

EIR

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Peking linked to Bangladesh coup attempt
New breathing room for the S&Ls?
Olof Palme, Cyrus Vance, and the KGB

**After the Socialist victory in France:
Will the Western alliance survive?**



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EIR

From the Editor

The conclusion presented in this week's Special Report: after the electoral defeat of Valéry Giscard d'Estaing in France, it is necessary for President Reagan to work closely with West German Chancellor Schmidt along specific policy paths. There are two immediate dangers. One is the commitment of the Socialist International—of which French President Mitterrand is vice-chairman—to destabilize national governments and foment Third World upheavals. The other is the commitment of the Western central banks to stampede over national sovereignty and enforce the high interest-rate policy that is already deindustrializing the capitalist world.

In this report, whose preparation was directed from West Germany by European Editor Vivian Zoakos, we also present the opportunities for a counteroffensive against the left- and right-wing monetarists. Implicated in the Loggia P-2 scandal in Italy are the highest level of banking networks, the networks that control both Paul Volcker and François Mitterrand. We present Chancellor Schmidt's little-reported blasts against the Federal Reserve. Concluding the report—to provide background on the *rentier* mentality that has undone France each time, over the centuries, it has gained power—we present European Economics Editor Laurent Murawiec's anatomy of the French Empire faction, and its grave vulnerabilities.

Our Economics and National coverage assesses the White House moves to date against Volcker, and the trouble spots ahead. In our International section, you'll find one of the most remarkable open conspiracies of the 1980s: the Palme Commission, comprising U.S. State Department controllers, the Socialist International, and the KGB.

I also want to call your attention to intelligence which is making waves here in Mexico, where I am spending two weeks: the extent of the new cooperation between Brazil and Argentina.



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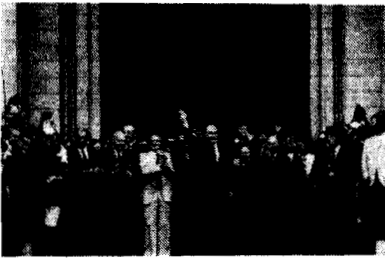
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The Federal Reserve takes aim at the White House

by Kathy Burdman

The war between the central banks that speak for the old European oligarchy and the President of the United States has come out into the open. To the cheers of Bank of England Governor Gordon Richardson and the Bank for International Settlements, Federal Reserve Board Chairman Paul Volcker strongly tightened U.S. credit this week, in direct opposition to the expressed desire of President Reagan. Earlier in the week, Reagan had blasted Wall Street for raising interest rates in opposition to his economic program.

Recent claims by Volcker ally Treasury Secretary Donald Regan that interest rates have peaked were exposed as only a public relations maneuver by Volcker's action. Volcker drained funds from the credit markets this week, bringing the federal funds rate up over an average of 20 percent, from recent levels of 17 percent and under. "This is a strategic reversal in interest rates," said Bankers Trust. While the prime rate had slipped from 20.5 to 20 percent last week, "Twenty percent is now the floor, not the ceiling, for fed funds. The prime is headed right back up."

As Volcker acted, Bank of England Governor Gordon Richardson summoned the international bankers resident in London to a luncheon to deliver a strong endorsement of Volcker's policy. The Federal Reserve's determination to "fight inflation by tight money" is a "necessary program," said the British official. "A failure by the United States to bring inflation under control would cause great damage to the rest of the world."

Richardson particularly endorsed the international

effects of the Volcker credit squeeze, singling out West German Chancellor Helmut Schmidt, President Reagan's main ally in Western Europe, for attack. Richardson sharply criticized Chancellor Schmidt's demands that U.S. interest rates be lowered. "However great the discomfort for other countries of having to live with high American interest rates," he said, "firm monetary policies should be pursued."

For his part, Schmidt, in direct support of President Reagan, pressed his attack on U.S. interest rates in debate before the West German parliament. "High interest rates will at best slow down economic recovery, at worst will lead to a world economic depression," he said. "You cannot have high interest rates without unemployment going up sharply."

Schmidt announced that he was "committed" to bringing the Fed's interest-rate policy up as a major topic at the July Ottawa heads of state economic summit. The Bank of England's Richardson stated, however, that Britain would urge the United States to rebuff the West German call for easier credit at the summit.

As European currencies were driven to frightening lows, Volcker himself toured Europe this week to seek support for his credit squeeze, visiting bankers in Paris and London, and addressing the International Monetary Conference of the American Bankers Association at Lausanne, Switzerland. There, Swiss National Bank President Fritz Leutwiler joined the Bank of England in strong backing for Volcker, as did British, Swiss, and Italian bankers in general. Leutwiler stated that U.S. real

interest rates would, and should, remain at current high levels for the foreseeable future. "Most people feel that high interest rates are appropriate to the United States position," seconded Sir Jeremy Morse, chairman of Lloyds Bank of London.

More ominously, Leutwiler and New York Federal Reserve Bank President Anthony Solomon also asserted at the Lausanne meeting that Volcker's policy is part of a top-down tight-money program being "jointly coordinated" by all the central bank members of the Basel-based Bank for International Settlements. It is the central banks, Solomon said, not the national governments, who at this point control monetary policy and therefore the destiny of nations. Leutwiler cited the recent U.S. Treasury decision to abdicate responsibility for foreign-exchange market intervention as a healthy removal of "government interference" from the money markets.

President Reagan has the few remaining weeks before the July 19 Ottawa summit to prove the Swiss oligarch wrong. Unless the U.S. President takes decisive action to reverse the Volcker interest-rate policy, Chancellor Schmidt could be toppled by the recession Volcker is causing in Germany. This week, Schmidt's opposition in the Christian Democratic Party called upon the chancellor to resign and proclaim the state bankrupt, as German industrial production grinds to a halt and unemployment rises under the historic 12 percent interest rates imposed by Volcker's program (see Special Report).

First steps

President Reagan this week took a first step in that direction, upending a plan by Volcker to sell off the nation's ailing savings and loans. The cabinet action came after weeks of intense lobbying by the U.S. League of Savings Associations and the National Association of Homebuilders, who are demanding the ouster of the Fed chairman and the immediate reversal of his credit squeeze.

"The pressure on the Fed to lower interest rates not only exists—it's getting a bit personal," a Treasury official who backs Volcker worried this week. "The U.S. League is after Volcker's head. The homebuilders are after it, too. The political pressure on the administration to do something is immense, and pressure is getting very strong on Volcker to leave. It's going to be unusually hot in Washington this summer."

The mood of the country has been felt at the White House, and President Reagan and his closest advisers, such as White House counselor Edwin Meese, are aware that Volcker is wrecking the Reagan presidency. U.S. League sources told *EIR* this week, "They're out to get rid of him." The time frame is the problem. The White House has told its constituencies that it cannot move on the Volcker Fed within the next 30 days, or even ask for a lowering of interest rates before that time. "Reagan is

afraid to dump Volcker in the middle of a major fight on tax legislation," has been the rationale.

The President's fear is based on an overt threat by Wall Street and London bankers this week to create a U.S. dollar crisis if Reagan ousts the Fed chief. Bankers argue that the Reagan tax plan is too inflationary, and the President cannot afford it without tight money. In effect, Wall Street is threatening to create an uproar around the tax package as a "protection racket" for Volcker.

The President's request to Congress for a three-year tax bill is "too inflationary," William Griggs, chief economist of Schroeder Bank in New York said. "That's why Volcker tightened interest rates this week. Wall Street doesn't like the President's tax policy, and we're backing Volcker. The bigger the tax cut the President wants, the more we will complain, and the more impossible it will be for the President to demand that Volcker lower interest rates."

In this market environment, should the President "dare" to dump Volcker, "Reagan has more to lose than to win," said Michael T. Sherman, director of research for Lehman Brothers Kuhn, Loeb this week. "His tax package is an inflationary mess, and if he dares to fire the chairman of the Federal Reserve with this kind of inflationary environment, he will lose the public's confidence.

"Reagan would be raising the issue of who protects the national currency," the banker continued. "People locate their confidence in the currency within the independence of the Fed. What Wall Street is saying is that people will start dumping dollars. Forcing out Volcker at this point creates incalculable risks for Reagan."

"British and other foreign bankers would be very unhappy if Reagan got rid of Volcker, including especially the Bank of England and the West German Bundesbank," Mr. Griggs of Schroeder's added. "The dollar may look strong at the moment, but they would certainly sell dollars if Volcker were undermined."

In Washington, awareness is growing that Volcker is in fact working hand-in-glove with the Socialist International to topple the Reagan administration and turn the country over to House Speaker Tip O'Neill's social democratic wing of the Democratic Party.

Lehman Brothers' Michael Sherman was open about the alliance between Volcker's sponsors on Wall Street and "socialist" O'Neill to fight the President's tax program, not with a better alternative, but with the deliberate aim of paralyzing the President. "Wall Street and the Democratic leadership under Speaker O'Neill have the same view of the Reagan tax package," said Sherman. "They both think it's inflationary because big tax cuts mean a huge budget deficit. The Democrats have been using Wall Street's fears as their weapon in the debate against Reagan's program."

Galbraith on the blackmail strategy

From a June 2 interview with Harvard Economics Professor John Kenneth Galbraith, a liberal Democrat, provided to EIR.

Q: What are Reagan's political prospects?

A: It's been nice up to now, because he focused on the larger vision of cutting big government, but now comes the time for the consequences, when all constituencies have to take cuts. The honeymoon is over for Reagan. The leading Democrats like Tip O'Neill for example, are not going for his tax bill. Tip is going to flatly oppose any tax cut. The Democrats are the biggest fiscal conservatives in town.

Q: That's what Wall Street is saying.

A: The Democrats think just like Wall Street. I advise them to represent their people, and their people don't want more inflation.

Q: There will be no compromise with the Reagan administration?

A: No. They're going for confrontation. Tip intends to represent his people who elected him, and I'd urge Rostenkowski to represent his people as well. And they didn't vote for a tax cut for the rich.

Furthermore, as the cuts hit the constituencies, people are going to ask why the defense expenditures are so huge. It's incredible that they're exempt from cuts. I'm advising the Democrats to forego the tax cut, to question military expenditures, and also to start moving on demanding arms control negotiations.

This is partly for strategic survival, and partly for the economy's sake. I also advise direct restraints on wages and prices.

Q: Why aren't the Democrats attacking Volcker's interest rates?

A: Look, these rates are going to be politically disastrous for Reagan. They're disastrous, and that is the strongest single reason for resisting tax reduction. If you have tax cuts, you must keep money tight or you get real

inflation. You can only lower rates if you do not cut taxes.

Q: Does that mean you're agreeing with the supply-siders in theory?

A: Yes, they're right. You have to choose between tax cuts and lower interest rates. If you call for lower interest rates, you're making the best case for rejecting Reagan's tax program altogether.

Q: But Reagan can't go back on his tax program.

A: That's right, he would have to reverse himself on his major policy, which he won't do, so that's a problem.

Q: You mean he's stuck with high interest rates?

A: Yes.

Q: Will people be blaming Volcker's actions on President Reagan?

A: His interest rates are going to be hung on the President. Reagan is responsible for the Fed's actions, it always gets hung on the President. It's going to be the basis for disenchantment with Reagan.

Q: Are you saying Reagan will be Hooverized?

A: There's a good chance Reagan will be Hooverized. His program reminds me of the story they told about Hoover, the horses and the sparrows argument. Hoover's economic theory was that if you give a lot of oats to the horses, eventually small bits of it will fall down to where the sparrows can get at them.

Reagan's programs have already been put on trial by Margaret Thatcher and failed in Britain. So Reagan could be Thatcherized.

Q: Won't a confrontation on tax policy paralyze Washington?

A: Yes. I say the Democrats are elected to do what's right, what their people want, and not to do what Ronald Reagan wants. They can't move over to his position. So the administration could be paralyzed. Then the liberal Democrats will be the winners.

This will also bring labor into an alliance with the liberal Democrats.

Q: What will Arthur Burns be telling Europe?

A: He'll be telling them they will have to stand for higher rates. They don't like that. Reagan's high interest rates are having a severe effect on Europe. And the Europeans are beginning to question his huge military budget as well.

Q: Reagan won't listen to them?

A: He hasn't so far. It's creating a distinctly unfavorable opinion of the United States in Europe.

Breathing room for the S&Ls

Kathy Burdman asks, will the S&Ls challenge high interest rates, after the President saved them from takeovers?

President Reagan's Cabinet Council on Economic Policy endorsed a plan to provide up to \$2 billion in emergency letters of credit to the nation's savings and loan associations, which have been driven close to bankruptcy by the high interest-rate squeeze of Federal Reserve Chairman Paul Volcker. In its May 29 decision, the cabinet group also flatly rejected Volcker's proposal for "emergency supervisory mergers" that would have allowed big New York and California commercial banks and S&Ls to move across state lines and snap up weakened local S&Ls.

The cabinet action, clearly at the personal directive of the President, came after vigorous lobbying by the U.S. League of Savings Associations against the Volcker legislation. In a series of intense meetings with presidential counselor Ed Meese, White House domestic policy deputy director Edwin Grey, and other officials close to the President, League officials went over the head of Volcker and Treasury Secretary Donald Regan, who had loudly opposed any so-called bailout for the S&Ls, to obtain the emergency credit plan.

The credit plan

Under the new "demand notes" plan, the Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation would issue up to \$2 billion in letters of credit to S&Ls whose net worth, defined as the excess of their assets over liabilities, falls below 2 to 3 percent, Deputy Treasury Secretary R. T. McNamar told the press. The S&Ls are basically sound, he said, and "neither depositors nor mortgage holders are in danger of being hurt, but the institutions do have a major earnings decline" caused mainly by high interest rates. It does not require legislation.

The Reagan cabinet action represents the first clear defeat for Volcker and his ally Secretary Regan, who only minutes before the cabinet meeting told the press that if "the thrifts are losing money, so what? Every time a company loses money, is the federal government supposed to go in and make it whole?" Regan said that the S&Ls should have anticipated a proverbial "seven fat years and seven lean years" and "put aside reserves" in case.

U.S. League President Roland Barnard told *EIR*,

"The public is aware that the U.S. Treasury . . . is responsible for letting banks go." As a result of the League's discussions with Meese and others closer to the President, Barnard said, "The point was gotten across to the administration."

But this is only the first step, for the plan "doesn't give us any new credit for lending," Dean Cannon, California Savings & Loan League executive director, told *EIR*. "The administration's offer is a ray of light." So far, however, he said, the White House has refused to promise the vital interest-rate relief. "We've been advocating this program," said a top U.S. League source, "but it only provides capital for book purposes. It doesn't give us a nickel for lending to the homebuilding industry."

In desperation, some S&L leaders propose measures as extreme as a return to *consumer credit controls* such as those imposed by Jimmy Carter in March 1980. On May 7, League Legislative Affairs Director Stuart Davis, head of the giant Great Western S&L in Los Angeles, advocated "direct credit controls" in testimony before the Senate Banking Committee.

The U.S. League's executive committee voted May 15 to urge Congress and the administration to "expedite balancing the federal budget, or to impose selective credit controls if the budget cannot be balanced quickly enough to bring interest rates under control."

"It's a drastic measure, all right, and we don't really intend to push it that seriously," said a top U.S. League source, "but you have to realize the situation of our individual members is worse than drastic. The 1980 credit controls may have collapsed the industrial production index—but they brought short-term interest rates down from 20 to 9 percent, and people took out a lot of mortgages at 9 percent. We'll support World War III if it brings interest rates down to 9 percent. We're for lower interest rates, period. We're a totally frustrated group of businessmen who are being forced to close doors by the policy of the Federal Reserve."

The U.S. League is expected to use the call for credit controls, which has no chance at all with the Reagan administration in any situation short of a bank run, to dramatize its demand for the ouster of Paul Volcker and the reversal of his interest-rate policy

S&L spokesmen talk about credit policy

U.S. League President Roland D. Barnard told EIR that the League's opposition to Volcker's bill for commercial bank takeovers of S&Ls produced a defeat for the Fed this week. Mr. Barnard is president of Midland Federal Savings & Loan in Denver, Colorado.

EIR: Is President Reagan responding to the U.S. League's criticisms of Fed Chairman Paul Volcker?

Barnard: We weren't talking about Volcker in particular, but we explained to the administration the need to ensure the viability of the S&Ls and improved our direct contact with the White House in several meetings in May. We fought the Volcker bill for supervisory mergers, and we told everyone we were going to fight it. We're not going to give the regulators a wide-open loose-hinged door to do whatever they choose with the thrift industry. Congress has to get control over the regulators, and we are preparing our own bill which would allow selected mergers, carefully spelled out. But we can't have Citibank allowed to go into Utah and underbid local banks to take over every bank in an open free-for-all.

EIR: So you consider the resolution against the Volcker legislation a victory?

Barnard: Yes.

EIR: The administration's \$2 billion alternative "demand notes" program to aid ailing S&Ls, was circulated by the Treasury in spite of Secretary Regan's opposition. Was this your proposal, and how do you explain the Treasury's about-face?

Barnard: We have made suggestions of this kind, on the grounds that we must keep these institutions viable and at the least possible cost. We've said that the FSLIC [Federal Savings & Loan Insurance Corporation] could better lend money now than to pay the higher costs of mergers and acquisitions of failing S&Ls, and this has been adopted. The present proposal is far better than closing institutions or allowing interstate takeovers. These are savings institutions which are well-managed, and have done the job that they are mandated by Congress to do, which is to finance home lending at regulated rates. It is the high interest rates we now have that are the only cause of their inability to pay these rates and still continue to do their job in housing.

The Treasury Department did not always see things this way. . . I've personally explained it to the White House and to the chairmen of all the congressional

committees. Until now the Treasury has expressed the attitude of "Just let the rotten fruit fall." That isn't helpful in any way, not in any way conducive to solving the problem. . . .

The people who administer the law just decided that these institutions are a pain in the neck. . . . and the public is aware that the U.S. Treasury is responsible for letting banks go, for saying there are "just too many financial institutions." It is absolutely ridiculous to imagine that kind of power vested in any part of government.

Somebody's going to be found floating on top of the water if they try this. Any government official who thinks that the federal government can walk away from a legal financial responsibility and obligation which they have under the laws . . . which were created under President Roosevelt, had better change the law first. . . . When well-managed institutions cannot operate because of conditions outside their control, the government has an insurance responsibility. And they've got about as much chance of changing the law as I have of flying away right now. The point, in short, was gotten across to the administration [by the U.S. League] that they *are* going to take responsibility for their legal obligations and honor their requirements. It is only the government that is making trouble for any well-managed financial institution that is in trouble today.

EIR: Does the White House's openness mean willingness to pressure Volcker to bring down interest rates?

Barnard: The policies being followed by certain parts of the government, including the Federal Reserve, are certainly open to question. These regulatory agencies have power of life and death over our institutions. The Depository Institutions Deregulation Act stated that above all else, that no deregulation provisions should be carried out that would do damage to thrift institutions or that would disable housing. And I'll be darned if that has been followed as it should have been.

The Fed's policy on interest rates has yet to prove itself, and has yet to show whether this ravaging situation will continue. It seems that Mr. Volcker is fully intending to hang on to high interest rates as long as he needs to.

The problem, however, in my view is that the Fed's been doing it alone. I believe that inflation is not caused by high interest rates alone, but mostly by the recalcitrant Congress and the rest of government who have given no care to cutting spending and stabilizing the economy. The Fed, in my opinion, is in an offensive mode against the damage done by the rest of the government. The Fed did not create this inflation. The Fed in fact is the only one out there trying to fight inflation, and the problem is they cannot do it alone.

We must get the President's program passed, that is the only way to resolve this. The administration is acting according to the will of the people.

We have some disagreements with the content of the President's tax program, and we've introduced the All Savers bill and other tax bills which would give a \$1,000 or \$2,000 tax break to savers and get billions in deposits into savings institutions for loans to housing. . . .

Leonard Shane, President of the California Savings and Loan League, told EIR that the Fed's interest rate policy has been such a failure that California S&Ls are ready to consider the extreme measure of credit controls to attempt to bring interest rates down. Mr. Shane is president of the Mercury Savings and Loan in Huntington Beach, California.

EIR: What is the California League telling the President about Chairman Volcker?

Shane: Our industry, both in California and nationally, and with great support from other industries, is taking the view that the Fed's policy is just not working. It's been a failure at getting inflation down. Interest rates are higher than ever and the homebuilding industry and other industries are suffering tremendously. We must have lower interest rates.

EIR: Are you asking the President to remove Volcker or reverse his policy?

Shane: We're doing everything we can to get interest rates down. We have worse problems with the Secretary of the Treasury. Mr. Regan believes we should fend for ourselves in this environment, which is impossible. Deregulation is killing us, and the interest-rate environment is killing us. In fact I made a pitch yesterday for *re-regulation*. The "level playing field" idea in which S&Ls have to compete with big banks and money market funds for deposits doesn't work. It didn't work for the Christians with the lions—that was a level playing field. Society has a right to regulate and defend itself.

In fact I believe that there is only one thing which will work to break the back of the interest-rate spiral—credit controls. I mean the same sort of controls which we had in March 1980—full controls on consumer credit, reserves or retail credit, reserves on credit cards, and especially reserves on money market funds.

EIR: But those controls brought on a major recession.

Shane: They cut down consumer lending, it's true, but what interests me is that they brought down mortgage rates from 15 percent to 9 percent, and we started making mortgages again. It brought down interest rates, and that's my concern.

EIR: You may have done more immediate business, but had the controls continued people would have not been able to afford homes because of the unemployment.

Shane: We want interest rates down, now, and this is the only method available to us to do it. We can't wait weeks

and months for rates to fall or for the Fed to change its policy. Until now, we've just been "anti," against the Fed. Now we have an alternative proposal. And it's my feeling that Mr. Volcker is beginning to listen.

Dean Cannon, executive director of the California Savings & Loan League, tells EIR's Kathy Burdman that the local S&Ls have one clear message to the President.

EIR: Do you believe Volcker should continue at the Fed?

Cannon: We're not happy with his performance. We feel he's not done all he can to bring short-term rates down. This is the one issue on which we've been hammering away at Washington, and we've not been too successful thus far. There's been a lot of agitation out here on the issue. We've been meeting with every top executive of the Reagan administration and Reagan people here in California to make sure they understand the severe financial troubles this is causing the home lending industry. We're not just crying "wolf," we're in real trouble now, and they are beginning to understand that. We're telling them to get short-term interest rates down right away before we have to close our doors.

EIR: What kind of response are you getting at the White House?

Cannon: They understand the problem, but so far they've been unable to help. They say, "If we don't hold the economy's feet to the fire, inflation will take off again. Let our economic gameplan work, give it time to work." But for those who are hurting so badly today, they can't wait, there isn't time for it to work. They say we're not hurting badly enough for them to change their attitude on interest rates at this point.

They'll move, I think, when they see that the troubles we are having may spill over and hurt their entire economic program. To the extent that we do begin to close our doors, they have to ask themselves, at what point will there not be sufficient funds in the Federal Deposit Insurance Corporation to insure depositors, because then the Treasury will have to spend a great deal of money saving depositors, and all the budget projections will go out the window. Whether that happens depends on the administration's willingness to get interest rates down. If savings institutions begin to go, the public's crisis of confidence will spread to all financial institutions.

I think that the administration's offer of \$2 billion in demand notes is a ray of light, the first sign I've seen that they are moving in the right direction. It's a good program. But short-term letters of credit are not a solution to the problems we have been having in general. They help to shore up the capital of failing institutions at the margin, but they don't give us any new credit for lending. We need a drop in short-term interest rates.

Dereg takes its toll on trucking

by Peter Rush and Lonnie Wolfe

The U.S. Congress will soon begin oversight hearings on the Motor Carrier Deregulation Act from Capitol Hill is that the results of the hearings are already rigged. Despite protestations from the Teamsters union and the trucking industry, Congress—and the new administration—are predisposed to look for the best, to pronounce the one-year deregulation experiment a success, and to proceed with its next phases.

Congress and the administration will be making a serious mistake. The American trucking industry, once the most efficient in the world, is now suffering under the double squeeze of deregulation and the Volcker tight-credit regime. Industry analysts say that it will be faced in short order with the worst shakeout in its history, with disastrous effects for the national economy.

Over the last 10 years, overall tonnage carried by trucks rose steadily. But between the last quarter of 1979 and the last quarter of 1980, tonnage *fell* by a staggering 20 percent. Industry sources say that figures for the first two quarters of 1981 will likely show a collapse of more than 35 percent over 1979. From the Midwest, there are reports that in the previously heavily trafficked Midwest corridor, the auto-steel heartland of U.S. industry, truck freight is off by more than 50 percent.

An examination of comparative industry profit figures is even more startling. In the first quarter of 1980, before the full effects of Volcker's jacking up of interest rates and the July 1980 passage of the Motor Carrier Deregulation Act were felt, the top hundred trucking outfits showed a *\$45.9 million profit* on their ledgers. For the last quarter of 1980, the latest figures available, these same top hundred firms show a *\$213 million loss*.

An analyst for a leading Baltimore investment firm reports that the medium-sized trucking operation, the backbone of the industry, is headed for extinction should deregulation continue at its current pace. Another analyst, now a strategist for one of the larger trucking concerns, predicted that within five years the number of trucking concerns would be halved, while only 5 of the top 50 firms would survive.

The collapse has already resulted in layoffs of more than 50,000 truck drivers and 100,000 related workers. Most of these are organized by the International Brotherhood of Teamsters.

The combined effects of this collapse with recently announced proposals by the Reagan administration's Department of Transportation to sell off the nation's Conrail freight system threaten eventually to leave entire areas of the country without freight service. Many businesses in those areas will lose their combined rail-truck links. Operating on slim margins themselves under the Volcker regime, they will be forced to close shop. Trucking industry sources, as well as worried business and political leaders in the most affected areas in the North-east-Midwest corridor, say the move is being justified as part of a permanent reorganization of the U.S. economy.

Worse to come

In the late fall of 1979, *EIR* founder Lyndon H. LaRouche, Jr. commissioned a team of experts to study the potential effects of the trucking deregulation legislation proposed by President Jimmy Carter and Massachusetts Sen. Edward Kennedy. The study, which drew on the LaRouche-Riemann econometric model, found that trucking deregulation would cost \$489 billion to the real economy.

Through their knowledge and skills, the Teamsters union and truckers—and especially the medium-sized trucking concerns—have made American over-the-road transportation the world's most efficient and reliable. The LaRouche-Riemann model study estimated that deregulation would lengthen average U.S. delivery time by at least 50 percent. Since truck transport plays such an integral role in all aspects of commerce, deregulation would create a tremendous decrease in the overall efficiency of the economy. The study showed that deregulation would create a pool of laid-off drivers, who, coupled with the already large numbers of pill-popping independents, would be used by the larger trucking concerns to bust the Teamsters union.

Collapse outruns predictions

A comparison of current industry conditions and the LaRouche study projections show that the collapse is proceeding ahead of the pace predicted. This is attributable to the effects of Volcker's fiscal austerity and cutoff of capital investment.

According to industry sources, the decline in capital investment to replace worn-out equipment or to purchase new equipment is "substantial and drastic." One knowledgeable industry analyst at the American Trucking Association, the industry lobbying arm, says that the industry is underfunded by more than 50 percent. What credit is available is only being given to the largest concerns, the ones that the banks feel will survive

the credit squeeze and deregulation. Some medium-sized firms, forced to go into the market to stay afloat, are getting money at 25 to 30 percent. If the interest rates remain at present stratospheric levels, as Volcker has promised, many concerns—including some of the weaker top 10, like McLean and Yellow—will go under.

“Given the poor profit margins generally,” said an analyst with a large New York bank, “even if people are getting their money at or below the prime, they cannot survive for long. It is really the banks’ decision about who makes it and who doesn’t.”

The undercapitalization is taking its toll on the highways. New rigs are not being bought, with sales of trucks normally purchased by regulated common carriers down by more than 10 percent over last year and 25 percent over 1979. Even worse, some companies are now skimping on maintenance costs. For example, where a firm might buy six sets of tires for its rigs, it now purchases three or four. These so-called economies lead to the increased breakdowns and accidents predicted in the LaRouche study. The carnage on the nation’s highways is already starting. Recent Department of Transportation surveys show a sharp increase in highway fatalities; the reasons offered in the press reports—faster speeds, smaller cars, and so on—ignore a key feature, namely, that truck-car accidents are up.

Cutthroat competition

The LaRouche study had predicated that, under deregulation, a decline in industry profits would turn into an even greater decline in overall profitability through cutthroat competition.

This is now taking place. The largest carriers, trying to gobble up overall shrinking freight traffic, and small operators, trying to break into the market, have slashed posted rates by as much as 10 percent. Those carriers who cannot go along will be forced to sell their holdings dirt cheap—if they can find buyers. The routes they covered—in some cases the only routes in a given area—will not be picked up.

As has been the case with airline deregulation, profits are to be made only on the most-trafficked routes. As is also the case with airline deregulation, the apparent savings to consumers—in the case of trucking to shippers—is both temporary and illusory.

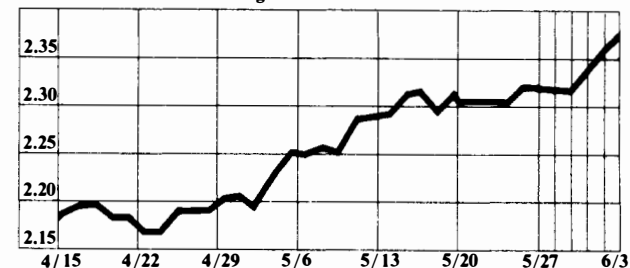
The same shippers who say they are benefitting from cutthroat competition will soon find themselves prey to an oligopoly of large trucking concerns who will survive the Carter-Kennedy deregulation experiment. They will set prices—formally unregulated, of course—by the same kind of informal arrangements that have rigged prices in the steel industry for years.

“In the end everybody will be paying more,” said an industry analyst, agreeing with the results of the LaRouche study.

Currency Rates

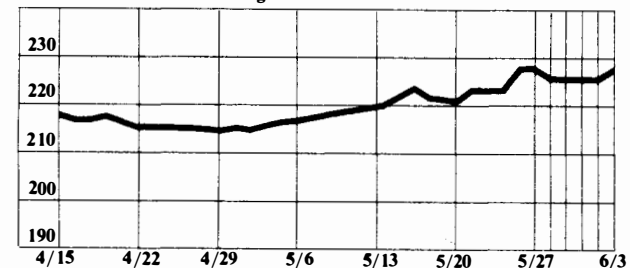
The dollar in deutschemarks

New York late afternoon fixing



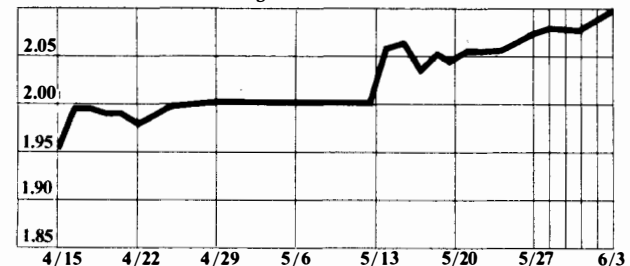
The dollar in yen

New York late afternoon fixing



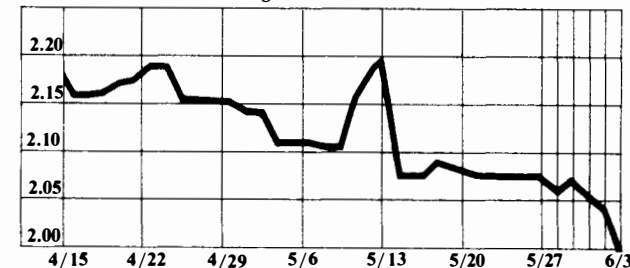
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



George Ball linked to P-2

The Lehman partner is one of the people getting nervous over Italy's latest "domestic scandal."

George Ball, a former U.S. under-secretary of state and a senior partner in Lehman Brothers Kuhn Loeb investment bank, may have to give an account of one feature of his multifaceted career that he never discusses in public: his connections to illegal financial doings in Italy.

In recent weeks, the Italian public has riveted its attention on a scandal involving a secret Masonic lodge (see Special Report). Called "Propaganda Due" or "P-2." The lodge includes hundreds of Italy's most powerful aristocrats, and represents an international financial web extending to Lehman Brothers and Ball.

Ball has been deeply involved in Italy's behind-the-scenes politics and high finance for over 20 years. "I remember George Ball in Italy in the 1960's, and specifically how he influenced Chase Manhattan's investment and loan strategies in Italy as an unofficial adviser to David Rockefeller," a well-placed foreign-born banker living in the United States stated last year.

As *EIR* will document next week, Ball's membership in the private supranational organization called the Trilateral Commission is also relevant in sorting out his part in the illegal activities now being scrutinized by Italian authorities. Italian authorities are accusing the secret P-2 association of financing terrorism with the aim of toppling governments. The Trilateral Commission, set up by David Rockefeller

at the onset of the great economic crisis induced by the 1970s oil hoax, has also been accused of perpetrating destabilizations of Western governments.

Two days before the P-2 affair broke out, Trilateral Commission member Bonomi, a very wealthy financier, was arrested for illegal offshore transfer of funds. Bonomi's business partner at his family firm "Invest," Giuseppe Glisenti, is also a member of the Trilateral Commission.

In addition, six other members of the Trilateral Commission, including the ENI petroleum concern's chief international officer, Giuseppe Ratti, have documented connections to the P-2 affair. P-2 member Ratti oversaw the cementing of a broad agreement between ENI and Qaddafi's Libya involving billions of dollars.

Ball's Lehman crisscrosses the P-2 lodge in Lugano, Switzerland, the central point for transferring flight capital out of Italy. Since the 1960s, billions of dollars have been carted annually across the Italian border into Lugano for lucrative positioning in Hong Kong, Latin America, and other offshore markets. Italian financial officials contend that these transfers are subject to domestic reporting procedures, but the P-2 lodge disagrees.

In recent decades, the fastest-growing bank in Lugano has been the Banca del Gottardo, subsidiary of Italy's largest private bank, Ban-

co Ambrosiano. The same day Bonomi was picked up, Ambrosiano director Roberto Calvi was arrested for aggressively abrogating the reporting procedures laid down by Italian officials.

Sitting alongside Banca del Gottardo in Lugano is "The Bank of the Italian Part of Switzerland," or Banca della Svizzera Italiana. A highly secretive institution, this bank was jointly established by Lehman Brothers International and the Italian domestic banking consortium Mediobanca, and is headed by one of the toughest operatives of Italy's "black nobility," Enrico Cuccia.

In 1964, two years before Ball left the State Department for an investment banking career, Lehman International received a giant infusion of cash from the Banca della Svizzera Italiana. According to all reports on the matter, the investment came from flight capital out of Italy, and helped Lehman International from running into terminal financial problems.

According to numerous Wall Street sources, Lehman's connections into Italian financial circles "rank among the best." In 1969, Lehman and Banca Commerciale Italiana formed a private investment bank, Italamerica, for which Ball is a director.

Aside from these noteworthy financial ties, Ball's propagation of world population reduction, highlighted by his authorship of the population tract *Diplomacy in a Crowded World*, marks him as one of the leading spokesmen for the Club of Rome. Founded by the Italian oligarchy as a worldwide propaganda instrument, the Club of Rome is run by Aurelio Peccei, a close associate of the P-2 circles.

Secretary Block tours Europe

The U.S.-West German science cooperation agreement is only one of the high points.

In what the West German press has hailed as "part of international efforts to solve the world food problems," U.S. Agriculture Secretary John Block and West German Agriculture Minister Josef Ertl signed an agreement for scientific cooperation in food, agriculture, and forestry last week in Bonn.

It was one of the high points of Secretary Block's 12-day European tour that began with a presentation of American policy at the seventh ministerial session of the World Food Council in Belgrade on May 26, and continued with business-oriented get-acquainted visits with government leaders and agricultural officials in Brussels, London, and Paris, in addition to Bonn. The trip is part of the administration's broad international diplomacy, and is specifically aimed at re-establishing and expanding productive trading relations with major trading partners soured by the Carter embargo fiasco. Prior to leaving for Europe, Block dispatched a government-industry export promotion team to Latin America, and trade missions to northern Africa and China are planned.

Secretary Block's address to the World Food Council distinctly separated U.S. policy from the "one-worldist" program for so-called world food banks and other forms of global food-supply manipulation ritually promoted by the World Food Council since its birth at the Rome World Food Confer-

ence in 1974. Block emphasized the need for both developed and developing countries to create their own food reserves, to build up the necessary storage infrastructure within their own countries as part of developing a viable agricultural economy. The United States has led with its grain reserve policy, he said, but cannot continue to carry the burden for maintaining world food reserves alone. The U.S. rejects international coordination and control of such reserves, Secretary Block made clear.

The agreement with West Germany coheres with this policy orientation; it is a good example of the constructive relations Secretary Block is demonstrably forging with our European allies. The agreement stipulated that the two countries will coordinate and share research in several crucial areas, among them production storage, waste recycling, and energy problems. West Germany has advanced technical approaches to certain research problems the United States recognizes as key, Secretary Block noted in Bonn, and it would be a costly mistake to duplicate efforts.

Agriculture Minister Ertl is a key tactical ally of West German Chancellor Schmidt. West German agriculture, like the Schmidt government, has been under siege by "greenie" environmentalists associated with Willy Brandt's Socialist International. A member of the ruling coalition partner party, the Free

Democrats, Ertl recently delivered a memorable defense of high-technology agriculture against the zero-growth fanatics within the FDP. "The forests which our greenies of today fight so hard for are in fact a product of the industrial revolution," Ertl told the convention, adding that before the industrial revolution European agriculture stagnated and the continent suffered deforestation.

Secretary Block also visited Brussels, where he conferred with European Community (EC) Agriculture Commissioner Dalsager. There were several areas of U.S. concern regarding possible EC tariffs on American feedstuffs and the perennial annoyance the U.S. feels over the EC's generous export-credit program for wheat and other surplus agriculture goods.

But Block made it clear that the United States considers the Common Agriculture Policy (CAP), which is the target of disruptive British free-trade attacks, an "internal matter" of the EC. He emphasized that the U.S. fully intended to remain competitive in agricultural markets, and would fight all-out to maintain and expand its market share.

A commitment to "full consultation" on any problem was made, and Block also received assurances that the EC's 10,000 ton quota on high-quality beef imports from the U.S. would be upheld in the face of Canadian efforts to sabotage the trade plan by demanding "equal access" to the quota.

The other high point of the tour was the secretary's announcement in London that U.S.-Soviets talks on grain sales this year and a new long-term agreement would resume in that city on June 8.

The Picasso syndrome

Five million dollars for a self-portrait reflects the ascendancy of the "cult of modernism."

This past week a private individual paid \$5.3 million for a small, early self-portrait by Pablo Picasso dated ca. 1901. The portrait portrays Picasso with the usual furtive and hostile look of that period when the young artist began to frequent the bistros of Barcelona and then went on to haunt the even more decadent Paris cafe scene. The technique shows the typical fat and muddy use of paint of this particular period, and this is not a beautiful work by any standard. Yet, when it was sold in 1975 it brought \$600,000, and only five years later it brings more than \$5 million.

One has a right to ask, "What is going on here?"

The question is the more interesting because there was a significant "crack" in the Impressionist and modern art market last week. In a sale of eight works at Christie's, New York, five paintings were *bought in* (i.e., did not reach the reserve placed on them by the owner and the auction house). The one work in the Christie's sale that did do well was Edgar Degas's *Portrait of Manet*, which brought \$2.2 million. But the overall sad result caused the newspapers to proclaim that the bull market in expensive paintings is over. The next evening, however, Sotheby Parke Bernet's sale of such works set many world records, resulted in sales above \$40 million, and produced the Picasso record price for a 20th-century work.

In fact, the results of these sales

last week are not as contradictory as one may think. The large prices involved reflect the huge amount of speculative money still available to be poured into "modernism," but at the same time there is a perceptible loss of confidence among the veteran collectors and dealers that this speculation can be sustained much longer. It is the "outsiders," the Japanese, South Americans, etc. who are buying at present prices and will be left holding the bag.

In this context the Picasso sale is indicative. It was bought by a rank amateur at three times its anticipated price. Why did a man with no artistic culture or developed taste plunk down such a sum of money? The answer is that Picasso is the outstanding figure of modernism, the cult hero of the entire movement and probably the only artist our would-be collector knew by name. For example, *Time* magazine has recently run a headline in its newspaper ads, "Picasso is the 'Old Master' of Modernism." The ad continues by asserting that Picasso combines in himself all the contradictions and ambiguities of our "fascinating age." *Time's* statements regarding Picasso are very illuminating. The huge prices paid for his works are not based upon the quality of any individual work, but are conferred by virtue of his role as the guru of modernism.

Picasso's career and personality are the creation of modernism. He began as a religious and sensitive

youth with academic training—a classic "outsider" in terms of modernism—and became the most famous exponent of the art-for-art's-sake attitude, the existential nonsense (literally) of modern art. He was made into this exponent, cast for this role, by Gertrude Stein and her friends in Paris in the period from 1905 to World War I. They saw in Picasso the combination of talent and vulnerability that was required to create "the Old Master" of modernism. Stein, a notorious lesbian who encouraged drug use among those who frequented her salon, was trained by Harvard's William James in psychological warfare, and was witting in her desire to foment what she called "an art of destruction." The salon fights of the period reflect the camps that were formed to back Picasso and Henri Matisse, his French contemporary—Gertrude Stein championing the former, and Leo Stein, her brother, the latter. Picasso's victory is due to his adaptability to the excesses that modernism as a cult demanded of its adherents as civilization went to hell in the 20th century.

When people ask, "How can anyone pay \$5 million for such a work?" they are raising a question not exclusively about Picasso, but about the entire modernist cult.

Altogether, this is what modernism stands for: a violent attack on the notion of coherence in order to replace it with an exaltation of the bestial. In the 1930s Picasso, in one of his few moments of reflection, told his current girl friend Françoise Gilot that he (Picasso) identified with the goat portion and not the human portion of the famous mythological character of the satyr.

World Trade

by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
\$600 mn.	Bahrain/Saudi Arabia from Holland/Japan/Saudia Arabia	A Dutch, Japanese, and Saudi consortium beat out 42 competitors for building the 38-mile Bahrain-Saudi causeway.	
\$100 mn.	Mexico from U.S.A.	GM's Detroit Diesel Allison division is building a diesel engine plant in Aguascalientes. It will build 230-460 hp. heavy-duty diesels for Mexico.	Mexican partner Somex will put up 60% of capital and manage plant.
\$6 mn	Holland/U.K. from Zaire	Zaire's state marketing agency Sozacom has sold 600,000 carats of rough diamonds to independent dealers in Antwerp and London. Deal is significant in that it breaks De Beers' 14-year Central Selling Organization monopoly on Zaire's diamonds. De Beers head Sir Phillip Oppenheimer is blackmailing Zaire with threats of getting IMF lending cut off if breaks diamond monopoly.	Other black African producers may break De Beers monopoly.
	U.S.A. from Japan	Kokusan will export 80,000 car door handles and locks per month for use by Ford in "U.S.-made" cars.	KKK has steadily increased handle exports to Ford since 1971, except for suspension during last year.
\$200 mn.	East Germany from Japan	Marubeni won contract for 45,000 ton capacity iron foundry for East German truck industry. It will be paid with plant's production—engine blocks, iron castings and brake drums—plus machine tools and electric machinery.	Marubeni beat out West German and British competition.
\$219 mn.	Jamaica from World Bank	World Bank is providing \$219 mn. of \$656 mn. cost of doubling Alcoa's 550,000 tpy alumina refinery. Jamaica will finance \$269 mn. and Alcoa and 3 Norwegian partners the remainder.	Will use coal boiler to cut costs in fuel-short Jamaica.
\$70 mn.	Canada from Japan	Idemitsu Kosan signed contract to dig steam coal in Alberta as 20% partner with a Canadian Pacific subsidiary. Mine will produce 1 mn. tpy from 100 mn. ton reserves. All production will go to Japan.	First Japanese steam coal project in Canada.
UPDATE			
	East Germany from Japan	East Germans are interested in 20-30 industrial robots from Fujitsu Fanuc "robot-producing robot-operated factory" in Japan. East Germans plan to import 45,000 robots for handling, welding, and painting by 1985.	
	Brazil from France	Thomson-CSF announced it has won Brazilian air traffic control systems, as reported in <i>EIR</i> .	
CANCELED DEALS			
	U.S.S.R., Algeria, Iraq from Jamaica	Jamaica has canceled plans to build a state-owned 600,000 tpy alumina refinery which would have supplied alumina to the Soviet Union, Algeria, and Iraq. Deal signed by ex-President Manley involved Arab funding. Soviets and Jamaica agreed to cancel contract for 1.7 mn. tpy alumina over 7 years. Iraq and Algeria supply deals under review.	Seaga will instead focus on doubling Alcoa's 550,000 tpy refinery. (see New Deals.)



General Motors, the 'world car,' and the Newly Industrialized Countries

by Richard Freeman

The U.S. auto industry, battered and damaged by seven years of inflated oil prices, increased and expensive environmental standards, and a devastating credit crunch engineered by Federal Reserve Board Chairman Paul Adolph Volcker, will be further phased out of existence by the plans launched by General Motors to create a "global car."

This plan foresees an internationalized auto market which is stagnant in size, but whose production is shifted to the Third World. Much of the production of final cars, and especially of components—engines, transmissions, transaxles, chassis, and other parts—will be shifted to the Third World as well.

The planning for this shift of the U.S. auto industry is going on at the highest levels at the London-based Royal Institute for International Affairs (RIIA), the mother organization for the New York Council on Foreign Relations. As outlined by a symposium and series of papers produced by the RIIA in 1980, certain nations in the Third World have been designated as "Newly Industrialized Countries," or NICs, such as Brazil, Taiwan, and Hong Kong. Auto-parts production, steel, cheap electronics, and pharmaceuticals are being built up there. In the advanced sector, the United States and Western Europe will be turned into "postindustrial" economies, or "Once Industrialized Countries" (OICs). Trade, finance, and other production items will be restructured to conform to this pattern.

Inside the United States, this means some specific changes. Continued declines in the American standard of living will wipe out the last resistance to accepting

unsafe and uncomfortable subcompact cars. This view has been spearheaded by General Motors, the nation's largest auto producer and the company most committed to a "global car."

GM's chairman, Roger Smith, threatened to move production outside of the United States, unless auto-workers' wages are slashed, at a May 22 stockholders' meeting. However, even before making that public threat, Smith and GM committed \$18 billion, or at least 30 percent of total investment, to overseas investment during the 1980s. In planning this move, Smith was assisted by GM's chief economist Marina von Neumann Whitman, a member of the Trilateral Commission and the New York Council on Foreign Relations, who has publicly advanced the simultaneous transferral of production to the NICs and disinvestment of the advanced sector.

Smith and Von Neumann Whitman's strategy reflects the London *Economist* Intelligence Unit's projection that where, internationally, auto production increased at a 43 percent rate in the 1970-78 period, this growth rate will be reduced to 8 percent in 1978-85. In reality, in the last two years, the global level of auto production fell, for the same reason the *Economist* Intelligence Unit made its prediction: the collapse of income levels worldwide.

As a result of this shift, according to one auto industry source, "GM and Ford are pumping money to modernize some of their components plants inside the U.S.;

Japanese cars at the port of Jeddah.

those that don't get the money will probably be soon shut down in favor of getting parts abroad." Likewise, the big auto-parts producers, like Bendix and Dana Corporation, which used to produce 80 to 90 percent of their sales revenue from auto parts, diversified such that only 20 to 30 percent of their sales revenue comes from the parts business. It is predicted that most of the electronic components for American autos, with the exception of GM, will come from Japan in the future.

Where does this leave American auto production, the 900,000 workers who were directly involved in auto production, and the additional 1.2 million who made auto parts? As part of the "global car" plan that GM's Smith is endorsing, one can draw two conclusions. First, the entire scale of U.S. auto production, from parts and components to assembly, will be *permanently contracted*. Second, within a new "restructuring of the world economy," the United States will be consigned to be primarily an auto assembler. Parts and components production have much more value added; the United States takes the more backward, "Third World," labor-intensive chore in this division of labor.

A world division of labor in auto or any other production is, of course, not objectionable. If the United States were to move into more high-technology fields, such as stamping out monorail systems or producing fusion and nuclear power plants for use here and abroad, that would be an eminently good division of labor (especially if the NICs were able to introduce 21st-century auto production methods). But the blueprint GM's Smith is working from is to have the United States phase out heavy industry and expand the service and "techno-logic" sectors.

Oil hoax and credit squeeze

As long as the U.S. auto market was a fast-growing market, committed to manufacturing safe, high-powered cars, the chance of a global car on a major scale was slim. The plan presupposed that the U.S. auto companies would be financially undercut, and that Americans could no longer afford decent-sized families and decent-sized cars.

There can be little doubt that this was done with aforethought. In an interview in the May-June 1981 issue of *Challenge* magazine, GM's Marina von Neumann Whitman notes:

The situation in our industry shifted dramatically in response to major developments apart from oil. . . . The United States was known for large, high-performance, high-comfort automobiles. The rest of the world was known for smaller, more spartan, more fuel-efficient vehicles. . . . The product demanded in the United States mass market reflected high incomes. In the rest of the world, the product had to be affordable for lower incomes; the income gap between the United States

and other countries was quite substantial. There were quite differentiated products appealing to different areas.

The 1973-74 and 1978-79 oil hoaxes made driving large cars prohibitive. Combined with this, the excessive, Naderite environmentalist restrictions that were imposed on the auto industry ran nearly \$70 billion in capital costs over the next several years, wrecked cash flows, and made it more onerous to maintain several product lines. Then, applying the coup de grace, Paul Volcker imposed his credit crunch, starting in October 1979. The effects of the Volcker measures, particularly on working capital levels, have been acute.

The simplest way to measure the devastating impact that Volcker's interest rate policy has had on the U.S. auto industry is to look at the working asset levels of the Big Three automakers.

As sales of domestically produced U.S. autos plunged from a level of 9.308 million in 1978 to 8.316 million in 1979 and 6.581 million in 1980—a 29.3 percent drop in two years—the working asset levels that permit these companies to do business were demolished. Ford Motor Company, the number-two U.S. auto producer, two years ago seemed immune to financial crisis. In 1978, Ford's working capital level stood at a robust \$3.092 billion; in 1979, it was still a comfortable \$2.308 billion. By 1980, however, after sales losses of over \$1.5 billion for the past 18 months, Ford's working capital level was down to \$487 million.

Even this figure disguises the magnitude of Ford's financial position. According to a source close to the Department of Transportation, "In the last 18 months, Ford and GM together have brought about \$12 billion in from their overseas markets, either by borrowing abroad, having their foreign subsidiaries pay high dividends to their U.S. center, delaying payment to their subsidiaries for parts already shipped from abroad, taking special tax breaks, or whatever." Of this \$12 billion, \$4 to \$5 billion was probably Ford's share.

As *EIR* has documented, Ford is using various accounting devices to hide what are in effect borrowings, but not officially recorded as such on the balance sheet. For example, this year Ford has reduced its purchases from suppliers by 26 percent because of the depressed auto market. But on its balance sheet Ford has shown a \$700 million increase on the line reading "trade payables." Ford is making its suppliers bear the expenses. Given the depressed state of the auto parts and suppliers industry, suppliers can hardly afford that, and they have simply lined up at the banks to finance this process, which clearly has its limits.

Unless Ford's sales picture improves—revenues plummeted from \$43.5 billion in 1979 to \$37.1 billion in 1980—Ford cannot carry out its capital-spending program and continue to meet current payments.

GM is about two years away from Ford's position.

In 1978, GM's working capital level was \$7.7 billion; last year, it was \$3.1 billion and falling.

Chrysler shows what the U.S. auto industry as a whole may become. Its working capital was \$1.2 billion in 1978, but \$300 million in 1979; it showed a large negative figure in 1980, and will show a still larger one, probably close to negative \$1 billion, this year. What has kept Chrysler afloat are the \$1.5 billion federal government loan guarantee, of which Chrysler has only \$300 million remaining to draw down, bank loans, a killer rebate program, and a permanent reduction in Chrysler capacity.

According to one auto industry source, "If you took Chrysler's plants one by one, those that they have operating are probably earning a small profit on a plant-by-plant basis. This means two things. First, Chrysler still has a huge amount of debt to pay off for its headquarters and corporate obligations. Chrysler has put this amount off until 1983 through 1990. But that debt amount is still there. Second, Chrysler is a 1.25 to 1.5 million cars per year production company on the North American continent. It is no longer a 2.5 to 3.0 million car per year company. That is the past."

Chrysler had succeeded in moving its share of the U.S. auto market from 9 percent last year to 12.5 percent in 1981 through its aggressive rebate program. But as one Chrysler official conceded, "We got our share size up, but this hasn't brought in profit. Now we have to concentrate on making some money."

Many regard Chrysler's recent agreement with Peugeot, in which Chrysler will buy up to 450,000 1.9-liter diesel engines for use in Chrysler autos starting with 1984 models, as more than just a supply deal; it is probably a step toward a merger. Peugeot-Citroën brought Chrysler's European operations in the late 1970s, and Chrysler owns 15 percent of the French company's stock.

With the U.S. auto industry hemorrhaging red ink, auto dealers going out of business at a record level, and new car purchases being curtailed for the average consumer, it became appropriate to shift into the global car.

In this respect, the Japanese—through no fault of their own—are to be used by the postindustrial strategists to force the "global car" into reality.

According to an authority connected with the Department of Transportation, "the scope of the shift projected for the U.S. auto industry is amazing. The Japanese, for example, may not choose to produce cars in the late 1980s. They are moving heavily into producing components and parts, which has very high value added.

"This is part of a larger Japanese shift in which they will be getting more of their coal supplies by investing directly in the U.S. Far West, like Wyoming and

Colorado. The Japanese own 50 percent of Alumax, the fastest-growing aluminum company in the world, and Sumitomo is now the best producer of drilling equipment for oil exploration. Combined with their computer markets, the Japanese may not be concerned with the final assembly of autos, which is more labor-intensive."

If the Japanese move more toward components and parts production, how will this affect the U.S. auto market? From 1965 until 1979, U.S. import of auto parts, engines, bodies, and chassis, have, according to Department of Commerce figures, grown from \$193 million to \$6.965 billion. About half that total has been supplied by American auto plants in Canada, and under current trade agreements would not be counted as imports. But of the remaining half, the amount imported from the six largest countries of Europe went from \$50 million in 1963 to \$1.059 billion in 1979. Amazingly, imports of these components from the Third World went from \$23 million in 1963 to \$1.072 billion and those from Japan from \$7 million to \$1.084 billion.

What is the American response? GM's strategy is to attempt to produce components plants around the world to compete with Japan and the Third World. Ford, which already has several such plants built, doesn't have the cash to compete and will most likely

How Smith distorted Japan's advantage

In his address May 21 to GM stockholders gathered in Detroit, General Motors Chairman Roger Smith stated, "Our U.S. autoworkers earn \$8 an hour more than their counterparts in Japan. Put together with the pay for time not worked here in the U.S., this is too great a differential to overcome."

Smith referred to the \$19 per hour total labor costs per average American autoworker versus \$11 per hour for the Japanese. Smith cited this information to justify two moves: first, asking UAW workers at GM and Ford plants to make significant reductions in their wages and benefits, and second, following through on plans to move GM and Ford auto production out of the United States.

Like much that GM states publicly these days, Smith's statements were less than fully true.

Since GM and Ford are jointly releasing labor cost figures in an attempt to justify their shifts in produc-

end up buying its components from the Third World and the Japanese. Chrysler, if it survives through a merger with Peugeot-Citroën, will probably follow the Ford strategy.

Ford, for example, claims that it is already getting 5 percent of all its components from "global sourcing," but insiders say the figure is much higher. A Ford Mustang that is built in a Ford plant in Canada is not considered to be an import under the Canada-U.S. marketing agreements. This Mustang will typically have an engine from Brazil, a transmission from France, and a radio from Brazil, but because it was assembled in Canada prior to coming into the United States, the components are incredibly not considered to have been imported.

Both Japanese and auto industry sources report that almost all electrical components for Ford and Chrysler cars in the future will be made in Japan or the NICs.

GM, which currently has 8.5 percent of the auto market outside the United States, is looking for a bigger share (in 1979, vehicle sales outside North America totaled 22.4 million units compared to 15.6 million in unit sales for the U.S. and Canada). The scope of GM's planned expansion in Europe and the NICs is staggering.

- GM has decided to build a new \$210 million engine plant in Australia that will export two-thirds of the 300,000 engines it produces each year.

- GM plans to build a new passenger-car assembly plant, metal-stamping facilities, and subassembly facilities in Saragossa, Spain as part of a \$2.4 billion overseas expansion plan that will increase overall capacity in Europe by 25 percent, or 275,000 units.

- GM has attempted to enlarge its presence in the Andean common market by purchasing Chrysler's vehicle assembly plant in Venezuela—doubling its presence there—and purchasing a majority interest in Chrysler's assembly operation in Colombia.

- GM has a joint venture in Korea, which it is expanding, and also expanding its engines and transaxles capacity at the Japanese Isuzu Motors, of which GM owns 34 percent.

- GM is building a new passenger-car assembly plant near Mexico City and a new engine plant with a 400,000 engine per year capacity. The latter plant will be integrated with plants GM is building in Texas.

Under present circumstances, where does this reorganization leave the United States? As a giant industrial nation on the road toward the status of Great Britain, an OIC—"once industrialized country."

tion and labor policy, it is fair to examine the total costs figures for Ford which are higher than GM's. Ford reported that in 1979 it paid an average total labor cost—comprising wages, pensions, benefits, and vacations—of \$15.94 an hour, but this figure jumped to \$19.99 per hour in 1980, an increase of \$4.00 per hour, or 25 percent. Japanese wages by no means increased by 25 percent during 1980.

Improved benefits, negotiated into the 1979 contract, accounted for around 10 to 15 percent of the hourly labor cost increase. What accounted for the remaining increase? This is almost wholly accounted for by inflation and the fact that the severe decrease in auto production spreads constant pension, medical, and other costs among fewer hours worked, thus inflating the hourly labor cost. This is sleight of hand.

There are two additional considerations that the GM chairman neglected to mention.

First, Japanese wages were much lower in the 1960s than American wages, but as the Japanese standard of living has risen, their wages have made a tremendous leap toward U.S. levels. Indexed on a scale in which 1960 equals 100, U.S. hourly compensation per worker equalled 113 in 1967 and 122 in 1976. By contrast, on a scale where 1960 equals 100, Japan's hourly compensation per worker rose to 140

in 1967 and to 300 in 1976. It is likely that during the 1980s, Japan's total labor costs will rise to American levels, and that Japanese hourly compensation will equal that of their American counterparts.

Second, the major reason that Japanese production costs, including shipping to the United States, are still \$1,000 per car lower than American costs is that Japanese auto plants use the most advanced level of technology and produce almost 1.5 times as many cars per worker. The highly automated body-framing line of Nissan Motor's Zama plant in Japan has 50 robots in service. The production rate for the line averages out to 800 units a day on a two-shift basis with 80 workers per shift. Each shift has a one-hour lunch break and two additional 10-minute breaks. There are no "indirect," or supervisory, workers at the plant.

As the April 1981 *Production* magazine reports, "The efficiencies [at Zama] are being achieved without benefit of magic wands or sleight of hand. The plant is simply making good use of existing technology and skillful use of its personnel."

Better deployment of personnel and most importantly the employment of advanced technology, not the wage differential, make up the bulk of the advantage Japanese auto production enjoys over the United States. Roger Smith is not ignorant on this point.

Business Briefs

Public Policy

Japan will urge U.S. to lower interest rates

Japan will ask the U.S. "to do something" to lower interest rates both at the July Ottawa summit and at the mid-June OECD (Organization for Economic Co-operation and Development) meeting in Paris. Economic Planning Agency director Toshio Komoto, a former shipping magnate who is a future contender for prime minister, will represent Japan at the OECD meeting. He is reportedly "disturbed by the U.S. high interest-rate policy," according to the June 2 issue of business daily *Nihon Keizai Shimbun*.

Earlier that week, Finance Minister Michio Watanabe stated that U.S. interest rates are making it impossible for Japan's long-term interest rates to decline despite the government's 1 percent cut in the discount rate in March, which is adding to the debt burden of government and business. Watanabe also complained that the latest rise in U.S. rates caused a 7 percent fall in the yen's exchange rate.

Japanese observers have suggested that Japan may be beginning to coordinate its policy on international interest rates with West German Chancellor Helmut Schmidt, who advised President Reagan to lower U.S. rates in their May summit. Prime Minister Suzuki has been greatly influenced in this by former Prime Minister Takeo Fukuda, a close collaborator of Schmidt's.

Agriculture

Projected farm income prospects lowered

The U.S. Agriculture Department has announced lowered projections for both net farm income and exports in 1981. The 20 percent interest rates, high energy costs and the Carter embargo are critical factors in the damped foreign trade prospects, slumping commodity markets, and high production costs.

Income dropped 30 percent in 1980; in the first quarter of 1981, net farm income was at an annual rate of \$18 billion, nearly 20 percent below the 1980 low. Even if prices pick up, net income for 1981 is not likely to recoup much of 1980's losses.

Since March 1980, more than 100,000 farmers have gone out of business.

The USDA has also scaled back export projections for the year ending September 30 to \$46 billion from \$47 billion. While that is a record for export sales, with bumper wheat and corn crops likely, pressure will still be on the down-side in coming months.

The livestock sector is similarly depressed. High interest rates have made financing for animal purchase and maintenance prohibitive. Livestock has not been able to recover since 1974, and herd levels are now the smallest in 10 years. Daily market prices for cattle have registered limit drops for the last month, with costs up 11 percent, and prices down 7 percent. According to the USDA, more than 20,000 ranchers and feedlot operators have been forced out of business this year.

Science and Technology

Shuttle will be the DC-3 of next decade

At a meeting of the New York Society of Security Analysts June 1, Space Shuttle astronauts John Young and Robert Crippen outlined the possibilities for the future of the reusable space transport vehicle. The two astronauts, now on a national tour, have stressed the need for a U.S. permanently orbiting manned space station in this decade.

"We are going to make the Shuttle the DC-3 of the '80s and '90s," Young told the meeting. Shuttle copilot Crippen described the scientific payload that will be aboard the next Shuttle flight in September to observe the Earth using different wavelengths of light to help locate raw materials.

Crippen described the Shuttle's maiden flight as "benign," meaning that there

was little discomfort experienced from gravity or vibration. This will make space available to nonastronauts when the Shuttle is fully operational in 1982.

The Shuttle will enable the U.S. to build a space station efficiently. Crippen described the size of its payload bay as large enough to hold two communications satellites, or "big enough for a railroad car or a couple of buses."

According to Crippen, over the next two decades, the United States would be flying new generations of the Shuttle with improved avionics (aviation electronics), increased payload, and fuel capacity. Crippen added that the Soviets have "spacecraft rolling right off the production line," and stressed that the U.S. should push ahead with its permanently manned space station, the Space Operations Center, which would be serviced by the Shuttle as the first step toward space colonization.

Real Estate

New Florida bubble inflates property values

In the 1920s, the collapse of the billion-dollar speculative real-estate bubble in southern Florida was a contributing factor in the collapse of the world's debt structure that led to the Great Depression. Now, another inflated property-value bubble in central and south Florida could, if collapsed, help produce another financial panic.

Since the construction of Disney World in Orlando and other tourist attractions, tens of billions of dollars in drug money, Resorts International cash, and other inflated dollar investments have poured into Florida real estate. Hotel and motel construction has zoomed with in-season hotel rooms going about the \$100 a night level.

Since the market is stretched to bursting, a new operation, financed by Citibank, has surfaced: "timesharing" or "interval ownership." In this scheme, a "developer" buys up decrepit hotels along the beach and turns them into

Briefly

● **JOHANNES WITTEVEEN**, the former IMF managing director and head of the Group of 30 IMF consultants, has called for the creation of an international credit guarantee insurance fund. The new trend to supply-side economics and away from government development finance for the Third World makes guarantees imperative, he said. The new fund would be jointly established by central banks and commercial banks from industrial and oil-producing countries.

● **SCOTT PARDEE**, director of foreign exchange for the New York Federal Reserve, announced this week that the Fed and Treasury's new policy of abandoning foreign exchange intervention has been fully carried out. Despite the fact that European currencies have collapsed by 5-7 percent during the period since March 30, U.S. authorities have spent no funds whatsoever on intervention during that time. "Present policy is an inherently free-market one, with which I am comfortable," Pardee said.

● **INTERNATIONAL** banking facilities are running into more problems in being ratified by the Federal Reserve Board. The Federal Deposit Insurance Corporation has just decided that the so-called "free banking zone" deposits must be FDIC-insured, which will add an interest rate charge of 0.1% to IBF deposits. U.S. bankers are complaining this will make American IBF deposits less competitive than London Eurodollar deposits, which have no insurance.

● **BRUCE KING**, governor of New Mexico, has signed into law a bill to roll back the severance tax on uranium sold in the state. The move by the governor, who ordinarily opposes tax reduction, reflects the depressed state of New Mexico's uranium industry.

condominiums. At current prices, the cost per room for a Florida condominium is often more than \$50,000.

So the developer finds 52 gullible prospects, and sells them a one week ownership in a single condominium for vacation use. Such an "interval ownership" of \$4,000 makes the real cost of a one-room condominium more than \$200,000!

However, a leading developer was recently indicted in Daytona Beach for a swindle in connection with "timesharing," which could help pop the bubble, and collapse the whole house of cards.

Corporate Strategy

Iowa Beef takeover by Occidental

The Occidental Petroleum Company announced June 1 that it had reached a tentative agreement to purchase Iowa Beef Processors, the United States's largest beef processor. The purchase price is reported to be about \$800 million in stock.

Occidental Petroleum, owned by the peripatetic Armand Hammer, is closely linked to the radical Libyan regime of Muammar Qaddafi. "We think food will be in the 1990s what energy has been in the 1970s and 1980s," Occidental president A. Robert Abboud told the press, referring to the upward manipulation of energy prices that began with the 1973 oil hoax.

Iowa Beef, a young company that forced its way to the front of the meat-packing industry by introducing more cost-efficient methods of packing and delivering wholesale meat, has been the target of numerous criminal investigations for price fixing, bribery, and other actions associated with its drive to push aside the trade unions and take over large metropolitan markets.

Recently, Rep. Neal Smith (D-Iowa) directed an investigation of pricing "irregularities" in connection with the operation of the livestock futures market in which Iowa Beef was named for collud-

ing with the Chicago Board of Trade to set prices.

Domestic Credit

Volcker signals big deflation

Following private discussions with U.S. Federal Reserve chief Paul Volcker, Washington consultant Richard Whalen, an adviser to the Reagan administration, called for big bankruptcies and massive deflation in a May 31 column in the *Washington Post*.

Whalen asserts that Volcker is saying privately he wants to "shake the complacency of bankers who once worried about their risky loans going bad, but who now assume they can shift" the burden of bad loans "to Volcker's shoulders if they get in serious trouble."

Whalen couches his citation of Volcker in a fictional account of an impending announcement of the bankruptcy of a major U.S. company, which he calls "Armageddon Industries." Spinning out his tale, Whalen notes, "When a major corporation or bank begins to totter, as will likely happen with the prime rate climbing above 20 percent, Wall Street believes Washington will pull back" from its commitment to fight inflation, "and uncork yet another inflationary wave of money and credit to bail out all the illiquid companies and financial institutions."

Whalen's scare piece is clearly the product of Volcker's rage at President Reagan for backing a \$2 billion emergency defense package for savings and loans. Defending the Fed's opposition to corporate "bailout" schemes, Whalen adds that a strong administration posture against bailouts would scare the capital markets into shape. "A cleansing wave of fear" would flush "out . . . debt-financed excesses. . . [A] jolt of disinflation will create the sober expectation of more of the same. . . The guns of a major corporate bankruptcy might well cause a liquidity panic," but this would revive the fixed-interest bond markets, Whalen writes.

The Mitterrand challenge to the Western alliance

by Nancy Spannaus, Contributing Editor

The removal of French President Valéry Giscard d'Estaing from office May 10 represents the most serious threat to world peace in the last two decades.

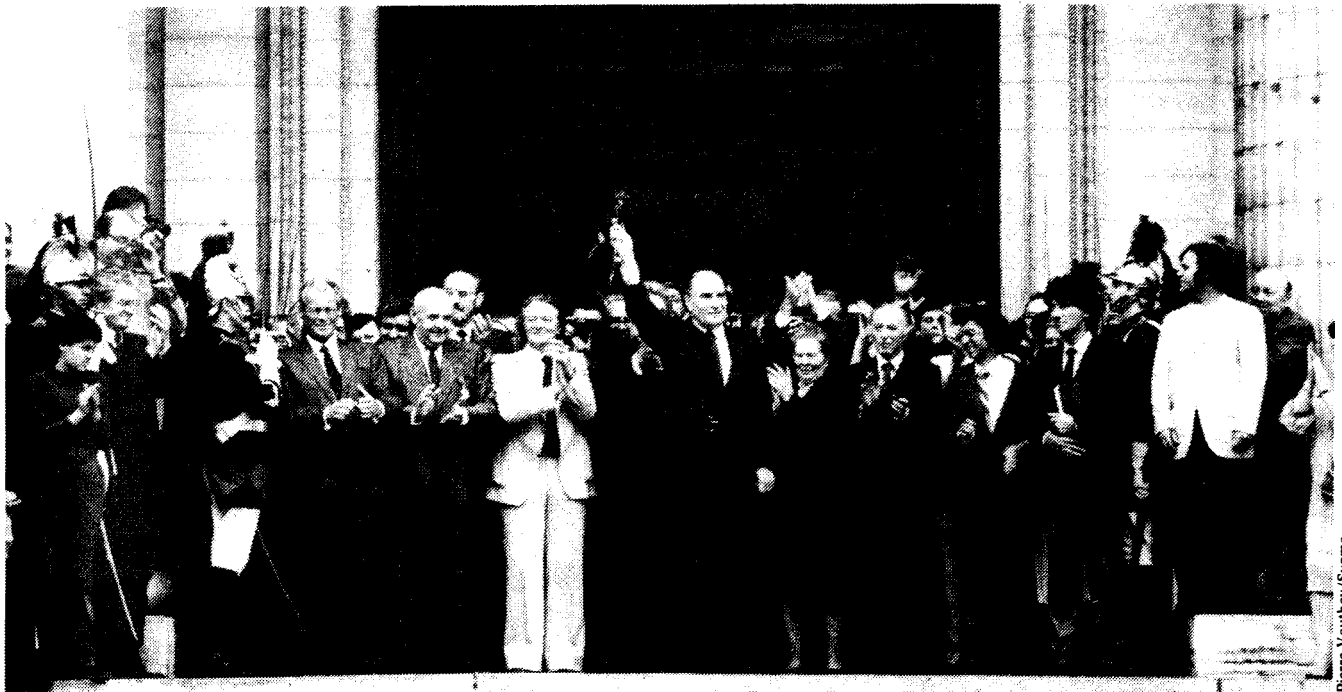
This fact has not yet been fully appreciated in the world's capitals. In the East, officialdom is trying to convince itself it is pleased with the Mitterrand "victory for socialism." In many Western countries, recognition of the loss has generated cries for intensified military buildup.

Perhaps only in London does the government understand what Giscard's defeat has accomplished. Her Majesty's government has a totally clear perception that the alliance between Giscard and West German Chancellor Helmut Schmidt represented a new conception of the Western alliance founded after the death of Franklin Delano Roosevelt. Based on the idea of not only maintaining domestic economic strength, but also exporting that strength to developing nations, the Franco-German alliance threatened to overthrow the geopolitical conception of British-dominated NATO, and break its dominance in the United States.

As long as the Franco-German "superpower for peace" was active, the British faced a strong institutional obstacle to their traditional manipulation of monetary and strategic affairs. But the destabilization of this alliance, built over nearly a decade, changes the entire frame of reference for international political maneuvering.

The British model of "Western alliance" is best expressed in that creature of NATO called the Club of Rome, an organization committed to reducing the world's population by several billion through crisis-management methods, now imposing its policies through Paul Volcker's usurious interest rates. This means a permanent destabilization that can only lead to conflict with the Soviet Union, most likely through its fostering of genocidal "hot spots" in the developing nations.

If this outlook is not to regain hegemony, as it did in the periods leading into World War I and World War II, Schmidt must form an alliance with President Reagan, based on commitment to economic growth. That means dumping Paul Volcker, first of all. "High interest rates will at best slow down



Pierre Vauthey/Sygnma

The inauguration: Mitterrand at center, holding the Socialist International symbol, a rose; third from left, Socialist International chairman Willy Brandt.

economic recovery, at worst lead to a world economic depression," Schmidt told the Bundestag June 3.

The institutional accomplishment of the Giscard-Schmidt alliance was the European Monetary System (EMS), announced in July 1978. While the system's minimum goal was to maintain currency stability, the motivation made it de facto the seed-crystal of an alternative to the International Monetary Fund. French and German leaders declared at the outset that monetary stability and economic growth were the sine qua non of world peace.

The EMS has been widely portrayed as a technical mechanism for a European currency bloc. In fact, its original conception includes expansion into a Phase II European Monetary Fund that would provide low-interest, long-term credits to the developing sector.

The EMS was born after two landmark political meetings—one between Schmidt and Saudi leaders, the other between Schmidt and Soviet leaders. The second meeting has recently been described by *EIR* founder Lyndon LaRouche as "the most important action toward peace during the last decade," because the 25-year economic agreement signed was based not only on a perspective of cooperation, but one of cooperating in advanced technologies' transfer to developing nations.

Giscard and Schmidt in turn made steady progress in winning the Saudi Arabians to full commitment to such a perspective. The \$64 billion Saudi loan to France and Germany consummated in April 1981, and originally denominated in the EMS's ECU unit of account, underlined the fact that this progress depended on joint com-

mitments to the Arab world's development.

Much has been made in certain press of the fact that Mitterrand committed himself to maintaining the EMS during his May 24 meeting with Schmidt. But under Mitterrand's redistributionist, social-democratic philosophy, and his oligarchic sponsors, the EMS is no longer a stepping-stone to a new monetary system. As a technical mechanism, it will either disappear under the buffeting of interest-rate warrior Paul Volcker, or it will be transformed into an autarchical instrument for a European currency bloc. There is no other way to view Britain's renewed interest in joining the EMS she has so resolutely opposed for three years.

The only way the EMS could be maintained as the seed-crystal of a new monetary system would be if Schmidt convinced Reagan to adopt the EMS approach to stabilizing and strengthening the dollar. Paul Volcker has argued, victoriously so far, that the U.S. can support its currency only by carrying out brutal warfare against the Europeans, especially against Germany. If Volcker were to be rejected by Reagan, Reagan would be free to join Schmidt in adopting a monetary policy consistent with exporting long-term, low-interest credits to the developing sector—the only way in which the dollar could be made strong in the long run.

The EMS perspective was the primary basis for useful dialogue between the West and the Brezhnev-led U.S.S.R. This was abundantly evident not only in the 25-year deal between Schmidt and Brezhnev, but in the multilevel East-West deals on energy supplies and related tracks initiated by both the French and the Germans

over the past three years. It was also expressed in the EMS nations' defiance of Carter's ban on technology exports to the developing sector. Giscard was notorious in this regard, defying Kissinger and NATO to send nuclear technology to Iraq, India, and Mexico.

Yet the pull of ideological left-right conflict is very strong. Giscard understood that Western strength vis-à-vis the Soviets depended first and foremost on technological growth. From the vantage point of possessing one of the most advanced nuclear programs in the West, it was easy to justify discussions, including disarmament programs with the Soviets, and bargain toughly but not provocatively on issues like Afghanistan.

But if Schmidt is forced to abandon the economic growth perspective toward the Third World and the Soviets, his relations with the East will rapidly deteriorate. Already the Volcker measures are feeding the Willy Brandt/Socialist International push for unilateral dismantling of both armaments and high-technology industry. The left wing is a significant challenge precisely because the British-dominated NATO and the central bankers are denying Schmidt the basis for healthy economic growth, including that of the military.

The instability in Europe has given a free rein to the zero-growth Malthusians within the Soviet camp, who are now attacking Schmidt in favor of peacenik Willy Brandt and the left. The danger of Schmidt either being ousted, or forced into opposing Reagan and breaking with NATO, is growing daily.

We review below the state of instability in three major European nations—Germany, Italy, and France. Important setbacks have been delivered to Britain's allies in Italy and Germany, but the overall thrust toward economic chaos and East-West confrontation cannot be abated by such tactical victories.

The thinking of the British-allied oligarchs who are creating this instability was directly expressed to National Democratic Policy Committee Chairman Warren Hamerman when he was in Europe two weeks before Giscard's defeat:

"Unfortunately, our populations do not understand the depth of the world economic crisis. They are unprepared for the sacrifices necessary for the long-term good. Therefore, we have decided to bring the Socialist International to power for some months or a year. They will aggravate the crisis even further. Then, we can blame them for causing the breakdown, by which time the population will be ready to voluntarily accept the necessary drastic solutions."

That was the gist of their message as they cautioned him not to be surprised by a Mitterrand victory.

If Reagan does not move to dump Volcker and Britain's other allies in destabilization, then no one should be surprised if we lose not only the Western alliance, but any civilization worthy of the name.

Schmidt moves to rescue economy

by Susan Welsh

West German Chancellor Helmut Schmidt threw a West Berlin meeting of the North-South Commission into consternation May 31 when he declared that the interest-rate policy of the U.S. Federal Reserve is the main source of the economic crisis of the deeply indebted Third World.

The Brandt Commission had invited Schmidt to attend its meeting in hopes of recruiting the chancellor to its strategy of population control and "appropriate technologies" for the Third World. The World Bank, which controls the commission, expects to induce Schmidt to argue this perspective at the Ottawa summit of Western industrial nations in July.

Schmidt's blunt emphasis on the strangulation U.S. interest rates have inflicted on world trade and production outraged the commissioners, who felt they were being lectured to like lowly members of Schmidt's Social Democratic Party at a regional party conference, according to the Munich daily *Süddeutsche Zeitung* June 1. Socialist International chief Brandt was particularly enraged, exclaiming that he doubts if his commission's report was ever read by anyone at the chancellery. "In this country most people did not understand a thing about this," he said. "German politics is backward and the intelligentsia even more so, politically as well as economically."

Schmidt had placed the issue of U.S. interest rates at the center of his discussions with President Ronald Reagan in Washington on May 20-23, and indicated to the press that he is hopeful that Reagan will take some concrete steps to lower rates before the Ottawa summit.

The German budget debate

When the West German parliament, the Bundestag, began its debate on the 1982 federal budget June 2, Schmidt insisted that no final decisions can be made until after the Ottawa summit, since the Bonn government cannot make its own financial plans until the

interest-rate question is settled. Clearly, Schmidt is hoping for a shift in U.S. policy as the one thing that can save both his country's economy, the European Monetary System, and his own political future.

According to a report issued May 31 by the Munich IFO Economic Research Institute, one of West Germany's leading economic think tanks, German interest rates can only come down if there is either a marked shift in U.S. policy or a fundamental improvement in Germany's high borrowing requirements and its onerous balance of payments deficit.

Last month Schmidt and the Saudi Arabians worked out a loan package designed to help finance French and German industries at subsidized interest rates until a U.S. shift away from the Volcker policies could be engineered. This was the first-ever OPEC loan jointly to France and West Germany. Immediately after the election of François Mitterrand as president, the French government pulled out, and rumors began to spread that the Saudis were going to tell West Germany to "forget the whole thing." The sources of these rumors included the economics minister, Count Otto von Lambsdorff, a Free Democratic Party free-marketeer who had opposed the loan from the beginning, and FDP'er Rudolf Augstein, the publisher of *Der Spiegel* magazine. *Der Spiegel* claimed that the Saudis were dissatisfied because the interest rates were too low, and because West Germany has not agreed to a hoped-for weapons deal.

But on June 2, Finance Minister Hans Matthöfer announced that talks had in fact begun with Saudi leaders on *extending* the credit line from 8 billion deutschemarks in 1980 (\$3.5 billion) to 11 billion deutschemarks in 1981.

In the June 2 Bundestag debate on the budget, Matthöfer further indicated that West Germany will continue to support the French franc in an effort to keep the European Monetary System intact. (The EMS links the currencies of its members in a "snake" of relatively fixed parities.) But the record interest rates in the United States have created drastic capital flights out of European currencies and into the dollar, bringing the European currencies to 10-year lows over the past month and severely straining the EMS. When French President Valéry Giscard d'Estaing was defeated in the May 10 national elections, the franc went through the floor. Giscard, with Schmidt, founded the EMS in 1978-79, and intended to use it as a vehicle for generating credit for Third World development and European industrialization—a policy that was never fully pursued.

In a three-and-a-half-hour meeting with President Mitterrand in Paris on May 24, Schmidt extracted from the new French leader a promise to try to stick with the EMS. But unless a transformation of American policy is effected quickly, there is no reason to expect that the

promise will necessarily be kept.

Instead, the German economy will head for deeper disaster. As things stand now, it will be considered an achievement if the economy attains zero growth for 1981, with most experts predicting a decline in growth overall. Collapsing export markets and rising oil prices have created a huge trade deficit, rising from \$5 billion in 1979—the first year of deficit in more than a decade—to \$14 billion in 1980. The deficit is expected to top \$20 billion this year. Although West Germany managed to post a \$1.4 billion trade surplus in April, this is not expected to be maintained.

Between October 1980 and February 1981, the German mark collapsed by 20 percent, and the German central bank was forced to jack up interest rates to 14 percent in order to check capital flows into the dollar. Restriction of credit to industry led to a 10 percent fall in auto production during the first quarter of 1981. Overall industrial production collapsed by 4.5 percent during March and another 3.5 percent during April.

The decline in domestic orders for capital goods accelerated. Consumer goods-producing industries ordered 7 percent fewer capital goods this March than last; capital goods producers invested 7.5 percent less.

The fall in production is creating a socially explosive rise in unemployment. The April report of the "Five Wise Men," the heads of West Germany's five leading economic research institutes, predicts a rise from 3.8 percent unemployment in 1980 to a full 5.5 percent this year—1.4 million jobless workers, higher than the level at the height of the two oil-price crunches.

Strains in the Bonn coalition

All this fuels the nasty strains in Bonn's ruling coalition between Schmidt's Social Democrats and the Free Democratic Party. Foreign Minister Hans-Dietrich Genscher, the head of the FDP, declared May 29 at a convention of his party that cuts in social services are now unavoidable. Other FDP spokesmen demand sweeping budget cuts along the lines of those implemented in the United States by budget director David Stockman and his Friedmanite mentors.

This sets the FDP against both the traditional trade-union base of the Social Democratic Party and the left-wingers who are out to grab any issue to destabilize the Schmidt government. SPD General Manager Peter Glotz, a leading pro-Brandt leftist, has declared, for example, that the budget issue would now be the true "test" of the coalition.

In the Bundestag budget debate, the opposition Christian Democrats and Christian Social Union predicted economic disaster, and the right wing of the party around Franz-Josef Strauss demanded that Schmidt declare the state officially bankrupt, resign, and call new elections.

The trail of Italy's P-2 scandal leads to Club of Rome global banking networks

by Vivian Zoakos

As the *London Times* noted late last month, if the current scandal rocking Italy were limited to having caused yet another government crisis (Italy's 40th since the war), the foreign journalistic community, at least, would be hard-put to stifle a yawn. But no one is yawning as the waves from the scandal involving the Italian Propaganda-2 (P-2) Masonic Lodge spread inward and outward, encompassing some of the most powerful and respected members of the international banking community, the Socialist International, and even some of the leading noble families of Europe.

The scandal broke on May 20, when Prime Minister Arnaldo Forlani was forced to publish the membership list of the highly secretive P-2 Masonic Lodge after having sat on it for two months. At the same time, some dramatic arrests were made, including two of the nation's most respected bankers—themselves members of P-2—for illegal financial transactions. Along with the shocking combination of names found to coexist side by side in the P-2 Masonic brotherhood, the activities of the lodge, the story of its founding and purpose also began to emerge.

Put succinctly, the P-2 Lodge has been found to be an extension into the present of Mussolini's dreaded OVRA (Organization for the Voluntary Repression of Anti-Fascists). OVRA was the Italian equivalent of the Gestapo, the secret police of the Fascist state, answerable directly to the party, not to the government. The leading members of the P-2, including its president and founder Licio Gelli, were in particular those officers of OVRA who acted as liaison officers with branches of the Nazi secret police and maintained the closest relations with such Nazi networks as Otto Skorzeny's.

It was Skorzeny, as is well known, who rescued Mussolini from the Allies; Mussolini then also created the short-lived Salo government, whence originate many current members of the P-2. Gelli in particular was hated and feared at the time for his peculiarly vicious torturing of prisoners.

That a prominent organization exists in modern Italy, founded and run by such individuals, is already of some interest. When that organization, however, is seen to regroup along with members of the OVRA and leading

members of the Italian Socialist Party (PSI), of the ruling Christian Democratic Party (DC), of the neo-Fascist Italian Social Movement (MSI), of the Italian Social Democratic Party (PSDI), of the very highest levels of the armed forces, the secret service, the banking community (including the central bank), and members of the nobility, pedestrian notions of the upper-echelon workings of politics break down completely.

A look at a small portion of the membership list shows that the following have been long-time P-2 members: the Socialist minister of labor and foreign trade; the Christian Democratic minister of justice; three leading members of the Italian central bank, the Banca d'Italia; the heads of the media industry, including the presidents of both television channels and the president of the overall communications conglomerate RAI; innumerable editors and publishers of the leading Italian newspapers, including the so-called newspaper of record, *Corriere della Sera*; the personal secretaries of some of the historic and most powerful leaders of the Christian Democracy, including that of current Senate president and frequent prime minister Amintore Fanfani; the secretary-general of the Italian Social Democratic Party (member-organization of the Socialist International chaired by former West German Chancellor Willy Brandt); the parliamentary fraction leader of the Italian Socialist Party (also a Socialist International organization); the head of the current prime minister's cabinet; the private secretary of the president of Italy (the latter a Socialist); the head of the Italian Joint Chiefs of Staff and 17 army generals, 6 admirals, 9 Carabinieri generals (military police), 4 air force generals, and close to 200 other top officers in each of these services; the heads of all three branches of the Italian secret services, including the civilian coordinating body (all three have been forced to suspend professional activities pending further investigations, and their subordinates have taken over, except in such cases where they too have been revealed as P-2 members); various leading industrialists, including the Socialist vice-president of the Italian national oil company, ENI, the president of the national steel conglomerate, Finsider, and the central director of the mammoth IRI conglomerate that, in turn, controls hundreds of

Italy's most important banks and industries; Victor Emmanuel of Savoy, pretender to the Italian throne; and so forth.

Non-Italians are also well represented, including various other Europeans. By far, the largest number are, however, Argentine citizens, representing the relocation of Nazi and Fascist networks in Latin America, and particularly Argentina, following the postwar flight into that country by scores of Nazis and Fascists.

How the P-2 was founded

The P-2 was established on the decision of the British Masonic Lodge currently chaired by the Duke of Kent, the same Duke of Kent whom the British press so swiftly moved to exonerate as soon as the P-2 affair broke into the public. The testimony of this fact comes from one of the investigating Italian judges, who told the newspaper *La Stampa* that it was the Anglo-American order, headed by Kent, that in 1964 took the decision to bring former OVRA officer Gelli back from Argentina to create a special lodge.

The P-2 soon became the centralizing organization for the terrorist and other conspiratorial activities of both the Italian right and radical left. In it were gathered the left-wing "Libyan connection" terrorist networks of the Socialist Party under Foreign Minister Enrico Manca, and the controllers of Fascist terror such as the Borghese family that ran the 1971 coup d'état attempt, the Rosa dei Venti Fascist plotters within the military—in short the founders and current controllers of both right-wing and left-wing terror.

What made the lodge particularly unique and effective was its access to the famous Sifaro files. These were the files gathered by General Di Lorenzo, then head of the Carabinieri, on behalf of the secret service. The files contained voluminous details of the sexual and other foibles of every Italian of note, and were thus a formidable and nearly universal blackmail weapon. It was in fact in 1964, the same year that Kent recalled Gelli from Argentina, that Di Lorenzo had attempted a coup d'état on the strength of those files and with the cooperation of the French Secret Army Organization (OAS).

Following this, the files were ordered destroyed by the SID, at the time the Italian secret service. The job was entrusted to one Colonel Viezzer, Gelli's close collaborator and a fellow Fascist, who, at the time headed the dreaded Section D (counterespionage) of the SID. Viezzer, who was jailed as soon as the P-2 affair broke out, needless to say, did not destroy those files. They were, instead, turned over to Gelli, who as head of P-2 and on behalf of his oligarchical controllers, used them judiciously to shape Italian politics, banking and industry at all levels, and ensure coverup of the tracks of terrorism, weapons, and drug smuggling.

Thus was created the P-2, whose rumored power

and activities have always been known to be enormous, but against which no one ever dared move.

One of the most productive threads of investigation into the ramifications of the P-2 affair is provided by the banking networks that criss-cross the lodge, particularly the Banco Ambrosiano of Milan, whose chairman of the board and prominent P-2 member, Roberto Calvi, has been jailed in connection with the scandal.

The Banco Ambrosiano, headed by the incarcerated Calvi, forms one of the members of the international Inter-Alpha group of banks whose other members are the Nederlandsche Middenstandbank, the Kredietbank of Brussels, the Privatbanken of Denmark, Williams and Glyn of London (the Royal Bank of Scotland), Berliner Handels- und Frankfurterbank (BHF) of Frankfurt, and Ultrafin of New York. The group represents an international banking web of enormous influence with close ties to the zero-growth, depopulation policies associated with the Club of Rome and its chairman Aurelio Peccei. The entire group is currently under investigation by *EIR*, but it is sufficient to cite certain leads in the investigation to indicate the ramifications of the interconnections involved.

The Inter-Alpha lead, for example, traces directly to Richard Gardner, Carter's ambassador to Italy and often cited by *EIR* for his involvement in Italian terrorism and destabilizations at the highest levels. Gardner was placed on the board of Ultrafin in New York by Roberto Calvi specifically to provide Inter-Alpha with monthly intelligence reports.

Gardner had been introduced to Calvi by a leading executive of Inter-Alpha through the good offices of then Fiat employee Aurelio Peccei. Mrs. Gardner is Daniele Luzzato, daughter of one of the leading Venetian banking families historically intimately associated with the Venetian black oligarchy. Calvi's Banco Ambrosiano, and through it Inter-Alpha, is itself closely associated with the Venetian oligarchy through the interlocking directorates of the Ambrosiano group. For example, Valerio Manera, known as "the last Doge of Venice" and currently jailed along with Calvi, sits not only on the board of the Banco Ambrosiano, but also various of its correspondent banks, including the Catholic Bank of the Veneto.

Inter-Alpha is also closely associated with the so-called Adela organization founded in 1964 under the auspices of the NATO parliamentarians group. Adela, best known through its association with David Rockefeller, had Aurelio Peccei as its European coordinator, who was long the head of the Agnelli Fiat empire in Argentina, and later founder of the Club of Rome. The Club of Rome's promotion of antiscience, depopulation policies that act as a battering ram against sovereign nation-states becomes more understandable when studied in light of the P-2 affair and its implications.

Policy prospects in the new cabinet

by Joelle Leconte

The efforts of Great Britain, the Socialist International, and the Club of Rome to put François Mitterrand in power will now be rewarded. The new government of France is not entirely an antenna of the Socialist International or the British Secret Intelligence Service; it operates under certain domestic constraints. However, gratitude for services rendered, and, for some, long-acquired habits of collaboration, mean that the Socialist International, the British, and the Club of Rome are institutional shareholders of the new socialist regime.

We can expect France to play an important role in the Socialist International strategy defined following Ronald Reagan's election. At their December 1980 meeting in Washington, D.C., attended by François Mitterrand, and his new ministers and advisers Michel Rocard, Nicole Questiaux, Jacques Attali, Edith Cresson, Alain Boubilil, and Maurice Benassayag, the Socialist International defined its role in the Club of Rome-inspired Global 2000 plan. Thus, the Brandt Commission proposals on North-South dialogue and the Palme Commission's disarmament proposals geared to different audiences are both instruments of the Global 2000 policy of deindustrialization and depopulation.

Foreign Minister Claude Cheysson's policy is likely to be a compromise between Global 2000 and the preservation of some particular interests of the "French Empire" in Africa. The nuances will be illustrated by a difference of approach toward Latin America and Africa. In Latin America, Foreign Policy Adviser Régis Debray (whose appointment is not yet confirmed) and Minister of Planning Michel Rocard, through their contacts on the continent, will give heavy support to the "liberation struggles" that are part of the Global 2000 scenario of depopulation through war.

In francophone Africa, on the other hand, the "Imperials" will not want to give free rein to the four horsemen of the apocalypse. This is, after all, the heart of the would-be Empire. From recent statements by Claude Cheysson, and by Jean Saint-Geours and his other colleagues in the Club of Rome who supported Mitterrand, it seems that their intent is to maintain certain capital

flows toward francophone Africa in order to support a classic colonial sector of the domestic economy based on looting of raw materials, a special concern of Cheysson's as coauthor of the European Community's Lomé Agreement. Cheysson stresses that while these African nationals should not perish of hunger, there should be no "industrialization on the South Korea or Taiwan models. . . . The European or national authorities must be reserved the right to suspend aid in such cases," he told *Le Monde* on April 30.

The government's appointment of Edgar Pisani, member of the Club of Rome and of Brandt's North-South Commission, to replace Cheysson as EC commissioner in charge of relations with the underdeveloped sector, is another indication that differences on this or that issue merely represent a debate among committed Malthusians.

The French Socialist's victory will also give a boost to the "disarmament" policy spearheaded by Olof Palme. France's domestic military policy is still unclear. One of the first decisions Mitterrand announced was to cancel nuclear weapons testing in the Pacific; the tests have now been resumed.

The last semblance of Gaullist resistance to supranational European integration has been swept away. The one-world European forces, from the European Movement to the Federalists, which had been held in check, are now being unleashed. Claude Cheysson announced during a discussion in Paris with U.K. Foreign Secretary Lord Carrington that the hitherto crucial Franco-German alliance will lose its importance to the benefit of more "intimate" relations with Great Britain and other EC countries. This means that the already extremely powerful grip held by the British on EC affairs will be consolidated.

Domestically, the Club of Rome, et al. have been given a free hand in the area of culture and youth. What to expect from the Socialists in those areas was already outlined last March in Paris when the Socialist International met with Club of Rome founder Aurelio Peccei to discuss "culture." In his book *One Hundred Pages for the Future*, released just before the French elections, Peccei declared that mankind must give up its confidence in its ability to understand and master the universe, its confidence in science and progress.

School curricula will be geared toward inculcating this into the minds of children, to orient them toward the "social sciences," group psychology, and cultural relativism. Such themes are the brain children of Unesco and the Aspen Institute, organizations with which the Minister of Leisure Time, André Henry, is closely associated. Added impetus in this direction will be provided by Mitterrand's scientific adviser, François Gros, a member of the Club of Rome's Stockholm-based IFIAS, and by Minister of Culture Jack Lang, a supporter of Red Brigades terrorist Franco Piperno.

The French 'Imperial' faction: Mitterrand inherits the mantle of history's cuckold

by Laurent Murawiec, European Economics Editor

What has come to power with the arrival of François Mitterrand in the Elysée Palace? Is it "the people"; is it the Left, which undeniably provided the troops? The new president of the French republic, even though he has used them extensively, does not represent them in the slightest, and his regime will demonstrate this.

With the election of Mitterrand, through support from the *banques d'affaires*, Libyan money, the City of London, U.S. think tanks, the Zionist lobby, the U.S. State Department, and the Socialist International, what has returned to power in France is the old aristocratic "Empire" faction whose follies have nearly destroyed France countless times in its history.

To understand Mitterrand, one has to look back to 1958, to General de Gaulle's return to public affairs. The Fourth Republic had turned to chaos, embroiled in the ruinous quagmire of the Algerian war, its body politic struck by paralysis. Virtually all forces in the country then turned to the hero of 1940.

The men of the Fourth Republic were all convinced that the man who had retired to Colombey-les-deux-Eglises would march to their tune, and then return to the hospice after having resolved the imbroglio in the Mahgreb to their satisfaction.

Similar expectations were silently harbored by many Gaullists, who shared few of the general's views, but who—representing a cross-section of the political spectrum—were bound by an uncompromising personal loyalty to the lofty figure they had rallied around.

In ruling circles, some hoped that de Gaulle would crush the Algerian rebels, the "fellaghas," and safeguard "the Empire." Some hoped that he would break the back of the army. Some saw him sparking off civil war against the Communist Party, while still others thought he would return the unruly Fourth Republic to calmer parliamentary functioning.

But all agreed that he should be retired after two or three years of faithful service. Except for the Communists, except for former Prime Minister Pierre Mendès-

France, who postured as the savior of last resort, and except for François Mitterrand, whose earlier record as a British wartime agent excluded him a priori, they all joined the general's first governments, until they realized that a superior mind had outwitted and outmaneuvered them, and captured for his own use the energies they designated for other purposes.

And, if at times it seemed that de Gaulle was carrying out the policy of the "left," and at others that of the "right," his was really the policy of France. His judgment that the tragedy of France is "a left that has a sense of the nation, but no sense of the state, and a right that has the sense of the state, but not that of the nation," shows why he used everything available to accomplish the higher purpose—*that of the nation-state*.

The Fourth Republic and the Empire

What in truth was the Fourth Republic, whose whole lifespan had been overshadowed by an "Empire"?

National reconstruction after the devastation of World War II had been achieved through the thankless toil of the working class, but the instability, incoherence, and anarchy that presided over public affairs were throwing it into jeopardy.

The "dirty wars" in Indochina and Algeria were debilitating not only public finances, but also the armed forces and the public morale. In whose name were the socialists, "moderates," "independents," and Christian Democrats—together a large majority in the all-powerful Parliament which did and undid governments on a moment's notice—carrying out these wars? Beneath the nationalist rhetoric lay *the preservation of this French Empire*, based, like its arch-rival the British Empire, on the wholesale looting of colonial riches, the merciless exploitation of native labor, and the drug traffic, in which official French monopolies cultivated and freely sold opium in Indochina and hashish in Northern Africa. In this empire, on which sat the geopolitical power of France, education was minimal, infrastructure



French citizens acclaim de Gaulle at Bayeux in June 1944, just after Liberation.

construction rare, industry a luxury. That was French imperialism.

“French Empire” policy was a far cry indeed from the Grand Design of late 19th-century *coloniste* republican leaders such as Jules Ferry and Gabriel Hanotaux, whose policy was “civilization” and “integration,” meaning the development of the colonized peoples and transmission of what the French nation-state could offer in terms of economic, social, and cultural transformation. The Empire faction’s policy was also in conflict with the policy heralded by the heir of the *colonistes*, Charles de Gaulle, in his 1944 speech in Brazzaville, Congo. De Gaulle’s policy was *creating nations* committed, like his own, to generating the progress that makes of each citizen a responsible member of society.

The policy the Fourth Republic clung to was a relic of geopolitical power rapidly being destroyed by the surge of another kind of power, industrial power as exemplified by the United States, West Germany, or Japan. The latter type of power needs no *lebensraum* where fixed resources wait to be looted. Through science and technology it achieves far more than the ruthless squeezing of agriculture and raw materials in countries artificially maintained in backwardness.

A certain awareness of reality seeped into some sections of the French elite. Among the leading boosters

of the Empire—Banque de Paris et des Pays-Bas (Parisbas), which ruled Morocco, was a factor in the Near East, powerful in Egypt and the Gulf; Banque de l’Indochine, which financed all manners of trafficking in Southeast Asia, from piasters to opium; Banque Lazard, Rothschild Frères, Banque Worms, Banque Rivaud—there was concern at the decline that had set in since 1914, and which Vichy France completed.

Some frightened Imperials were demanding a retrenchment. Let us get rid of what has become the colonial burden, they argued: let us shed the huge military and administrative costs it entails, grant some appearance of political independence, and let the priority be the reindustrialization of mainland France.

Some thought that the most efficient way was to hand out large tracts of the colonial domain to the not-too-innocent “friends” across the Channel and the Atlantic; such was Pierre Mendès-France’s policy, today both the elder statesman of the Left and François Mitterrand’s regime, as well as a Brandt Commission member; others, like then Minister of the Colonies Gaston Defferre, the mayor of Marseilles, and old “acquaintance” of U.S. drug enforcement authorities and today Mitterrand’s minister of the interior (which in France controls law enforcement and the duties of the FBI) argued that it was better to “open the windows” with a liberal policy, but keep most of the power in the colonies. Still others were highly sensitive to Israeli interests, and only saw the Algerian conflict through the eyes of rabid anti-Nasser sentiment.

Depending on their respective evaluation of present strengths and weaknesses of mainland France, they were ready to arrange compromises with the powers that be.

Jean Monnet, the planning commissioner, proposed a virtual merger of the old nation into an integrated supranational unit. He pulled together a team of senior civil servants and set out to rebuild the French economy, organizing it in such a way that it would readily be plugged into the supranational mechanisms then set into place, the OEEC (later OECD) and the European Community. When Monnet’s Anglo-American sympathies carried him too far, orthodox Imperials refused to sacrifice their instrument, France, and stopped him dead in his tracks: the European Defense Community and the European army projects collapsed.

Mendès-France played a role in boosting military and civilian nuclear development during his tenure as premier in 1954-55, while he never spared his assaults against both when it was de Gaulle who wielded them.

Empire versus de Gaulle

Undeniably, under the Fourth Republic, but not because of it, economic growth went on, in a favorable international environment, with the top levels of the

civil service organizing it, the nationalized infrastructure industries supporting it, and the mistreated working class producing it.

Under de Gaulle, social energy, adrift and dissipated under the “regime of the political parties” was suddenly given a direction, and thus acquired a power that it lacked before. This was brought to bear domestically and internationally.

As for all the clever boys who had bragged about their anticipated manipulation of the general, a masterful de Gaulle sliced their factions away one by one with every lurch he imposed in policy. The painful fact started to sink in: de Gaulle would respect none of the agreements reached with this or that international “friend” or “protector.” He would have nothing of supranationality, be it complete or partial.

Algeria policy strikingly demonstrated the case: the general’s design—given the situation he had inherited—was to help the new Algeria to become a nation-state, and one friendly to France. His speech in Constantine, Algeria in 1959 and the global plan for the economic development of the country it included remain as a model for proposals of entente between two sovereign republics.

What about the “Left” and the “Right”? With the exception of a few individuals or factions (the most notable of which was the Communist Party), both got together to set up a shadow government to take over as soon as the extreme right-wing terrorist gang of the OAS eliminated “the tyrant.” That was the subject discussed at the famous Déjeuners de l’Alma, a series of political luncheons convened by banker Pierre Uri of Lehman Brothers, Europe (an assistant of Edmond de Rothschild and today Mitterrand’s fiscal affairs adviser). The sessions featured the same gang around Mitterrand today: banker Pierre Moussa, then close to Robert McNamara at the World Bank and now the chairman of the Paribas Bank; Socialist Guy Mollet; Independent Antoine Pinay, an old pro-Vichy hand; Christian Democrat Colin; centrist Maurice Faure, fresh from the Jean Monnet team and presently the justice minister; trade-union leaders close to Jay Lovestone and Irving Brown; and “progressive” left-Christian farmer leader Jean Debatisse, now a Trilateral Commission member. A lot of planning was being done in Paris in the early months of 1962, as the OAS bombs were shattering the city and killing indiscriminately.

There were higher interests binding these parties and their leaders. Both right and left were set to exploit the class-based sensibilities and mythologies of their various constituencies and channel them in the direction required by their international alliances with the powers that be.

For in fact these parties were the updated expression of ancient links of feudality and loyalty, of networks of

influence and power woven across the centuries of French history. At the highest level, that of actual long-term strategic decision-making, the level where top financiers and the upper crust of the civil service meet the intellectual, the upper hand was still with the cast made of the increasingly merged *noblesse d’épée* (the medieval nobility), the *noblesse de robe* (ancien régime royal administrator-families), and the high financial, industrial, and judicial society of the 19th century—in sum, the *grandes familles* which properly constitute the imperial elite of France.

De Gaulle used the stick, and they went along, under compulsion. A fair number of individuals who were originally groomed to belong in the Imperial camp were elevated by the influence of the general, while the mass of the French population responded enthusiastically to de Gaulle’s calls to action.

This was going too far. A series of putsches failed to topple the general. To protect their threatened geopolitical interests and alliances, some decided to have him killed. To that aim, they received the eager support and logistical, financial, and political help of the Israeli Mossad, the British SIS, elements of American intelligence, and elements of the Socialist International. The international “Murder, Inc.,” Permindex, spared no effort, nor did NATO intelligence.

But even before the failure of the innumerable attempts on de Gaulle’s life, a good chunk of the Imperials had selected another option. In the long run, it was argued in various salons, de Gaulle was no immortal being; the old general would leave the stage, and would be helped out in case of need. Meanwhile, one had to contain his unpredictable policy initiatives, or lessen their effect. He would leave a legacy of a reinvigorated economy, developed industry, and a modernized defense capability. These creative powers of the nation-state could be harnessed, and the position France was acquiring in the world could be used to Imperial benefit. With the harvest of what the French nation-state had sown, French imperialism would be in a position of strength.

This is why, in lieu of the frontal attack led by the OAS and its political cothinkers, that faction engaged in the recycling of its political assets. The elites had failed to stop de Gaulle. The last resort had to be the people. Discontent would be exploited. To do that, it was indispensable to organize the people better than the Fourth Republic had done.

Around Pierre Mendès-France and his news magazine *L’Express*, as well as the more extreme left-wing-oriented *Le Nouvel Observateur*, a “New Left” was created. It trained generations of youth to the “socialist-leaning sensibilities” that constitute so much of Mitterrand’s electoral base. The first attempt at regrouping against de Gaulle, the so-called “Third Force” adven-



Francisco Goya depicts the Imperial mentality in 1808, during the brutal Napoleonic conquest of Spain. His caption: "Perhaps they are of another species."

ture of Jean-Jacques Servan-Schreiber and Gaston Defferre, resulted in failure. The Third Force concluded that it had to change its skin, and turned to François Mitterrand. The latter explained that first a long battle had to be waged against the strength of the Communist Party (a task consummated this spring), and only then could the real job begin.

That task was recently summarized by a leading spokesman for the Imperials as "to be the bridge between the ineluctable role of the nation-state and the increasingly one-world features of the global economy."

The cuckolds of history

The Imperial view of France's world role has a long past. The 18th-century Geneva bankers and their Genoese patrons, who held the better part of French royal and national debt, had already had the design of using the vast resources of the nation-state shaped by King Henry IV, Sully, Richelieu, Mazarin, and Colbert, to pit a "French" Empire against the British Empire—but with the same methods and the same Malthusian looting purposes. While the French humanists, friends of Benjamin Franklin, were helping the American colonies to found the United States as the first genuine

republic in history, the Imperials and their agents, Necker, Mirabeau, and Talleyrand, were thinking in terms of aggrandizing the estate, and increasing the geographical area where the flag could cover the looting of existing wealth.

The Imperials pursued their design until the bitter end: *defeat*. The Battle of the Nations at Leipzig in 1813 was the bell tolling for Imperial dreams, as it tolled again in the collapse of the lamentable 1861 expedition to Mexico. The French rooster had to bend to the lesson: forces already in place for the government of the world had no intention of allowing a duty-free French expansion.

The lesson was forcibly taught again after 1918. Since "Germany will pay" was the long and the short of its policy, the French Empire was relegated to third-class status; it was ruthlessly kept out of the oil-rich regions of the Middle East, and contained by the might of the pound sterling and the dollar. And as the French oligarchy had given up grand projects such as the Baghdad Railway and the Shanghai Railway, they satisfied themselves with clipping coupons and maintaining a rentier imperialism. Their world power declined on a steeper and steeper slope.

The German army then only needed to apply a gentle push for the French oligarchy, elated at the collapse of a republic it had never accepted, to bow to the very junior role the triumphant Nazis ascribed to them in the New European Order scheme. That was the Vichy regime. Still, this castrated capon insisted on gesturing at the remnants of its past glory, the navy and the colonies. The Nazis could be heard snickering at the pretentious servility of the Imperial wheelers and dealers. When the Nazi troops swept the fantasy away by marching into the supposedly "free zone" of southern France, the glorious navy was sunk by its own admirals, without a shot.

It was de Gaulle, the humanist standard-bearer of the nation-state, who alone saved the "Empire" from Nazi and British depredations. The Imperial which fights other, better-situated oligarchies with the same methods, cannot rely on either major inflows of international credit, or territorial sweep, or on the scientific, technological, and industrial resources whose development is slowed by each Imperial reappearance on the throne. This pretentious oligarchy is the eternal cuckold beaten and mocked by its rivals.

Mitterrand's plans and the realities

While French industrialists are generally terrified at the entry of the Socialist International into the government, the oligarchs are rubbing their hands. "Creativity was on the wane; the economy, society, culture were stifled," one of them explains. "Giscard cannot be held

responsible for this; this is the kind of process that goes beyond the four or five years before or after. Change was needed. There is going to be some change, nothing revolutionary or radical, but some change."

In truth, what the Imperials blame Giscard for is *to have learned too much*, to have shaped himself too much after the presidential profile forged by de Gaulle, and to have lifted himself up to the moral level of the nation-state. Let him go! He betrayed us!

Domestically, through the "popular upsurge" associated with the victory of "socialist" Mitterrand—who all the salons and boardrooms will tell you is no more of a socialist than you or I—the ouster of Giscard has been accomplished at the cost of an alliance with the Club of Rome and the Socialist International, to which education and culture have been farmed out in the form of executive responsibilities for the youth and the civil society. The gullible Imperials have reserved for themselves the economy and foreign policy. Hear their nominal allies abroad gloat!

The Imperials nourish the hope of combining nuclear energy, civilian and military, as an indispensable power base, with the introduction of what they call the *télématique*, in the framework of a strategy of controlled deindustrialization. "Sunset" industries (steel, textiles, heavy chemicals, auto) will be gradually siphoned into the newly industrialized Third World countries, while "sunrise" industries centered on *télématique* (office equipment, microprocessors, consumer electronics, information technologies, etc.) will acquire a dominant position. The telematics doctrine is supposed to convey an entirely new mode of social organization and administration.

The industrial proposals issued in the report *L'Informatisation de la Société* (*The Computerization of Society*) presented three years ago to President Giscard by Pierre Mendès-France's associate Simon Nora and young technocrat Alain Minc, now become government policies (see *EIR*, March 31). This is also true of the proposals for social-political reorganization their report included: deindustrialization, deurbanization, decentralization. In short, the dismantling of the nation-state and its pillars, industry and the modern city. France is to be taken into the "technetronic era" of Zbigniew Brzezinski and the Club of Rome, and their French associates of the Association Internationale Futurible of oligarch Bertrand de Jouvenel, whose closest associates, such as Futurible Jacques Delors, now economics and finance minister, are in power.

Externally, Foreign Minister Claude Cheysson, the former European Community development and cooperation commissioner, and his friends are confident that they can play a game of halfway supranationality, piling up the "Lomé Convention" agreements and ad hoc

international and regional organizations. They contemplate themselves playing mediators between East and West, between North and South, while pocketing brokerage fees.

Once more, the clever boys are thinking with their feet. But then, they have never known the use of higher organs. The world is not set for growth, nor any sort of negotiable arbitrage between development and Malthusianism. The only leeway allowed to the French Empire fantasizers in the one-world universe thus prepared by Anglo-Venetian oligarchs is to adapt, and shut up.

The destabilization capabilities at the disposal of such supranational forces suffice to demonstrate the inanity of the delusions nourished in those townhouses whose occupants fancy themselves in a Grand Siècle role. The international monetary and financial system is in the hands of the Eurodollar bankers, and the Bank for International Settlements; petrodollars have flown away from Paris, and will not return; the French franc is under threat. The international pillars of the policy of France, as it was led by the Fifth Republic, are plummeting. Giscard's fall threatens to accelerate that of Helmut Schmidt, and thereby jeopardize the credibility of Brezhnev's conception of détente in Moscow. A world shattered by economic depression and regional conflicts threatens to sweep away the whole construction, and, in passing, any grip the "Empire" still believes it holds on men and events.

Moreover, inside France, the "alternative movements" that Peccei brags he is going to steer as a battering ram against the nation-state are now demanding an immediate end to the "tyranny of reason" and its expressions, industry, urban life, science, and progress. The "minorities," the "communities" made arrogant by a Mitterrand victory they regard as theirs, now demand the implementation of the "spirit of May 1968," starting with decentralization, regionalization, the atomization of society.

The Imperials are drawing plans, nurturing grandiose future visions, like the absurd King Picrochole of François Rabelais. They convince themselves that, as usual, they will be able to manipulate Mitterrand, his government, his parliamentary majority, and the credulous masses that voted these into power. And then, so goes the plan, they will call upon a strongman—Jacques Chirac—after the decomposition of nation-state will have freed them from any remnant of Charles de Gaulle's heritage. Chirac will recompose a society better to their liking.

One more time, they believe they can tread a "third way" between the nation-state and the other Malthusian oligarchies of the world. As François Rabelais put it, "cuckolded they will be." *Let us fear that they would drag France along in their fall!*

How Peking is linked to the Bangladesh coup attempt

by Daniel Sneider, Asia Editor

The South Asian nation of Bangladesh was shaken at the end of May by an attempted military coup, a coup that failed to take power but succeeded in murdering President Ziaur Rahman and is threatening to precipitate chaos in Bangladesh—and all of South Asia.

While the evidence is far from complete at this point, the trail of linkage to the coup attempt leads first of all to Peking. The coup leader, General Manzur Ahmed, was a longtime pro-Peking man. He also reportedly has ties to right-wing Islamic fundamentalist groups who share with pro-Peking elements a strong anti-Indian ideology. The only statements made by the coup makers, during the brief period they held the port city of Chittagong, were anti-Indian.

All this must be viewed against the pattern of events in the region, particularly Chinese backing for the arms buildup of the anti-Indian regime in Pakistan and the recent rise of India-Bangladesh tensions, sponsored in part by President Ziaur's government. The coup in fact took place only two days before Chinese Prime Minister Zhao Ziyang arrived in Pakistan, the first such high-level visit in 16 years, for a tour that is to take him to all three of India's immediate neighbors including Nepal and Bangladesh. Even before the events in Bangladesh, Indian analysts viewed the visit as an escalation of Chinese attempts to "encircle" India with hostile regimes.

Reviving the 'America Card'

The Chinese leadership in Peking has two related strategic concerns at this moment. Foremost is to restore their strategic alliance with the United States: Peking's "America Card" policy of encouraging U.S.-

Soviet tensions and drawing an American nuclear umbrella over their pursuit of their own Great Han objectives. The advent of the Reagan administration and the uncertainty in Peking over the China policy of the new administration is a problem for China and for the leadership faction around strongman Deng Xiaoping, the foremost advocate of the "America Card" policy.

Peking's second major concern lies in southern Asia, with focal points in Cambodia (Kampuchea) and Afghanistan, the two points Peking has identified as "front lines" against the Soviet Union. Peking's military axis with Pakistan and its backing for the anti-Vietnamese forces of the ousted genocidal regime of Pol Pot in Cambodia are the two most important objectives of current Chinese external policy.

It would be a mistake, however, to see these as merely part of China's anti-Sovietism—that is a tale to fool barbarians. The Chinese desire for domination of the entire rim to their south requires the destruction in particular of the two powerful nations who stand in the way of that aim—India and Vietnam. The Chinese policy of mass depopulation, carried out with such horrible effectiveness by their clients in Cambodia, requires chaos aimed at those two Asian powers.

Equally key is the fact that Pakistan and the anti-Vietnam front in Southeast Asia are points of convergence with current U.S. strategic policy. They represent the back door through which the Reagan administration, with Secretary of State Haig leading the way, can be dragged back into the illusory "China Card" policy.

The Chinese are effectively setting the agenda for Haig's visit to Peking, slated to start June 10. While

Peking continues to rail against the minor expressions of concern by the Reagan administration over the fate of Taiwan, the Taiwan issue is chiefly a bargaining point. Peking will demand an expression of Washington's faithfulness—not on the Taiwan question but by joining hands with Peking in a de facto military alliance around Pakistan and Southeast Asia. Haig will follow his visit to Peking with attendance at the foreign ministers' meeting of the Association of Southeast Asian Nations (ASEAN—Philippines, Thailand, Singapore, Indonesia and Malaysia) where the major topic on the Manila agenda is to be policy toward Cambodia.

Zhao Ziyang's visit to Pakistan is part of this convergence. China is the strongest backer of the military dictatorship of General Zia in Pakistan, and there has been a continual flow of Chinese and Pakistani high-level military delegations back and forth for the past six months, including most recently the visit of the Pakistani naval chief to China. At his opening banquet Zhao told his Pakistani hosts that history will prove "the Chinese are the most reliable friend of the Pakistani people."

Immediately following his departure from Pakistan, U.S. Undersecretary of State for Security Assistance James Buckley will fly in. The purpose of his mission, according to informed sources in Washington, is to settle the details of a proposed five-year, \$2.5 billion arms assistance package from the United States. This deal has already brought strong protests from New Delhi, which fears that, as in the past, U.S. arms to Pakistan will only be used against India.

The Trilaterals come to Peking

China prepared for Haig's visit in a manner that reveals Peking's actual approach to the Reagan administration: they invited the Trilateral Commission to China for an unprecedented three-day conference between the Trilateralists and the top Chinese foreign policy think tank, the People's Institute for Foreign Affairs. Led by David Rockefeller, the Trilateral delegation included among its American members Robert Ingersol, former U.S. ambassador to Japan and Kissinger assistant secretary of state; Winston Lord, president of the Council on Foreign Relations; and Bruce MacLaury, president of the Brookings Institution in Washington. They met with Deng Xiaoping and other Chinese leaders, holding wide-ranging talks on the strategic situation, particularly Southeast Asia.

The Chinese were clearly recruiting the Trilateralists as their "agents" in the task of maneuvering the Reagan administration back into the China Card policy, which Haig also favors. Just before the Trilateral meeting, two former top Carter administration officials, Treasury Secretary Blumenthal and Assistant Secretary of State Richard Holbrooke, who was in charge of East Asia policy, were also in Peking for talks. The *Frankfurter*

Allgemeine Zeitung reported on a Chinese Politburo meeting around this time, apparently following the Trilateral meeting, in which Deng won the support of the majority on the Chinese Communist leadership group for the continuation of his strategy of alliance with the West. This information was probably leaked through the West German daily to signal Peking's readiness for the Haig visit, and also to indicate that opposition exists to the policy.

The failure in Bangladesh

Against this strategic setting, the failure of the coup in Bangladesh appears to be a setback for Peking. The political situation within Bangladesh was primed for such an event. President Ziaur was increasingly unpopular, finding himself caught between opposition from the Awami League (the party of independence leader Sheikh Mujibur Rahman murdered in 1975), on one side, and pressures from a combination of Maoists and right-wing Islamic fundamentalists on the other.

The events that brought the failure of the coup attempt were the strong support provided to the constitutional government in Dacca by Indian Prime Minister Indira Gandhi, and the support delivered within the country by the leadership of the Awami League, despite its strong opposition to President Ziaur's rule.

The two-day coup was centered in Chittagong, where General Manzur commanded the 24th Division of the Bangladesh Army (he had been previously head of the General Staff and was downgraded by Ziaur). Ziaur was visiting Chittagong when the rebel units under Manzur's command struck, murdering the president and eight aides in a gunbattle. Though the coup was isolated to the units in Chittagong, the evidence is clear that Manzur, who is generally described as a highly intelligent officer, had planned coordinated actions in other parts of the country.

In fact, according to reports from New Delhi, there were simultaneous revolts in four other major military bases around the country—in Dacca (the capital), Jessore, Sylhet and Comilla. Loyal troops succeeded in putting them down, particularly in the capital, where Chief of Staff General Ershad remained loyal to the constitutional government.

The ability of the Dacca government, now headed by Vice-President Sattar, to hold the situation in check is credited by close observers of the scene to a strong statement issued by Prime Minister Gandhi while the coup attempt was still going on. The Indian statement declared full support for "democratic institutions" and the "democratically elected government" in Dacca against the coup-makers. That statement was broadcast widely and frequently by the official radio in Dacca; and officers considering joining the coup had to face the implied threat of Indian intervention in support of the Dacca government.

The firm and prompt actions of the Indian government in defense of stability in Bangladesh can be contrasted with the curious behavior of the Chinese. While the coup was still on, the Chinese embassy announced that the planned visit of the Chinese premier would continue as planned, a move widely interpreted as a signal of Peking's acceptance, if not approval, of the coup leaders. After their rout, the embassy announced the cancelation of the visit. And perhaps most curious of all, it was reported as of June 3 that Zhao announced in Pakistan that he will go to Bangladesh after all.

India has consistently assisted the Dacca authorities. The latest reports are that the Indian government announced that its Border Security Forces would act to seal the border, at the request of the Dacca government, to stop the flight of some 3,000 rebel soldiers who have fled into the hills around Chittagong (which is near the Burma and India borders in the southeast). Sources in New Delhi add that Indian forces were placed on precautionary alert to prevent any foreign intervention into Bangladesh during the coup attempt.

The Awami League and General Manzur

The immediate political context within Bangladesh before the coup had been shaped by two determinants. One was the return to Bangladesh in the middle of May of Sheikh Hasina Wased, the daughter of Bangladesh founder Sheikh Mujibur Rahman. She had been living in exile in India since her father's murder in a 1975 coup (thought by many to be Kissinger-inspired) and had returned to assume the chairmanship of the Awami League, which, although the largest opposition party, had been hampered by internal factionalism. Her return was greeted by huge and enthusiastic crowds, demonstrating the weakness of the Ziaur government.

Around the same time, the Dacca government sparked a massive anti-Indian campaign (Mrs. Wased having been also labeled an "Indian agent") around the issue of a recently formed sedimentary island in the Bay of Bengal controlled by India and claimed by Bangladesh. The dispatch of Bangladesh gunboats to the island and a massive propaganda campaign had considerably inflamed passions while Maoists and followers of the Jamaat-e-Islami (the leading pro-Pakistan group tied to the Muslim Brotherhood) were given encouragement to stage anti-Indian demonstrations.

The timing of General Manzur's coup attempt is understood by observers in the region to be linked to the return of Hasina Wased, to the obvious shift in the political dynamic it caused, and to the deliberately created anti-Indian atmosphere. Rebel broadcasts from Chittagong attacked the government for failing to seize the island from India and issued strong anti-Indian attacks.

According to Bangladeshi sources who know him personally, Manzur in his student days had been a member of known radical leftist groups of a Maoist character. Those groups later formed the JSD (National Socialist Party—see accompanying article), a left-fascist organization with a decidedly anti-Indian character that was involved in the overthrow of the pro-Indian government of Sheikh Mujibur Rahman in 1975. There are also several reports that Manzur had more recently developed ties to the Jamaat-e-Islami Islamic fundamentalists. Manzur's readiness to lend himself to this mission may also have been the result of a rivalry with Ziaur and the failure to gain promotion from his number-three army post to that of Chief of Staff. Yet, clearly, the line now circulating in the press of a "personal" motive for the coup is nonsense. Manzur is reported (though not confirmed) dead, shot by government troops who captured him.

At this point there is relative calm in Bangladesh, yet no one predicts it will stay that way. Elections should be held within six months for a new president, but there are doubts the situation will remain stable that long.

Documentation

An Indian journal foresaw the Dacca destabilization

The following article is reprinted from the May 3 issue of the respected Indian weekly newspaper New Wave. Although it appeared before the recent coup attempt, the article almost precisely predicts those events and provides a detailed breakdown of the various political forces now operating in the country. It is worth noting for the reader that the article focuses on the role of the right-wing Islamic fundamentalist Jamaat-e-Islami party and that the leader of the coup attempt, General Manzur, is reported to have had strong links to that group. One explanatory note—Sheikh Mujibur Rahman was the leader of the Bangladesh independence movement (from Pakistan), assassinated in 1975 and the Awami League is the party which led that movement.

Despite apparent stability the Bangladesh political scene remains confused and tense. A conspiracy case now in progress in the Field General Court Martial in Dacca cantonment is a proof of the inherent weakness and instability of the political system. . . .

While Zia [Ziaur Rahman] survived last June's attempted coup, he may not be as lucky always. With the political system in doldrums and people in general thoroughly disillusioned and bitter because of serious economic crisis manifesting itself in rising prices and growing poverty and unemployment, Zia's popularity is now at the lowest ebb. The alleged infiltration of the armed forces by extreme right-wing elements, specially pro-Pakistan Jamaat-e-Islami elements, poses a serious threat to the political stability of the country.

President Ziaur Rahman, apparently conscious of this danger and provoked by the excesses committed by Jamaat elements, lashed out at them immediately before the 26th March Independence day. Zia, who not only rehabilitated the traitors and collaborators in national politics but also allowed them to share power with him, discreetly signaled his loyal Mukti Joddhas (freedom fighters) to wage a political war against Jamaat-e-Islami. Mukti Joddhas as well as other pro-liberation forces geared up a vigorous campaign against Jamaat and its leader Golam Azam, chief of the notorious Al Badr group which killed hundreds of most distinguished Bangalee intellectuals on the eve of independence in December 1971, and now a citizen of Pakistan, is living in Bangladesh for the last three years. But the weakness of Zia government is well known because Jamaat-e-Islami is openly backed by Saudi Arabia and Ziaur Rahman is in desperate need for precious petrodollars. He cannot go beyond a point against Jamaat for fear of annoying the Saudis.

Ziaur Rahman's own political party, Bangladesh Nationalist Party (BNP), has failed to grow as a political organisation able to create the necessary support base for his regime. Zia is reportedly spending about three crores of Taka every month to keep the party going, over and above liberally using public resources like wheat meant for "food for work" programmes. But he has only been able to collect a bunch of opportunists and self-seekers of all shades. . . .

In the process of creating the BNP, Zia has successfully disrupted almost all established political parties, big or small, right or left. Moulana Bhashni's traditional National Awami Party liquidated itself and merged into BNP under the leadership of Masiur Rahman. The JSD (Jatiya Samaj Tantrik Dal—National Socialist Party) suffered a serious setback when a small section of its leadership, followed by the powerful students wing, quit the party to form their own Bangladesh Samaj Tantrik Dal (Socialist Party of Bangladesh). The significance of the split lies in the fact that JSD is basically a party of the students and youth without any mass bases in towns or in the countryside. So this split has left JSD practically crippled and unviable.

The Communist Party and other parties of the left like NAP (Muzaffar) NAP (Harun), Workers Party

(Menon), Ekota Party (Surajit Sengupta), etc. are too small and ineffective to be counted in national politics.

The so-called pro-China parties like Samyabadi Dal (Communist Party) of Touha, or Democratic Party, a conglomerate of various small and insignificant left and pseudoleft parties are directly or indirectly playing the second fiddle of the ruling party. Kazi Zafar Ahmed's United Peoples Party, once projecting a left image, is now seeking alliance with Mushtaq's Democratic League.

Parties on the right and far right include Khondakar, Mushtaq Ahmed's Democratic League, Khan Sabur's Muslim League, Moulana Rahim's Islamic Democratic League and Golam Azam's Jamaat-e-Islami. Mushtaq after coming out of the jail last year started his political campaign with a bang, but it appears that it has ended in a whimper. His only hope remains that some foreign power may some day put him into power through a conspiracy. The ML and IDL are organisationally inactive and ineffective though they have some members in parliament.

The only thriving party and growing menace is Jamaat-e-Islami. They are abusing the fair name of Islam to advance their dubious political cause.

They are spending lavishly and reportedly providing armed training to their fanatic cadres. They have killed many freedom fighters recently in various parts of the country and openly justified their antiliberation role in 1971 at press conferences and public meetings. Their activities have created serious tension in the political atmosphere and many people are openly expressing the fear of a civil war being imminent in Bangladesh.

The only organised political force in the country is Awami League. Notwithstanding some desertion at the top, the rank and file has demonstrated commendable organisational unity as well as loyalty and dedication to the progressive ideals of their late leader Sheikh Mujibur Rahman. But the vacuum in leadership created by the assassination of Mujib and his close associates put a serious limitation to the growth and effectiveness of the organisation. The pro-imperialist and pro-status quo lobby in Awami League leadership, hand-in-glove with Mushtaq and Zia, prove to be a stumbling block in the development of the party both politically and organisationally. While paying lip-service, they are politically and ideologically opposed to Bangabandhu's Baksal concept and would like to retract from Mujib's path except for fear of being totally isolated from party workers. The last conference of Awami League also failed to give the party a clear sense of direction. . . . However one positive aspect of the conference is that unity of the party has been preserved and election of Sheikh Hasina as chairman of the presidium has ensured that the progressive political course set by the late Bangabandhu will be faithfully pursued. . . .

Vance, the KGB, and the Palme Commission: the apex of one-world 'crisis management'

by Luba George

Over recent months, a former U.S. secretary of state, a former Socialist prime minister, and a Soviet KGB general have been presiding over regular "working sessions" between each other's policy aides, on the basis of a shared perspective for changing the world radically. This extraordinary form of collaboration, independent of any government, began in the summer of 1980, almost as soon as it became clear that Ronald Reagan might be the next President of the United States. The collaboration is public, given an institutional form called "The Independent Commission on Disarmament and Security Issues," or "the Palme Commission."



Olof Palme

Among the forces involved, collaboration is not unprecedented. Has not the "class warfare" faction predominant in the Soviet KGB been collaborating with Willy Brandt and Olof Palme's Socialist International, with the Jesuits, and with the circles of Cyrus Vance in a variety of spheres for quite a long time? Among other projects, Soviet intelligence forces, U.S. Eastern Establishment circles, Jesuits, and Socialists conspired to effect the destabilization of Poland. Both stood something to gain: a Soviet invasion could collapse détente, giving the Moscow parties to the conspiracy much leverage against the détente-based rule of the faction of Leonid Brezhnev, their internal enemy in Moscow. Similarly, in the West, national governments and political factions seeking economic cooperation with the Brezhnev government, perhaps including the new U.S. Reagan administration, would be weakened or even toppled, leaving the field to Cyrus Vance's Global 2000 zero-growth policy. But that collaboration was secret.

The Palme Commission is public. What is it supposed to do?

Leslie Gelb, a member of the Palme Commission's secretariat, privately describes the body as a "crisis management institution" for East-West communication. Gelb stated this spring that "the Reagan administration will be unable to generate any kind of coherent policy. The level of infighting is reaching a threshold that means a kind of paralysis sets in. This will get worse over time. . . . There will not be any serious arms negotiations with the Soviets . . . no matter what it tells NATO allies publicly." A protégé of Vance, Gelb consecutively worked under Vance at the *New York Times*, as director of political-military affairs at the Vance State Department, and is currently a senior fellow at the Carnegie Endowment for International Peace, officially a sister organization of the Ditchley Foundation, which boasts Vance as a member. Gelb maintains that the Palme Commission would act as a kind of crisis-management "third-channel" that would move into action should a renewed cold war close off channels of East-West communication.



Leslie Gelb

For example, suppose the Soviet Union were forced into invading Poland next week. East-West relations would be strained to the point that ambassadors might be recalled; governments basing themselves on a conciliatory posture—including Brezhnev's—might fall. Economic agreements between East and West would be torn up. All normal lines of dialogue, formal and informal, between the sovereign nation-states of the opposed military blocs would undoubtedly be closed off.

All that would remain to "mediate" communication between the capitals of East and West would be the Palme Commission—whose members helped arrange the

Polish tragedy to begin with; whose members oppose the economic development of nation-states; whose members seek a new "détente" based on agreement to depopulate much of the globe, to curtail scientific and technological advances ("disarmament"), to build "one-world" institutions eliminating the sovereignty of nation-states; and whose members, amid such a crisis in East-West relations, would suddenly be in an excellent position to act on that shared program, holding a monopoly on communication between the world's most important governments.

The KGB officers, social democrats, and Episcopal-ian policy spokesmen inhabiting the commission are currently preparing for such "crisis management" through "disarmament" discussions that consist of thinly disguised proposals to halt technological progress of all types by mutual agreement, and move toward "zero growth" in both East and West. As Olof Palme, titular head of the commission, told a recent gathering of the International Metalworkers Federation in Washington, it is their line of argument that the primary threat to peace springs from scientific research and development!

Otherwise, the "prodétente" commission works closely with the "antidétente" State Department of Alexander Haig; Haig acts to disrupt any rational form of dialogue and cooperation among Moscow, Washington, and other capitals; the remaining form of dialogue is the genocidal, Malthusian form represented by the commission. A recent cover feature in the *New York Times* Sunday magazine supplement in praise of Haig was written by the commission's Leslie Gelb.

Who is the commission?

At present, the Palme Commission is run by former Secretary of State Cyrus Vance, and former Swedish Prime Minister Olof Palme, with Soviet Gen. Mikhail Milshtein (U.S. military capabilities specialist), representing the policy viewpoint of the Soviet intelligence institution IMEMO and Georgii Arbatov's U.S.A.-Canada Institute in Moscow.



Georgii Arbatov

Cyrus Vance was Jimmy Carter's secretary of state until April 1980, and had oversight for the department's participation in the drafting of the *Global 2000 Report to the President*, which subsequently recommended the deaths of 2 billion persons by the end of the century, to make a world-federalist zero-growth order possible. Vance cofounded and leads the private "Committee for the Year 2000," a propaganda agency for the Global 2000 genocide doctrine.

At the State Department, Vance was an advocate of "modernizing" NATO's theater nuclear forces, and installing medium-range "Euromissiles" in West Germany; that decision contributed importantly to the Soviet decision to invade Afghanistan in December 1979.

For the past year, however, Vance has been helping to build the anti-NATO "peace movement" and the various "disarmament campaigns" run by the English Queen's household and the hierarchy of the Church of England. Vance himself is an active Episcopalian, and the Palme Commission was in fact first proposed by representatives of the Anglican hierarchy, notably Lord Phillip Noel-Baker.

Vance was an executive board member of the American Ditchley Foundation, founded in 1958 to support the efforts of the mother Ditchley Foundation in England, a policy forum for the British aristocracy. Ditchley's leading role in behind-the-scenes policy-making for the "disarmament movement" is expressed in its recurring sponsorship of conferences on "Regulation of Technology."



Cyrus Vance

The only other American to enter a cabinet post from Ditchley membership is Defense Secretary Caspar Weinberger, who happens to have been the former treasurer of the Episcopal Church of California. Secretary of State Alexander Haig, although not a Ditchley member—military men are excluded—delivered the keynote to the 1978 Ditchley conference on NATO.

Vance's active role in the Anglican-Episcopalian church was highlighted by his collaboration with the World Council of Churches—a joint property of the Jesuits and the Archbishop of Canterbury—to found the Interreligious Peace Colloquium (IPC). The IPC, whose day-to-day affairs are in the hands of members of the Society of Jesus, has a "peace" program featuring global depopulation, restriction on technology, and promotion of "indigenous" religious fundamentalism of the Iranian variety—pseudo-Islamic, pseudo-Christian, voodoo, and other neofeudal cultism.

Baron Olof

The Palme Commission is named after Olof Palme, former Swedish prime minister, who has an imminent chance of returning to that post. Palme is a scion of a Baltic noble family with English ties—his uncle R. Palme Dutt was a British intelligence operative guiding the Luddite machine-breaker ideology of the British Communist Party from a position as the party's chief

“theoretician” for many years.

Palme’s grandmother belonged to the aristocratic Russian family that spawned Count Kropotkin, the black anarchist. Olof himself was a youthful member of the Swedish king’s cavalry, and entered the “Socialist International” track of British intelligence by way of the London School of Economics, Ohio’s Kenyon College (run by the Episcopal Church), and the influence of the 1930s Swedish Nazi leader, Ragnar Edenmann.

As education minister in the late 1960s, Palme fostered “liberalization” of curricula, and endorsed the radical student movement and the rock-drug counterculture. As prime minister, he hosted the U.N. World Environment Conference in 1972, inaugurating the Club of Rome’s “environmentalist movement.”

Palme’s policies as prime minister, through 1979, were consistently “small is beautiful,” “conservationist,” antinuclear, and tinged by the counterculture—usually clothed as “economic democracy.”

While propounding zero growth for Sweden’s civilian sector and preaching disarmament abroad, Palme presided over an enormous Swedish military capacity, including what is now in modern combat terms the world’s third largest air force, and overall armed forces ranking fifth in the world (although the population is only 8 million), supplied by an autarchic armaments industry. Sweden’s Social Democracy, which until 1980 ruled the country since the 1930s, is fundamentally the social control apparatus of the country’s monarchy and nobility. The party’s secret security organization is interlocked with Swedish military intelligence, and the vaunted “neutrality” of the nation is a special resource for operations in both the East and the West.

Other prominent members of the Palme Commission include:

David Owen, foreign secretary in Britain’s last Labour Party government and a charter member of Britain’s new Social Democratic Party. Owen was the most outspoken British opponent of Franco-German plans for international industrial expansion.

Egon Bahr, a leader of Willy Brandt’s left wing in the West German Social Democratic Party and, in recent comments to *EIR*, a frank proponent of phasing out West German industry, as originally proposed in the postwar Morgenthau Plan, to maintain Central Europe in bucolic feudal backwardness.

Joop den Uyl, former prime minister of the Netherlands, Socialist International spokesman, and one of Europe’s foremost environmentalists.

Gro Harlem Bruntland, another prominent Socialist International environmentalist who, since joining the commission, has become prime minister of Norway at the head of a Labour Party government. Her husband is a veteran NATO planner.

Georgii Arbatov, director of the U.S.A.-Canada Institute, a spinoff of the IMEMO intelligence institution. Arbatov is the leading Soviet liaison with the Socialist International, circles of Henry Kissinger and the Averell Harriman group in the United States. Arbatov promotes radical insurgencies in the West, and East bloc “convergence” with the Global 2000 depopulation planners—exemplified by Vance—in the West.

How it was formed

Reports from Sweden on how the commission was formed amount to a tale of treason—against Western capitalist nations and the Soviet Union, simultaneously.

The first proposal for such a commission was made by Bertrand Russell’s associate, Lord Philip Noel-Baker, a policy spokesman for the Anglican bishops in residence at the household of the Queen. In the summer of 1978, Noel-Baker proposed a “disarmament” counterpart to Willy Brandt’s Commission on North-South Development Issues, a front for Robert McNamara’s World Bank policy of “appropriate technology” to maintain Third World backwardness.

Nothing happened until July 1980. Then, two key meetings took place. First, Willy Brandt, in his capacity as chairman of West Germany’s Social Democratic Party and president of the Socialist International, convened a leadership conference of the Socialist International in Hamburg. Palme, Brandt, Brandt’s subordinate Egon Bahr, and others, decided that the prospect of a Reagan presidency in the United States mandated a serious consideration of the Anglican proposal for a commission.

At the same time, the old Communist International (Comintern) faction formally abolished by Joseph Stalin, convened a leadership meeting of the Communist parties, East and West, in Paris under the chairmanship of Vadim Zagladin, with the Soviet chief for Western party affairs, Boris Ponomarev, conspicuously in attendance. There is no doubt that discussions of the Anglican proposal first delivered by Lord Noel-Baker also occurred there. According to Leslie Gelb, the Socialists in Hamburg transmitted their proposal to both the Communists in Paris, and the Soviet Central Committee.

Following the Hamburg conference, Palme flew directly to Moscow, met with Zagladin and Ponomarev, and upon his return, announced in Stockholm that the Soviets favored forming a commission, provided it was financially and politically independent of the United Nations. Palme, Cyrus Vance, former British Foreign Secretary David Owen, and Austrian Prime Minister Bruno Kreisky organized the commission officially on Sept. 13, 1980. Palme announced a three-man secretariat: Leslie Gelb, Palme associate Anders Ferm of Swe-

den; and Soviet General Milshtein.

One month later, the Swedish publication *Göteborgs Handels och Sjöfartstidning* embarrassed all by identifying General Milshtein as a KGB officer. Palme's office did not deny the report, but from that point, the commission described Milshtein as a "scientific adviser to the commission," rather than a secretariat member.

Also in early October, Palme headed a Swedish Social Democratic delegation to Moscow at the special invitation of the Soviet Central Committee, and met with Central Committee member Ponomarev, discussed energy with Dzhermen Gvishiani, and discussed the Palme Commission with Georgii Arbatov, who is now a commission participant.

The next important gathering of the commission took place in Washington, D.C. in the interstices of the "Eurosocialist" conference there on Dec. 5-7. Attending that conference were Palme and former Dutch prime minister Joop den Uyl, and a prominent zero-growth advocate. Arbatov was in Washington at the same time, meeting with Palme, Vance, Henry Kissinger, and Leslie Gelb. Their discussions contained particular emphasis on the Reagan administration and the potential for building an international "peace movement" against it (see *EIR* Dec. 23, 1980).

The commission held a private meeting in Vienna later that week including all members. Milshtein and Arbatov relayed their view of how to deal with the Reagan administration, and the Socialist International members relayed the view that Reagan would launch a huge cold-war military buildup, a line intended to bolster the Ponomarev faction at the Soviet Party Congress in February. Gelb, for his part, indicated to all present, including the KGB faction's representatives, that they and the commission would be able to work with Alexander Haig, if discreetly.

The December meeting planned 6 to 12 working sessions during the course of 1981. The first took place on Feb. 9-11, presenting a document prepared by Vance, Gelb, and Milshtein on the effects of the collapse of the SALT process. The session also provided a podium for the U.S.-based Physicians for Nuclear Disarmament, an affiliate of the International Physicians for the Prevention of Nuclear War, a convergence point of U.S.-Soviet networks associated with the late Lord Russell, whose program is principally aimed against all peaceful uses of nuclear power.

In a Feb. 5 *Pravda* article, General Milshtein delivered the KGB's sanction to the Socialist International's "peace and disarmament" movement. The KGB officer praised Lord Bertrand Russell—the man who twice advocated pre-emptive nuclear strikes against the Soviet Union. In light of his participation in the Palme Commission, that is only appropriate.

Interview

How the Ayatollah was put in power

The following is Part I of an April 28 interview with Hossein Rastegar of the Iran Liberation Army (ILA). The ILA is a political and military organization that believes in armed struggle for the liberation of Iran, and whose 25-man leadership—comprised of both civilian and military figures—includes Mr. Rastegar. In April, Mr. Rastegar was a featured speaker at the Second Conference of the International Caucus of Labor Committees in Mainz, West Germany. The interview was conducted by EIR Wiesbaden bureau chiefs Thierry LeMarc and Mary Brannan.

EIR: Can you describe the aims of your organization, and how you hope to achieve them?

Rastegar: The Shah was the head of the leadership of the army in Iran, and when he left, the army found itself in confusion and chaos. In this context, General Huyser's visit to Iran should not be overlooked. [In February 1979, NATO Gen. Robert Huyser, then a subordinate of Haig's, told the Iranian army not to defend the Bakhtiar government—ed.] Huyser had the task of implementing the decisions taken by Carter and his Western supporters at the Guadeloupe meeting. Huyser tried with all his means to destroy the army, of course using all the agents he had working for him in Iran. Bakhtiar tried to keep the army together, but it was unfortunately too late.

The government was overthrown and Khomeini took power. As he is an enemy of the Iranian nation, and he had to do what was laid down in the Carter doctrine, his first target was the army. He tried to completely eliminate the army, and he succeeded. Every day officers were executed, without any legal trial. Not only officers, but also many civilians, politicians, economists, and intellectuals were executed. Every section of the Iranian population was hit by Khomeini's murderous policies.

In this context, the Iran Liberation Army was founded by young Iranian officers after about a year of Kho-

meini's rule. Its aim was to bring together young officers and noncommissioned officers who were still alive, and who wanted to fight for the liberation of Iran. It also tried to bring together young intellectuals and other nationalist Iranians. When the ILA leadership realized that its headquarters in Iran were in danger, the ILA was transferred abroad, and has continued work there, among young officers and refugee Iranians.

Since then, the organization has had its headquarters in Paris. We have branches in all major Western cities, with military and political offices. The highest committee is made up of 25 young Iranian officers and intellectuals. They are all nationalist, democratic, and they all consider that Iran is a part of the world and of humanity as a whole. They think that Iran must be freed one day, and they consider that the new Iran should work for good relations with all countries, especially with Western countries and with its neighbors.

Our aim is first of all to make clear to Iranians what actually happened in Iran, what we have lost and what we have got in its place. We have lost in every respect, and disease and destruction have entered the country. We have another main aim abroad: to make clear to Western nations that they should not play with nations as Iran was played with. What happened in Iran was not what the Iranians wanted at all, but was a fully planned operation.

When Carter came to power in America, he officially declared: "In my foreign policy I will have nothing to do with two people: the Shah of Iran and Somoza of Nicaragua." He did not realize that the Shah of Iran could not be compared with Somoza, and even if there had been enmity between Carter and the Shah, plans should not have been made to destroy Iran, plans which bring Western security into danger as well.

This is what we have tried to explain to our people and to Western nations in the past year and a half. What happened in Iran was not what the Iranians wanted, but was deliberately planned and implemented by Carter and his Western supporters at the Guadeloupe meeting.

We are planning to destroy the Khomeini regime, with every means possible, military and paramilitary. After the restoration of security, order, and freedom, we will hand over power to a democratic, civilian regime.

EIR: What do you consider to be the role of [the son of the late Shah] Reza Shah?

Rastegar: We accept the young Reza Shah as our Shah, as the symbol of the unity of the Iranian nation, and as the symbol of the liberation of Iran. He has a very important task in the future, namely to distinguish between good Iranians, that is, those who think and work genuinely in the interests of Iran, and those who simply call themselves Iranians and who only think about their

own profit. Naturally, this second group has the right to live and work in Iran, but we think that power in Iran and important positions should only be in the hands of those who are genuinely working for the Iranian nation. That is the task of the young Shah. He should bring such people together and put them to work in the economy, politics, and in the army of Iran.

EIR: What do you think about the theory that the Shah tried to import too much modern technology and industry into Iran, and that what happened was simply a spontaneous reaction against that?

Rastegar: That is an important question. Up until 30 years ago, even though the Shah's father had achieved some progress, we were very far behind in terms of modern technology.

The Shah tried to make modern science and technology the foundations of Iran, with the support of his people. He tried to bring something new into Iran, with the money earned from oil. For example, up until 30 years ago, we had only one university, the University of Teheran. When the Shah left the country, we had 16 big universities, and almost 40 higher education institutions; that is, engineering schools, technical schools, and so on. Thirty years ago, the number of students and schoolchildren was very low. When the Shah left the country, we had more than 100,000 students studying abroad, while in Iran itself, the number of students at every level was more than 8 million!

When you consider that out of Iran's 35 million population, 8 million students and schoolchildren were dealing with modern studies and technology, that represented great hopes for us. Naturally, these students would also have higher wishes and demands, especially concerning modern science and technology. The Shah's government tried to fulfill the wishes of the future generation of intellectuals in Iran, to modernize the country as rapidly as possible. He built many industries for us, many highways, railways, and airfields, both civilian and military. The Khomeini regime says today that agriculture was at zero, but in fact the Shah made tremendous progress possible in agroindustry. Several major agroindustries were set up in different areas of Iran.

The aim was to make Iran independent of Western agricultural help by the end of the 1980s. In industry, too, we thought that one day oil would run out, that the country could not count on its lasting for hundreds of years. So we tried, using the oil revenues we obtained, to invest in science and technology for the future of Iran. That was the Shah's aim, and I must say that he implemented this plan step by step. If this catastrophe had not happened, we would have been a strong scientific, economic, and political power in the Middle East by the end of the 1980s.

A Latin American entente

Brazil and Argentina have overcome forty years of quarrels, reports Mark Sonnenblick, on economic ties and military policy.

Argentine-Brazilian cooperation for development is as crucial to the stability of the region as Franco-German cooperation is for Europe.

— A senior Argentine official
in conversation with *EIR*.

The presidents of Argentina and Brazil have categorically rejected Secretary of State Alexander Haig's plan for their navies to join in an extension of NATO into the South Atlantic.

In a joint communiqué at the end of their May 26 meeting on the border between the two Latin American nations, Argentine President General Roberto Viola and his Brazilian counterpart General João Figueiredo agreed that "the South Atlantic . . . must be kept free from international tensions and confrontations." They rejected "all hegemonies, axes, or spheres of influence." And they took aim at the essential South African pillar of Haig's South Atlantic Treaty Organization (SATO) plan by repudiating apartheid and demanding rapid independence for Namibia, which South Africa, Haig, and British defense strategist Lord Chalfont are stalling.

Thus military governments with the greatest desire for friendship with the United States have decisively disclaimed the South Atlantic alliance offered them, an event that should provoke a profound reformation of the Reagan administration's orientation toward the developing world. At the summit, Brazil and Argentina made it clear that what they are interested in is economic development, and that they will work in harmony with each other, with their smaller neighbors, and with whatever developed countries are willing to help them.

The Reagan administration has wisely sought to end the Carter administration's hypocritical inflammations around "human rights." However, the total failure thus far to provide a *positive* orientation toward technology transfer, capital, and markets has left the door open for Haig's geopolitical burlesque.

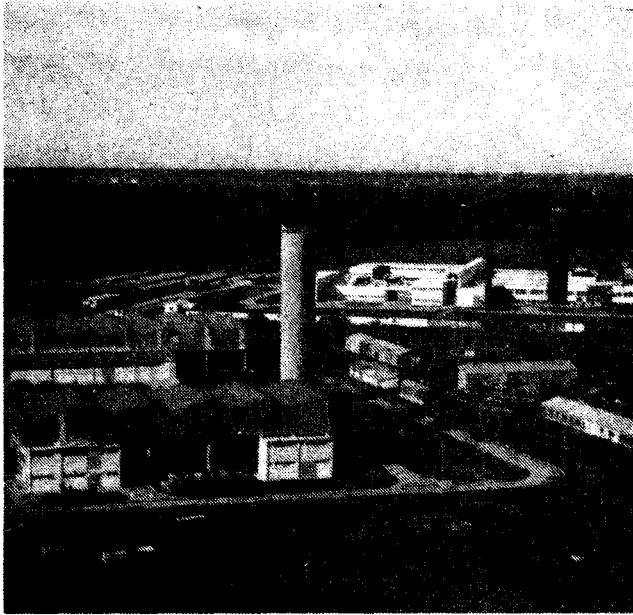
Viola and Figueiredo have provided a clear warning that if this failure continues, the United States will be even more isolated. In no area was this more clear than in the field of nuclear energy, which the two Latin

presidents vaunted as an area of increasing integration between their countries.

Argentine nuclear chief Vice Admiral Carlos Castro Madero reported that U.S. Assistant Secretary of State for Oceans and International Scientific Affairs James Malone had visited Argentina for talks May 6-8, but that the June followup talks in Washington had been scratched. The reason was the administration's stalling on a reversal of Carter's antinuclear policy, which still embargoes nuclear materials exports to Argentina. Castro Madero said, "Our relations with the United States have advanced in many areas, but in the nuclear aspect, nothing fundamental has changed. . . . The United States does not want Argentina to be independent in the nuclear area, and therefore, American-Argentine relations in that sector are still bad. That is why necessary material will be bought from other suppliers, including the Soviet Union."

The summit's high point was the triumphant start of integrating the nuclear programs of Argentina and Brazil—alleged by antinuclear forces to be engaged in a race to get the bomb. With the agreements, President Viola declared, "We prove the fallacy of those who deny us, on the pretext of ghosts which never existed, the support we seek."

The bilateral complementation deal specifies that Argentina will lend Brazil 240 tons of enriched uranium and to sell Brazil 170,000 meters of zircalloy tubing, used to hold uranium pellets in place in the power reactor. Brazil is selling precision-engineered heavy components for the reactor vessel of Argentina's next power station, which was contracted last year to Germany's KWU. The fact that KWU is also Brazil's partner in the nuclear area, and is building the most modern nuclear engineering installation in the world, facilitated the bilateral arrangement between the two neighbors. German Prime Minister Helmut Schmidt provided necessary approval for Argentine-Brazilian complementation during President Figueiredo's visit to Bonn days before meeting with Viola. Thus, in an important sense, Germany serves as the "best man" of the new Argentine-Brazilian "marriage."



This Argentine zircalloy plant will also produce fuel rods for Brazilian nuclear power stations.

Argentina's functioning zircalloy plant, the only one in the West outside the U.S. and France, is based on technology provided by the Soviets.

Argentine President Viola exulted, "We can show the world that two developing nations are capable of cooperating in modalities which until now seemed reserved for the highly developed states."

Kissinger's Judas kiss

Jimmy Carter's imbecilic "human rights and nuclear nonproliferation profile" was not the beginning of America's problems with its Southern Cone allies. Henry Kissinger thrust his famous security-oriented "special relationship" on Brazil, while at the same time vetoing a continuation of "Atoms for Peace" nuclear energy cooperation with Brazil. Geopolitical manipulation triumphed over economic development and thus provided a highly unstable basis for a relationship.

The Brazilians have, quite naturally but quite unsuccessfully, fought to change their relations with the United States. The recent summit culminated their efforts to change their relations with their smaller, weaker neighbors from those of confrontation to ones of cooperation and respect.

The incompetent geopoliticians around Haig, however, misread the evolving Argentine-Brazilian rapprochement. For example, Harvey Summ, head of Latin American Studies at the Jesuit Georgetown University, projected a "tripod" alliance in which a deindustrialized Argentina would sell grain to and buy armaments from

Brazil, with the United States serving as the focal point for each one's economic and strategic orientation. Haig has deployed a relay of U.S. military officers to the Southern Cone to arm-twist Latin America's strongest military forces into cooperating with his plans in Central America, the Middle East, and Southern Africa. Haig and his underlings have made a sorry spectacle in testifying to Congress that the United States should drop its human rights posture as a quid pro quo for Argentina's engaging in surrogate warfare against the Soviet fleet.

The crowning moment of this effort was to be the appearance of Haig's "Ambassador Plenipotentiary" General Vernon Walters at a big planning meeting for SATO scheduled for Buenos Aires on May 25-27. But once it became known that Argentina—earlier reputed to favor SATO—had joined Brazil in scotching the plan, General Walters failed to show up at the Buenos Aires forum. Some geopoliticians who did attend expressed their belief that the two presidents had scheduled their impromptu meeting precisely in order to quash the SATO pressure.

Argentina's new foreign minister can be given credit for shifting its foreign policy from the militarist orientation last exhibited in Argentine military advisers helping Bolivian General García Meza make his "cocaine coup" to its new focus on cooperation for development. Before becoming foreign minister on March 31, Oscar Camilión served as ambassador to Brazil. There, he not only skillfully negotiated the "marriage" and the nuclear cooperation agreements, but he also embraced Brazil's independent foreign policy perspective.

Camilión was able to swing the military consensus in Argentina from a pro- to an anti-SATO position, with some help from timely provocations from Chile, which Argentina wants to keep totally out of the South Atlantic.

Resurgence of Argentine dirigism

Immediately after the May 26 summit, Argentine President Roberto Viola was hit by a serious run on the peso. The economic crisis was triggered by oligarchic friends of former Finance Minister José Martínez de Hoz who resented Viola's as-yet-unfulfilled promises to end the speculation which flourished under De Hoz and "revive the productive sector."

Instead of backing down and reopening the country to wanton looting, Viola fired from the central bank all De Hoz's monetarist cronies, who had encysted themselves there. According to Finance Minister Lorenzo Sigaut, these Argentine Paul Volckers had systematically sabotaged every presidential program designed "to establish an economy of production, not of specula-

tion." Sigaut told the nation on the night of June 1 that they had caused deepening recession and unemployment by keeping interest rates at the 120 percent level and preventing emergency credits from reaching the many near-bankrupt industries.

These tight-money policies had made businessmen and farmers increasingly angry at Sigaut and Viola. Viola was losing the civilian base of support he needs to protect his promise of gradual democratization from anxious military hardliners.

Viola had procrastinated on removing the Volckerite sore. But the consolidation of his Brazilian flank—and the probable support from Helmut Schmidt conveyed to him by President Figueiredo at the summit—may have given him the confidence to move against the monetarist enemies inside his government.

The new measures include a 30 percent devaluation, controls on the purchase and circulation of foreign exchange, and devaluation risk guarantees for takers of foreign loans. They are designed to restore liquidity to the economy.

In themselves, the measures taken by President Viola and Sigaut cannot resolve the crisis of the Argentine economy, ravaged by years of Friedmanite policy. At best they can buy the government some time. What is clear, however, is the government's *political* determination to stabilize the economy through the use of dirigist policies.

Whether the government can follow through on its intentions depends whether its allies provide it with the breathing space needed for economic recovery.

Brazil, Argentina in historic accords

Excerpts follow from the communiqué issued by the Argentine and Brazilian presidents at the end of their May 26 summit:

[*On Latin America:*] The two presidents reviewed the Latin American situation and agreed to proceed with their efforts based on the sovereign equality of states for nonintervention and the rejection of all hegemonies, axes, or spheres of influence. . . .

[*On Central America:*] The two presidents affirmed that stability in that region must not be disrupted by interference from any origin and they agreed that the deep political, economic, and social crises affecting some of its countries require full and just solutions . . . which assure them prosperity and respect for sovereignty.

[*On Africa:*] The presidents exchanged views on the relations between Latin American and the developing countries of Africa, based on solidarity and mutually advantageous relations. They repudiated all forms of colonialism and racial discrimination, especially the practice of apartheid. They expressed special concern over the survival of the colonial situation in Namibia and especially the need for this territory to achieve rapid independence with full respect for its territorial integrity. . . .

[*On the South Atlantic:*] In this context, they said that the South Atlantic is an area of direct and immediate interest for the developing nations which border it, and they stressed the utmost importance of its being kept free from international tensions and confrontations so as to preserve it as a peaceful instrument for the trade and development of these nations. . . . The president of Brazil reiterated the support given by his government to Argentina's negotiations [with Britain] on the Malvinas Islands and the confidence that such talks will soon lead to satisfactory results.

[*On bilateral trade:*] They expressed their intentions to facilitate the full effectiveness of tariff systems without specific restrictions, and to avoid the use of specific unilateral measures of any kind capable of impeding, obstructing, or discouraging the access of products of one country in the other's market.

Lieutenant General Ernest Graves, director of the Defense Security Assistance Agency, testified to Congress in early May in support of Haig's request that "human rights" obstacles to arms sales to Argentina be dropped:

If we are to monitor and protect strategic lines of commerce and communications into the South Atlantic, we need to work more closely with the regional states, such as Brazil and Argentina.

In an interview with Argentine television shortly before the summit, Brazilian President Figueiredo gave this response when asked whether Brazil would form an axis with Argentina:

In no way do we favor axes, blocs, alliances, zones of influence, or any hierarchization between countries, whether in Latin America or on the world level. The principles of sovereign equality, of open and mutually advantageous cooperation, and of nonintervention are immutable pillars of our policy. . . .

The Argentine-Brazilian nuclear relationship is for peaceful ends and is based on the conviction that bilateral interchange will make it easier for both countries to reach the objectives of their nuclear programs, thus making a decisive contribution to our achieving full development and well-being.

Terror threats on both borders

The long-predicted "spillover" of Guatemalan terrorism into Mexico may be about to begin.

In an unexpected visit to Mexico City May 18, Hugo Spadafora, the Panamanian oligarch who joined the Sandinistas a few weeks before their victory, called a press conference in the Latin American Federation of Journalists headquarters to spell out his plan for setting up "Simón Bolívar guerrilla units" to aid "national liberation struggles" in violence-ridden Third World countries. Spadafora revealed that he had already offered his operation's services to the Salvadoran guerrillas.

Spadafora, a member of Willy Brandt's Socialist International, left Mexico City 24 hours later to continue what he called a "recruitment drive" in Europe and the Middle East. Among his backers Spadafora cited Lupe Sánchez, the head of the Arizona Farmworkers Union, and, of course, Willy Brandt.

Less than a week after Spadafora's appearance in Mexico, counterintelligence experts on both sides of the border reported on a terrorist reactivation, centered around the Chicano movement mainly in the states of Texas, Colorado, Arizona, and California. This reactivation involved the setting up of "training camps" for "armed struggle" to overthrow the "racist and oppressive" government of Ronald Reagan. Spadafora's allies, the Arizona Farmworkers, are in the middle of the training project.

The idea, as radical San Anto-

nio lawyer Rubén Sandoval is on record saying, is to "turn the border into another Vietnam" and then create a new nation of Hispanics completely independent from both Mexico and the United States.

The immediate task, as one of Sánchez's lieutenants recently stated, is to sabotage with violence any agreement on immigration and border issues that may come out of the June 8-9 summit between President Ronald Reagan and President José López Portillo in Washington.

A tense adversary environment is now being cultivated among both radical Hispanic networks in the U.S. and their left allies in Mexico against the summit. In mid-April, police in San Diego uncovered a terrorist plan for an assassination attempt against both Reagan and López Portillo during their summit, which had been previously scheduled to take place in San Diego. The hit was being planned by the "Chicano Che Guevara Commando."

The Chicano radicals are strongly supported in Mexico by groups like the leadership of the Telephone Workers Union and the Communist-led peasant organization CIOAC. The Arizona Farmworkers' Sánchez was in Mexico City last week to coordinate actions against the summit with the Telephone Workers, a group controlled from behind the scenes by Falange-turned-Socialist-journalist José María Alponete.

Mexico's southern border with

Guatemala is also being targeted for violence by the same combination of Communists and Socialists in close coordination with the Society of Jesus. The unrest in this area has dangerously increased in past weeks with the illegal entrance into Mexico of 550 Guatemalans, some believed to be guerrillas. Publications such as *Business Week* have consistently lied that Mexico is being used—with the government's compliance—as a "sanctuary" for Central American left guerrillas.

Both "left" and "right" manipulators of the Central American conflict know that any refugee camps in Mexican territory would constitute seedbeds for terrorist action that could be aimed at Mexico's nearby oil fields.

On May 30 the Communist rector of the University of Puebla, sent a telegram to Interior Minister Olivares Santana requesting him to let the 550 Guatemalan suspected guerrillas remain in Mexico on the basis that they were being persecuted by the Guatemalan right-wing government. The contrary would be a violation of human rights, he argued. The Communist spokesman was echoed by the Bishop of Chiapas, Samuel Ruíz, an open spokesman for the proterrorist Theology of Liberation who has installed the Jesuit order as a controlling influence in the Chiapas Indian communities.

On June 1 the Mexican government sent the 550 Guatemalans back to Guatemala in the midst of reports that the Mexican Army was stepping up its patrols in the border area with Central America.

There are now reports that some left groups are considering bringing Amnesty International into the Guatemalan "refugee" case.

Will Peres seize the initiative?

The Labour candidate's political passivity may cost him the Israeli election.

Observers of the Israeli political scene are shocked by the lack of vigor—especially on the part of Shimon Peres's opposition Labour Party—that has characterized Israel's national election campaign.

Despite occasional flashes of aggressiveness, the Labour Party has remained unable to mount a unified fight against Prime Minister Menachem Begin's ruling Likud Party. In this vacuum, Begin has adroitly exploited the crisis over Lebanon as an election-eve stunt to divert voter attention from troublesome domestic issues, such as triple-digit annual inflation.

Peres's passivity may well cost him the election on June 30. A senior aide privately admitted as much: "If things continue the way they have, I have no doubt the Likud will win it. We are in an almost impossible situation."

A Peres defeat will all but obliterate the chances for an overall Middle East peace settlement. According to informed Arab sources, such moderate Arab leaders as King Hussein of Jordan, the Saudi royal family, and President Saddam Hussein of Iraq would like to see Peres come to power in Israel in the hope that a moderate Peres-led government would be more amenable, unlike the fanatic Begin regime, to cooperating with international efforts to secure a comprehensive settlement instead of the Camp David "partial peace" approach favored by Begin. In con-

trast, a Begin victory would not merely reaffirm Camp David, but would reinforce Arab radicalism, thereby isolating and undermining the Arab moderates and locking Israel into a mode of permanent confrontation.

At the start of the election campaign earlier this year, the situation was quite the reverse, with Peres on the ascendant and the Begin regime in shambles. Now, however, short of an eleventh-hour upset by Peres, Begin is considered a shoo-in.

Why the sudden turnabout? The answer is simple: The fix is in for Begin.

According to intelligence insiders, a deal has been struck between Secretary of State Alexander Haig and the radical KGB secret service in the Soviet Union to bolster the Begin regime as a tool for partitioning Lebanon—a step toward furthering their parallel, mutually compatible plans to chuck détente and divide the Middle East along superpower lines.

Unless the Reagan administration acts unequivocally to ensure a Peres victory, the Haig-KGB scenario of realigning the Middle East around its most radical chips—i.e., Begin, Khomeini, and Qaddafi—will unfortunately prevail.

Backing this Haig-KGB "Yalta plan" for the region is a de facto "Re-elect Begin Committee" composed of Assad in Syria, Qaddafi in Libya, and Sadat in Egypt, all of whom are doing their utmost to

build up Begin's crisis management image inside Israel. Specifically, Assad, by refusing to pull Syrian missiles out of Lebanon, has provided Begin with a well-timed crisis around which to build up domestic support. Similarly, Qaddafi is flaunting Libya's dispatch of troops to Lebanon to beef up Palestinian forces there.

Last but not least, Anwar Sadat, worried that a Peres victory may spell the end of Camp David, rushed off to meet with Begin June 4 to reinforce Begin's image of statesman and peacemaker.

The Lebanon crisis has made it particularly difficult for Peres to fight back, since criticism of Begin could smack of lack of patriotism. "It's simple," said one frustrated Peres adviser. "We can either run for Begin or run for Assad."

Apparently recognizing that at this point he has little to lose, Peres has dropped his earlier caution and is finally beginning to take on Begin. At a recent rally in Jerusalem, Peres attacked Begin's fanaticism, calling him "a new Khomeini." And Gen. Chaim Bar-Lev, Peres's choice for defense minister, is also escalating the assault on Begin. "We are not going to be dragged into wars which are not in our self-interest," said Bar-Lev, who accused Begin of encouraging the Falangists in Lebanon. Bar-Lev pledged to rescind Begin's promise to back the Falange militarily.

According to Israeli sources, one of Peres's problems in his election bid has been the "snakes and traitors" who are diverting and diluting his campaign. Peres's long-time Labour Party rival, former Prime Minister Yitzhak Rabin, is reportedly sowing divisiveness in the party ranks against Peres.

International Intelligence

Iran's Yazdi hits Dreyfuss book

In a two-hour speech to the Iranian parliament, former Foreign Minister Ibrahim Yazdi recently denounced the circulation in Iran of *Hostage to Khomeini*, a book published earlier this year by the New Benjamin Franklin House in New York.

The book, by Robert Dreyfuss, which is reported to be widely read throughout Iran and secretly passed hand to hand, exposes the connections between Khomeini's regime, the British secret services, and the Carter administration. Yazdi, an American citizen with CIA connections, is characterized in the book as an agent of the London-run Muslim Brotherhood secret society.

The parliament debate and Yazdi's speech were reported by Teheran Radio, according to Iranian sources.

The debate came at a time when clerical extremists around Khomeini and the ruling Islamic Republican Party are in the midst of yet another purge of all remaining secular figures and so-called "moderates," such as those around President Abolhassan Bani-Sadr.

Yazdi, who is closely linked to this group, might be the victim of such a purge, especially if his public links to London and Washington exposed in the Dreyfuss book make him an expendable scapegoat for Khomeini's troubles.

Amnesty International pleads innocent

EIR has received a letter, datelined London, May 29, from Richard Reoch, Head of Press and Publications for Amnesty International, which reads in part: "You state (*EIR*, May 5, 1981) that 'one of the principal agencies coordinating the activities of Socialist-Jesuit-KGB efforts is Amnesty International.' . . .

"Amnesty International does not coordinate the activities of the socialists,

the Jesuits, or the KGB, [and] does not undertake joint actions with other organizations and has no links with governments or their agencies.

"Allegations of this sort have been made by individuals and agencies at both ends of the political spectrum. Earlier this year the Soviet newspaper *Izvestiya* accused Amnesty International of being 'completely maintained by Western Intelligence Services.'

"Amnesty International did not send Ramsey Clark to Northern Ireland, as the article incorrectly suggested. Its concern for prison conditions in the Federal Republic of Germany and allegations of torture in Colombia do not imply support for the political objectives of those imprisoned.

"Our concern is for universal implementation of the United Nations injunction against torture and the Standard Minimum Rules for the Treatment of Prisoners. A fuller picture of the work of Amnesty International would mention its efforts for the defense of human rights in more than 100 countries this year alone. . . ."

EIR editors reply: We did not mean to imply that Amnesty International is a leading arm of the one-world effort—merely one of its feet.

German Free Democrats opt for Global 2000

The national conference of West Germany's Free Democratic Party concluded May 31 by endorsing a program shaped around Global 2000, environmentalism, and liberalization of drug laws. The conference was flooded with the propaganda of Global 2000, as the FDP youth group leafleted the meeting with advertisements for the *Global 2000 Report*, and each delegate received documentation on the recent hearings on Global 2000 conducted by the FDP's think tank, the Friedrich Naumann Foundation.

The conference document demanded that environmental concerns be raised to

the level of a constitutional law, including the provision that "protection of natural soil, including in the Third World" must take priority over economic concerns.

A resolution on drugs declared that there should be no criminal search of drug addicts and "small dealers"—meaning a de facto legalization of narcotics. Dealers who undergo therapy should be exempted from legal prosecution, the FDP resolved.

The chief opponent of these resolutions at the congress was Agriculture Minister Josef Ertl, one of the closest cabinet allies of Chancellor Helmut Schmidt.

Eurosociologists gather for U.S. 'missionary work'

Labour Party Member of Parliament Anthony Wedgwood Benn, Socialist International general-secretary Bernt Carlsson, and representatives of the socialist parties or affiliates of Israel, Lebanon, El Salvador, West Germany, and Hungary were present at the Democratic Socialist Organizing Committee's (DSOC) Philadelphia conference over the Memorial Day weekend.

Tony Benn, just prior to the conference, delivered a speech in England outlining the program on which he would run for prime minister: "Britain's complete withdrawal from the Common Market and establishment of a new and different basis for European cooperation. We shall close all nuclear bases in Britain, including American. And we shall adopt a new non-nuclear defense strategy and seek a nuclear-free zone throughout Europe."

The former Lord Stanstead showed complete contempt for Americans while in Philadelphia, saying he was there to do "missionary work" in "this very, very primitive country."

"A new Europe based upon democracy, socialism and cooperation will . . . mean a fundamental change in the whole structure of the Warsaw Pact and whole

socialist camp in a long, slow process of harmonization" with a socialist West.

In an exclusive interview made available to *EIR*, Bernt Carlsson, who stopped in Philadelphia en route to Mexico, announced "direct support to liberation forces in Guatemala," which he predicted would follow "the El Salvador process."

"Guatemala is the most important of the Central American countries. It's the largest and . . . also potentially the richest of the countries. The repression in Guatemala is also the worst. . . . There is widespread opposition to the terror. I would say that unless the policies are changed by the government and by the United States, the people of Guatemala will choose the route of . . . national and social liberation."

The Philadelphia conference itself was devoted in part to methods of "playing back" Central American "liberation struggles" to promote "domestic unrest" against the Reagan administration in the United States.

'Drug nonenforcement, saves Ottawa money'

Top officials in the Trudeau government's department of justice issued secret guidelines last September for police and prosecutors to stop enforcing laws making import of cannabis a criminal offense, according to the *Toronto Globe & Mail*. The press says that "the guidelines, which are issued to prosecutors under the authority of federal Justice Minister Jean Chretien, mean that virtually all importers of marijuana, hashish and hash oil are being charged not with importing (a criminal offense punishable by no less than 7 years in jail) but with the lesser offense of possession of a narcotic for the purpose of trafficking, which carries no minimum sentence."

Justice Minister Chretien, whose nephew Paul Chretien has been in a Peruvian jail for the last 28 months on drug charges, is not only proceeding to eliminate criminal offense for possession of

drugs, but opening Canada's borders to drug imports.

A pro-drug judge, William Richard of the Brampton Provincial court in Ontario, reflected the prevailing judicial opinion around the Trudeau administration when he stated that the reason for not enforcing the laws is not just to be liberal toward "young people with good background who are lured into carrying drugs" but also to save court time and money.

"A great deal of court time was being spent trying importing charges at considerable public expense. Almost everyone charged with importing was going through a full preliminary hearing as well as a full trial. This can take weeks of court time at about \$600 an hour," said the judge.

Colseguros insurance taken over by Michelsens

A large Colombian insurance company, Colseguros, was acquired by the Santodomingo financial group late last month. The Santodomingo group is affiliated to the Grancolombiano financial group, whose president, Jaime Michelsen Uribe, heads the nation's largest bank, Banco de Colombia.

The latter is suspected of involvement in laundering drug monies, and Michelsen himself recently commented that "hot money" accruing from illicit drugs had "lent service to the country."

A holding company partly owned by Michelsen recently bought up the Central Bank of Miami, and Banco de Colombia is expected to take full control of the Miami bank very shortly.

The purchase of Colseguros bears directly on the 1982 presidential race. One of the leading frontrunners for the Liberal Party presidential candidate is Alfonso López Michelsen, cousin of Jaime Michelsen.

López advocates legalization of drug monies and, as president from 1974-78, facilitated the incorporation of drug money into the economy.

Briefly

● **TEODORO PETKOFF** and Pompeyo Marquez, leaders of the Venezuelan MAS movement, were prominent participants in a Caracas meeting of 1,000 late last month to discuss "a new mode of socialism." Eleven years ago, the two were the most wanted terrorists in Venezuela. Other speakers included German environmentalist Rudi Bahro, writer Gabriel García Marquez, and delegates from the terrorist Mexican Communist Party.

● **WILLIAM CLARK** will visit South Africa, Namibia, and possibly Zimbabwe in what is seen as a reassurance mission to follow the recent trip to the area by Chester Crocker, assistant secretary of state-designate for African affairs. Crocker's visit led to new fears in black Africa that U.S. policy will be narrowly pro-South Africa.

● **RICHARD GARDNER**, challenged by an *EIR* correspondent about his collusion with the terrorist supporters in the Italian Socialist Party, sputtered that American policy has always been to consider the PSI a friend. The former ambassador to Italy was speaking June 3 at a New York reception sponsored by the Italian Cultural Institute.

● **PRINCE PHILIP** of Great Britain was installed as president of the World Wildlife Fund at the end of May in a ceremony attended by more than 2,000 members, including board members Robert O. Anderson of Arco and the Aspen Institute and Walter Cronkite. WWF founder Sir Peter Scott, a descendant of Walter Scott, delivered the keynote address. "We are preparing for the great flood," said Sir Peter. "We shan't save as many as we'd like, but we will save more than if we didn't try." He called for "the small and powerful" to adopt the WWF-backed World Conservation Strategy, and reduce human population in the name of "natural balances."

A Democratic split would not help the White House

by Richard Cohen

In August 1971, President Richard Nixon, under extraordinary pressure from financial "market forces" in New York and London, enacted a now-infamous economic policy. Presented with an "emergency"—although inflation was only at 5 percent and currency instability could have been countered—Nixon took the U.S. dollar off the gold standard and simultaneously launched a program of Fabian-promoted wage/price controls. The public figures responsible for designing that bit of national sabotage were the quondam chairman of the House Banking Committee, Henry Reuss, and Treasury Undersecretary Paul A. Volcker. The two had convinced Treasury chief John Connally to adopt the plan, and Nixon capitulated. That decision effectively legislated the rapid decline of the American economy.

On May 27, 1981 approximately a decade after Nixon bought that prescription for economic calamity, a secret meeting was held in a House of Representatives office. Present were Paul Volcker and Fernand St. Germain, the Rhode Island Democrat who has replaced Reuss as chairman of the House Banking Committee. The Federal Reserve chairman was meeting with St. Germain, a well-trained Reuss understudy, to put the final touches on Volcker-authored legislation that would have mandated the federal government to underwrite and facilitate the takeover of devastated savings and loan institutions by New York and London-dominated financial institutions. Such a coup, all interested observers agree, would have consolidated the Federal Reserve's drive to break the

back of independent American commerce and industry, and make the nation reliant on the Euromarket banks for its credit.

Two days after this Volcker-St. Germain meeting, President Reagan held a special economic cabinet meeting at which—unlike Nixon, and over the objection of Treasury and other officials—the chief executive rejected the Volcker-St. Germain plan (see Economics). Several hours later, St. Germain was obliged to announce that during this congressional session, he would drop his push for the legislation. Within a few days, the Wall Street pundits who had greeted Reagan's House budget resolution victory with what White House officials privately refer to as a "knife in the back" by jacking up interest rates, were uniformly predicting that rates would soon fall. On May 31, Treasury Secretary Donald Regan, who two weeks earlier had predicted another full year of ultra-high interest rates, told a national television audience that rates would soon come down.

Wall Street's interim conciliatory posture also reflected the President's unprecedentedly blunt charge on May 28 that the financial markets were protecting their own narrow interests, and "are not a good source of economic advice. In Wall Street, I think they're looking through a very narrow glass and see only one facet."

Within 24 hours, the President had made a series of moves: he publicly stated that he mistrusts lower Manhattan's advice; he charged that New York bankers were not acting in the national interest; and most important,

in a benchmark test between those interests operating through Volcker and those attuned to the President's national base in independent business, Reagan came down on the side of his own base.

Washington is already taking note of the level of heat coming out of this initial encounter between the White House and New York financial interests. It seems that Secretary of Energy James Edwards was not speaking for himself alone when he told a hometown South Carolina audience late last month that "the liberal media" had almost destroyed the nation during the 1970s, and that the Reagan administration would launch a "counterrevolution" against the ills inflicted by the *Washington Post* and the *New York Times*. Edwards indicated that the President shares his views.

Three days later, the International Brotherhood of Teamsters—the only major national union to have supported Reagan's presidential candidacy—opened its annual convention with a parallel blast against the national news media. These early shots could signal a serious confrontation between the administration and the financial interests.

Who will back the President?

There is no way the White House can survive such a confrontation unless Reagan moves outside the confines of his official economic program. Recent *Washington Post* editorials have strongly endorsed the efforts of House Speaker Tip O'Neill to mount a war against the administration's social program budget cuts (not because many of the cuts are foolish, which they are, but because he is out to destabilize the Oval Office). On the tax question, the *Post's* sister *New York Times* has reprimanded Reagan in the strongest terms for attacking Wall Street, which only represents the collective wisdom of the "free market," the *Times* proclaimed June 2; Reagan's program is inflationary, therefore high interest rates will persist in response.

The combination of continued record rates and Socialist International-inspired demonstrations against the budget cuts this summer could deliver the kind of double whammy the administration still seems unprepared for. White House sources report administration hesitance to consider direct moves against Volcker at this point; they are afraid of jeopardizing their efforts to pass their economic program in Congress. By the same token, administration officials still contend that their economic package will eventually bring down interest rates by lowering inflation.

Over the next month and a half, if there is no administration move against Volcker and high interest rates, observers believe the Second International's plan to "Hooverize" Reagan will move into high gear.

The only form of compromise between the adminis-

tration and the congressional Democrats that could counter this plan would have to include a commitment to take on Volcker and his credit policy. During the maneuvers around a watered-down version of Reagan's three-year tax proposal, House Majority Leader Jim Wright, a Texas Democrat, and other moderate Democrats were looking for "a good reason" to go along with the tax package. The "good reason" Wright outlined both in his May 24 national television statement and at the June 1 White House tax meeting. On both occasions Wright attempted to link moderate Democratic support for tax compromise with an administration commitment to directly counter the Fed.

A missed opportunity

In fact, sources close to the White House report that the opportunity for such a deal was cut off a week before the climatic White House-congressional meeting. According to these sources, White House political operatives have been in touch with Wright for some time on the possibility of a tax compromise. These Reagan intimates thought they had obtained Wright's commitment to a forceful public endorsement of the 5-10 tax-cut plan later surfaced by Senate Finance Committee Chairman Robert Dole (R-Kans.) and House Ways and Means Chairman Dan Rostenkowski (D-Ill.). According to White House aides, Wright fell far short of expectations. He simply offered to compromise with the administration on tax policy if the administration in turn would address the interest-rate problem head on.

The full scope of the missed opportunity was revealed by Wright following the June 1 White House meeting. In response to a reporter's question as to whether the matter of high interest rates was discussed with the President, Wright reported, "Treasury Secretary Regan told us that a 5 percent decline in the interest rate would save the federal budget \$50 billion a year"; but Wright indicated that the administration offered nothing new in dealing with the problem.

The failure of moderate Democrats and the administration to come to terms on a tax compromise that includes a bipartisan battle clause against high interest rates opened the door for Tip O'Neill. In a May 29 speech before the Houston Conservative Democratic Forum, Sen. Russell Long of Louisiana, ranking Democrat on the Senate Finance Committee, charged that "the average person doesn't control the Fed, and the President doesn't want to oppose them right now." Long warned that failure to hold its moderates and conservatives would turn the party into "a British Labour Party." The Democrats, he said, should work with Reagan the way Senate Majority Leader Lyndon Johnson worked with the Eisenhower administration—and reaped Democratic electoral gains on the Hill.

Last-minute attempts by Wright and Rostenkowski

to buy time by forcing Ways and Means Committee Democrats to accept a two-year 5-10 tax cut were finally rejected by the administration late this week. White House sources report that Reagan and his political intimates decided that they had enough conservative votes among Democrats to get their three-year proposal passed on the House floor. In addition, these sources

Challenges to Volcker

What one Democratic leader has called a "high density of anti-Volcker activity" by labor unions, state legislators, lobbying organizations of businessmen, farmers and others, has developed nationally, looking toward a June 22 demonstration against high interest rates in Washington that is expected to draw more than 1,000 for a lobbying effort.

Organized labor in the state of Illinois, led by the Building Trades, staged a massive rally in the capital of Springfield June 2, immediately directed against antilabor legislation pending in the state assembly. But speech after speech to the 20,000 workmen, many of them from the building trades, attacked Paul Volcker and high interest rates.

In other states, at least eight state legislatures are known to have passed anti-Volcker resolutions, calling for lower rates, and in some cases, the Federal Reserve chairman's ouster. One such resolution, AJR-5, demanding Volcker's removal from office, is now pending in the California legislature, and is expected to be moved to the floor for a vote by next week. Heavy lobbying efforts by the National Democratic Policy Committee, the National Farmers Organization, the National Coalition to Reduce Interest Rates (sponsor of the June 22 effort in Washington), and other groups are being conducted on AJR-5's behalf.

On Capitol Hill itself, Sen. John Melcher (D-Mont.) announced June 1 that he will be holding "public forum hearings" to document the effects of Volcker's policies, providing backup for legislation to curb the Federal Reserve's powers. "High interest rates are killing the economy. They are costing jobs at a time when everything else we are doing is aimed at creating jobs in the private sector," stated Melcher. "I can't understand the President's indifference. . . . High interest rates may be acceptable to Wall Street, but they are not acceptable to me and I don't think that they are acceptable to small business persons and unemployed workers who are really hurting because of them."

say administration strategists believe a second-round defeat for the House Democratic leadership paralleling the previous House budget resolution vote would "cut the sails" from O'Neill's crusade against budget cuts by firmly demonstrating that a bloc of all Republicans plus House conservative Democrats could override any committee setback for the administration.

Tip O'Neill has meanwhile launched "guerrilla warfare" over the budget that could succeed in paralyzing or even splitting the Democratic Party. Tip has already announced that the House Labor and Education Committee, chaired by Carl Perkins (D-Ky.), will be the central vehicle of counterattack. Proposed cuts in the school lunch program and tuition aid are said to be prime O'Neill targets for a fight. In all, the Perkins committee must cut \$10 billion from its budget, and committee sources already report that members are still unable to set a date to start deciding where to cut. The administration has already obtained the agreement of House Budget Committee Chairman Jim Jones, an Oklahoma moderate close to Jim Wright, to use his committee's legal authority to decide which programs to cut in those committees that either fail to complete their funding authorizations or exceed their allotted funding target. Many observers here in Washington now believe that O'Neill may attempt in the name of party discipline to force Jones to use his powers on behalf of O'Neill's strategy for chaos.

It is well known that moderate and conservative House Democrats considered O'Neill's behavior during the tax negotiations "obstructionist." One source commented, "If O'Neill wanted the world to know he had basic differences with Wright, Rostenkowski, and the Conservative Forum people, he couldn't have made it more clear." An O'Neill move to force these elements into open support for Reagan's budget cuts, which would happen by the beginning of July, may well fissure the party. This is the ironic upshot of the O'Neill push for "party unity" around the Democratic version of a tax bill, as well as raising hell on the budget side.

Capitol Hill watchers agree that O'Neill and his base of 100 liberal Democratic congressmen cannot seriously damage the administration on the Hill. But O'Neill's operation to polarize the moderates, combined with an already planned series of Socialist International-instigated anti-Reagan demonstrations, *can* seriously damage the administration nationwide if the economy falters further. Parliamentary deals and tricks such as the failed tax compromise between moderate Democrats and the administration have always fallen short when crucial economic decisions have to be made.

O'Neill will probably enjoy public demonstrations by midsummer. What the President and his potential allies need are visible demonstrations by organized labor and independent business by that same time—against Volcker and high interest rates.

A Eurosocialist labor faction

Scott Thompson files a report on the Democratic Socialist Organizing Committee conference in Philadelphia.

America was once again flooded with top European socialists over the Memorial Day weekend. They met in Philadelphia with 300 leaders of the Democratic Socialist Organizing Committee (DSOC), the main U.S. affiliate of the Socialist International, under the slogan "Reagan Worse Than Hoover." Such top brass as Bernt Carlsson, general secretary of the Socialist International, and Labour Party MP Tony Benn, reviewed the progress DSOC had made since its last major gathering, the "Eurosociatism and America" conference held Dec. 5-7, 1980 in Washington with a grant from the German Marshall Fund.

At the December conference, "Eurosociologists" including Willy Brandt of West Germany, Olof Palme of Sweden, Joop den Uyl of Holland, François Mitterrand and Michel Rocard of France met with DSOC's leadership (and, in secret sessions, with former Secretary of State Henry Kissinger and the head of the KGB's U.S.A.-Canada Institute, Georgii Arbatov) to plot a wave of destabilizations targeting Europe, the United States, and Central America. Key to the U.S. aspect of this strategy was a plan to use the monetarist policies of Federal Reserve Chairman Paul Volcker and OMB Director David Stockman as a foil both to "Hooverize" Reagan and to build a broad coalition between labor and the radical left to foment 1960s-style domestic unrest.

By contrast with the December conference, leaders of the liberal wing of labor, especially those from the powerful United Auto Workers and the International Association of Machinists, were well represented in Philadelphia. Both the UAW and IAM, joined by leaders of such old Communist Party-controlled unions as District 65 and 1199 Hospital Workers, used DSOC's convention as the forum from which to announce a 1930s depression-type political drive to "Organize the Unorganized."

By inviting DSOC to take part in this drive, the UAW and IAM have opened the door for a flood of union

dissidents, radical feminists, and others who are likely to wreck those unions in the same way the McGovern Rules permitted them to undo the Democratic Party.

In a May 21 press conference, David Livingston, head of District 65 and a new DSOC member under its anti-Reagan recruitment drive, reported that the "domestic chaos" aspect of the December conference planning was precisely what this new coalition of the labor left was about:

Since everybody is predicting, I will take a stab at it. I think the Reagan forces have an absolutely insatiable appetite for destruction. . . . The speed with which liberal forces, including the labor movement, will respond . . . will be much greater than we think. *I believe that by the turn of the year, there are going to be people engaging in the kind of responses we had to do to bring an end to the war in Vietnam* [emphasis added].

Following discussion at the December conference, Congressional Black Caucus leader Rep. John Conyers (D-Mich.) called for using such issues as budget cuts, tax breaks, and the Social Security flap rigged by Stockman, as a vehicle to recruit disaffected urban minorities and to regain control over the Democratic Party by its liberal left wing. Conyers and others also repeatedly called for a purge of those moderate Democrats who have taken part in bipartisan policy initiatives with the administration.

Finally, the Philadelphia DSOC convention took place in a world radically altered since last December by the May 10 defeat of French President Valéry Giscard d'Estaing, coauthor of the Franco-German "superpower for peace" policy, at the hands of Jacobin Socialist François Mitterrand. In a May 21 press interview, DSOC chairman Michael Harrington jubilantly announced: "It is conceivable that one year from now every government in Europe . . . will have a democratic socialist as prime

minister or president.”

If Livingston’s prediction proves correct, it will not be a result of the actions of Harrington or the 5,000-odd members of DSOC, who are mainly retreated 1960s radicals. Rather, this could occur only through the Socialist International-linked trade unions who have moved in to openly sponsor DSOC. As Livingston stressed in his speech: “We need DSOC-type people in the labor movement, and DSOC needs a labor movement to build an effective movement for socialism.”

While not all of them were present at the Philadelphia convention, the list of trade-union leaders who have backed one or another aspect of DSOC’s organizing include: William Winpisinger, president, IAM, and executive committee member, Democratic National Committee; Jerry Wurf, president, and Bill Lucy, secretary-treasurer, American Federation of State, County and Municipal Employees; Victor Gotbaum, president, AFSCME District Council 37; Joyce Miller, vice-president, and Jacob Sheinkman, secretary-treasurer, Amalgamated Clothing and Textile Workers Union; and Moe Foner, executive director, Local 1199 Hospital Workers.

It is these union leaders, some of whom, like Livingston, took part in the Communist Party’s 1930s organizing drive, who have the money, manpower, and skills to pull together a broad coalition of the sort Tony Benn called for in his speech to join “the civil rights movement, antiwar movement, women’s movement, and the environmentalist movement.”

IAM president William Winpisinger, a DSOC vice-chairman, told participants of his plans for building such a movement:

The right wing in this country is well on their way to . . . a fascist state in the U.S.A., run by the corporations. It’s as simple as that. . . . It’s my hunch that he who stands ready with a program when Reagan’s program goes on its head—as it absolutely and inevitably will—will be the people that pick up the political dividends in 1984. I would like for DSOCers and all their allies and friends to be that political instrument.

The IAM, Winpisinger announced, would set up a program patterned on that of the Canadian New Democratic Party to train all its shop stewards as “political operatives.” “We in the trade union movement and you as DSOCers,” said Winpisinger, “become two-pronged organizers from now on. We’ll be organizing not just for new members and new shops . . . but we’re going to be organizing in the community, punching doorbells and enrolling people in the cause.”

The UAW also proposed a joint organizing drive with DSOC. It was UAW retired vice-president Irving Bluestone who helped line up funding for the December

“Eurosocialism” conference as a trustee (along with David Rockefeller, John J. McCloy, Averell Harriman, et al.) of the German Marshall Fund, while UAW president Doug Fraser, who is also a board member of the radical Institute for Policy Studies, lent his name to building the event. At the Philadelphia DSOC convention UAW vice-president Martin Gerber addressed the convention, exhorting its members:

Fellow scientists, fellow DSOCers . . . we must bring together the spectrum of minorities, workers, women, students, poor, educators, and the environmentalists—all those who are victims of the cruelest thrust any government has imposed in this country since its inception. By comparison Herbert Hoover and Calvin Coolidge are flaming liberals.

The next morning a DSOC labor caucus was formed under UAW international representative Carl Shier, an old Walter Reuther crony. Gerber officially invited DSOC participation in UAW’s new drive to “Organize the Unorganized.”

This new coalition of the labor left with DSOC is already plagued with problems and may result in destroying those unions like the UAW and IAM who invited DSOC to help build their unions. A floor fight broke out at the convention pitting some top trade-union bureaucrats against members of the union-busting dissident groups like Ruled Out of Order (ROOR) and Teamsters for a Democratic Union (TDU), which have admitted collaborating with the Justice Department to target progress-oriented leaders of the Laborers and Teamsters unions.

Standing behind the dissidents were Bogdan Denitch, a leading counterinsurgent who will soon take a post at Zbigniew Brzezinski’s old Columbia University think tank, and H. W. Benson, executive director of the Jesuit-controlled Association for Union Democracy (AUD). Benson has admitted working with some of labor’s worst enemies, including Walter Sheridan, former head of the infamous “Get Hoffa Squad,” and the National Right to Work Committee—all in the name of guaranteeing “union democracy.” Benson has even encouraged dissident caucuses to challenge the leadership of the UAW and IAM, and he carried out a rumor campaign throughout the convention charging Winpisinger, Livingston, et al. with using fraud and alliances with “gangsters” to maintain their posts.

In response, Livingston devoted the first half of his speech to an attack upon the dissidents, whom he labeled “revolutionary revolutionaries.” Caught in-between this cat fight were DSOC leaders Michael Harrington and Irving Howe (editor of the DSOC-linked *Dissent* magazine), who are on AUD’s advisory board.

Another problem that will hurt DSOC among labor's rank and file is that apart from rehashed rhetoric from the 1960s about "coparticipation" and "decentralization of decision-making," DSOC has nothing to offer labor. Harrington even dusted off a new version of the discredited Humphrey-Hawkins bill. "I would like to put people to work," said Harrington, "building alternate, renewable energy systems."

Budget cuts, riots, and terrorism

Harrington, Livingston, Benn and other major speakers at the DSOC convention each stressed the need to move immediately toward organizing black, Hispanic and other urban layers on the basis that they will be the first and the worst hit by Stockman's budget cuts. Representative John Conyers, a Congressional Black Caucus leader, in particular addressed this question, stating:

You see, brothers and sisters, we have to bring more black people into DSOC. The reasons are obvious, but here is one you may not have considered and that is that the Congressional Black Caucus is now the sole and only progressive element in Washington. . . . It is the only challenge to Reaganism and Reaganomics because this year we were forced to construct our own economic budget. . . .

The pain and the obscenity of Reagan's budget is going to be felt deeper and deeper every day across the U.S.A. And therefore I say it also gives us a chance not just to fight that battle, but to organize to change the character of the body politic in America [emphasis added].

As Conyers would be among the first to recognize, the "tar-baby" scenario in which the Socialist International has tried to enmire the Reagan administration in southern Africa and Central America can also be played back into American minority layers to foment riots and terrorism. The Socialist International's ties to terrorism are extremely public, as highlighted by Willy Brandt's announcement on nationwide U.S. TV last December that it would ship arms to the rebels in El Salvador. Mitterrand's recent appointment of Régis Debray, the Che Guevara-linked author of a handbook on guerrilla warfare (*Revolution in the Revolution*), as his adviser on Latin American affairs, is another infamous example.

Terrorism was openly discussed at a DSOC convention educational on "American Policy and Central America" given by two representatives of the National Revolutionary Movement in El Salvador, David Mancia and George Sol, the latter of whom now masquerades as a Washington, D.C.-based consultant. Asked whether it is true that Cuba and North Vietnam supplied guerrillas in El Salvador with weapons, Mancia

responded with indignation:

Those who say this slander our movement. It is true that we have received a small amount of arms from Cuba, but over the last 12 years of the Frente's existence we kidnapped corporate executives and others gaining \$20 million in ransom. With this money we bought arms on the black market in southern California and Florida. This is how we got our weapons: on the black market in America.

A related thrust at the DSOC convention was to forge an alliance with "liberation theology," a plan that had Harrington, an admitted atheist, recalling his days with the radical *Catholic Worker* and Benn stating that "the Bible and the teachings of Jesus lie at the foundation of British socialism."

Harvey Cox, a professor at Harvard Divinity School and sponsor of DSOC's Religion and Socialism Commission, also spoke on the "Moral Dimensions of Socialism" at the convention, noting that an ability to win the Catholic vote had been key to Mitterrand's victory in France, while noting that it was the archbishops and Jesuits who were the backbone of the "liberation struggle" in Nicaragua and El Salvador. Cox added that he had himself met recently with some of the Moral Majority's leaders, and, he stressed, even they should be considered among the potential recruits to socialism via "liberation theology."

Two weeks after the DSOC convention, precisely as Livingston "predicted," the following demonstrations were called for this fall based on the 1960s model:

- The People's Anti-War Movement is planning an All Peoples Congress of Resistance (Sept. 18-20 at Cobo Hall) that is to be followed by a National Day of Mass Resistance under the slogan, "Overturn the Reagan Program."

- A repeat of the Nationwide Action for a Fair Budget's "National Day of Action," organized by 120 groups on May 9, is planned for the week after Labor Day. Hundreds of thousands of minority members and workers are once again expected to take part in nationwide demonstrations.

- The Mobilization for Survival has proclaimed a "Disarmament Week" for October 1981 with nationwide demonstrations to build toward a 1982 National Peoples Congress. The NPC's goal is to influence the 1982 congressional races using the issues of budget cuts, nuclear power, etc.

New Democratic party

DSOC plans to channel all these areas of activity into a push to regain control over the Democratic Party. Asked how this coup might be accomplished, Harrington responded:

In terms of the Democratic Party what we will be discussing here this weekend is the mobilization of the broad liberal, left wing of the Democratic Party to challenge the leadership and ideas put forth by people like Paul Tsongas, Gary Hart, and John Glenn in response to the Reagan triumphant move to the right. And, to challenge Charles Manatt, the new national chairman of the Democratic National Committee, who has proposed cutting down the mid-term convention as far as possible. . . .

If the [1982] convention is still down to nothing, we will . . . hold an issues convention for the liberal labor movement in the United States, whether the Democratic Party calls for it or not. . . . An issues convention sponsored by unions, by minority organizations, and others, dealing with the issues.

Conyers was even more explicit on how the liberal, left wing plans to regain power: "Inside the Democratic Party there is an even more immediate issue than the budget. That issue deals with what to do with at least 69 members of Congress . . . who decided to vote for this obscene budget that represented the Reagan administration's commitment to slash 83 federal domestic programs. . . . It's sad enough that we only have two parties in this country, but it's even worse when one of the two parties' leaders capitulate to make it even less than two parties.

"Two things must happen. One, the Congressional Black Caucus and those who voted with it should challenge the leadership of the Democratic Party with DSOC's gentle, tender encouragement. Two, resign and let the real Democrats run the Democratic majority of the House while it still exists, or before they run us out of the Democratic Party. . . .

"In studying the psyche of members of Congress there is one thing we have found that they value more highly than anything else and that's the full employment concept as applied to themselves."

Through DSOC's Democratic Agenda coalition, its planned issues convention, and, most importantly, by opportunistically using the monetarist policies of Volcker and Stockman to mobilize minority and urban layers, this broad coalition of the labor left with DSOC is preparing, as at no time since the 1930s, to assure that Reagan is "Hooverized" and that the left wing of the Democratic Party regains control over the party's institutions. DSOC and its cohorts will probably fail to dominate the 1982 and 1984 elections. But, under the direction of the Eurosocialist leadership, this new coalition is taking the requisite steps to create chaos in the United States, without getting DSOC's candidates elected.

Detroit totters on brink moves underway for a

by Stephen Parsons

A rather remarkable photograph appeared recently in the nation's syndicated press. It was a picture of a man dashing through the streets carrying passengers in a rickshaw. The photograph was not from China or any Third World country. It was taken in Detroit—Motor City, U.S.A.

That photograph encapsulates the near-term fate of what was once the transportation capital of the world and the premier industrial city of the United States. It represents the final stage of a deliberate plan to dismantle heavy industry not only in Detroit and the state of Michigan, but throughout the Midwest's industrial heartland.

The intent of this plan is to "restructure" the economy from top to bottom. Specifically:

- to increasingly replace large-scale manufacturing with small sweatshop establishments;
- to slash the standard of living of the population and destroy the union wage-scale;
- to force people out of urban centers and drastically curtail transfer payments, Social Security, and public assistance to the swelling ranks of unemployed;
- to generate massive financial speculation under the cover of "venture capital risk investment;"
- to reduce state and local governments to powerless, squabbling factions under the thumb of supralegal "independent financial agencies," such as New York City's Big MAC and its overseer, Felix Rohatyn.

The perpetrators of this conspiracy are allied with Federal Reserve Board Chairman Paul Volcker and his policy of industrial credit strangulation and high interest rates. That policy has caused a spiraling depression in the Midwest and decimated government budgets. Immediately, it is the fiscal crisis in Detroit, which will hit full force in July, that threatens to activate the entire scope of restructuring schemes.

of bankruptcy: Big MAC city plan

Volcker's high interest rates have brought Michigan the highest unemployment rate in the United States—officially 12.2 percent—and that does not include the uncounted tens of thousands who have disappeared from the labor force statistics or emigrated to the Sunbelt. Over 200,000 auto and auto-related manufacturing jobs have been lost in Michigan, not to mention thousands of other jobs. Over 60 percent of Detroit's citizens now receive some form of public assistance.

The combination of plant and business shutdowns, rising unemployment, and ballooning public assistance have devastated state and local budgets. This year alone, business tax receipts in Detroit plunged \$20 to \$25 million, transportation funds \$14.3 million, and housing \$10.4 million.

Income-tax revenue is down \$15 million, or 10 percent, from 1979 levels; in constant dollars, this is a 30 percent drop. In the past decade property taxes have fallen 50 percent in constant dollar terms. This is not even to mention the loss of federal monies, due to Stockman's budget ax in Washington.

In Detroit, there are now 20 percent fewer full-time equivalent employees than four years ago. Its workforce of 14,800 is *now less than at the height of the Great Depression!*

Police have been cut 27 percent, and public works and recreation 20 percent. The city hospital has shut down, throwing 1,500 out of work. Garbage crews have been cut by two-thirds, replaced by new, one-man "robot" trucks that constantly break down.

Thirty-five hundred, or 30 percent, of the teachers have been laid off since the 1960s, with hundreds more slated to go in September because of federal budget cuts. Expenditures for municipal plant and equipment have been cut more than 50 percent in constant dollar terms. And there is virtually no new municipal con-

struction.

Detroit will end this fiscal year on June 30 with a \$120 million deficit and projects a gap of at least \$150 million for next year. With its bonds rated below investment grade, it has no means of financing the deficit, unless local banks step in. And no bank considers the city a viable risk at this point.

The current deficit is almost equal to the amount the city owes its employee pension funds, to which it has paid nothing for the last 15 months. By July, a court decision is expected to compel Detroit to make these payments.

At that point, it will face bankruptcy—owing nearly \$300 million out of a general fund of \$1 billion.

Mayor Coleman Young's plan is to place a referendum on the June 23 ballot to raise city and commuter income taxes by \$100 million. He has already unilaterally deferred a contracted 6 percent pay hike for city employees and wants workers to take a further 5 to 7 percent wage cut, thus saving the city \$91 million. He hopes these desperate measures will be sufficient to persuade the banks to finance the balance of the 1981 deficit.

Yet it is unlikely that Young's balancing act will work. If last November's tax revolt is any indication, the tax issue is hardly a sure bet to pass, and it is not clear that the employee unions will accept even the deferred wage increases, let alone the pay cuts. Even if these moves do go through, the city will still be short tens of millions of dollars.

Prelude to restructuring

All this provides the setting for the Volcker-Rohatyn restructuring plans.

The project was set in motion last January when the state, facing a cash-flow problem, borrowed \$500 million from Wall Street in exchange for having Rohatyn—hailed by *Monthly Detroit* magazine as the "emperor of urban America"—hired as Detroit's financial consultant. Simultaneously, the state's financial, speculator, and technocratic elite apportioned themselves into several blue-ribbon advisory panels—the seed forms of the new governing structures for Detroit and the state. These include:

- a governor's task force charged with revamping Michigan's heavy-manufacturing sector by bringing in high-technology "sunrise" industries;
- a legislative advisory committee to control all major business and economic decisions in the state capital;
- a Budget Stabilization Committee for Detroit that has been drawing up draconian austerity recommendations and is preparing to evolve into a Rohatyn-style emergency financial control board.

Besides the presence of Rohatyn himself as the

designated pointman for Volcker and the New York banks, the local control center of these operations is the New Detroit/Detroit Renaissance/Detroit Economic Growth Corporation nexus featuring Republican Party king-maker and real-estate speculation czar Max Fisher. Included are such luminaries as former Carter administration Treasury Secretary W. Michael Blumenthal, now president of computer manufacturer Burroughs Corporation; the chairmen and presidents of Detroit's largest banks; the chief officers of the auto giants and largest corporations in Michigan; and key labor leaders from major unions, like the UAW's Irving Bluestone, a German Marshall Fund operative (see p. 53).

Lowering the boom

Dean Richardson, the chairman of Manufacturers National Bank and a member of the Budget Stabilization Committee, is pessimistic that Mayor Coleman Young will come up with a financing scheme in time to avert a default next month. Richardson emphasizes that unless new funds are combined with further austerity for Detroit, banks will not extend credit to the city. "I cannot see a way of being repaid," he said.

He advocates, however, that as in New York City, the Detroit employee pension funds put *their* assets into the bottomless pit of city debt. "They created the problem; let them solve the problem."

"We've got the guy here who did it in New York," Richardson chuckled, referring to Rohatyn, and acknowledged that some kind of Big MAC control board is becoming more and more likely for Detroit.

"The problem in the state of Michigan," he continued, "has been the whole damn labor fight for high wages." He was echoed by a spokesman for Max Fisher's New Detroit real-estate combine who said that a sharply reduced wage scale in the state would open up tremendous investment opportunities for "venture capital," a buzz word for investment in sunrise industries.

"We're talking about growth industries. Not heavy industry," the spokesman stressed, "but smaller firms with fewer employees. And the risk has to be shared by many parties," especially the employees and their pension funds, "which won't be worth anything in 10 or 20 years without investing in these areas."

Either union members and the workforce will in general cooperate and retrain for these low-paid jobs, he said, or "they'll just have to move to where the jobs are. They'll have to go, because there won't be any more welfare, unemployment compensation, or anything else. It's survival of the fittest. If they don't want to take a risk, they can get out."

Encourage speculation

Key to this transformation is changing the tax laws to provide substantial incentives for the "risk ventures,"

and to pump in enormous amounts of defense money to replace the lost production of consumer durables like automobiles. Rohatyn and the New Detroit crowd have been working with Detroit congressmen like Rep. James Blanchard and Sen. Donald Riegle to sponsor a variety of legislation that has no immediate chance for enactment, but which could be activated as the economy deteriorates.

Riegle, for example, is sponsoring S. 602, a bill to create a refundable income-tax credit that will apply to businesses and individuals across-the-board. While the rationale for the bill is to provide needed investment capital for depressed industries that have no profits against which to apply tax credits, the Treasury refund check could go anywhere and be a boon to pure hot-air speculation.

Said a Riegle aide, "Obviously, we can't control what companies do with the cash, but that's a danger with any cash redistribution."

Along with Sen. John Heinz, a Republican from the similarly depressed Pennsylvania steel belt, Riegle has also introduced the "Urban and Rural Revitalization Act," which was recently merged with the Kemp-Garcia bill for urban enterprise zones. The bills provide fantastic tax breaks and incentives for cheap labor—a vital component to the speculative bubble.

James Blanchard, Riegle's counterpart who chairs the House Economic Stabilization Subcommittee, has introduced a parallel piece of legislation which throws in the creation of an urban development bank, based explicitly on Rohatyn's Reconstruction Finance Corporation (RFC) boondoggle which has received so much press coverage.

As the depression deepens, Volcker and Rohatyn are counting on the expected proliferation of local Big MACs, financial control boards, budget stabilization committees, and so forth to get the precedents for a national, supralegal RFC or similar structures. This will give the New York financial elite fingertip control over the direction of the economy and who will and will not survive. In the words of Rohatyn crony Bertram Gross, the author and proponent of a book entitled *Friendly Fascism*, "What is needed is selective intervention through cooperative action."

"Competition did not make this country great," the New Detroit spokesman underlined. "It was cooperation."

However, he added, if this restructuring is not adhered to, and the unions or population do not play ball with Rohatyn, then Detroit's fiscal plug may simply be pulled. "The city will be faced with looking to the state for a bailout it cannot give—and then calling out the National Guard.

"But I don't think anybody really wants to make things worse than they are."

From the Teamsters convention

Joined by the Building Trades Council, the IBT launched a counteroffensive for economic expansion.

The International Brotherhood of Teamsters convention, held June 1-3 in Las Vegas, provided a total contrast with the policies of AFL-CIO chief Lane Kirkland and United Autoworkers president Doug Fraser, two Socialist International liaisons who are bent on making U.S. industry into a replica of Britain's. The new Teamster president, Roy Williams, also took on the Justice Department's current effort to eliminate him.

In his opening speech before the convention, Williams stated, "As you are probably aware, the government tried to deal itself a hand in our proceedings . . . in the form of a so-called Senate subcommittee report, by issuing an indictment against me [that] . . . is so wrong and so false that I do not intend to dignify it with a response. . . ."

"I have been informed today that a federal grand jury in Chicago issued an indictment against me for attempting to bribe a United States senator in an effort to stop deregulation of the trucking industry. These charges are a damn lie.

"If you heard Senator Cannon . . . he only met me one time, and he had never talked to me, and he had certainly never discussed any sort of bribe. . . ."

"I have and will continue to fight deregulation with every ounce of energy in my body, in an open and honest manner, as every Teamster in America has. No indictment will stop me. And no indictment will stop me from fighting

for the economic survival of all of our Teamster brothers and sisters."

Despite the active counter-organizing by Kirkland and Fraser (the UAW president even stated that Williams should resign), AFL-CIO Building Trades Council President Robert Georgine addressed the convention to pledge that the 17-affiliate Building Trades Council would work with the Teamsters to defend labor "from within and without," as he outlined the fights against the repeal of the Davis-Bacon Act; against using the Hobbs Act to prevent union picketing; and to stop the onslaught of spurious charges filed against union officials by the Justice Department.

The convention was greeted by President Reagan in a videotaped speech: "As a former union president, nothing makes me more proud than to work together with my union brothers toward a shared goal: our current, common desire to revitalize the economy. When the economy is humming, it means your 18-wheelers are humming."

Of three major resolutions passed by the convention, one on deregulation stated that the union "shall present the evil results of airline and trucking deregulation in the strongest terms that they can, and urge the 97th Congress to reconsider . . . and make amends by repealing or drastically altering the ill-starred deregulation measure of 1980."

A second resolution stated,

"Unfair competition from foreign industry, spiraling interest rates, runaway energy costs, and other grave and adverse economic factors have assailed our country . . . and have combined to impose an unconscionable inflation and economic recession on the American people. . . . This convention shall advise President Reagan and the 97th Congress that maximum employment and re-employment . . . be made the first order of business of the present administration."

On media abuses, the Teamster resolution said, "Major segments of the news media have for 25 years conducted a willful and irresponsible campaign of vilification . . . and several recent incidents, notably . . . a barefaced example of news fabrication at the *Washington Post*, have . . . underlined the fact of media irresponsibility. . . . The [Teamsters] convention shall serve notice on the U.S. news media that the Teamsters . . . will no longer tolerate abuse of [constitutional] rights by the publishing and perpetration of untruths and injustices. . . ."

Finally, the Teamsters passed a resolution proclaiming: "The recent triumphant performance of the United States Columbia spaceship has reopened the heavens to new and unlimited traverse for the purposes of peace and commerce. . . . The development of an appropriate space program [is] the greatest challenge ever posed in the field of transportation. . . . The International Brotherhood of Teamsters . . . directs its international headquarters . . . to prepare a campaign ensuring the presence of our union in the organizing of men and women who are working and will work in the nation's space program of tomorrow."

So who asked?

Self-defined "pro-labor" Democrat David Bonior of Michigan took the floor of the House of Representatives on May 28 to deliver a one-hour attack on Teamster president Roy Lee Williams, demanding that Williams relinquish his bid for the presidency of the International Brotherhood of Teamsters. In announcing opposition to Williams, Bonior added his name to a list that includes only one other member of Congress—the "new John McClellan," Sen. Sam Nunn (D-Ga.).

Bonior motivated his opposition by noting that "these will not be easy times for our labor unions under the Reagan administration, a Republican Senate, and a more conservative House." Bonior did not explain how attacking the only international union that is pro-Reagan would help make things easier. He did, however, praise UAW president Doug Fraser for also attacking Williams and for calling for the AFL-CIO to set up its own "internal policy body to root out the internal corruption" in the labor movement. Said Bonior, "Labor cannot wait for the Congress or the executive or the courts to police itself. . . . Labor should certainly get its house in order."

Bonior cited the recent indictment of Williams by a Chicago federal grand jury, the continuing civil litigation of the Labor Department against the Central States Pension Fund (for which Williams was a trustee), and Sam Nunn's hearsay allegations about Williams's connections to the "Kansas City mob" as reasons for his opposition.

When asked about the over-

whelming support by the rank and file for Williams at the Las Vegas convention, a Bonior spokesman nervously noted that "the dissidents weren't received very well either." Asked if Bonior still stood by opposition to Williams, despite the unequivocal show of support for him by his union members, the spokesman said, "yes."

Kemp: whole U.S. should be free enterprise zone

Introducing his long-awaited Free Enterprise and Job Opportunity Act at a crowded press conference on June 3, Rep. Jack Kemp (R-N.Y.) enthused, "I think the whole United States should be a free enterprise zone." Apparently the Reagan administration does not agree. Instead of sending hoped-for spokesmen and endorsements to the press conference, Reagan sent a message through Commerce Secretary Malcolm Baldrige supporting the "free enterprise concept" and hoping for some free enterprise legislation to pass this session. Kemp acknowledged that the administration would prefer a much scaled-down version to what he has introduced.

Flanked by South Bronx Rep. Bob Garcia (D-N.Y.), Senators John Chafee (R-R.I.) and Rudy Boschwitz (R-Minn.), and Urban League President Vernon Jordan, Kemp unveiled a bill that relies almost totally on tax incentives, payroll tax cuts, and the like to try to lure "labor-intensive" industries into inner cities in need of employment. In the audience at the press conference was a beaming Stuart Butler of the Heritage Foundation, co-author of the legislative con-

cept, along with Sir Peter Vickers-Hall of the British Fabian Society.

Kemp and Garcia plan to take their show on the road before finalizing their legislative push, in an effort to draw as many local political figures in behind the legislation as possible. Chafee announced hearings in the Senate for mid-July.

Kemp closed by announcing that he was flying to Israel that night to examine their free enterprise zones. Observers wondered if Lebanon was to be included in the junket.

Subcommittee focuses on U.S.-West European tensions

The European and Middle East Subcommittee of the House Foreign Affairs Committee focused one of its regular reviews of U.S.-West European relations solely on military strategic affairs, a point of some tension at present. Ignoring the fact that German Chancellor Helmut Schmidt had put interest rates near the top of his list of bilateral concerns in his meeting with the committee one week earlier, every member instead keyed in on the sensitive and potentially destabilizing issues of European commitments to increased defense spending and the extension of NATO outside of Europe.

Subcommittee Chairman Lee Hamilton quizzed Assistant Secretary of State Lawrence Eagleberger on the growing gap between European and U.S. defense spending, noting, "The different perceptions of the Soviet threat [between the U.S. and Europe] has a startling impact on defense spending and burden sharing."

Eagleberger attempted to "defend" Europe by stating that Europe only views the Soviets from a "regional" perspective, rather than taking the global responsibilities that the U.S. does.

Bailey introduces 'reindustrialization' bill

One week after *EIR* analyzed the pitfalls embodied in much of the so-called "targeted" tax cut legislation, Rep. Don Bailey (D-Pa.) introduced the "American Basic Industrialization National Defense Act (Abinda). According to Bailey, Abinda (introduced on June 2) "presumes a primary industrial and transportation capacity [which is necessary] to protect the U.S. against any combination of economic and/or military challenges from abroad. The basic industries are as follows: steel, mining, railroads, automobiles, airlines and paper."

Unlike other "targeted" tax cut legislation, such as the "refundability" bill associated with Sen. David Durenberger (R-Minn.), the Bailey bill seeks to ensure that tax credits or incentives accruing to industry would have to be reinvested in "the original industry." That is, U.S. Steel could not use the funds to diversify into microchips, a problem embodied in Durenberger-style legislation. However, the legislation does nothing to ensure that investment will take place in expansion of existing capacity and new research and development or technological innovations, rather than, for example, in converting to biomass or downsizing automobiles.

Bailey is often referred to as the

"congressman from Carnegie-Mellon," representative of an industrial grouping which understands that a certain defense industrial base must be maintained, but is not particularly committed to a major capital-intensive export boom to the Third World, nor the wholesale expansion and technological upgrading of the U.S. economy that that would entail. Bailey's emphasis on defense is indicative of this bias, "These industries form our nation's industrial heart. From them or through them flow practically every fundamental production need upon which this nation's economic and military stability depends."

Support for NASA urged at hearings

The Appropriations Subcommittee on Independent Agencies convened hearings on June 2 to hear testimony from public witnesses in support of an augmented NASA budget. Unfortunately, subcommittee chairman Jake Garn (R-Utah) had pressing business elsewhere, leaving a staff person to chair the hearings and listen to some of the most important testimony delivered to date on the national security implications of David Stockman's budget cuts.

John Benson, Director of the Washington office of the American Institute of Aeronautics & Astronautics, citing the heavy emphasis that the Soviet Union places on "fusing science and technology with the Soviet economic system," quoted Leonid Brezhnev before the 26th Party Congress last February: "The condition in which the national economy will be developing

in the eighties make the acceleration of scientific and technological progress ever more pressing. There is no need to persuade anyone of the great importance of science. . . . The cornerstone of scientific and technological progress is the advance of science. But it is engineering above all that can fling open the doors to the new."

In comparison to this approach, Benson warned that in the United States "aviation could be beginning a slide into industrial oblivion like our shipbuilding, steel, electronics, and automotive industries," unless Congress restores the NASA and other budget cuts. "If you wish to preserve and improve American industry and therefore the economy, as well as enhancing the national defense, cutting NASA's budget and manpower is not the place to do it," he concluded.

Benson was followed by a representative from the National Democratic Policy Committee, who underscored his point about industrial oblivion, noting that "David Stockman's budget cuts have more to do with his adherence to a postindustrial society than with restoring the health of the American economy." Referring to Benson's comments about Soviet emphasis, the spokesman continued that the next quantum leap in strategic capabilities will be the development of particle-beam antiballistic missile capabilities and that the so-called pure research done by NASA in such missions as the Saturn flyby and the International Solar Polar Mission (cut from Stockman's budget) has direct relevance to the breakthroughs in plasma physics that will underlie such military capabilities.

National News

How to liberally ax Social Security

Jack Ossofsky, executive director of the liberal National Council on the Aging told a Washington, D.C. press breakfast May 28 that the administration's Social Security cuts "would cut benefits too deeply, too quickly, and for too many Americans. We do not believe that every benefit should be preserved exactly as it now stands, for every beneficiary actual or potential," he stated.

Asked what specific cuts he thought should be made instead of the Stockman program, Ossofsky suggested that the Social Security benefits cost-of-living escalator could be tied to wage increases rather than the Consumer Price Index. Currently wage boosts lag 25 percent behind price rises, and are falling continuously further behind. If present inflation and wage conditions continue, Ossofsky's plan to index Social Security to wages could cut benefits by 25 percent in four years—far more than even Stockman's cuts announced May 12.

Ossofsky was formerly the research director of the social-democratic District 65 of the retail workers union in New York City.

Building Trades: keep Davis-Bacon

Robert Georgine, AFL-CIO Building Trades Council president, has published statements in several newspapers to emphasize the importance of keeping the Davis-Bacon Act intact. The legislation, which mandates that federal construction projects pay the prevailing wage, is now under attack by congressmen and a faction of the Reagan administration.

In a *Baltimore Sun* op-ed, Georgine declared that before Davis-Bacon, conditions "allowed unscrupulous contractors to pit worker against worker." He emphasized that the law not only protects workers, but also "contractors who are

committed to upholding the labor standards of the local community. Davis-Bacon gives these local fair contractors an equal chance to compete for government contracts," he said.

Georgine denied that Davis-Bacon had inflated construction costs and noted that workers' wages have risen only 6 percent per year while materials and interest rates have gone up much more.

In a letter to the *New York Times*, Georgine emphasized that the Davis-Bacon Act is important for maintaining craftsmanship. "While it might cost the taxpayer a bit more to hire a skilled union craftsman," quality is assured, where a cheaper wage may result in sloppy workmanship, at the expense of later problems developing in the building itself.

Defense journal supports fusion development

The *Defense and Foreign Affairs Daily*, a newspaper widely read in defense and industrial circles, devoted a full page May 20 to a discussion of fusion power development in the United States featuring the Fusion Energy Foundation research director, Uwe Parpart, and nuclear physicist Dr. Edward Teller. The article, written by John Sanders, focused on the efforts by the FEF and by Teller to ensure that the Reagan administration's budget cuts do not impinge on fusion power development.

"One criticism being directed at the administration," Sanders writes, "is that the proposed cuts will reduce government support for a number of high-technology programs which have the potential to ease U.S. energy and national security problems, as well as strategic resource shortages."

Fusion proponents such as Uwe Parpart, Sanders continues, "argue that this technology is more than just a more complicated way of producing electricity; by producing extremely high temperatures very cheaply, fusion can improve the entire industrial base."

The article also discusses Teller's argument that fusion will have major mili-

tary implications as well, and warns that the Reagan budget does not live up to the funding mandated by the 1980 McCormack fusion bill.

Haig going to China to seal alliance

U.S. Secretary of State Alexander Haig will visit Peking this July to put the finishing touches on a long-sought plan to forge an alliance between the U.S. and Communist China. The State Department has been unable to realize the Carter administration's proposal for a direct military alliance with Peking, due to opposition from President Reagan. Instead, it has settled for a Global 2000 alliance based on mutual support for Pol Pot's Khmer Rouge in Cambodia, and the dictatorship of Gen. Ziaul Haq in Pakistan.

On June 12, State Department adviser James Buckley will go to Pakistan to work out the details of the \$2.5 billion military and economic aid package promised by the U.S. In coordination with Buckley's efforts, an exchange of military delegations between Pakistan and China has been capped by the recent visit of Chinese Premier Zhao Ziyang to Pakistan, where he pledged his full support for Zia's dictatorship.

Haig, during his July visit to the Far East, will also stop over in Manila to pressure ASEAN foreign ministers meeting there to support the Chinese-U.S. State Department scheme to bring Pol Pot back into power in Cambodia under the guise of a "united front." In preparation for this, China and her ASEAN asset, Thailand, have held a series of military consultations. In addition, Thailand is threatening to close her borders to Cambodian refugees fleeing the remnants of Pol Pot troops that still roam the countryside, looting and burning.

As was made clear at the Trilateral Commission's meeting in Peking in May, the Chinese and their State Department allies are intent on overcoming President Reagan's aversion to any alliance with Peking. The Chinese recently invited presidential advisers Edwin Meese,

James Baker, Richard Allen and Michael Deaver to dinner to try to win them over. They have also used the recent death of Sun Yat-sen's widow, Soong Ching-ling, to make a public show of extending the olive branch to the Nationalist government on Taiwan.

Further, the Chinese have deliberately leaked the existence of a factional dispute inside the politburo pitting the "pro-American" Dengists against the faction that favors balancing relations with both the U.S. and the Soviet Union. The German daily *Die Zeit* reported June 3 that the Chinese have made it known that unless the Dengist faction prevails, their power could be weakened in favor of the less anti-Soviet faction.

N. Y. Times exposed in another fraud

The *New York Times* has been caught lying again—this time in the syndication of a scam story on Poland that is being denounced internationally as a lie.

Harley Lippman, the director of the Jewish Labor Committee in Boston, Mass., took a lengthy trip to Poland earlier this year, posing as a freelance journalist. He came back to write an unbelievable story—syndicated by the *Times*—about his days with Lech Walesa, claiming that he spent every waking hour with the Solidarity leader and stayed in Walesa's house. Lippman also related that he was taken blindfolded to a barn outside Warsaw where Polish paratroopers told him that they would fight the Russians to their death if they invaded Poland.

Solidarity spokesmen have denied Lippman's story altogether.

Just as the *New York Times* denied that Adolf Hitler once worked for them, the *Times* now claims that Lippman acted on his own, that their editorial board did not read the story they published, and that the newspapers that had originally published it (including the *Times* of London) put a *New York Times* copy-right on the story by mistake.

Boston getting set up for Big MAC treatment

With Proposition 2½ taking effect in July to cause a 15 percent reduction in city property-tax revenues, Boston is being set up for crippling service cuts, layoffs and possible social chaos. Mayor Kevin White has announced that the city will end the fiscal year June 30 with at least a \$65-\$75 million deficit, largely due to a court ruling forcing the city to reimburse several real-estate operators over \$100 million in "overpaid" taxes.

Thus, police and fire departments slated for a 25 percent cutback will now be reduced by 40 percent, as dictated to Mayor White by "The Vault," an elite group of Boston's businessmen. In addition, White has come out with a proposal to establish a "volunteer" force of non-union city workers who will work an unpaid sixth day to "serve the community"—a precedent for union busting and "payless paydays."

As Prop 2½ cuts local revenues by \$500 million, Boston and the rest of the state are squabbling over the dwindling revenue pie. If the state budget passes in its current form, there will be almost no new state aid or revenue sharing to take up the slack. State Rep. William Galvin, a liberal, among others, is pushing for an emergency finance board modeled on New York's MAC to dictate budget cuts for Boston—and to enforce them.

With the resulting austerity and economic dislocation, the possibility of racial tension is increased. But the austerity-mongers have an answer for that, too. The Boston Committee, an organization of business and community leaders ostensibly concerned with reducing racial tensions, has been set up, headed by Frank Jones, who chaired the President's commission that investigated the Miami riots.

The Committee is connected to the Justice Department's Community Relations Service, which, as *EIR* has reported, has been instrumental in fomenting racial tension in U.S. cities, rather than defusing it.

Briefly

● **ROBERT MCNAMARA**, outgoing president of the World Bank, wrote an obituary for Barbara Ward, Lady Jackson, the international environmentalist/economist who died last week. Wrote the "body count" Kennedy-Johnson defense secretary, "She was always deeply concerned about the consequences of the population explosion, and when I consulted her in my early days at the World Bank, she urged me, against a lot of contrary advice, to speak publicly about the issue."

● **THE NUCLEAR** Regulatory Commission and the Mexican National Commission for Nuclear Safety and Safeguards (CNSNS) have agreed to an exchange of technical information and the NRC has agreed to train, on request, CNSNS personnel.

● **DAVID SAWYER**, campaign consultant for Ted Kennedy, is now advising Israeli Labour Party candidate Shimon Peres. Sawyer was introduced to Peres through Edgar Bronfman. Menachem Begin's campaign man is David Garth, veteran puffer of John Anderson, Hugh Carey, and Ed Koch.

● **FRANK RIZZO** of Philadelphia is rumored to be planning to run for his old mayoral job, this time, as a Republican.

● **JACK KEMP** was a little startled last week when *EIR* Capitol Hill correspondent Susan Kokinda showed him the cover of the June 2 *EIR* featuring an analysis of his tax bill. "Look at this," he shouted outside his press conference announcing introduction of his enterprise zone legislation, "LaRouche tackles Kemp-Roth." The picture shows the old quarterback being trampled by an opposing lineman. Then he became annoyed: "You can always tell a man by his enemies." "No, Jack," said Mrs. Kokinda, "you can always tell a man by his friends."

California oil lease battle

The eccentric governor seems to be using the sea otter to protect something else.

The U.S. Department of the Interior has just taken in a near-record \$2.28 billion in bids for 81 out of a total 111 tracts off the California coast in the Reagan administration's first offshore oil and gas lease sale. Outer Continental Shelf (OCS) Sale #53 has become a focal point for Interior Secretary James Watt's commitment to open up potentially fruitful oil and gas areas on federal lands.

One of the most promising areas to prospect a discovery of America's giant and super-giant oil and gas reserves is in the relatively untouched 1,800,000 square miles of U.S. offshore lands.

To date, we have leased less than 3 percent of the total area for exploration. Even so, this tiny fraction has given the nation more than 9 billion barrels of oil and 56 trillion cubic feet of natural gas. It is from this perspective that we should look at the California OCS sale.

The Interior Department sold lease rights in the Santa Maria Basin to a number of major companies including Amoco, Chevron, Conoco, Exxon, Gulf, et al. The tracts range from 3 miles to some 27 miles from the shoreline.

But the sales have drawn shrieks of protest and two lawsuits from California Zen meditator Gov. Jerry Brown, together with a coalition of environmentalists ranging from the Natural Resources Defense Council and the Sierra Club, to the Friends of the Sea Otter and

the newly formed Environmental Coalition on Lease Sale #53.

This grouping obtained an injunction from Federal District Court Judge Mariana Pfaelzer May 27 on 32 of the 111 tracts off San Luis Obispo County. Judge Pfaelzer stated that Secretary Watt had used "too narrow an interpretation" of federal law in issuing the leases.

The environmental opposition has used as their ploy the plight of the sea otter, a predatory mammal that feeds on various shellfish such as abalone, shrimp, crab, etc. According to their scenario, the otters are threatened by *potential* oil spills. Thus does the familiar anti-energy alliance try again to halt crucial energy development.

The irony is that even on their terms, offshore oil platforms would be a most beneficial development for marine species. I have witnessed the change offshore oil platforms have made in the Gulf of Mexico off Texas and Louisiana, where fish and shrimp catches are at record levels since the advent of the offshore rigs that provide an ideal spawning ground for marine life.

In fact, one could make a case that the inscrutable Governor Brown is up to more than acting as Pied Piper to otter-lovers. It could also be relevant to bring up papa Edmund G. Brown. In 1978, such reputable newspapers as the *Sacramento Union* charged that Gov. Jerry Brown had "rigged the

game" (a conflict of interest?) by giving California the nation's toughest antipollution standards, which preferentially favor certain low-sulfur oil imports over domestic sources.

It may well be relevant that former Gov. Pat Brown, Jerry's father, through his law firm Ball, Hunt, Hart, Brown & Baerwitz, has been a registered agent for Pertamina, Indonesia's state oil company. And various members of the Brown family, through a holding company, USIIC, own Perta Oil Marketing Corporation, U.S.A., and share Perta Oil, Hong Kong with Pertamina. Brown Sr.'s share in this is conservatively estimated at \$100 million.

California, as of 1978, imported half its oil, low-sulfur oil, from Pertamina. Both Brown-initiated legislation and the standards issued from the governor's office favor low-sulfur oil and liquefied natural gas as the *preferred* interim energy sources for California's state utilities. Could this possibly be a motive for Jerry Brown to stop offshore California oil leasing?

The "environmentalist" governor, Jerry Brown, whose drastic antinuclear legislation, since overturned by the courts, has stalled or canceled at least four nuclear reactors that are ready to go on-line. Yet his interim solution to the "energy crisis" is Indonesian crude.

Moreover, the federal judge who is hearing the case against Secretary Watt's oil lease Sale #53 is a former Governor Brown for President campaign treasurer. While this may not be a "conflict of interest," I, for one, bet it didn't hurt the outcome of the governor's case. Secretary Watt, stick to your guns. Our posterity will be in your debt.