headed by Mikhail Suslov and Boris Ponomarev. Working in tandem with the Socialist International to which Mitterrand belongs, and the Theology of Liberation wing of the Jesuit order, this Soviet faction shares the policy commitments of such U.S. figures as ex-Kissinger subordinate Alexander Haig. They are Malthusians who have allied with the social democrats and Haig on the basis of shared agreement with the policy perspectives of such genocidal blueprints as the Brandt Commission's report on North-South relations and the Carter administration's *Global 2000 Report*.

The ascendancy of Mitterrand shifts the Soviet factional situation in the direction of those who, like Suslov and Ponomarev, would eagerly see the Western nations go down to disaster through the dismantling of the institutions of the modern nation-state, just like the inhabitants of Poland, the tortured victims of the same coalition of forces.

Hence, it was those circles in London, New York, and Washington sharing the genocidal proclivities of Suslov and Ponomarev who worked hardest for Giscard's defeat, in full knowledge that this would transform the political situation within the Soviet Union. James Chase of the Council on Foreign Relations must be included among such circles, along with think tankers from the Georgetown Center for Strategic and International Studies, and Alexander Haig's supporters within the State Department, like James Buckley.

Speeches given by leaders of the Soviet military command in commemoration of the May 8 anniversary of the World War II victory leave no doubt that such developments are in the works. Marshals Kulikov, Ustinov, and Ogarkov all addressed the same theme in the strongest terms, identifying the United States and its allies as the motor force behind a new drive to war.

The ramifications of the Mitterrand victory in the Middle East demonstrate the simplistic nature of the conclusions drawn by the Soviet command—conclusions which, if matched by prevailing illusions within the United States, would lead toward a military outcome of the new depression crisis unleashed by the dissolution of the EMS.

Those representatives of the Arab nations who favor the path of scientific and technological advance had

built political alliances with the European Monetary system, of the sort typified by the Saudi Arabian credit line recently negotiated with France and Germany. France has just pulled out of that agreement, leaving the Arabs with no alternatives but to line up with the radicals from Syria and Libya or to seek the shelter of Weinberger's lunatic expansion of Carter's so-called Rapid Deployment Force.

The radicals associated with Libya's Colonel Qaddafi and the psychotic mullahs of the Iranian revolution, who are also linked to the British triple agent Harold Kim Philby, share the Malthusian worldview of Suslov and Ponomarev in the East and Haig and Buckley in the West.

With the Giscard coalition for development now bereft of institutional forms of development, such forces calculate that they can now begin to wear down their international opponents who have favored industrialization and development.

Thus, within France itself Mitterrand has now indicated that he will begin to dismantle the ambitious French nuclear program launched by his predecessor, and will commit the French state to the genocidal policies of Willy Brandt and his commission.

Much responsibility will therefore fall on Americans to ensure that those responsible for Giscard's defeat—notably, Alexander Haig and his allies—are brought to account. To avoid strategic disaster, it will be necessary to secure the adoption of the economic development-based policies within the United States for which Giscard earned the hatred of the international Malthusian coalition.

## *'Disaster has struck: therefore rebuild'*

by Lyndon H. LaRouche, Jr.

*EIR founder Lyndon H. LaRouche, Jr. issued the following statement on May 11, 1981.*

To paraphrase Friedrich Schiller's remarks on the rise of the Jacobin terror, in the election in France May 10, a great moment of history had the misfortune to encounter a majority of "little people." The littlest of the wretched voters were the antisocialists of the so-called right, who voted for Mitterrand in the hope that a period of chaos would bring a figure such as Chirac to power.

The strategic consequences of Mitterrand's election will be monstrous. It will be the signal for an attempt to bring the new "Mussolini" of Italy, Socialist Party "II

# How Jacques Chirac threw France's vote

by Dana Sloan

Capo" Bettino Craxi, to power there. There will be a determined effort to bring Socialist Olof Palme to power in Sweden. Chaos will be unleashed in the Federal Republic of Germany, aimed at destroying not only the Schmidt government, but bringing to an end Germany's role as an industrial nation. Of the Netherlands and Denmark one does not even speak: prospects there are now unspeakable.

In the United States, the election of Mitterrand will be a signal to unleash terrorism and urban riots—both funded in large part by the same Colonel Qaddafi who is murdering black Africa, and who poured millions into France to defeat Giscard, and who, with support of U.S. Secretary of State Alexander Haig and the Soviet KGB, is putting massive pressure on Italy to bring Craxi to power as the "new Mussolini."

Let us remember that France was almost destroyed by the Genoese during the late 13th and 14th century, yet Louis XI created the first modern nation-state during the second half of the 15th century. France was crushed in 1940, yet de Gaulle persisted and won. France was almost destroyed again, by the Fourth Republic's Socialist Party, but again, de Gaulle saved France and created the Fifth Republic.

In the darkest hour, the consistent rule is: *Now, therefore, rebuild.*

The task of the moment in France is to rally the best forces of the majority for the battles ahead. Sometimes, as now, a defeat can be turned to advantage, on condition that the lessons of defeat are learned and acted upon soon enough.

Fortunately, in France, although the great Lazare Carnot of Thermidor and the Ecole Polytechnique has been wiped from memories by the agents of Metternich and London, there is the active memory of Charles de Gaulle. The people of France know, from the lessons of de Gaulle, what can be done against difficult obstacles.

France shall not be divided from its natural partner, Germany. The France of Lazare Carnot and Alexander von Humboldt are the golden spirit of Europe, which need but be reawakened as a force in these monstrously dangerous times. The Parti Ouvrier Européen (European Labor Party) will work to rearm the conscience of France with the true memory of Lazare Carnot. In Germany, the European Labor Party will wage warfare to restore the education program of Wilhelm von Humboldt, the spirit of Alexander von Humboldt's project for the University of Berlin, and the spirit of the Göttingen of Karl-Friedrich Gauss, Bernhard Riemann, and Felix Klein.

We shall work to the included end to fulfilling the objectives of the collaboration between Lazare Carnot and Alexander von Humboldt. By rallying France and Germany to unity of partnership behind those banners, we shall—at all costs—rescue civilization from the perils into which it is now plunged.

"Premeditated treason" is the way outgoing French President Valéry Giscard d'Estaing characterized the actions of Jacques Chirac in the election campaign that has just produced Giscard's downfall and the victory of the Socialist International's François Mitterrand.

A look at district-by-district voting patterns in the first and second rounds of the elections demonstrates that these are not just the words of an embittered loser. Chirac, and especially the advisers around him, indeed committed treason against the Fifth Republic, deliberately bringing to power its most ardent opponent.

Teams of Chirac campaign supporters were seen plastering Mitterrand posters over those of President Giscard after the April 26 "primary" when Chirac was forced to pull out of the race. Before the second round on May 10, the Chirac campaign had already rented new offices to prepare for the national legislative elections that Mitterrand pledged to call if he were elected. In these elections, Chirac hopes to come out the undisputed leader of the conservative opposition, which according to many well-informed sources in Paris was Chirac's goal all along, and his reason for ensuring Giscard's defeat.

Giscard lost the elections with 14.2 million votes (47.7 percent) to Mitterrand's 15.5 million (52.22 percent). With 11 percent of the French Communist Party's voters abstaining, only if Mitterrand had won by a smaller margin would Chirac have a leg to stand on in his defense. But as a closer look at some key districts in Paris and the provinces shows, it is the "Chirac factor," and that alone, which accounts for Mitterrand's victory.

Although, as predicted, Giscard won Paris overall, it was only with 53.5 percent of the vote compared to his 56.9 percent in the 1974 presidential elections when he defeated Mitterrand nationally with a margin of 400,000 votes. Mitterrand's progression in Paris—where Chirac is mayor—was so spectacular that he actually won in 9 out of 20 districts (*arrondissements*). One of those districts was the 18th, home district of Joel Le Tac, a deputy from Chirac's RPR party. Le Tac, author of a bill to legalize prostitution (the 18th-district "Pigalle," Parisian equivalent of New York's Times Square), had publicly called for a Mitterrand vote on the second round. Le Tac only did publicly what Chirac was doing behind doors.



The most damning evidence of all comes from the Correze department, the heart of Chirac's "turf," and which Mitterrand won with 59.7 percent of the vote, a full 7.5 percent higher than his national average. Between the two rounds of the elections, Chirac did not set foot in Correze and his supporters made no effort at all to support the incumbent. As a result, a full one-third of Chirac's voting base swung to Mitterrand for the runoff.

The evidence also points to the fact that had Chirac and his leading supporters actually campaigned for Giscard, the former president would have won the elections nationally. The Yvelines department, for example, showed one of the rare instances in which leaders of the RPR felt greater loyalty to the Fifth Republic than to party leader Jacques Chirac. After the April 26 primary, all elected officials from Yvelines in the RPR called on the party's voters to support Giscard. As a result, Giscard won the Yvelines department with over 51 percent of the vote, thus giving the lie to Chirac's argument that it was impossible to control his volatile base.

### Why he did it

From the moment he threw his hat into the ring, Chirac did everything in his power to weaken the president, cut his voting base, and radicalize his own troops against the Fifth Republic. With no realistic chance to win the presidency himself, Chirac's purpose was to pave the way for a "third round" of elections. Now, his preferred scenario is dissolution of the National Assembly, probably in June, and new elections for the legislature. Immediately after Giscard's defeat, Chirac issued a statement saying that no one should seek the reasons for the defeat, the hatchets should be buried, and unity maintained for those elections. His sudden concern for unity of the conservatives was loudly denounced by the political leaders associated with Giscard and his party. But with the damage done, these leaders may feel faced with no choice but to do what Chirac tells them in order to contain the growth of the Socialist Party in the legislative elections.

Chirac is listening to the advice coming from a core of traitors centered around Charles Pasqua. (For a detailed profile of this group, see *EIR*, April 28.) The advice falling on Chirac's particularly opportunistic ears is: forget the Fifth Republic; a Mitterrand victory will serve to enhance your career, making you a national figure of opposition; create the necessary conditions for chaos and a breakdown of institutions in France, and you may get your chance to run for president again before the end of Mitterrand's seven-year term.

Although he was the architect of an economic policy that hurt Giscard in the elections, outgoing Prime Minister Raymond Barre expressed what most Giscardians are thinking: Chirac "played double-or-nothing with the fate of the Fifth Republic."

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## Mitterrand's Record

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# The history of a British agent

by Garance Upham Phau

Half of France did not take heed of the warning by de Gaulle's son-in-law General de Boissieu during the last days of the election campaign. De Boissieu, the head of France's Légion d'Honneur, called on supporters of the French republic to defeat Mitterrand as the Socialist International candidate. "He has poked his snout into everybody's trough," de Boissieu said of Mitterrand. "He is a careerist and an intriguer." Commenting on Mitterrand's history after being freed from a Nazi prison by the Vichy government's Jacques Doriot, de Boissieu said, "After working for the Vichy regime, which awarded him the Francisque [the fascist government's highest award], Mitterrand contacted the Resistance and various allied services before delivering himself up to the British services." France has elected to its highest office an agent of British intelligence.

Jean-Pierre Cot, foreign policy adviser to President-elect François Mitterrand, stated on ABC television May 11 that "the North-South dialogue" will be a key aspect of the new French government's policy.

In fact, Mitterrand can view think tank reports like that of the Brandt Commission and Global 2000 with some disdain, since he has had the *direct experience* of carrying out such depopulation policies.

Mitterrand was a member of the government that in 1947 unleashed the Indochina War and of its successor governments under the Fourth Republic, which pursued that war in 1954. When the United States took over in Vietnam, the Fourth Republic turned its attention to Algeria, continuing its policy of Third World destruction.

Under the Fourth Republic, French Indochina hands Gen. Raoul Salan and Colonel Trinquier forced Laotian tribesmen to produce opium on a large scale and organized the Corsican mafia into the international drug-running network known as the "French Connection." Opium was mass-produced throughout Southeast Asia, transported to Marseilles by the Corsicans (the Guerinis, the Venturis, et al. through the Messageries Maritimes), and refined into heroin under the supervision of Socialist Mayor Gaston Deferre (now rumored to be Mitterrand's choice for Interior Minister). Mitterrand's Democratic and Socialist Union of the Resistance (UDSR) after

World War II worked to purge those Communists from the Marseilles police who were fighting Defferre's drug operations; and he testified as a defense witness for Salan in 1962, who was being tried for his crimes as a founder of the Organisation Armée Secrète (OAS).

The "strategic hamlet" Vietnam program of the CIA was copied directly from Trinquier's work in Indochina. General Salan later led France's Algerian operations with Trinquier and formed the terrorist OAS.

The ill-fated French Suez expedition, combined with the role the Fourth Republic played in giving Israel the bomb, demonstrates Mitterrand's dangerously provocative policy for the Middle East—a continuation of the Vichy government's xenophobic policy against Jews and Arabs alike. Mitterrand was one of the first to join the "France-Israel Alliance" parliamentary group established by Jacques Soustelle in 1956; it is not surprising that his first invitation as head of state should come from Israeli Prime Minister Menachem Begin.

On Nov. 12, 1954, Interior Minister Mitterrand justified the massive repression that followed the National Liberation Front's (FLN) tiny uprising, saying, "Algeria is France, and the only possible negotiation is war." In charge of Algerian affairs under the Pierre Mendès-France government, Mitterrand helped the FLN insurrectionists grow from a tiny handful of brainwashed youth to the liberation army of 20,000 men it was to become by early 1956 by employing a systematic terror and destruction of villages.

In his book *Algeria. A Savage War of Peace*, Alistair Horne notes that although Mitterrand had advanced warning of the Nov. 10 FLN insurrection, he prevented any countersecurity measures from being taken. In a public speech directly prior to the insurrection, Mitterrand stated that "trouble can be expected in Algeria." Following the insurrection, actually a very limited affair, the repression of the native population unleashed by Mitterrand marked the beginning of the Algerian War.

Mitterrand's collaborator and successor in this task of destruction was his crony from the UDSR and the "France-Israel Alliance," Jacques Soustelle. As governor-general of Algeria in 1955, Soustelle oversaw the building of the FLN into a mass army. When Gen. Charles de Gaulle later granted Algeria independence in the late 1950s, Soustelle became a leading supporter of the OAS, which was responsible for a dozen attempts to assassinate de Gaulle in the 1960s.

In the five-year Algerian War the Socialists and the OAS systematically murdered both moderate, prodevelopment Algerian nationalists around Ferrat Abbas and Gaullist-oriented colonists, who wanted peaceful industrial development. Algeria was an experiment in devolution and depopulation that was halted only by General de Gaulle's rebuilding of France and launching of the Fifth Republic, proclaimed in 1962 along with the peace accords.

## Can Schmidt survive without Giscard?

by Susan Welsh

With the defeat of French President Valéry Giscard d'Estaing, West German Chancellor Helmut Schmidt lost his principal strategic ally, his partner in creating the European Monetary System and a foreign policy based on East-West cooperation and economic development. Schmidt is now dangerously weakened vis-à-vis his enemies of both "left" and "right" who hope to paralyze his government or to overthrow it. British news media were particularly gleeful at the demise of the Franco-German alliance, as commentator Peter Jenkins in *The Guardian* May 13 headlined his analysis "As Giscard Goes, Can Schmidt Be Far Behind?" *The Times* of London May 12 proclaimed the end of the "era initiated by General de Gaulle," and pointed out that "a major shift in the balance of power within the [European] Community" took place at the May 11-12 summit meeting between Schmidt and British Prime Minister Margaret Thatcher.

Schmidt's opponent Willy Brandt, chairman of the Socialist International and the West German Social Democratic Party, immediately commented upon the election of the Socialist International's François Mitterrand in France: "It's marvelous." Brandt had publicly campaigned on Mitterrand's behalf, challenging the chancellor's personal and political ties to Giscard. Brandt announced at a press conference May 12 that he is now available to "mediate" relations between Schmidt and Mitterrand should any "problems" arise.

British Prime Minister Thatcher and Foreign Secretary Lord Carrington are also moving in to carve up the remains of the Franco-German alliance. Following her meetings with Schmidt, Thatcher announced that Britain would henceforth play a "stronger role" in Europe. "We now are a solid phalanx," she said.

Carrington has been working clandestinely with West German Foreign Minister Hans-Dietrich Genscher to prepare such a "rapprochement" between the British and German heads of state, reported the daily *Frankfurter Allgemeine Zeitung* on May 12. Such a development could only be compared to that between a mugger and his victim when the victim agrees to surrender the contents of his wallet. Britain's Thatcher opposed the creation of the European Monetary System from the start;

and the policy alliance between Schmidt and Giscard was forged partly through bitter battles against Britain's "Iron Lady."

Chancellor Schmidt, asked by a reporter recently whether his visit to Saudi Arabia was a historic event, replied: "I'll tell you what real history was. It was when I first went to Paris as a cabinet minister ten years ago and met Valéry Giscard d'Estaing." Schmidt and Giscard came to office in the same year, 1974, and later built what they called the European "superpower for peace." Confronted with the reckless adventurism of the Carter administration, they worked to keep détente with the Soviet Union and Eastern Europe alive, and to achieve a stable peace settlement in the Middle East that would take into account the interests of both Israel and the Palestinians—unlike the Camp David agreements.

Out of this they shaped the European Monetary System during the summer and fall of 1978. The aim was to create the basis for a new world monetary system that could finance development projects in the industrialized nations as well as the Third World, contributing to political stability and decreasing the danger of war. Although the EMS was never instituted in full, the economic policies of France and West Germany were a major obstacle to the Malthusian advocates of the Brandt Commission. France's ambitious nuclear energy program and its high-technology exports to the Third World, combined with German industrial power and commitment to East-West trade and exports to the developing sector, created a potentially formidable "superpower" indeed. Schmidt and Giscard joined forces to try to convince President Reagan to agree to "interest-rate disarmament," and recently concluded a historic first: a joint Franco-German loan from the OPEC countries for investment in domestic industries at subsidized interest rates.

Schmidt's loss of his French ally was compounded when his Social Democratic Party suffered a crucial defeat in the West Berlin elections May 10. The party has ruled the city for virtually the entire postwar period, but this time the Social Democratic-Free Democratic coalition lost to the Christian Democratic Union (CDU). The CDU is now attempting to draw the Free Democrats into a coalition, and thus pressure the national FDP to shift its allegiance from Schmidt's Bonn government.

While these backroom negotiations are under way, Schmidt's principal allies in West Germany are under attack. The assassination May 11 of Herbert Karry, economics minister in the state of Hessen, was a blow against the state government of Holger Börner, the only governor of a Social Democratic-ruled state who is a Schmidt ally against Brandt and the SPD left.

Also under fire is Defense Minister Hans Apel, a Schmidt ally who is being watergated for defense spending overruns. Rumors are circulating that Apel may resign.

## Social Democrats export 'antiwar' push to the U.S.

by Luba George

In the 1950s and 1960s, Bertrand Russell's ban-the-bomb movement deliberately planted the seeds of today's opposition to nuclear energy and advanced technology. By 1969, this movement had destroyed the power of France's de Gaulle and was shredding the Democratic Party in the United States. Now the disarmament movement is being recreated as a political weapon to foment social chaos and political polarization against President Reagan and Chancellor Schmidt of West Germany in particular.

Part I of this report demonstrated that the antiwar movement has nothing to do with peace—since lasting peace depends on international economic development. It was assembled by the same top-level Anglican and Jesuit strategists who have promoted radical Luddite movements over the centuries against science, technology, and the rule of reason.

*EIR* documented the fact that the Anglican hierarchy, on behalf of the British Crown, is openly promoting the Global 2000/Brandt Commission program for population reduction and primitive technologies while supporting the bloody Third World conflicts that will impose those goals.

What follows is a case study in his own words of how Bertrand Russell's successor E. P. Thompson reactivated the test-tube peace movement in Europe and the United States. Subsequent sections of the report will show how these networks extend, with NATO's protection and encouragement, into the East bloc, how the Soviet KGB has actively abetted them, and how Cyrus Vance's Palme Commission on Disarmament fits into the Haig-Weinberger policy for East-West relations.

### The case of E. P. Thompson

It's imperative to build a movement against Reagan. . . . The situation with Reagan is appallingly



*The late Lord Russell.*

dangerous. Reagan and Haig must be stopped.

—Brown University, Jan. 8, 1981

Technological creep arising from the militarists is a big danger in the Reagan administration.

—Riverside Church, New York, City  
December 1980

I'm much more confident about Germany. . . . The disarmament movement there is moving full steam ahead. Germany is key. . . . The situation with Reagan is dangerous. . . . This makes a European breakaway absolutely necessary.

—Brown University, April 22, 1981

The speaker is E. P. Thompson, neo-Marxist historian and head of the newly formed European Nuclear Disarmament (END) group, an offshoot of the Bertrand Russell peace movement. Thompson has been in the United States for several months, ostensibly as a lecturer at Brown, an Ivy League university. His arrival coincided with British strategists' fears that Ronald Reagan would become the next President and potentially launch an economic and scientific growth program reversing the deindustrialization policies they had helped impose during the Carter administration.

Thompson held organizing meetings at the Riverside Church in New York City, whose Disarmament Project

under senior Riverside minister William Sloane Coffin is coordinating with both the Democratic Socialist Organizing Committee in the United States and the Anglican Church. "It's moving to me when I say 'friends' to realize how many personal friends I've seen coming in this door," he said at one such gathering. "I don't want to intervene in the internal life of your country, but I want to report on a movement in Europe that has grown with quite astonishing rapidity in the last six months, and which is almost unreported in the U.S. press. I am here as a representative of the European Nuclear Disarmament to convey our strategies and to initiate a long continuing period of common action and consultation with our friends in the U.S. . . . I'm like Winston Churchill, I have an American mother."

Thompson went on to outline how END was launched, noting his own role as author of a series of articles in the Fabian journal *New Society* in late 1979 "in which I saw us moving through authoritarianism to inevitable war."

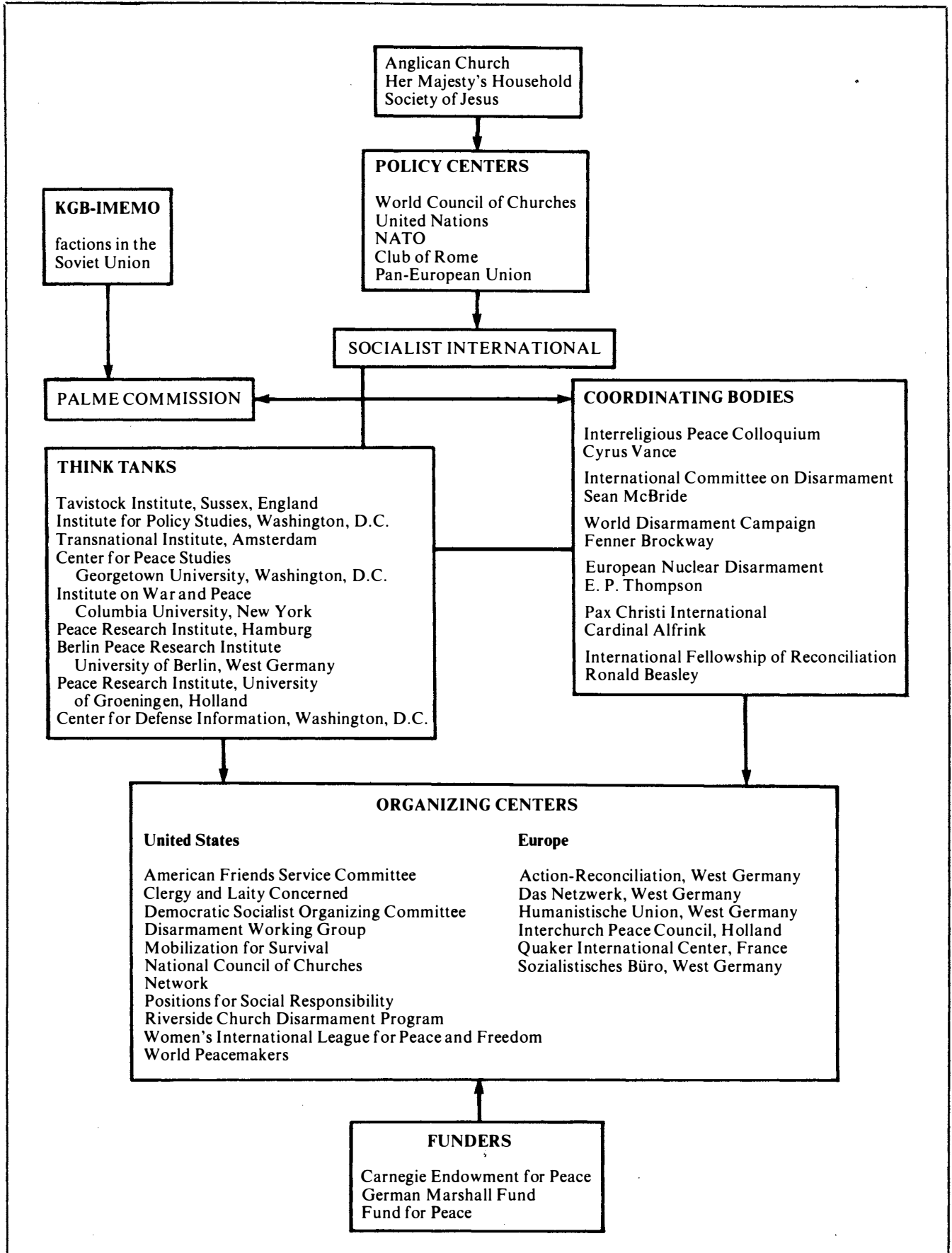
"Britain," he began, "is the first home of the campaign for nuclear disarmament. The CND was revived last year and took on a new secretary, Msgr. Bruce Kent. This long-established peace movement became very active once again. . . . A new organization was formed by Lord Fenner Brockway and Lord Philip Noel-Baker called the World Disarmament Campaign. . . .

"We found we had an alliance of active people stretching through from ecologists, churches, CND, World Disarmament, trade unionists, the Liberal Party, socialists. . . ."

After describing recent demonstrations, Thompson continued: "So we got together to catalyze an all-European movement to make a nuclear weapons free zone right across Europe, East and West. . . . We did this with the help of the Bertrand Russell Peace Foundation; we got good support and advice from Gunnar and Alva Myrdal in Sweden, from Roy Medvedev in Moscow, from Claude Bourdet in France, editor of *Témoine Chrétien*, from Ulrich Albrecht at the Free University of Berlin, from Cardinal Alfrink [of Pax Christi] and socialists in Holland, from Rudi Bahro [East German environmentalist], who is now working with the Green Party in West Germany, from distinguished academicians, artists, writers, editors and trade unionists all over Europe."

Thompson elaborated at another session at Brown University: "In Germany we have the best situation because of the Euromissiles. The stalling has allowed a significant section of the left FDP [Free Democratic party] to ally with the left SPD [Social Democratic Party] and come out against Schmidt. . . . We have Schmidt boxed in. Europeans are much more nuclear-conscious than the Americans.

"France is an amazingly peculiar country, [but] the latest opinion polls show that an ecological breakthrough in the consciousness of the population is near. The



situation is already beginning to shift. I'm a lot more happy about Germany, however."

Edward P. Thompson's background exemplifies the synthetic "left" in Europe and its deployment by British intelligence to create new Luddite movements. Like Kim Philby, the British triple agent who is now a Soviet KGB general, Thompson was recruited into the Communist Party while he was a student at Cambridge University. His older brother Frank had been recruited a year earlier, in 1939, at Oxford, together with Robert Conquest, Philip Toynbee, Denis Healey and Iris Murdoch; for years Edward was close to this group as well. At the outbreak of World War II, Frank became a

liaison officer under Fitzroy Maclean, the Philby associate who ran Britain's Balkans operations. Edward is said to have fought in Italy, maintaining contact with Communist networks, as he still does among the "Bukharinists," i.e., anti-industrializers, in Eastern Europe.

After the war, Thompson stayed in Yugoslavia until 1947, then returned to Cambridge for his degree in history. His party membership ended in 1956, when he helped found *The Reasoner*, forerunner of today's *New Left Review*. While still in the party, he worked with the Russell Foundation, with Socialist International cofounder Fenner Brockway, and with the war resisters' movement.

## Royal peers oversee peace agitation

The "peacenik" proclivities of various British lords, as embodied in the late Bertrand Russell, are not simply a manifestation of English eccentricity. The Queen's inner circle, which traditionally runs British intelligence as a private operation, has oversight for the "disarmament movement" as part of those intelligence duties. Thus, last Dec. 23, Lord Trefgarne, the Lord-in-Waiting to the Queen's Household and Minister of State, told the House of Lords that the Thatcher government "welcomes the activity of the World Disarmament Campaign in arousing public interest in disarmament." (The stance of the Tory Party itself was apparently irrelevant.)

In turn, the World Disarmament Campaign (WDC) is cochaired by two venerable titled British Fabians, Lord Fenner Brockway and Lord Philip Noel-Baker. The WDC directly oversees the Jesuit-run Campaign for Nuclear Disarmament (CND) in Britain and E. P. Thompson's European Nuclear Disarmament (END).

Brockway, a mere life peer who came from a family of Calcutta missionaries, was a leader of the British Independent Labour Party and a 1926-31 executive of the Socialist International, which he helped to found. During that period he edited *The New Leader* and established close ties to German socialists which persist. In the 1930s and 1940s he also maintained ties to the Comintern's anti-Stalin wings, and as chairman for the Movement for Colonial Freedom received Comintern aid in fostering the Jacobin wing of "national liberation" movements in Africa and Asia.

As president of the British Campaign for Peace in Vietnam, Brockway was a coordinator for the resisters' movement. Among the many dozens of operatives he trained is Anthony Wedgwood Benn, the left-wing Labour Party chief who acts as chief British delegate to the Socialist International.

Brockway (who is now 92) announced in a letter to *The Times* of London on Jan. 2, "This year will bring to a climax the confrontation in the world between the forces making for renewed cold war and rearmament and those making for détente and disarmament. We must make 1981-82 the Year of Disarmament." To this end, he notes an "international committee" has been formed under the chairmanship of Sean McBride of Amnesty International "to coordinate all the activities of the campaign on a worldwide scale." Already, "mass resistance is paralleled in much of the world." Disarmament is now "pragmatic politics," he concludes.

McBride's membership in the Pan-European Union is one of the most important nodal points in the control apparatus. It demonstrates the link between the "peace" movement and the overtly environmentalist, feudal, and racist Union, which works to revert the continent to a "Europe of the Regions" free of industrial technology. In the 1920s through the 1940s, the Union openly interlinked with, and was indeed largely responsible for creating, German, Italian, and Central European fascism.

Lord Noel-Baker, Brockway's cochairman, is a veteran League of Nations/United Nations operative, bestowed with the Nobel Prize, who has also reached his nineties. It was Lord Noel-Baker who originally proposed to Olof Palme that Palme begin to form a supranational "disarmament commission" as a special operation at a time of rising East-West tensions. Today the body exists in the form of the Palme Commission.

# State Department pours oil on the fire

by Gretchen Small

There was nothing inevitable about the new round of fighting now escalating in several parts of Central America. It was Secretary of State Alexander Haig's deliberate sabotage of international efforts to contain the Salvadoran crisis through a political solution which provoked the new offensive—not the much-vaunted beginning of the rainy season.

Although fighting has persisted across the countryside in El Salvador, the last two months had seen relative quiet, largely as a result of behind-the-scenes pressure from the combined Vatican, West German, and Mexican efforts to create an international climate in which the Salvadoran parties could be brought to the negotiating table. Hans-Jürgen Wischniewski's mission to Central America, Mexico, and Cuba in mid-April as a special envoy from Chancellor Schmidt had come the closest to setting the stage for initial talks. Wischniewski's argument, reportedly, was simply for the adversaries to sit down—with no strings attached.

As soon as Wischniewski returned to Germany, the State Department pulled the plug on the possibility for talks. The State Department issued a categorical rejection of the Wischniewski initiative: "The United States position is that an election process is the best route to a peaceful resolution of the situation in El Salvador. If what is meant by 'negotiation' . . . is the establishment of a government by negotiation, we oppose it," a May 2 State Department statement read. A statement following on the 4th specified that the United States would only support negotiations dealing with the subject of the technicalities involved in upcoming elections in El Salvador. Salvadoran military spokesmen and the head of the governing junta, José Napoleón Duarte, echoed the State Department line immediately. Negotiations were pronounced dead.

## Haig's approach

Elections under civil war conditions are not a realistic idea, nor were they meant to be. Haig, and the coterie of Kissinger trainees around him, have sold the administration the scenario that a few more months of

more sophisticated military operations can mop up the guerrilla forces. The so-called Zimbabwe solution would then follow, the line goes, with a ceasefire followed by elections—overseen by an international observer force modeled on the British operation that was carried out in Rhodesia.

Haig's shoot-first-talk-later approach has already fed the leftist insurgency, and a new offensive by the left has been declared in answer to the government's refusal to talk. The rector of San Salvador's National University, Rodríguez Ruiz, issued a statement May 9 in the name of the opposition Democratic Revolutionary Front and the so-called Faribundo Marti Liberation Front, which declared that the Duarte government was planning a new offensive over the next eight to ten months to "prepare the basis for elections in 1982 over the cadavers of the opposition." In response, Rodríguez said, the guerrillas will launch their own counteroffensive.

Haig has strengthened the hand of the Socialist International, which is now portraying itself as the liberation struggle's best ally. Nicaraguan and Salvadoran radicals hailed the Mitterrand electoral victory in France as their "triumph" as well. Salvadoran guerrillas were quick to point out that Mitterrand's wife Danielle heads the French solidarity committee with the Salvador rebels, while the Nicaraguans cited Mitterrand's position on the executive of the international solidarity committee with Nicaragua, established by the Socialist International. Meanwhile, border clashes between Honduras and Nicaragua this month have brought the two close to war.

Guatemala has now been placed in the sights as the next regional flashpoint. The international press has begun to churn out stories on the "gathering storm" there, pointing out, as the *Christian Science Monitor* did last week, that Guatemala is "five times the size of El Salvador," "potentially more explosive," and borders on oil-rich Mexico.

The guerrillas are estimated to lack the capability to mount a Salvador-style final offensive as yet, but last week's bombing of the country's main oil pipeline signals a serious step-up in activity. Well-informed intelligence sources have told *EIR* that the preconditions for a major outbreak of left terrorism have been put in place over the past month in Guatemala, particularly through Libyan channels.

Played off against the activation of the "left" side of the Guatemalan scenario, Haig has deployed a team to Guatemala to make sure the Guatemalan military does its share from the "right." Former Deputy Director of the CIA Vernon Walters has been joined on this mission by former Ambassador to Guatemala Frank Ortiz, a member of the Knights of St. John with close ties to British Special Operations Executive.

# Deng Xiaoping's new balancing act

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*Richard Katz reports on the byzantine, and increasingly unstable, situation the China Card advocates are trying to cover up.*

Seasoned Washington observers have put out the word to watch a quiet fight for control over America's China policy, a fight being waged between Assistant Secretary of State John Holdridge and National Security Council Political Affairs Director Jim Lilley.

Holdridge, a gung-ho China Card supporter since the days when he accompanied Henry Kissinger on secret missions to Peking, is Haig's man, appointed without prior White House clearance. Lilley, a CIA career man who served on Reagan's campaign advisory board, is "the man the White House talks to about China when they don't want to talk to a Haig man." Through Lilley, the White House is reportedly trying to surround Holdridge with State people "closer to the thinking of the President."

Though interested in improving ties to China—and even possible further sales of defense-related technology—Lilley does not buy the Haig-Holdridge policy of a fundamental alliance between the United States and China. He is reportedly not unmindful that Chinese missiles are aimed at New Delhi and perhaps Tokyo, as well as Moscow, and may be aimed at Washington when they attain sufficient reach. Lilley is also said to believe that in the long run, for reasons of its own interest, Peking will try to restore an equidistant position between the United States and the Soviet Union.

Holdridge, in contrast, discounts factional ups and downs in Peking, insisting that China has no option but to go with the United States, and maintaining that U.S. alignment with China, including security cooperation, can only enhance this trend. At present, Haig and Holdridge are trying to persuade a skeptical President Reagan to approve arms sales to Peking. Holdridge's Carter hold-over deputies, Michael Armacost and John Negroponte, are, as *EIR* reported last week, trying to force direct U.S. support and supplies for China's Khmer Rouge proxies by way of engineering a Pol Pot-dominated Cambodian opposition front, with Haig's blessings.

These moves come at a time when there are some signs of the trend suggested by Lilley. The elite *Guangming Daily* on April 25 accused "imperialists" (the United States) as well as "social imperialists" (the Soviet Union) of "engaging in activities to undermine our socialist system"—an exceptionally evenhanded attack. On Feb. 10, through an allegorical article on late 19th-

century Chinese defense debates, the *Guangming Daily* had charged those who argue only for defense against the Soviet Union of "national betrayal," demanding defense against both the West and the U.S.S.R. At a time when Peking strongman Deng Xiaoping had just slashed the defense budget, the *Guangming Daily* also put into the "national betrayal" category those who, "under the pretext of financial crisis," refuse to mount defense on both fronts.

More immediately important than foreign-policy debates in Peking is the fact that in the United States, the China Card strategy is based on the premise of stability in China, and on the supremacy of Deng's "America Card" faction. Neither premise still holds true.

Every day brings new reports of deepening economic and social crisis in China. There has been an army mobilization to suppress a protest of 1,000 jobless in Shanghai; laid-off factory workers are vandalizing entire plants. In the countryside, millions are starving in famine- and flood-ridden provinces. Reports in official party documents itemize spreading infanticide.

So great is Deng's fear of urban and rural unrest that he has promised at least to end the factory shutdowns. Faced with Deng's opposition to maintaining heavy industry, much less expanding it, local leaders warned that the 10 million additional workers slated to be laid off would multiply the current outburst of Polish-style strikes. The pro-Peking Hong Kong newspaper *Wen Wei Po* reports that the PRC Insurance Company will "compensate for financial losses which joint ventures using Chinese and foreign labor may suffer as a result of the effects of the political situation."

Deng's de-Maoization moves, meanwhile, have exacerbated political cynicism and social disaffection among China's youth, as the *People's Daily* warns. Police have had to suppress various student political activities and groups.

## **The Deng/'Old Guard' compromise**

Attacked for undermining social stability and the growth of China's national power, Deng has been forced by his opponents to retreat—not only on economic liberalization. Deng has made a forced accommodation with the people he has been trying to purge.

To consolidate his rule, Deng needs to convene the



Sixth Central Committee Plenum and a subsequent Party Congress, in order to elect a new leadership, oust his opponents, and certify de-Maoization and his anti-heavy-industry strategy. Originally scheduled for last winter, the plenum has been repeatedly delayed. It is now reportedly scheduled for June.

In the weeks before the plenum, prominent Deng opponents once purged or consigned to "nonpersonhood" by Deng's press have begun making widely publicized reappearances at official functions and placing their views in the press. Most significant among them are:

**Marshal Ye Jianying:** One of the most respected old generals and a former defense minister, Ye opposes Deng's anti-heavy-industry program because it precludes development of the industrial base needed for a modern conventional military.

**Chairman Hua Guofeng:** Deng prematurely boasted to foreign press last winter that he had already purged Hua as chairman, and Hua dropped from public view. Hua ostentatiously reappeared at the May Day celebration, accompanied by well-known pro-Maoists. The press treated him with the protocol due the party chairman.

**Li Xiannian:** Party vice-chairman forced to resign as vice-premier last fall, Li is a Chou en-Lai-associated backer of the heavy-industry strategy and the civilian "industry lobby" purged by Deng.

The varied Deng opponents cannot be dismissed as sheer Maoists. Many, like Ye, opposed Mao's insanities on key issues and helped rehabilitate Deng. Nor are they a unified faction with clear policy alternatives. They are a heterogeneous collection sharing one concern: the fact that Deng is undermining China economically, socially; and militarily.

### The 'antirightist campaign'

"Certain sensitive people think that 'the second' Cultural Revolution has arrived and hold that an 'anti-rightist movement' is under way," reports the April 26 issue of *Wen Wei Po*, one of the pro-Peking Hong Kong papers that prints factional barrages before the mainland press does. Lately the paper has reported on "antirightist" criticisms of Deng's policies: "Some people have recently been saying that 'the gunbarrels require the party to uphold the Four Basic Principles [Maoist dogma rescinded by Deng in December 1978 but recently restored to prominence in the controlled press],' and 'the party is opposing leftism while the army is opposing rightism.'" The writer, a Dengist, hastily adds that "China's situation is not as chaotic and messy as that" and assures the reader that Deng opposes both leftism and rightism.

In other words, the price paid by Deng for the Central Committee plenum—whose exact timing and outcome remain uncertain—is acquiescence to an "anti-

rightist" campaign and a retreat on key policy issues. Any deal struck now is destined to come unglued, since the power struggle is propelled not simply by ideology but by the need to respond to the instability caused by economic turmoil. As an omen, five leftist Hong Kong magazines popular for their frank coverage of factionalism have recently been banned from the mainland.

Perhaps the most remarkable product of the temporary accommodation is a strident defense of Mao and Maoism printed first in the *Army Daily*, a significant fact in itself, and then reprinted in every major paper. It is the text of a speech given by Huang Kecheng, presently the secretary of the party's powerful Discipline Inspection Committee:

Defaming and distorting Chairman Mao can only defame and distort the party and our socialist motherland. . . . At present the hostile forces at home and abroad all hope that we will negate Chairman Mao in order to confuse our thinking and lead our country to capitalism. *There are also some people within our own country who have been influenced by Western individualism and liberalism and sing the same tune as the hostile forces* [emphasis added].

Without Mao's arduous and far-sighted struggle . . . the Chinese revolution would have been unimaginable. . . . What would take the place of Mao Tse-tung Thought if it were abandoned? . . . Do they mean to call back Confucius or Sun Yat Sen? . . . Do they mean to introduce into our country capitalist things from the West?

Huang goes on to say that China should borrow only technology and science from the West. He identifies the United States as decadent, saying the mafia is the second largest "industry" after oil. Thus, emulation of the West means chaos. In the entire speech, there is not a word of criticism of the Soviet Union.

What makes Huang's strenuous defense of Mao even more remarkable is the fact that he is known as a top general, a hero of the revolution who opposed Mao back in the 1950s and was purged by Mao in 1958 when the likes of Deng Xiaoping were still obeying Mao.

Incredibly, the pro-China Card U.S. and British press portrayed Huang's speech as part of Deng's de-Maoization. Some of Deng's associates were not so complacent, as *Wen Wei Po* comments: "Some people . . . attack Huang Kecheng's article . . . babble that the army is putting on a rival show to the party, that the Sixth Plenum cannot be convened, and that Huang is still maintaining the personality cult."

For now, Deng is politically weakened and must acquiesce in criticism of "rightism," criticism amounting to nothing but attacks on the policies he has enforced. This is the picture obscured by the China Card advocates.

## A defeat for Saudi Arabia

*Will the French electoral results force Riyadh into a Middle East Treaty Organization setup?*

**T**he defeat of Valéry Giscard d'Estaing in the French presidential elections last week pulls the props from under an alliance Saudi Arabia had forged with France and West Germany for international stability. Not only has Saudi Arabia lost a crucial ally in Giscard, but the new president, François Mitterrand, promises to push the same policies Giscard and the Saudis were determined to defeat.

Nowhere is this more evident than on policy for the Middle East itself. Arab sources report that shortly after Mitterrand's victory, he declared his support for the step-by-step form of negotiations that spawned the Camp David accords between Egypt and Israel. Mitterrand also advocated bypassing the Palestine Liberation Organization in future talks. Hours before, Israeli Prime Minister Menachem Begin extended an invitation to Mitterrand to visit Israel, the first such invitation from an Israeli leader in recent history.

Giscard, more than any other European leader, supported the Saudi view that the PLO must be a party to some form of multilateral peace talks. Giscard has argued that nonresolution of the Palestinian refugee problem will seed perpetual instability in the Mideast. Now Saudi Arabia will come under extreme pressure to join the Israel-Egypt axis, and Mitterrand is expected to play a central role in this process.

Sources at Georgetown University report that Mitterrand's election has strengthened the hand of the European Socialist International and British Foreign Minister Lord Carrington in the next phase of the Mideast dialogue. Within the Reagan administration, they say, Secretary of State Alexander Haig and a network of Jesuit-connected right-wing Social Democrats associated with Georgetown's Center for Strategic and International Studies will support Mitterrand and Carrington.

Another well-placed Washington source estimated that "the next objective of Middle East diplomacy will be to neutralize Saudi Arabia in the way Egypt has been neutralized as a threat to Israel" through the Camp David talks. He stated that the key to persuading Saudi Arabia to make a bilateral agreement is "through Jerusalem." "The Saudis are very religious and they have a restive religious movement. If they can win back part of Jerusalem for the Muslim cause, even in some kind of bilateral accord, I think they would do it." The same source named CSIS strategists Walter Laqueur, Michael Ledeen, and Edward Luttwak as "prepared to work with the European Social Democrats" toward this objective, adding that France, being both Catholic and Social Democratic, is best positioned to aid the United States in arranging such a deal.

Underlying this strategy is a

plan to create an Israel-Egypt-Saudi military axis as the skeleton of a NATO-linked Middle East Treaty Organization.

Because of the pressure both London and the State Department have put on Riyadh to submit to such a military scheme, Saudi Arabia had turned to Giscard's government for a new military and security alliance. But with the elimination of Giscard, Saudi Arabia has no immediate option but to rely on the U.S. as its prime source of security and arms supplies. The question is what conditions Washington will place on future sales, most importantly the pending agreement for the delivery of four AWACS surveillance aircraft.

Senator Henry Jackson, the most powerful pro-Israel member of the Senate, has threatened to veto the sale unless Saudi Arabia agrees to a "regional security system" linked to NATO. Saudi Arabia refuses to make such a concession because it does not want to be perceived as a "U.S. military satellite."

Arab sources report that another facet of the pressure on Riyadh to accept the AWACS on such terms is the likelihood of a limited Israeli-Syrian war over Lebanon within the next month, a war intended by the CSIS crew to divide Lebanon between Syria and Israel.

A Lebanese source reports that such a scenario would create "permanent instability" in the Mideast, displacing thousands of Palestinians who live in southern Lebanon. "This will terrify the Saudis . . . they see Lebanon go up in smoke, then they will really clamor for the AWACS and be even more vulnerable" to the kinds of demands being floated by Jackson and Haig.

## Díaz Serrano gets the kiss of death

*Labor czar Fidel Velásquez has put a big dent in the Pemex director's presidential hopes.*

The succession fight is heating up." This evaluation was issued last week by Fidel Velásquez, head of the powerful CTM labor federation and the country's kingmaker par excellence.

Since Don Fidel made that statement, the temperature in Mexico has in fact risen to asphyxiating levels. The fight to succeed President López Portillo has gotten red hot. The order of the day here in Mexico has been low blows, byzantine traps, and pre-emptive strikes.

Perhaps the best example is that of Pemex chief Jorge Díaz Serrano. Two weeks ago, he caught a political blow which almost knocked him out of the presidential race for good. Díaz Serrano is still being talked of as a strong contender, despite the fact that he is not in the cabinet, the usual steppingstone to the presidency. But the fact of the matter is that he lost ground sharply over the past weeks.

At the beginning of May, the head of the rightist National Action Party (PAN), José Antonio Conchello, declared that, since Mexico's future lies in oil, he thought that an oil expert would be best suited to become the next president. In case anyone didn't get the message, the PAN chieftain explicitly added that the choice could only be Díaz Serrano.

The press splashed across the headlines the PAN'S suggestion that Díaz Serrano be the ruling PRI party's presidential candidate. But

curiously, they buried his suggestion that Article 82 of the Constitution be changed.

Everyone in Mexico knows that would only open the presidency to Mexico City mayor Carlos Hank González, currently banned from the highest office because of Article 82's requirement that the Mexican president's parents both be native Mexicans.

Conchello's kiss of death to Díaz Serrano left the Pemex chief's supporters catatonic. Conchello is on record supporting the economic policies of Hitler's Finance Minister Hjalmar Schacht, a fact which can hardly help Díaz Serrano in the presidential sweepstakes.

The old labor fox, Fidel Velásquez, moved quickly to use these developments to deliver a coup de grace against Díaz Serrano, whose presidential aspirations the labor leader is thought not to appreciate. "I must commiserate with Mr. Díaz Serrano," Don Fidel quipped, "for having a partisan like Conchello. . . . He's good and screwed now."

This laconic but definitive declaration by Don Fidel was the strongest disqualification yet suffered in public by any of the major presidential contenders.

One thing, we are told, that Fidel Velásquez doesn't like about Díaz Serrano is his possible links to the despised Hank González. For example, Hank's journalistic mouthpieces Mauricio González de

la Garza and Margarita Michelena have lavished public praise on the Pemex director over the recent period.

Some think that this shows Hank wants to offer Díaz Serrano a deal: the Hank crowd would help get Díaz Serrano into the cabinet, in exchange for his helping swing the change in Article 82 that Hank so urgently wants.

But Díaz Serrano has apparently held aloof from the flirtation.

The ironic thing in all this is that some observers think that Don Fidel no longer retains his traditional decisive role in choosing the PRI's candidate for president. His CTM federation is becoming discredited, they argue, and the labor group's power is waning.

Many labor leaders, however, retort that the only way the CTM will be able to continue to keep Mexico's working-class population aligned with the government is through greater, not less, political power for the CTM.

Regardless of just how great Don Fidel's power is, it is unquestionable that Díaz Serrano felt the blow. Insult was added to injury for the Pemex director when he was sent on a month-long world tour to find new markets for Mexico's oil—during the precise time when no presidential hopeful wants to be away from the center of action for a minute, since the country's future is being decided in these very weeks.

Not that Díaz Serrano is wasting his time abroad. On the contrary, in Portugal he signed a deal for Mexican oil to be refined there for the broader southern European and North African markets. And he will be negotiating similarly important agreements in West Germany and the Soviet Union later this month.

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# International Intelligence

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## **Haig blocks food aid to Vietnamese population**

For the first time since the Vietnam War, the U.S. State Department has prevented shipment of humanitarian food aid to Vietnam by a private American organization. Secretary Haig has forbidden the Mennonite Church to send 250 tons of wheat to Vietnam to alleviate malnutrition there.

The DOS, which is pressing direct U.S. support for Khmer Rouge chief Pol Pot, cited Vietnam's liberation of Cambodia from the Khmer Rouge as the grounds for the ban. The DOS piously stated that Vietnam could end its food shortage by "ending its diversion of resources from economic development to military conquest."

Mennonite spokesman Bert Lobe expressed shock in a *Christian Science Monitor* interview, calling the move unprecedented. He added that after a tour of Cambodia he is convinced that the Kampuchean people, despite traditional animosity toward Vietnam, far prefer the Vietnamese-controlled government to the Pol Pot murderers.

DOS officials stated that the policy stems from a review begun in the final months of the Carter administration. Carter personnel have been kept at State by Haig.

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## **A bourgeois caper in El Salvador**

Roy Bourgeois, the Chicago priest who is a militant in the movement against the Salvadoran government, went overboard during his recent mission to join the guerrillas in that country. The Maryknoll Catholic priest disappeared April 26 only to resurrect himself from the presumed dead May 6 in the safety of the U.S. embassy.

Salvador's armed forces issued a fascinating communiqué the next day: "In the case of Father Roy Bourgeois . . .

there was a premeditated plan by the leftist organizations whose objective was to obtain support from the world public, particularly the U.S. people, for the demonstration of the sympathizers of Salvadoran terrorism in Washington on 3 May. . . .

"First, the priest 'disappeared' from his San Salvador hotel on 26 April. Second, on 30 April a body with the priest's suit and shoes appeared near San Salvador. Third, on 3 May the aforementioned demonstration was held.

"Therefore, it can be established that this priest's mission was to promote at the international level the success of the demonstration in Washington. . . . We all know that he has lost his moral authority and has cast doubts on the seriousness and honor of the order to which he belongs."

The remaining six Maryknolls in El Salvador took the military warning with dead seriousness and beat a religious retreat to Guatemala. There, after "agonizing soul searching," they divined that the good Father Bourgeois's guerrilla sojourn had indeed made life in Central America even more difficult for the American Maryknolls and their Jesuit comrades.

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## **Chinese document admits infanticide**

A new Chinese journal, *Population Research Quarterly*, published an official policy document recently confirming earlier reports that China's one-child-only law has driven the population to kill their children.

In the document issued by the Communist Party Propaganda Department and State Family Planning Commission, it is admitted that in many villages where "feudal prejudice against females is still widespread," families are murdering or abandoning their first-born female infants so they may try again to produce an heir to the family name without breaking the law.

The solution, according to the docu-

ment, was that a large-scale publicity campaign should be launched to convince the peasants of the equality of the sexes.

China, which is admired as a model for Global 2000 planners such as the Club of Rome and the Population Crisis Committee/Draper Fund, recently published a plan to nearly halve its population by the year 2080.

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## **Socialists agitate against Japanese nuclear power**

Japan's Socialist Party has demanded the immediate shutdown of all nuclear power plants in Japan until their safety is confirmed. The demand came in the wake of news of a radiation leak when, in suspicious circumstances, a nuclear plant worker "carelessly" left open a valve allowing radioactive waste spillage. A small amount of radioactivity leaked into surrounding land and water.

Shutdown of plants for months of inspection would close down 13 percent of Japan's electricity supply.

Meanwhile, the mayor of a small town in Japan who had lost a vote of confidence because of his advocacy of a nuclear plant in the town won a decisive majority in a new election. He defeated his antinuclear opponent 6,800 to 5,800—in a vote making headlines throughout Japan as a pacesetter.

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## **Morocco hits Qaddafi destabilizations**

Moroccan Foreign Minister Mohammed Boucetta on May 12 denounced the danger Libyan strongman Muammar Qaddafi poses to northern Africa. During a three-day official trip to Washington, D.C., Boucetta demanded that the U.S. government "become aware of the Libyan danger which threatens Morocco." Libya has become the main arms supplier

to Polisario, a group engaged in guerrilla warfare with Moroccan forces.

Morocco has launched a diplomatic offensive against Libya, sending envoys around the world to expose Qaddafi's activity throughout northern and central Africa.

The Moroccans charge that Qaddafi has established secret air bases in Chad, Mali, and Mauritania to further his subversive activities in nations with Islamic populations or nomadic populations bordering the Sahara. The Moroccans are also charging that Qaddafi is building up his Pan-Islamic Legion, a mercenary force which Qaddafi is liberally arming with largely Soviet weapons to carry out his designs in Africa.

Ahmadou Niass, known as the "Ayatollah of Senegal," was arrested last month in Niger, which is one of Qaddafi's targets, according to the French daily *Le Figaro*. Niass, now living in Libya, is known in the region as a recruiter for Qaddafi and one of the principal Libyan agents in charge of Qaddafi's subversion apparatus in western and central Africa, according to *Le Figaro*.

## ***IMF prepares to destabilize Zambia***

The IMF's restructuring of the Zambian economy is creating the conditions for the destabilization of Zambia and the possible downfall of President Kaunda.

Kaunda "appears increasingly cut off from the realities of his embattled country and shows no sign of deviating from policies that have manifestly failed," claims the London *Observer* this week.

The *Observer* was referring to the fact that much of the Zambian bureaucracy is fighting to develop the country, and rejects the guidelines of the IMF's conditionalities. The Bank of Zambia, for instance, had moved against the dictates of the IMF and proceeded to construct the large Tika iron and steel project. But in order for Zambia to receive the latest 800 million SDR loan, Kaunda had to agree to disband the entire project. Kuanda is

now under heavy pressure to curb such prodevelopment tendencies in his country.

## ***M-19 trials called 'unserious'***

The Colombian military's handling of the ongoing trials of more than 70 M-19 terrorists came under attack from Colombian Attorney General González Charry last week, who charged that the proceedings were characterized by "disorder and total lack of seriousness."

Charry singled out the fact that the terrorists were using their trial as a propaganda arena and their jail cells as public relations offices. "I don't understand how—given that an incommunicado ruling applies to prisoners—a prisoner arrested one day could appear the next day on all the TV stations making statements as if he were the president of the republic."

Charry, an outspoken opponent of the powerful drug legalization forces in Colombia, has also been the first public official to denounce the farcical court proceedings in which the terrorists have sung songs and marched out of the courtroom on the slightest pretext. International "human rights" organizations like Amnesty International are "observing" the trials, allegedly to protect the prisoners but in actuality to provide a cover for their antics.

The overall effect of the trials has been to turn assassins and kidnapers into romanticized "political prisoners." In fact, this week it was announced that several of the M-19 leaders in jail have gone on hunger strikes à la Bobby Sands to "express their solidarity with the Colombian working class."

The media has also done its part in this scenario. A lengthy interview with M-19 chief Carlos Toledo Plata in the latest issue of the popular weekly magazine *Cromos* featured the kidnapper and murderer as a charismatic, silver-haired guru who likes to preach national redemption.

## ***Briefly***

● **JACQUES ATTALI**, rumored to be the next French health minister, is an advocate of euthanasia as state policy. Claude Cheysson, possible foreign minister, is the European Communist commission for Third World affairs; he supports Brandt Commission/World Bank policies. One of the leading candidates as prime minister, Pierre Mauroy, major of Lille, is a strenuous advocate of a decentralized government and economy, and "regional identities," which he refers to as "the Swedish way" but is closer to the Pan-European Union's program.

● **KING HASSAN** of Morocco sent an emissary to the Kremlin May 6 to discuss questions of "mutual interest," according to a Soviet announcement. Details were not released, but the messenger was received at the highest level, by the Soviet Prime Minister, Nikolai Tikhonov.

● **CHINA** is busy making badges for the inheritor of British imperial tradition, Queen Elizabeth. According to travelers' reports, badges bearing the image of the monarch are being sold in the city of Suzhou near Shanghai. Her Majesty was invited to visit China at her convenience last month by the Peking regime.

● **BAGET BOZZO**, an influential Italian socialist priest, commented in a May 14 interview on the attack against Pope John Paul II: "We are watching very rapid changes in the world. All the key figures have been hit, from Reagan to Giscard; Schmidt could be another victim, or U.N. President Waldheim. Very deep forces are operating in the world, forces that are changing history but are too deep to be perceived." Asked about the Aquarian Age, he said, "Yes, I have been thinking for 20 years that the Church will die. Maybe it will resurrect, but it will be less hierarchical, less authoritarian."

## The political shape of the budget maneuvers

by Richard Cohen

Last week, President Ronald Reagan may have made the most serious political and economic blunder of his administration thus far. Close observers of Capitol Hill winced when, following the decisive victory of the President's budget on the House floor, Reagan operatives immediately sent out signals that the President was prepared to spend his political capital for a second round of austerity measures.

Sources close to the White House reported that the May 12 administration announcement of Social Security cuts was not the only new budget cut in the offing. Office of Management and Budget Director David Stockman is privately calling for an additional \$6 billion cut in the 1981 budget, a direct confrontation with Senate and House authorization targets on the new agriculture bill, and a series of defense cutbacks.

The administration's latest budget-slashing orgy threatens to transform Reagan's budget success into a complete disaster, by pitting him against the very constituency groups that were key to his election, and by further undercutting the possibility of U.S. economic recovery. One by one, labor, the elderly, farmers, homebuilders, small businessmen, and other generally pro-Reagan layers are being forcibly alienated from the President by an economic policy that will further undercut their already declining living standards.

The growing disillusionment and dissatisfaction caused by the administration's economic policies is playing right into the hands of the Socialist International, which is now in the process of organizing a series of major confrontations with the administration over budg-

et and tax policy. Their aim: "Hooverize" Reagan.

Leading congressional Democratic liberals Tip O'Neill and Morris Udall have both put out the word that as a result of this latest round of administration budget cuts, Reagan would be as unpopular as Jimmy Carter was in 1980 and the liberal Democrats could look forward to a smashing comeback.

Exactly this scenario was laid out at the Socialist International's high-level conference in Washington, D.C. last December. There, at a meeting which brought together such leading lights of international socialism as Willy Brandt, François Mitterrand, Olof Palme, Tony Benn, and a host of American leftists, a strategy for "Thatcherizing" Reagan was devised. The strategy was based on the assumption that Reagan's economic naiveté would permit him to be manipulated into supporting massive budget cuts à la British Prime Minister Margaret Thatcher and backing Federal Reserve Chairman Paul Volcker's high interest rates. The Socialist International would then seize upon the ensuing economic and political uproar both as a battering ram against Reagan and a vehicle for pursuing their plans for a socialist takeover of the country's institutions. Conference participants were confident that, as one put it, "Reagan is just stupid enough to fall into the trap."

Judging by the administration's economic-related decisions of the past week, the Socialist International's prediction was unfortunately on target.

The most obvious example was the administration's proposal to cut Social Security—the first time in the system's history that this has been attempted. On May

12, administration spokesmen announced that over the next five years, \$24 billion will be cut in Social Security expenditures, affecting approximately 70 percent of those projected to be eligible for benefits.

Several days earlier, the Senate passed by a small majority a proposal tacitly approved by the White House to cut \$7 to \$9 billion from the Social Security budget by reducing cost-of-living (COL) increases. A COL cut in any area of federally sponsored programs would lay the precedent for cutting all such programs and soon could lay the groundwork for similar cuts in the private sector. This Senate threat provided the backdrop for the administration's more politically "acceptable" proposal to reduce the benefits for those on disability and those retiring before age 65.

Beyond this severe and dramatic cut in the so-called safety net, the administration was gearing up for immediate, direct moves to lower authorizations for wheat, cotton, and milk supports already passed by the House and Senate Agriculture Committees. And rumors are circulating that the administration plans to unveil a new five-year defense plan which is reportedly being put forward to cover up significant cuts being made in the fiscal year 1982 military budget.

This latest round of budget cuts has already provoked a loud public outcry. Even Republican members of Congress are unhappy with the proposed Social Security cuts. Florida Republican Sen. Paula Hawkins reports that her office has been swamped with calls hostile to the Reagan proposal and that she has personally joined the opposition.

The Socialist International's networks have been quick to exploit the uproar. In Washington May 13, a coalition called Save Our Security (S.O.S.) held an emergency meeting to map out strategy for lobbying against the administration's proposed benefit reductions. The group's head, Wilbur Cohen (who helped erect the "Great Society" as Lyndon Johnson's HEW secretary), told the *New York Times* that the Reagan program would have "disruptive consequences equal to Watergate in its impact on individuals' attitude toward government" by making them question the reliability of all government-sponsored programs.

Cohen's use of the word "Watergate" is suggestive of another operation Socialist International networks are now developing: "Reagagate." A series of scandals involving the President's inner circle is being set to go off, and the hope is that Reagan's popularity will have been so adversely affected by his economic policies that even his natural constituencies won't rise to his defense.

Bolstered by François Mitterrand's victory in the French presidential elections, the Socialist International is expected to lay out major new anti-Reagan initiatives at a conference in Philadelphia May 22-25 sponsored by one of its U.S. affiliates, Michael Harrington's Demo-

cratic Socialist Organizing Committee (DSOC). The theme, according to DSOC representatives, will be that the left-labor-liberal coalition is not dead and that socialism is about to be revived in this country—partly as a popular reaction against Reaganomics. Significantly, the original author of the "Thatcherize Reagan" game-plan, British Labour Party leader Tony Benn, will be a featured speaker.

Meanwhile, a slew of self-styled grassroots organizations opposed to the Reagan budget are springing up, and several—including the left-leaning National Association of Farmworker Organizations and the Nationwide Action for a Fair Budget—have already held demonstrations to protest Reagan's budget cuts. These smaller demonstrations are serving as feeders into the mammoth protest which the AFL-CIO—whose president, Lane Kirkland, is a top Socialist International agent—is planning for September.

### **Interest rates: the crucial question**

The worst irony in the latest round of budget cuts is the administration's claim that they are necessary because rising interest rates are causing deeper budget deficits. Rather than dump Volcker and his deliberate policy of wrecking the U.S. economy by cutting off vital credit, Reagan instead is apparently still firmly wedded to the fraudulent idea that high interest rates are necessary to control inflation—an idea assiduously promoted by all of his top economic advisers and welcomed by the Socialists as the key to Reagan's undoing!

Unfortunately, the anti-high-interest-rate pressure that was being exerted on the administration by Western Europe, particularly France and West Germany, has been severely undercut by the victory of Socialist International vice-chairman François Mitterrand. This development means that constituency groups in the United States—and their representatives in Congress—are going to have to take far greater responsibility for forcing Reagan onto an anti-high-interest-rate track—a move that would not only short-circuit the social democrats' destabilization schemes, but help ensure the economic revitalization that Reagan promised.

Key in accomplishing this are the moderate Democrats in Congress, who have been caught between the Stockmanite budget-slashers and the left-liberal confrontationists. Moderate Democrats, such as Rep. Jim Wright (D-Texas) and House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.), are currently fixated on working out a tax-cut compromise with Reagan and have totally neglected the most crucial issue of the economy—interest rates.

Like Reagan, their only real hope of surviving politically is to take the issue head on, mobilizing the intense anti-Volcker sentiment throughout the country into an effective—and winning—direction.

# Leadership needed to save breeder, NASA

by Marsha Freeman

The House Committee on Science and Technology passed a budget amendment on May 7 killing the Clinch River Breeder program (CRBR) and seriously undermining the Reagan administration's stated commitment to a reinvigorated nuclear energy development program. The decision is a slap at the President directly, and at Senate Majority Leader Howard Baker (R-Tenn.), in whose state Clinch River is located. Ronald Reagan himself, during the presidential election campaign last August, had pledged his own support for the Clinch River Breeder Reactor.

The defeat of the CRBR was apparently the result of an alliance between antinuclear Democrats like Richard Ottinger (N.Y.), indiscriminate GOP budget-cutters, and freshman congressmen who had been bamboozled into voting research and development programs like CRBR out of existence. The defeat of the United States' only large-scale program for development of a commercially feasible liquid metal fast breeder reactor would put the nation years behind the Soviet Union and France in this technology. The breeder is important because it produces more fuel than it consumes, assuring a greatly expanded supply of uranium fuel to power conventional reactors.

The next chance to restore the budget cuts for the breeder and other advanced technology programs will come when the Senate begins its own markups. It is hoped that the administration, and the progrowth Democrats and Republicans in Congress, will exercise leadership to reinstate the programs cut, and begin to reverse the decline of America's technological leadership.

## Paring down R&D

The committee decision to kill the breeder is part of the larger attack on basic R&D, cuts in NASA's funding, including the fifth orbiter in the Space Shuttle program, the Spacelab, and reinstatement of solar energy programs and some fossil-fuel energy conservation measures.

In the latest round of jockeying over the Reagan budget, the subcommittee on Energy Research and Production, chaired by Rep. Marilyn Bouquard (D-

Tenn.), had attempted to add funds onto the \$460 million Reagan budget request for fusion and advanced nuclear programs, cut down from the \$525 million originally requested by the Carter administration. The subcommittee added \$14.7 million for fusion, \$40 million for the high-temperature gas-cooled reactor (HTGR)—which had been cut out completely—and added funds for the cleanup of the Three Mile Island nuclear plant.

But House Science and Technology Committee Chairman Don Fuqua (D-Fla.), in a meeting with all the subcommittee chairmen, negotiated a compromise with "soft technology" advocates that took out \$191 million for nuclear programs in the budget request marked up by Bouquard's subcommittee, and added \$109 million to solar, energy conservation, and fossil fuels programs. As the final blow, the \$225 million that was authorized for the Clinch River breeder was terminated on the basis that fiscal constraints could not justify spending the money on the breeder program.

The irony is that, in their fervor to make sure that appropriations stay in line with OMB Director David Stockman's irresponsible budget, the congressmen have failed to realize that it will cost more in FY 1982 to terminate Clinch River than to proceed with construction. For example, equipment costs that would have been spread out over years will now have to be paid off in one chunk to industrial suppliers.

## Outcutting Carter

Such a lack of foresight has permeated the whole budget-making process. There has been a lack of leadership on the part of senior Republican congressmen who are ostensibly committed to carrying out the Reagan administration's pledges to revitalize the U.S. nuclear program and proceed with development of its fusion program. Even such pronuclear, prodevelopment congressmen as Sen. Harrison Schmitt (R-N.M.), Representative Bouquard, and Representative Fuqua have capitulated to the notion that cutting the budget, thus decreasing the possibilities for economic recovery through increased industrial production and scientific research, will somehow stem inflation.

The result has been a science budget that makes the bare-bones Carter budget look opulent. For example, the NASA budget under Carter was to be increased in FY 1981 by 22 percent, up to \$6.7 billion. Stockman will authorize no more than \$6.1 billion, on the basis that the United States cannot "afford" long-term research and development programs—and this despite the recent successful launching of the Space Shuttle. Other programs, like the NASA Project Galileo planetary flyby and joint NASA-European Space Agency Solar Polar Mission, appear to be doomed before they ever get off the drawing board.



# Suzuki's U.S. visit involved more than armaments talks

by Richard Katz

When Japanese Prime Minister Zenko Suzuki met with President Reagan and Secretaries Haig and Weinberger on May 7-8 in Washington, most of the attention focused on U.S. pressures on Japan to undertake a bigger and more rapid defense buildup than the internal political situation in Japan permits. Just as important, though little noticed, was Suzuki's pressure on a reticent Ronald Reagan to continue Jimmy Carter's China Card policy.

During the question-and-answer session at a May 9 appearance at Washington's National Press Club, Suzuki declared, "To see that China remains moderate and cooperative will be instrumental to peace and stability in Asia and therefore of the world. China, I believe, must be kept as a *member of the Western alliance* [emphasis added]."

Observers were struck by Suzuki's characterization of China as an ally, not just a friendly country, since President Reagan, unlike Haig, has not accepted that concept and is reluctant, for example, to build up China's military capacity. Japanese sources report that in their 90-minute private meeting, Suzuki urged Reagan to continue "close ties" to China.

The China question highlights the two opposed concepts of Japan's defense role now circulating in Washington (see page 46). One view regards Japan's increased military role as an element of the China Card in a Washington-Peking-Tokyo triangle. The Haig-Weinberger group in the administration holds this view. Suzuki, say Japanese sources, referred to "alliance" with China because he agrees with this concept, though he is reluctant to see China be built into really significant military power.

The alternate concept regards Japan's growing defense posture as partly a natural outcome of its growth as a political-military power, partly as a response to diversion of U.S. Pacific forces to the Indian Ocean/Persian Gulf region, and conceives of it primarily in bilateral U.S.-Japan terms. It is viewed as an alternate U.S. strategy to the China Card. Washington sources say Reagan takes this point of view.

A foot in the door for the Washington-Tokyo-Peking approach to Japanese rearmament is the effort to move Japan from its constitutionally mandated self-defense-

only posture to one of regional military responsibilities. Weinberger has openly pushed Japan to make this shift, proposing that Japan take responsibility for sealane defense for the entire Northwest Pacific extending as far as the Philippines and Guam.

Despite Foreign Minister Masayoshi Ito's warning to Weinberger during their March meeting that a "regional defense" policy was politically impossible at present in Japan, Weinberger publicly repeated the demand. In an April 28 speech a week before Suzuki's arrival, Weinberger declared, "The increasing threat to Japan, and to freedom everywhere, clearly requires significantly greater self-defense efforts in the *Northwest Pacific* area. . . . We necessarily are concerned that Japan's capability for self-defense at this point remains short of what is clearly required [emphasis added]." Weinberger's rationale is that Japan must fill the vacuum caused by diversion of U.S. forces.

Suzuki has hesitated to agree to Weinberger's demands in public. He stresses that if his administration pushes the regional defense role faster than a "consensus" for the policy can be built among Japan's pacifist population, then the ruling Liberal Democratic Party (LDP) will lose to the Japan Socialist Party, an opponent of rearmament. Taking note of Suzuki's arguments, Reagan told Suzuki, "it will not be our policy to pressure Japan" on this issue.

Japanese sources point out that in private Suzuki agrees with the Weinberger proposal. Indeed, at the National Press Club appearance, Suzuki agreed in principle to the "filling in the vacuum" principle in expanding Japan's naval role. However, he did not include other countries like Guam or the Philippines.

At home, Suzuki is moving to rearm faster than indicated by his public comments and trying to build the prodefense consensus. The LDP has appointed a committee to consider revising Japan's "no-war" constitution. According to Japanese sources, Suzuki urged Reagan to endorse Japan's demand that the U.S.S.R. return four small islands taken after World War II, a demand aired in government-funded Japanese TV commercials to help build up the rearmament mood.

Despite Suzuki's ostentatious protest over Reagan's lifting of the grain embargo and his warning that he might not be able to resist business pressure to end Japan's own post-Afghanistan embargo against the U.S.S.R., Washington sources say he pledged to maintain Japan's sanctions.

The Suzuki administration has also quietly cooperated in Haig's China Card activities by providing timely financial bailouts to the Deng Xiaoping regime in Peking and abundant foreign aid to both Thailand and the Chinese-run Pol Pot forces in Kampuchea. Nonetheless, public resistance in Japan will limit the pace at which Suzuki can move.

# Attacks on IBT pave way for Reagangate

by Richard Magraw

Barring full-scale government interference, Roy L. Williams, international vice-president from Kansas City, will become the next president of the International Brotherhood of Teamsters (IBT) at their convention in June. The death of Teamster president Frank Fitzsimmons and the recent endorsement of Williams's candidacy by his potential rival, Jackie Presser, the international vice-president from Cleveland, would normally be enough to ensure Williams's success.

But forces around the Socialist International, as well as their Trojan Horse conservatives, exemplified by the Heritage Foundation, have chosen the issue of a Williams Teamster presidency to attempt to blackmail Ronald Reagan into undercutting his own labor support.

Over the next several weeks this issue will determine whether President Reagan follows through with his mandate for a labor-industry alliance to rebuild the country, or whether he will be trapped into an antilabor stance.

The prospect of a powerful Teamsters union led by Roy Williams, whose style is more like Jimmy Hoffa's than Frank Fitzsimmons's, has brought together every Fabian journalist, union dissident, and Justice Department official to try to prevent Williams from taking the presidency. The "trial-by-press" media are barraging the American public with a rehash of unsubstantiated charges and innuendo of corruption and "organized crime" connections dating back to the McClellan Committee and Robert Kennedy's Walter Sheridan-run "Get Hoffa" unit of the Justice Department.

Unless the Reagan administration takes on this renegade Justice Department operation against the Teamsters, they will find themselves with a choice between accepting indictments which have no merit, but which will drag the White House into the muck, or rejecting the indictments and leaving the administration open to "Reagangate" charges of coverup.

## Pendorf and the media

The potential Williams indictments are based on the so-called Pendorf (Pension-Dorfman) investigation. Pendorf had long been considered a dead case, even by

the unscrupulous Carter administration, for lack of evidence. It was revived when Williams began to figure prominently in the bid for the Teamster presidency.

The media have put the Pendorf story on the front pages in an effort to pressure the Reagan Justice Department into moving for indictments against Williams. The May 11 *Washington Post* featured a front-page story noting "any indictment of Williams now could be an embarrassment to the Reagan administration because of its close connections with the nation's largest union." Gossip networks in the media assert that Williams could be indicted in Chicago, St. Louis, Milwaukee, Kansas City, and Las Vegas.

Evidence linking Roy Williams to any wrongdoing is at best purely circumstantial, such as association with persons who might be indicted. The *Washington Post* admits that the Justice Department had "investigated but declined to prosecute Sen. Howard Cannon (D-Nev.)," Williams's supposed partner in crime.

The level of media pressure on the Justice Department reached outright harassment levels when the *New York Times* Washington, D.C. night editor, Irvin Molotsky, called the head of the Criminal Division, Assistant Attorney General D. Lowell Jensen, at 11:00 p.m. to badger him about whether or not they would indict Williams—after Jensen had said that a decision would not be forthcoming for several weeks.

At the same time, the Senate Permanent Subcommittee on Investigations (SPIS) is rushing into print a booklet on the Teamsters, corruption and "organized crime" with a chapter on Roy Williams. Morty Steinberg, former Buffalo Organized Crime Strike Force chief and counsel to SPIS, stressed that the booklet would be out in time for the Teamsters convention.

The Senate Labor Committee, whose minority head is Kennedy, is still staffed by Walter Sheridan. Sheridan continues to keep up the scandal pressure on the Reagan administration through investigations into the Department of Labor and the Teamsters Central States Health and Welfare and Pension Funds.

Finally, the orchestration includes the Teamster dissident organizations PROD (a Ralph Nader creation) and TDU (run by the International Socialists), whose spokesmen are liberally quoted by the media, and themselves conduit Justice Department slanders.

A break from the media smears appeared in Jack Anderson's May 13 column, which blew the whistle on the FBI's illegal business transactions. Anderson cited a July 27, 1978 memo written by Assistant Attorney General John Harmon that "discusses ways to lend a protective legal cover into the FBI's outlaw activities." The column describes how the FBI broke existing laws by creating businesses, making loans, and making profits that were used to finance "sting" operations in Abscam and Brilab.

## In defense of Davis-Bacon

*GAO may claim it inflationary, but on close examination the opposite proves to be the case.*

As Congress opens hearings on a number of bills to repeal or amend the Davis-Bacon prevailing wage law, various arguments and studies will be bandied about, providing a lot of heat, but not much light, on the merits of the question.

The main arguments being waged by conservatives, buttressed by General Accounting Office reports and Heritage Foundation recommendations, are that the Davis-Bacon law leads to low productivity and inflationary wages in the construction industry.

The highly touted GAO report admits that it is based on an unscientific survey. The report's ideological supporter, the Heritage Foundation, has provided the underpinning for the Stockman-Volcker wing of the Reagan administration. The Heritage orientation has undercut support for Reagan both from vital constituencies like labor, and for policies of economic growth.

Several scientific reports, including one done by the MIT School of Engineering, proves that the GAO report is fraudulent and that if prevailing wages are lowered or eliminated, productivity will collapse. Contractors paying lower wages would have to employ more labor to do the job.

Wages in construction as a percentage of overall costs have fallen rapidly over the past few years. While a dramatic increase in costs of materials, equipment, interest

rates, land, mortgages, and financing has occurred during the 1974-79 period, real wages in construction have fallen by 12 percent.

The Davis-Bacon Act was originally enacted in the 1920s under a Republican administration and Congress as a means to undercut the chaos existing in the construction industry. At that time, vicious underbidding, low wages, shoddy construction, and hit-and-run contractors were dominant.

Today, states which have eliminated "little" Davis-Bacon laws are faced with the same chaos in construction as in the 1920s. Over 50 municipalities are suing nonunion, outside contractors for shoddy construction and violations of contracts. In these locales, deaths and increasing injuries which cause lower productivity are commonplace.

The destabilizing effects on the construction industry that Congressman Bacon, a Republican banker from New York, was trying to combat in his introduction of Davis-Bacon are cited today by the National Electrical Contractors Association in defense of the law. In a lengthy statement, they said, "The law acts to stabilize the industry and provide government and the American taxpayer with value for each construction dollar spent. It is not inherently inflationary. Indeed, a strong case can be made that it actually brings down construction costs, while maintaining

quality in the actual work. . . .

"What happens if Davis-Bacon is removed? If a contractor bids a job extremely low, based on undercutting prevailing wages in one or more trades, he is simply not going to get skilled employees to man the job. And with unskilled personnel . . . the result is going to be an incredible dropoff in productivity, [or] a slowdown in construction. . . .

"Lower productivity or job delay mean increased costs to the owner. . . . Davis-Bacon, by requiring the payment of the prevailing wages, assures that quality workers will be on the job, that productivity will not be drastically reduced, and that the construction schedule and building quality will not suffer."

The Reagan administration's commitment to cut through government regulations that undermine productivity and growth in American industry is to be applauded. However, recent deregulation cases should warn the President that moves in this direction should be carefully considered. Leaders in the airline and trucking industries are pointing the finger at dereg for creating bankruptcy and chaos and for *reducing productivity*.

Obviously, any regulations that hold up the construction of a nuclear facility for 15 years are ridiculous and should be set aside, as should other environmentalist roadblocks to economic growth.

The most important metric that must be used in determining the viability of a regulation is the effect it has on the overall rate of productivity of the economy. In this light, the case for Davis-Bacon overwhelmingly and absolutely corresponds to the economic goals of the White House.

## A major setback in France

*Here are some sobering thoughts on the implications for the future development of nuclear energy.*

**P**ossibly the worst impact of the election of Socialist François Mitterrand in France will be the future of the French nuclear program. The implications are sobering. France, under conservative, progrowth governments, had responded to the 1973 oil price manipulation with what is now the world's fastest growing nuclear program. Let's look at what's at stake, both for France and for the world's energy supplies.

Totally import dependent for its oil, France under the Giscard government committed itself to construction of a total of 47 nuclear plants that will produce more than 60 percent of its electricity. By contrast, the United States today produces only about 11 percent of its electricity with nuclear, and the future of the industry is doubtful, despite pronuclear statements by the Reagan administration.

An indication of the importance the Giscard government placed on being the world's pace-setter during the dog years of the Carter administration is the fact that André Giraud, former head of the French Atomic Energy Commission, was minister of industry. Indeed, over the past two years, the nuclear industry was the only sector of the French economy to show real growth.

I will not go into the history of the creation of the French nuclear program during and after World War II by a group of scientists as-

sembled by the late Gen. Charles de Gaulle. Suffice it to say that as a result of those efforts, the world has a technological chance to make it to 2000 with enough energy.

France, in addition to now being a strong number two after the United States in terms of nuclear capacity, has the world's most advanced nuclear fast breeder program. It has had one prototype breeder generating electricity for almost eight years. The 1,200 megawatt Super-Phénix breeder is scheduled to come on line in 1984. But the U.S. Clinch River Breeder Program still remains a political football.

Giscard, in speaking of the amount of energy the breeder will produce by "breeding" fissile fuel, said, "If the uranium mined in France were one day to be used in breeder reactors, France's energy potential would be comparable to that of Saudi Arabia."

While recycling and reprocessing unused uranium fuel from fuel rods remains in limbo in the United States, France's government recognized that reprocessing was an intelligent way to expand its energy supply. Reprocessing, as Giscard understood, is the solution to the problem of so-called nuclear waste: reprocess 97 percent of it. But aside from the limping British facility at Windscale, France's La Hague is the only major reprocessing facility in the West.

Wisely, France also built the

first uranium enrichment plant, Eurodif, at Tricastin, with participation of Italy, Spain, Belgium, and pre-Khomeini Iran.

Only two months ago, France's major nuclear reactor manufacturer, Framatome, renegotiated its licensing agreement with Westinghouse, giving it the freedom to export its reactors without prior consent of the U.S. Congress (under Percy-Glenn restrictions). With 60 reactors built, under construction, or on order, Framatome has become the world's largest reactor and steam generator manufacturer.

More reactors began operating in France in 1980 than in *all* the rest of the Western world. And France is able to complete a reactor in slightly over five years, through standardization and cumulative experience. France has also begun to anticipate the new export freedom by negotiating with Egypt, Mexico, Taiwan, and South Korea.

Now all this may be down the drain. The Socialist-connected Paris daily *Le Matin* reported May 14 that Mitterrand, who downplayed his antinuclear stance to win election among France's heavily pronuclear population, has announced the immediate suspension of five nuclear plants now under construction, and has ordered indefinite delay of six to seven plants for which siting had been completed. Not until 1982 will Mitterrand consider resuming building the various plants. While *Le Matin* reports that the people living in the vicinities of the affected plants are planning protests against the loss of jobs and potential energy supplies, the impact of seven years of a Mitterrand presidency can only be compared to the four years of the decidedly antinuclear Carter presidency.

## Dragging in and rolling over

We can tell you how the Democratic leadership's surrender on the budget issue is affecting the state party organizations. We were present at an attempted dinner-meeting of the Maryland Democratic Central Committee at the Baltimore Holiday Inn. This was the evening after the House Democrats bolted en masse to the Gramm-Lotta compromise. Although the party had planned to seat 150 or more, only 80 delegates and observers attended. The moderate Montgomery County delegation chose to eat at a restaurant in isolation from the rest of the party.

After dinner ended at 7:30, the party stalwarts took on the major issue confronting them: their inability to raise the 40 percent attendance required for a quorum.

This meeting was the third attempt to hold a legally recognizable central committee meeting, and the party had gone all out.

The meeting was widely advertised, dinner was served with eclairs for dessert (dessert being a very important consideration in the state party hierarchy), a seven-foot University of Maryland basketball celebrity was on hand; former Kennedy activist Karen Kuker-Kiehl, one of the "coming young Democrats," was there in a see-through blouse and a high slit skirt; but still, no quorum could be raised.

At 9:00 p.m., an elderly woman was carried in from her sickbed and the Baltimore delegation discovered a few more additional votes without benefit of new bodies entering the meeting room, but there was still no quorum.

At this point, a fresh approach was attempted. It was suggested

that the party constitution be amended to reduce the quorum requirement below 40 percent, or, at the very least, expel central committee members who failed to attend three attempted meetings in a row.

State party chairwoman Rosalie Abrams, a liberal spokesman and national party heavyweight, sadly informed the assemblage that the constitution required 51 percent attendance before the rules could be changed.

Finally, at about 9:30, a man in a banana-curl wig arrived, and it was announced that the quorum had been raised.

A soon breathless Rosalie Abrams called it a "sad day for the Democratic Party. . . . My slogan, the slogan for the state party, and I believe the slogan of the national party should be, 'You don't roll over until you're dead.' What happened in the House is we're not dead yet, but we just rolled over."

One delegate, speaking for himself, and perhaps the entire rural eastern shore region, which was absent, confided, "I don't want to discourage you with negativism, but I have a real problem with these people in the Maryland party leadership. I disagree with everything they say and do."

## Inchon premiere a lunar success

If downright liberal weirdness has alienated the Democratic Party base, how are the conservatives doing? I am now examining the possibility that a number of conservatives in the military, on Capitol Hill, and in the administration have gone gaga and are literally howling at the Moon—Sun Myung Moon, that is, of the Unification Church.

At the very least, many prominent figures have been suckered

into supporting a \$46 million movie extravaganza, *Inchon*, produced by Moonie Mitsuharu Ishii, financed with a "substantial investment" from the Japanese Unification Church, promoted by the Moonie organization in the United States, and advised by Sun Myung Moon.

U.S. political figures in this scam are in prominent company. The Moonies enlisted Laurence Olivier to play the starring role, Gen. Douglas MacArthur. Terence Young of James Bond film fame was the director. Robin Moore wrote the screen play. Other members of the cast are Jacqueline Bisset, Ben Gazzara, David Janssen, Toshiro Mifune, and Richard Roundtree.

As in the case of Moonie street-corner solicitation, support from prominent political figures was elicited on the basis of a "worthy cause" other than the Moonie brainwashing cult itself.

Surprisingly, however, backers of the film are not claiming ignorance of the Moonie involvement in the production.

According to Jim Gavin, the executive director of the First Amendment Research Institute who organized a gala world premier for *Inchon* at the Kennedy Center for the Performing Arts, politicians were asked to endorse the premier as a benefit for Carl Vinson Hall, a residence for retired armed services officers, their spouses, and widows. Gavin insists that all the "Honorary Committee members" listed on the premier invitation and program know about the zombie cult's involvement.

Jeff Noah in Rep. Robert Garcia's office justified the congressman's support for the Moonies by saying, "Because they're bad in one thing doesn't mean they're bad in all things." But he would not say what was not bad about *Inchon*.

## Garcia gives platform to Global 2000 hoax

The first congressional hearings on the *Global 2000 Report* were held May 12 by Rep. Robert Garcia (D-N.Y.) in the Census and Population subcommittee of the House Committee on Post Office and Civil Service he chairs, to explore the "need for immediate attention to the interrelationship of environmental and population issues," including population reduction that the *Global 2000 Report* demands.

The subcommittee conducted its hearings amid charges by the National Democratic Policy Committee that "the *Global 2000 Report* is a hoax." "The NDPC formally requests," a spokesman said, "that this be the end of congressional consideration of the totally hideous doctrine of population control of Global 2000."

Five Global 2000 advocates testified first. Richard Ottinger (D-N.Y.), supporting Global 2000 and his own bill H.R. 907, which proposes the establishment of a "national population policy," said that the "greatest cause for war in the future is the pressure of population growth." Lester Brown, president of the Worldwatch Institute, claimed that production of food was dropping, population was growing, and that this was a fundamental cause of inflation. "There is no solution to inflation," Brown said, "unless we get the brakes on population growth."

Arnaldo Torres, representing the United League of Latin American Citizens (LULAC), expressed his "total agreement with Global 2000 in concluding that demand cannot be satisfied. . . . We must all be educated to realities of hav-

ing less to give to more that want."

Marshall Green, director of the Population Crisis Committee, testified that American republican institutions of government "were originally designed for a much smaller society," and that population growth was "imposing strains on our own governmental institutions." Ned Dearborn, a staffer for the Global 2000 study, called for greater coordination between budget policy, through the Office of Management and Budget, and population policy.

## Senate panel to boost DIA?

In its report to the Senate, accompanying its secret intelligence community authorization proposals, the Senate Intelligence Committee has recommended a major upgrading of the Defense Intelligence Agency. Released on May 8, the report states, "If the benefits of 'competitive analysis,' a concept which both the administration and the committee strongly support, are to be realized, it is imperative that the DIA have analytical capabilities comparable to its sister agencies."

The authorization for fiscal 1982 would enable the DIA to implement a wide range of personnel measures designed to attract and retain high-quality analysts. The proposal has provoked widespread debate, both in the committee and in the intelligence community. Especially concerned is the CIA, which fears a diminution of its role, and which was criticized in the report for the first time for weaknesses in certain areas.

This report is the first released

under the chairmanship of Barry Goldwater (R-Ariz.) in the Intelligence Committee.

While most other intelligence agencies suffered serious downgrading in the intelligence community reforms of the 1970s, the DIA and the military intelligence agencies were left relatively untouched in terms of their ability to gather—but not share—counterintelligence information. This monetary upgrading, if approved by the full Senate and House, could put the DIA in a commanding position, both domestically and internationally, in terms of the factional infighting under way in the intelligence community.

## Helms defeated on food stamp votes

Senate Agriculture Committee chairman Jesse Helms (R-N.C.) was defeated in a series of Agriculture Committee votes as he attempted to cut back the food stamp program. Helms was consistently blocked by a coalition led by Senators Bob Dole (R-Kans.) and Patrick Leahy (D-Vt.). Dole countered Helms's proposals with his own reform package which he claimed would save \$200 million more than the one proposed by the administration, but was not as draconian in cuts that affect children and the elderly.

Among other defeated Helms proposals (by votes of 14-3 and 13-2) were:

- cutting food stamp benefits for families whose children receive free school lunches;
- requiring mandatory "work-fare" for food stamp recipients;
- tightening eligibility require-

ments on recipients, which would remove several million people from the program.

Helms did win on an amendment to preclude striking workers from receiving food stamps.

## **B**ank industry hearing sidesteps key issues

Round two of the Senate Banking Committee's oversight hearings May 7 on the state of the banking industry turned into a case of "fiddling while Rome burns." Committee chairman Jake Garn (R-Utah) and various savings and loan association spokesmen consumed the entire discussion period consoling each other over the oppressiveness of federal government regulations and paperwork, generally ignoring the fact that the S&Ls and thrifts are on the verge of collapse.

The prepared statements of several witnesses detailed the state of the thrift industry, however. Richard Lawton, who represented the National Savings and Loan League, stated, "During 1980, the savings and loan industry had its worst earnings experience since the 1930s. 1981, however, may make 1980 look like a golden year." Stuart Davis of the U.S. League of Savings and Loan Associations pointed out the impact of sky-high interest rates: "Today's interest rates crowd out the small businessman and the young family. . . . Big business, big banks and big government can bid for funds at ever higher levels. . . . Small businesses, small municipalities, family farmers and the housing sector cannot. Inevitably, smaller financial institutions and their customers bear

the brunt of a credit crunch which leaves in its wake failed businesses, lost skills, increased burdens on government benefit programs, a cynicism toward economic policy-makers and untold human tragedy," he said.

Yet, despite this testimony concerning the impact of high interest rates, speculative money market funds, and potential deregulation of banking, the entirety of the discussion period focused on the costs and inconveniences of federal paperwork requirements.

## **A**nticrime block grants proposed for states

Representative William Hughes (D-N.J.) introduced the Justice Assistance Act of 1981 (H.R. 3359) last week, which will provide grant funds to states on a per capita basis for anticrime programs. Touted as a resurrection of the now-defunct Law Enforcement Assistance Administration (LEAA), the bill would establish an Office of Justice Assistance through which to render assistance to the states, who would then decide in which of 12 program areas the money would be spent.

Law enforcement specialists cautioned, however, that the 12 categories for assistance were not in traditional areas of police and law enforcement but, rather, reflected the "school of social work" type of assistance, including: community anticrime efforts, "sting" operations, arson control, white collar and organized crime work, career development, victim witness assistance, alternatives to jail and prison, treatment alternatives to street crime, prison overcrowding,

criminal justice training, planning, and prosecution management information systems.

## **S**ocial Security reforms already introduced in House

Even before the Reagan administration announced their proposals for Social Security reform May 12, Congress was reviewing changes in the Social Security law. Rep. J. J. Pickle (D-Tex.), chairman of the Social Security subcommittee of the House Ways and Means Committee, has introduced H.R. 3207 to reform the Social Security system.

Pickle's bill includes proposals to eliminate the minimum Social Security payments on a prospective basis, and to phase out the student Social Security payments in a similar manner so that those currently receiving benefits will not be affected. It also proposes that the long-term problems of the Social Security fund be solved by changing the age of retirement from 65 to 68 years.

The bill, put forward by such a high-ranking Democrat as Pickle, indicates that the severe austerity proposals of the administration will not run into much opposition from *some* Democratic quarters. Pickle, in fact, indicated that he thought the Reagan proposals were a good basis for compromise. Sources on the Senate Finance Committee have said that the committee will shortly draft its own bill and expect it to reach the Senate floor by the end of May. They anticipate that the legislation will include ending student Social Security benefits and the minimum rates for Social Security benefits.

# National News

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## McBride joins coalition against high rates

The chairman of the National Coalition to Reduce Interest Rates, Stan Hoynitski, has announced plans for a June 22 round of Washington lobbying against the Federal Reserve's credit policies. Hoynitski also announced that Lloyd McBride, president of the United Steel Workers of America (USWA), has joined the coalition's steering committee.

"We are convinced that unless President Reagan takes this interest-rate issue as an immediate priority item," Hoynitski stated, "no matter what he does with the budget or other important questions, his efforts to get the economy moving again will fail."

McBride's membership in the coalition, which was founded in March, will add momentum to its effort. A former member of the board of the Cleveland Federal Reserve Bank, McBride heads a 1.4 million-member union hard hit by the Volcker policies. Over 100,000 USWA members are now unemployed, as skyrocketing interest rates demolish the auto sector, and thus steel demand.

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## Lebanese-Americans applaud LaRouche

Six hundred Lebanese-Americans convened at a May 16 conference to deliberate and rally against the Syrian presence in Lebanon and demand U.S. action to restore Lebanon's sovereignty. The conference, which included members of the American-Lebanese League and the Syrian-Lebanese League, concluded with plans to translate into Arabic and circulate the policy proposal by *EIR* founder and National Democratic Policy Committee advisory council chairman Lyndon H. LaRouche, Jr., titled "Emergency U.S. Policy Toward the Endangered

Nation of Lebanon." Earlier, mention of the document brought a standing ovation from the audience; it had been published on the front page of the Lebanese-American newsweekly *Al-Itihad* and widely discussed at the conference.

LaRouche's proposal, published in the May 5 issue of *EIR*, centers on "full restoration of [Lebanon's] status as a sovereign, multireligious state, under the constitution and with the borders . . . existing prior . . . to April 1975," terminating the "asserted spheres of influence of both Syria and Israel within Lebanon's borders," and restoring a sovereign national government and military command to the country, as part of an overall economic development effort to turn the Middle East so-called Arc of Crisis into a zone of prosperity.

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## Congress to review animal rights?

Representative Ron Mottl (D-Ohio) is preparing to introduce legislation that would establish a congressional advisory committee to make recommendations on animal rights, according to *Feedstuffs*, an agribusiness weekly. The advisory committee would be given two years to study the issue and make recommendations to Congress ranging from meeting needs for research to regulatory action.

Knowledgeable Capitol Hill observers expressed surprise that Mottl, who has maintained a principled conservative progrowth congressional record, would lend credibility to a campaign widely known to be merely a new vehicle for an irrational attack on the U.S. livestock industry and high-technology agriculture generally. Observers note that Mottl has little familiarity with agriculture, and is probably being blackmailed around the 1982 election by the "consumerists" among his urban constituency.

Aides to the congressman confirmed that he has consulted with Dr. Michael Fox, director of the Humane Society's Institute for the Study of Animal Prob-

lems in Washington. Fox, a Briton, is a key mentor of the animal welfare activists and animal liberationists in the U.S., and author of *The Soul of a Wolf*.

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## Runcie lauds Global 2000 'consciousness'

Archbishop of Canterbury Robert Runcie, addressing the New York Episcopalian leadership at Trinity Church on May 11, gave his blessing to the Brandt Commission program for primitive technologies in the underdeveloped sector, and called for a British-American campaign for "global consciousness." Afterward, Runcie beamed when *EIR* correspondent Kathleen Murphy asked him about the *Global 2000 Report* and called it "an extremely useful document" and adding that the person who first showed it to him "must have been sent by God." The Anglican Primate lamented "the unfortunate conservatism of the Reagan administration," and insisted that "we citizens must have the will to force implementation of the Brandt Commission report."

Cyrus Vance, who attended the ceremonies, commented to *EIR* that both the Brandt Commission and *Global 2000* reports are "totally compatible and complementary," deploring what he termed the Reagan administration's lack of awareness that "one of the major problems we have to face is the North-South dialogue."

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## CFR urges increase in military outlays

The New York Council on Foreign Relations has issued a new report which calls for "substantial increases" in military outlays to bolster the ability of the United States to use force in unstable regions.

The report, issued May 13, recom-



mended a "sharp acceleration" in military spending to 6 percent of total national output. The Reagan administration has proposed an increase to 5.6 percent of GNP.

The 23-page pamphlet also urged sending arms to Afghan rebels, an "improved capacity" for covert action, and aid and training for regimes friendly to the United States to preserve their "internal security."

Citing the Persian Gulf as the most important strategic area in the world, the CFR document called for a rapid deployment force to protect it, adding that "the United States should again be ready and able to use military force in unstable or threatened regions.

On China, it warned against ruling out "the possibility of closer military collaboration" in the future.

## Enterprise zone legislation ready

Sources in Rep. Jack Kemp's (R-N.Y.) office report that Kemp's bill to create "urban enterprise zones" will finally be introduced this month.

The bill, which would create urban zones of Hong Kong-style low wage industry in ghettos, is cosponsored by Democrat Robert Garcia, who represents the South Bronx. Kemp's office says that they expect prominent Democrats to line up behind the bill, including Illinois Rep. Dan Rostenkowski, who has been meeting with Kemp privately.

Kemp's office says that it expects administration backing for the bill. They say that a decision was made to delay introduction so as not to interfere with the consideration of the budget. But other sources report that Kemp's office has been troubled by "persistent charges that the enterprise zone bill has a hidden agenda." These charges are bolstered by spokesmen for the Washington-based Heritage Foundation and former Fabian Society Chairman Peter Hall, both of whom say that the Kemp-Garcia bill is a

"foot in the door" for a much more extensive program.

## AEI unites with urban street gangs

The allegedly conservative American Enterprise Institute joined this month with ghetto street gangs, black cultural nationalist hoodlums, motorcycle freaks, and the Rockefeller Foundation in calling for establishing "free enterprise zones" in the nation's cities.

The AEI conference, which was funded by the ultraliberal Mott Foundation, featured speakers such as Sister Fatah of the House of Umoja in Philadelphia, a group closely linked to the Newark Temple of Imamu Baraka. Sister Fatah and her associate, gang leader "Fat Rob," explained to the gathering how they had successfully recruited many gangs into Umoja, and had begun to organize private security businesses using gang members as personnel. As a promotional effort for that project, Umoja has deployed its gang members to offer to change the house locks of anyone who wanted, though not many people have accepted yet.

Another gang present which expressed interest in getting into the protection business was the South Bronx-based Chitterlings, a motorcycle gang led by Flint Agosto. Agosto's ambitions were enlarged by Jimmy Hargrove, of the National Black Policemen's Association, who, after his retirement, intends to organize a string of protection companies nationwide using ghetto gangs.

The high point of the conference, though, was the final session featuring Bernard Anderson of the Rockefeller Foundation, Hugh Price of the *New York Times*, William Gray (D-Pa.), and White House adviser John McLaughry, who stressed the necessity of establishing urban enterprise zones, without licensing, zoning, or minimum wage laws, which would make businesses like Umoja possible.

## Briefly

● **JAMES WATT** met recently with Audubon Society president Russell Peterson, although the Interior Secretary had previously declined a meeting. Peterson complained to James Miller, an associate director at Stockman's Office of Management and Budget, who then pressed through the meeting. Stockman is known to agree with the environmentalists on the question of water projects and other internal improvements.

● **RICHARD RICHARDS**, head of the Republican National Committee, has rejected Democratic Party Chairman Charles Manatt's call for a bipartisan investigation into curbing the activities of independent political action committees, a probe many feared would be turned into a witch-hunt against groups not controlled by the "Eastern Establishment." Manatt says he will launch his own investigation anyway.

● **ROBERT TAFT**, former GOP senator from Ohio, a member of the executive board of the Population Crisis Committee, spoke before the Senate Foreign Operations Subcommittee May 14, fully endorsing the *Global 2000 Report*. "A few dollars in population control programs is worth hundreds of thousands of dollars in economic development aid," he said.

● **THE FUSION** Energy Foundation held a major conference in Washington, D.C. on May 13 on the "National Security Implications of Fusion Technology." Among the attendees were representatives of most executive departments and agencies, and various congressmen. Among those embassies represented were Belgium, Korea, Italy, the Soviet Union, West Germany, France, Canada, Czechoslovakia, Indonesia and Australia. From corporations were Mitsui, Kansai Electric, Litton Industries, Fairchild, Rockwell International, Bendix, and Lockheed.

## Mitterrand and terrorism

*Three assassinations and an attempt on the Pope follow the Socialist victory in France.*

As the result of last week's elections in France, security services world-wide are bracing for the most intensive wave of international terrorism in decades.

France under President Giscard had played a pivotal role for seven years in countering the activities of left and right terrorist bands throughout continental Europe, the Middle East, and Africa.

In contrast, François Mitterrand is an asset of the Socialist International of Willy Brandt, Bettino Craxi and Olof Palme. The Socialist International convened a series of conferences beginning with a December 1980 session in Washington, D.C. at which an international political destabilization program—placing heavy emphasis on reconstituting 1960s style “disarmament movement” and adjunct underground terrorist network—was spelled out. France under Mitterrand will be a flagship for terrorist actions against the targeted enemies of the Socialists.

Less than 12 hours after the Mitterrand victory, the first serious act of political violence occurred.

Heinz Karry, the economic minister of the West German state of Hessen, was assassinated in his Frankfurt home by an as yet unidentified killer. West German police now report that Karry had been under surveillance for a month, but had refused police protection. A member of the Free Democratic Party (FDP), Karry had been an

outspoken supporter of nuclear energy development and the expansion of the Frankfurt airport, both of which have been attacked by the West German environmentalist-terrorist networks.

While West German authorities have been anticipating an all-out terrorist offensive from the “greenies” and from the second generation Baader-Meinhof terrorist underground, they have been hesitant to pin the Karry hit on those networks. The unstated view among West German intelligence pros is that the Mossad Israeli intelligence service may have played a role through a German-based terrorist capability similar to the U.S.A.'s Jewish Defense League.

Within hours of the Karry assassination terrorist incidents were reported in France and Spain. In France, three trains had bombs placed on board. One bomb on a Paris to Lyons train exploded, injuring several passengers; the other two bombs were defused. A group calling itself the Jacques Mesrine Organization claimed credit for the incidents. Jacques Mesrine, the most-wanted French criminal until his recent death, headed a gang of bank robbers that included several former members of the Secret Army Organization (OAS)—the right-wing terrorist organization that carried out over 30 assassination tries against Charles de Gaulle.

Then on Wednesday, May 13, the world was shocked when Pope

John Paul II was seriously injured by a team of assassins as he made his regular weekly appearance at St. Peter's Square. The one individual identified as a would-be assassin was Mehmet Ali Agca.

Agca escaped from a Turkish death row cell in November 1980 after he murdered a Turkish newspaper editor. Agca has been confirmed by Interpol to be a member of the Grey Wolves, a neo-Nazi Turkish organization founded in the early 1940s by its current head, Alparslan Turkes. The Grey Wolves has an extensive network throughout Western Europe drawn predominantly from poorly educated *Gastarbeiter* (guest workers) and has been repeatedly implicated in heroin trafficking between the Middle East and Western Europe.

In addition, the West German magazine *Der Spiegel* published in March 1980 a lengthy dossier on Christian Social Union head Franz-Josef Strauss and a European-wide cabal, *Le Cercle Violet*, which controls, according to *Der Spiegel*, the Grey Wolves and its head Turkes.

Turkish officials, aware of Agca's profile as a high probability assassin (he had issued a death threat against John Paul II during the Pope's 1980 visit to Turkey), had alerted West German and Italian authorities on Agca's presence in Western Europe one week before the shooting in Vatican City.

But despite the Grey Wolf neo-Nazi posture, security officials throughout Europe point out that the Mossad has a history of secret agreements with Turkish security agencies and corporate circles involving the use of Istanbul and southern Turkey as training bases and transshipment points for illicit Israeli intelligence activities.