

# EIR

Executive Intelligence Review

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Japan, Southeast Asia reject China Card  
The international P-2 banking networks  
A turning point for world oil producers

**Italian Freemasonic fascists  
linked to Haig, Trilaterals**



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# EIR

## From the Editor

The Trilateral Commission is again making headlines in the international press. This time, however, this august body of transnational conspirators has been connected to a range of concrete criminal activities from coup planning to terrorism and the control of dirty money flows. One commission member, Carlo Bonomi, has already landed in jail.

This scandal, begun by revelations about the Propaganda Two Freemasonic lodge of Licio Gelli, a leader of Mussolini's dreaded secret police, broke right after the assassination attempt on the Pope. One government has already fallen in its wake and high officials in a number of other governments are threatened.

The facts of Alexander Haig's connection to the fugitive Gelli and to some of the P-2 dirty operations have already begun to shake Washington. Mexico City Mayor Carlos Hank González is another "man above suspicion" who could lose his job over the P-2 scandal.

This week our Special Report documents the background of the P-2 scandal, including the lodge networks' history over the past decades in Italy. We have also followed the trail of the P-2 network from Rome to Mexico City and from Wall Street to Washington.

Although there has been a major deployment by P-2 associates to keep the lid on and quash the evidence of the plot, other forces are clearly intent on opening the books on the P-2 to clean out the Trilateral infestations in a number of governments.

We document that battle for you along with a detailed exposé by David Goldman of exactly how the P-2 financiers and their banking collaborators operate.

Especially for Mexico-watchers, I'd like to recommend our coverage of the Club of Rome. This feature article and our Dateline Mexico column throw special light on the crucial issue of the presidential succession.



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## If a credit crisis comes, will it be manageable?

by David Goldman

By all conventional financial accounting standards, the U.S. credit markets should have broken into a 1929-style crash, centered on the real-estate markets, as of a few months ago. A crash of real-estate markets, savings banks, life insurance companies, and other sectors dependent on negotiable, long-term, fixed-interest debt instruments is by no means to be excluded as a prospect for the next several months, any more than a chain-reaction collapse of the offshore interbank market, or exchange controls against international currencies.

That no such crash is evident is not a reason to abandon conventional accounting standards; they are useful to remind us that the apparent resilience of the financial markets is the result of something extraordinary at work. In fact, senior Treasury and Federal Reserve officials have argued in background discussions with *EIR* that they have in hand some possible solution to whatever potential destabilization of the financial markets might threaten. Somewhat in the fashion of Barnacle Bill the Sailor, they explain that there are contingency plans to contain the worst foreseeable consequences of generalized insolvency among savings banks, developing nations, commercial real-estate operators, and so on.

Nonetheless, as *EIR*'s founder Lyndon H. LaRouche, Jr. argued before an *EIR* seminar in Washington, D.C. June 10, the present policy direction of the Federal Reserve and the Reagan administration will lead to a devastating shakeout of 1929-1931 proportions between now and, roughly speaking, the end of the year. This is not the case because still-rising interest rates will bring the economy to some mathematically determined point

after which debt service can no longer be paid, or fixed assets will have to be liquidated at a loss. Rather, if we examine coolly the means by which the Federal Reserve and the major American financial institutions have avoided a shakeout up to now, it becomes obvious that the medium-term political consequences of their financial methods are producing uncontrollable and unpredictable consequences.

For political reasons that should be obvious to any student of major credit crises, the present situation is inherently unmanageable. A glance at the state of international financial flows makes this clear. During the first five months of 1981, the Bank for International Settlements reports, lending to the developing countries rose to \$12.2 billion, or 59 percent more than during the same period in 1980. The absolute numbers (drawn from published loan figures) probably reflect about half of the real rate of lending, but the BIS is almost certainly accurate about the trend. The rise in lending contradicts international bankers who said last year that they would not lend to countries who manifestly cannot and will not ever pay them back. In its just-published annual report, the BIS itself criticized the imprudence of the banks for keeping up this rate of lending.

The BIS's attack on the banks drew, in turn, a strong response from the London *Economist*—which defended the banks' lending policies—the same London *Economist* that editorialized at the beginning of this year that “the banks have discredited themselves” for getting over their heads into bad lending to the Third World.

Actually, the fight is not about the destination of

the funds lent by banks, but the origin of the banks' own sources of funds. Where is the money coming from to escalate lending to the Third World? Not from OPEC, whose surplus this year is expected to fall from \$115 billion last year to (at best) \$75 billion in 1981, due to the stabilization of oil prices. The Eurodollar market is expanding, instead, at the expense of the depleted central bank reserves of Western Europe.

### Origin of funds

The big European nations have burned off several tens of billions of dollars since January defending their currencies on the foreign-exchange markets against the rising U.S. dollar. Higher U.S. interest rates (and other factors) impel European investors to switch into dollars, depressing the value of European currencies, which have fallen by between 20 and 50 percent this year. To slow the fall of their currencies, European central banks buy their own currencies on the market with dollars drawn from their foreign-exchange reserves. These dollars add to the deposit base of the Eurodollar market, in much the same way that Federal Reserve open market operations add to the monetary base in the United States. The difference is that the multiplier of U.S. monetary base is limited by Federal Reserve Board reserve requirements on bank lending, while the reserve-free Eurodollar market operates with a multiplier that is potentially infinite. Much of the added "monetary base" of the Euromarket—about \$15 billion—flowed into the United States during the first quarter of 1981, and a good deal went to the developing countries. Without this financing, the developing countries—who have to pay about \$3 billion in additional debt service for every 1 percent increase in the London dollar rate—would have shut down their central banks for the duration.

For Western Europe, this looting process has engendered consequences which cannot be controlled for long. In West Germany, a federal government loan (for the federal rail system) went unpurchased in the bond market at the end of last month for the first time since World War II. German analysts blamed the bond market disaster on the fact that there is no liquidity in the West German banking system, due to capital outflows, and due to the fact that "German bankers have been returning empty-handed from Saudi Arabia for some months," as the markets daily *Handelsblatt* reported May 28. Whether the apparent stabilization of the West German economy (at industrial production levels on average below last year's level by 6 percent), due to rising foreign orders, can hold is a thoroughly dependent question. If the present credit situation continues through until the end of the year, some of the oldest industrial names in the country will go bankrupt, and the country will be in severe depression.

That leaves aside the situation in Italy and France,

where both national economies are in shambles, and the entire private sector is on the verge of bankruptcy. With effective interest rates in the range of 30 percent, neither economy stands much chance of avoiding a British-style reduction in output during the next six months, i.e., a fall in industrial production of 20 percent.

### Wringing out the victims

One sidelight of Europe's financial collapse worth bringing to light is the complementary problem in the United States. When European banks sell dollars to buy their own currencies in the markets, they cash in the U.S. Treasury securities in which they hold most of their foreign-exchange reserves. These Treasury securities then come on to the market in the U.S., adding to the federal borrowing requirement, already \$68 billion as of May.

The principal source of financing for this suddenly expanded supply of Treasury paper has been, ironically, the flow of deposits out of savings and loan institutions. That is, there has been a net transfer of several tens of billions of dollars from the home mortgage market to the government-securities market. The disastrous position of the American savings banks is counterpart to the disastrous position of the European central banks!

Judging from the Federal Reserve's hard-bitten stance on interest rates, its basic operating perspective is to continue to wring out the same victims for as long as it thinks necessary. The process will not be interrupted until Europe decides to take drastic action, e.g. exchange controls on the movement of funds. As proposed by the French and Italians, such controls are no serious threat to the international movement of funds. Despite the imposition of what at first glance appear to be extremely tough controls in Italy, at least \$10 billion in flight capital has left Italy for the greener grass of the flight-capital havens.

What is interesting about the discussion of exchange controls is not that the obvious crowd of Bank of Italy economists are pressing for a European Currency Zone along the lines of the Club of Rome's perspective for dissolving the nation-state into "interregional" blocs. On the contrary, what is interesting is that West German Chancellor Helmut Schmidt, the last tough nationalist in power in a major European country, is now pressing for the erection of a European monetary zone. Schmidt, the London *Financial Times* reported June 25, urged other European nations—including Great Britain—to contribute to "the further development of the European Monetary System" in order to "face up to the United States" and the policy of "benign neglect" of the currency markets. Speaking before the Foreign Press Association in Bonn, Schmidt urged Europe to join together to exert pressure on the U.S. dollar.

Schmidt's invitation to the British to join the Euro-

pean Monetary System, after years of public acrimony between his government and British Prime Minister Thatcher, is an extraordinary development. Once Europe is pushed to the verge of general insolvency by the actions of the Federal Reserve, the "currency bloc" idea might take a very different form than the Italian and French social democrats have in mind. Rather than a weakling European currency bloc, captive in a world market dominated by dollar-denominated flight capital, the EMS might play some monetary hardball with the Federal Reserve. Suppose the Europeans were to impose exchange controls with real teeth and remonetize gold fully? The EMS could, without much difficulty, provoke a crash of the ultra-overvalued U.S. dollar and a rash of flight capital in the other direction. For the past six months the balance between the European central banks and the Eurodollar flight-capital market has tilted in one direction. Under conditions of duress, the Europeans could pull it right back again.

Leave aside, for a moment, the implications of such a development for the Eurodollar market's ability to refinance half a trillion dollars outstanding of Third World debt. What would the consequences be for the \$3.5 trillion United States real-estate bubble, ultimately more vulnerable than the international bubble?

Peculiarities of the American tax system encourage real-estate speculators to leverage as far as possible. Because mortgage or other interest costs are deducted from taxable income, speculators prefer to pay out virtually all current rental income from commercial properties in interest costs, hoping to make up the difference by selling the property at a higher cost later. Capital gains thus received are then taxed at roughly half the 48 percent corporate income-tax rate.

The whole current operation of the real-estate market depends on capital appreciation of properties, i.e. the availability of a "greater fool" down the road. Should such a fool not present himself, the market will crash, as it has before. This occurred most recently in 1975, when the major banks' Real Estate Investment Trusts went under. Another crash would threaten the integrity of the entire banking system.

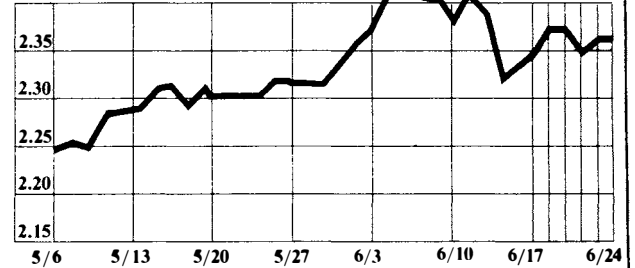
For the past year, Canadian, Swiss, and other well-laundered flight capital, much of it originating in the international narcotics traffic, has played the role of "greater fool." Now the real-estate industry is counting on pension funds to keep the bidding going.

On paper, it is possible to project—as most of the life insurance companies have—that the looting of the world's available savings can keep the speculative bubble going. But the policies which make such financial transfers also threaten the existence of institutions which show surprising resilience when their survival is at stake, and bring to bear political realities which make this type of crisis inherently unmanageable.

## Currency Rates

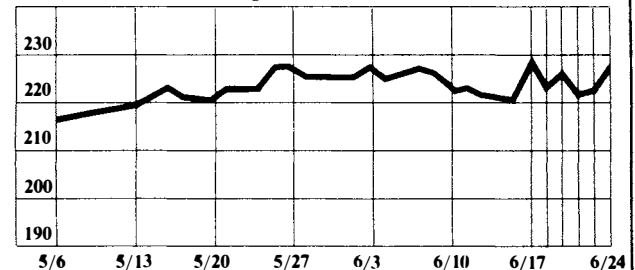
### The dollar in deutschemarks

New York late afternoon fixing



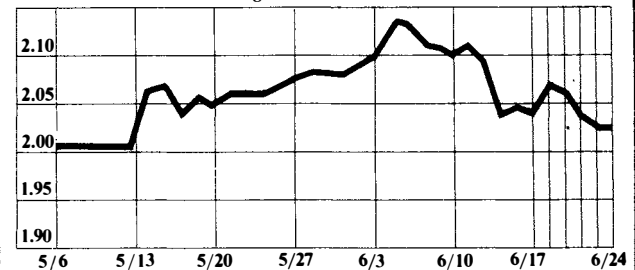
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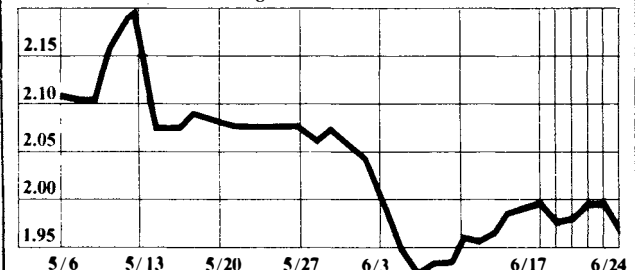
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### The British pound in dollars

New York late afternoon fixing





# How Chase staves off bankruptcy

*Its Asia cash flows are the key: Richard Freeman translates them into David Rockefeller's dirty-money arrangements.*

David Rockefeller and other leading Wall Street bankers have a reason for pressing high interest rates that goes beyond the ordinary profit motive. At the expense of much of the world economy, they have imposed the high rates through Federal Reserve Chairman Paul Volcker—former head of Chase's Strategy Planning Group—in order to *bail out their own insolvent institutions*.

Rockefeller has rigged a flood of flight capital and illicit drug money into the United States. Chase turns this flight capital over to Third World nations to roll over their debts, which are nonperforming. If Chase did not have access to this flight capital, the entire daisy chain of its international lending and of all Wall Street's—with over \$100 billion, mostly nonperforming, lent to the Third World—would be bankrupt.

In every technical sense of the term, Chase Manhattan is already bankrupt. Strictly speaking, bankruptcy occurs when an institution's called-in bad paper is larger than its paid-in capital, which consists of its stock equity and retained earnings. Chase has little more than \$2 billion in paid-in capital. Against this, it has more than \$15 billion in Third World loans, most of them in the nonperforming class.

To the extent that Volcker's high interest rates have sucked capital out of Europe and into Wall Street, the evidence of Chase Manhattan's bankruptcy remains under the surface. But if interest rates were to come down sharply, and the Third World debt rollover game were to be suspended, Chase Manhattan would be confronted with nonperforming paper 7.5 times the value of its paid-in capital. In other words, bankruptcy.

In the meantime, the United States and Europe must suffer industrial collapse and the Third World suffer genocide under high interest rates, just to keep David Rockefeller, Citibank's Walter Wriston, and others in business.

If one were to believe Chase Manhattan's 1980 annual report, last year was the best year the bank ever experienced. Net income—the way profits are stated at a bank—was \$354 million, the amount of new loans was up, and new stock in the bank was issued. But these profits are *paper profits*, purely illusory bookkeeping entries. Those who know the trade, Wall Street's insiders and analysts of bank stocks, know best how to read Chase's and Wall Street's books.

“Our firm has not bought Chase Manhattan stock for the last seven years,” an insider at a major New York investment bank reported. “We stayed out, because they, like other big New York banks, are stuck with a load of bad Third World debt. Look at Brazil, Argentina, Poland. Chase's loans to these countries are not saleable. No one would buy them off Chase, because these loans don't earn profits. The *profits are illusory*. Nothing real is earned. They just keep rolling over the Third World paper. But how long will that game last?”

A bank analyst for Keefe, Bruyette, the leading bank stock analysis firm in the United States, said, “All the spreads for Third World lending are ridiculous. A bank earns only one-half of 1 percent over LIBOR [London Interbank Offered Rate]. No one makes money from Third World loans, but all the banks keep right on lending. They simply roll over the debt quarterly or annually.”

This analyst continued to explain that only in the rarest cases, such as with Zaire, do the banks ever agree to announce that a country is not able to pay its debt. “In Zaire,” he said, “they saw that the country couldn't pay, because there was nothing Zaire could pay with. But in

Figure 1

## Chase's return on international loans

Year	International income/ international loans
1980	.0058
1979	.0051
1978	.0054
1977	.0052
1976	.0066
1975	.0090
1974	.0095
1973	.0110
1972	.0137
1971	.0134
1970	.0129

Source: Chase Annual Reports, 1970-1980

most cases the banks may lower the interest rates a little, and once in a while reschedule the debt, but mostly they find a way to roll this debt over.”

### The Rockefeller record

From the time Rockefeller took over Chase, he drove it straight toward bankruptcy. By 1976, Chase's net income, or profit, was \$116 million, lower than it was six years earlier in 1970, Rockefeller's first full year as chairman.

Rockefeller misjudged the U.S. real-estate market and dropped a bundle there, as well as losing money heavily in misinvestments in Puerto Rico and the U.S. bond market.

In 1970, only 16.3 percent of all Chase's loans were to overseas customers. By 1980, 58 percent of Chase's \$42 billion in loans went overseas. While Rockefeller drove forward with his harebrained plan, he missed the dangerous pattern that was emerging: whereas in 1971 Chase made 1.3 cents in net income for every dollar it lent for foreign loans, by the late 1970s this was down to 0.5 cents in net income for every dollar Chase lent abroad.

This explains the illusory profits Chase registered over the last few years. If such quirks as lowered tax rates, or such entities as “grossed-up income” which were added to Chase's net income in 1979 and 1980, are deducted, Chase's earnings internationally over the last few years have risen only slightly. It is rather the U.S. side of the ledger—where Chase looted the U.S. economy by charging effective interest-rate spreads of 4.36

percent, 4.82 percent, and 4.98 percent in 1978, 1979, and 1980 respectively in the heady atmosphere of the Volcker interest-rate regime—that accounts for the last years' growth in Chase's net income.

Remove Volcker's high interest rates, and Chase's U.S. profits evaporate, while its international debt rollover daisy chain breaks wide open.

### Drug money?

There is another feature about Chase's international lending that gives the game away. Asia has gone from less than one-quarter of Chase's net international income in the early 1970s to a third during the last few years. Chase has built up its presence in Singapore, Hong Kong, Malaysia—all known drug-conduit centers.

Chase's board of directors and its international advisory board present a roster of men fully complicit in Great Britain's drug cartel, Dope, Inc. The chairman of Chase's international advisory board since 1977 is Henry A. Kissinger. Kissinger's underling, Alexander Haig, was on Chase's board of directors until he resigned to take over the State Department.

Also on Chase's international advisory board are Gianni Agnelli of Italy, the chairman of Fiat, who has been implicated in Italy's P-2 lodge scandal; Y. K. Pao, who is on the board of the world's leading drug bank, Hongkong and Shanghai Bank, and is chairman of the largest shipping fleet in Hong Kong; and Ian Sinclair, the head of Canadian Pacific, which has been named as a conduit of drugs from the Far East.

Figure 2

## The importance of Asia to Chase's income

(millions of dollars)

	Overseas	Net income			Percentage of international income	
		Asia	Europe	Asia	Europe	
1980	\$179/141*	\$57	\$35	32%	20%	
1979	146/106*	34	32	23%	22%	
1978	105	33	35	31%	33%	
1977	80	31	27	39%	34%	
1976	82	32	36	39%	44%	
1975	101	32	47	32%	47%	
1974	90	22	36	25%	40%	
1973	67	16	26	24%	39%	
1972	51	12	17	24%	33%	
1971	41	—	—	—	—	
1970	27	—	—	—	—	

\*1980's income is inflated by a \$21 million addition in the category of “grossed-up income,” plus a one-time \$17 million reduction in international taxes. 1979's income is inflated by a \$40 million addition in the category of “grossed-up” income.

Source: Chase Annual Reports, 1970-1980

## The little-known advisers behind Chase Manhattan's strategy

In misdirecting the fortunes of Chase Manhattan Bank, David Rockefeller has relied heavily on the advice of "experts" paying very large sums of money over the past 20 years to a wide range of such "experts" drawn from the ranks of the British and European nobility and their intelligence community. These individuals shaped the evolution of Chase Manhattan to the present.

Chase Bank, in which the Rockefeller family had large private interests, got its first infusion of outside experts when it merged with the Bank of Manhattan in the early 1950s. The Bank of Manhattan was the preserve of the Warburg family, the same family that helped establish the U.S. Federal Reserve Bank as a tool of London to enforce Wall Street control over U.S. finances and credit. Residing at the Bank of Manhattan were a nest of former officers of the Office of Naval Intelligence (ONI), who assumed an important role at the newly merged Chase Manhattan Bank. One former ONI officer—alleged by many to be still working for Naval Intelligence while at the bank—is Jacob Jacobson, who became the head of the merged Chase Manhattan's Asia division. Another member of ONI, Al Wentworth, became Jacobson's assistant. Together with a third ONI officer, Hugh Stockley, they prepared a memo in the mid-1960s that stated, "There is much money to be made in the areas of Hong Kong and the Caribbean, although the money is of dubious legality."

This memo preceded the establishment of the Eurodollar market, of course, but did indicate an evaluation, which the intelligence capabilities of ONI could certainly certify. At the same time, Stockley began preparing the bank to set up an electronic funds system, with fast and almost untraceable money-transfer capabilities, that was finally and fully established a decade later.

According to a former Chase Manhattan Bank officer, the bank also hired Otto von Hapsburg in the period 1964 to 1968 to be a key international adviser. Hapsburg, the pretender to the throne of the Austro-Hungarian Empire, heads the World Federalist Asso-

ciation, which supports the overthrow of nation-states in favor of a world government. The former Chase officer said that "Von Hapsburg was paid by Rockefeller to travel about the globe meeting his high-level sources and write monthly reports on whatever he had learned.

"This was then utilized in Chase's operations. Von Hapsburg would write about whatever country he thought would have a coup, or where the finances were unsound, or where money might be moving around. Many of us thought that von Hapsburg's reports were unbelievable. But David Rockefeller took them quite seriously and circulated them to all the key departments of the bank."

In 1978, Rockefeller hired Herb Guerdjoy, from the Futures Group of Glastonbury, Conn. to help develop the bank's country risk department. As Guerdjoy told a reporter this week, "We helped employ the Futures Group's Political Stability Perspectives (PSP) program." This program was also incorporated into the U.S. State Department's Global 2000 program, which calls for the halving of the world's population by the year 2000 through famine and war. The PSP program, in particular, makes country risk evaluations with regard to population, resources, political stability, and revolutionary potential. These evaluations are quantified and fitted into a set of equations, which are then programmed into economic models for the country. Such outright quackish predictions will nonetheless be implemented through Chase Manhattan's very lending policy. These predictions, said Guerdjoy, were used to set Chase's next 10-year investment strategy.

Although he had no previous experience in banking, Guerdjoy was hired because, as he put it "in terms of the risk of political upheavals, banks are not in a position to make that assessment. I was." Guerdjoy claimed that he was otherwise fit to handle Chase's research work because he had done a previous study for an unnamed client on how the Hong Kong banking model could be extended into Panama and other countries.

## Real-estate crisis... or pension fraud?

by Kathy Burdman

A new sort of real-estate speculation has developed recently, based on the expectation that the boom has ended, and prices are about to decline—drastically.

According to a report issued this week by White House consultant Alan Greenspan, resale values in the \$600 billion home mortgage market, which have been zooming for a decade, have now begun to level off, worrying home-owners. In the \$1.5 trillion commercial realty market, brokers are raising the fear that the \$10 billion in new real estate coming onto the markets during 1981-82 cannot be absorbed.

The rumors of a new real-estate bust reflect only part of the truth. The actual story is that the major institutional investors, led by Prudential Insurance and Citibank, plan a *controlled collapse of certain* real-estate prices, in order to restructure their own holdings.

Playing the “greater fool” in this game will become \$150 billion in American workers’ pension funds, upon which the big institutions want to unload just those elements of the real-estate bubble from which they seek to escape, *EIR* has learned. Lured by investment advisers at Prudential and Citibank, and by private advisers, “pension funds which have had very little experience in real estate are going to be buying in big—just as we’re getting out,” Robert Ferrari, chief economist at Prudential, told an interviewer this week. “This is going to allow us to get rid of a lot of paper we don’t want.”

Prudential, Citibank, and the other institutions have another motive: to enable Federal Reserve Chairman Paul Volcker, one of their most valued assets, to continue to maintain *U.S. interest rates at current high levels for the foreseeable future*. High rates have been an efficient means of channeling capital away from consumption industries such as auto, housing, and steel, and into the institutions’ preferred speculative investments. But another six months of such rates could blow out real estate along with the rest of the economy unless a new source of capital is found to support the market. The institutions believe the new flow from the pension funds will “produce a whole new boom in real estate,” Ferrari said. “Or at least, they give us a sort of insurance. They’ve put a floor under the commercial real-estate market.”

Over the last two years of the Volcker Fed’s 20

percent rates, the institutions behind Volcker have succeeded in restructuring U.S. real estate, collapsing the home sector—personal consumption—by 25 percent, and directing funds into commercial realty speculation. “We have been able to use high interest rates to totally restructure the capital markets,” Ferrari boasted. “We channeled investment out of housing, and into commercial real estate. America had too much housing, anyway.”

By the end of this year, the life-insurance companies will have put some \$100 billion into commercial realty, and the major commercial banks over \$150 billion. By contrast, they have deserted the home mortgage market. Due to the interest-rate squeeze, however, there are certain sections of the commercial realty market which are now softening, with developers forced to make “front-end” concessions such as free rent to prospective tenants.

It is that segment of commercial real estate the major institutions hope to unload on the pension funds. Until late last year, most union, corporate, and public pension funds had steered clear of real estate as speculative, and at the end of 1980 had only 2 percent of their \$600 billion assets, about \$12 billion, in realty. The rest was in stocks and bonds.

What happened? “The pensions got clobbered in the bond and stock market by high interest rates,” laughs one Chicago investment adviser, “and came to us. We told them to get into real estate, and now they all plan to do it.” With so little of pension assets in realty, “they represent a huge new source of investments in commercial realty.”

Insurance economists predict that pensions will add some \$10 billion to commercial real-estate investment by the end of 1982, and perhaps \$150 billion in the next 10 years. The first unions to be suckered in, they predict, will be the AFL-CIO building trades, who seek to encourage jobs in the construction industry. Armco Steel Company’s \$1 billion pension fund is also interested, hoping to encourage sales of steel to the construction industry.

According to Prudential’s Ferrari, the pensions will get the worst deals. “We get the first shot at every real-estate deal that comes along,” he said, “and now we can pick and choose. The pensions on the other hand, have very little experience. They’ll take what we will not.”

As for the home mortgage market, the big institutions are confident that it can be allowed to slowly collapse without triggering a major crisis, and are advising even the pension funds to stay clear. “The fallout in home mortgages doesn’t affect commercial realty at all,” said Citibank real-estate director James Trucksess. “It’s hermetically sealed off, and we’re steering clear of it.”

### **There is a danger of exchange controls**

*The U.S. decision to go with 'benign neglect' has magnified the danger of currency blocs and exchange controls.*

**F**inancial analysts continue to deny furiously that the United States would ever impose exchange controls.

However, when the U.S. Treasury, under orders from Undersecretary Beryl Sprinkel, halted U.S. intervention on foreign exchange markets earlier this year, it set into motion a dangerous financial crisis that may, indeed, force putting exchange controls into effect.

On June 21, the president of the European Community's Council, Gaston Thorn, told U.S. State Department officials Lawrence Eagleburger and William Clark in Europe that the EC is now moving to tighten up the European Monetary System in order "to keep pace with the dollar zone." In recent months, partly owing to fears of political instability after the Socialist electoral victory in France, many tens of billions of dollars in European currencies have been dumped on international markets. Since Sprinkel's announcement that the U.S. Federal Reserve would not intervene in behalf of exchange rate stability, European governments have been forced to heavily draw down their dollar reserves.

Germany's 1981 current account deficit, it is now estimated, will hit 70 billion marks, about \$5 billion higher than projected.

Leading German financial officials report that even if U.S. interest rates drop, which would partly stem capital flight from Europe, German

rates will remain high for many months in hopes of attracting foreign investment.

Recently, when senior German finance ministry officials went to Saudi Arabia in hopes of raising \$10 billion in loans, the Saudis told them they are limiting purchases of German securities this year to \$3 billion.

"It is no secret," the commercial daily *Handelsblatt* noted, "that German bankers have been returning from Riyadh with empty pockets." This month, for the first time since the war, the government withdrew a national railway issue from the bond market.

It was during Thorn's meeting with Eagleburger and Clark that the most serious threat to date was issued by Europe that it may have no choice but to cement a European currency bloc against the dollar.

Thorn informed the U.S. representatives that at the Ottawa summit meeting this July, "The European Community would speak with one voice for lower interest rates." He then appealed to Great Britain that it use the occasion of this crisis to join the European Monetary System, which Britain has boycotted since the EMS founding in 1979. "How is it that we, in the name of the European Community, can expect to keep pace with the dollar zone, when we have not completed" the EMS, he asked.

At its founding, the EMS was never intended to act as a vehicle of

counterwarfare against the dollar. Since the French election, however, a completely different political chain of command has taken over. The EMS is now being run by the stringent monetarists at European Community headquarters in Brussels and the Swiss-based Bank for International Settlements (BIS).

In a series of international conferences recently, the EC-BIS command reported it aims to use the EMS to coordinate heavy-handed budget-cutting European-wide. As Thorn told his U.S. visitors this week, "Europe should get its own house in order" in return for a U.S. promise to lower interest rates.

Why does this add up to a looming danger of exchange controls? Because, as the recent behavior of the U.S. Federal Reserve underlines, there is a large faction of U.S. monetarists with no intention of lowering U.S. interest rates if they have their way.

Despite last week's dip in the commercial bank prime rate to 19.5 percent, Fed chief Paul Volcker lifted the cost of federal funds—the rate on funds banks trade between themselves—to 22 percent.

Volcker has done this despite several indications that the money supply is getting under control and that the economy is sagging. A huge dollar slush fund in high interest paper is currently moving between the offshore Euromarket and New York, and the billions in "smart" European money behind the currency dumping are making huge gains from Volcker's commitment to stick with high rates.

In comments at a recent Paris OECD meeting, Italian Finance Minister Andreatta asserted the United States has declared "currency warfare" against Europe.

## State and the Brandt Commission

*Serving up zero-growth as a supply-side program in the hope that Reagan can be duped into supporting it.*

President Reagan is being set up by elements of his own State Department to adopt the tenets of the Brandt Commission at the July 20 seven-nation summit of heads of state in Ottawa.

The Brandt Commission is headed by Socialist International chairman Willy Brandt. The banker-run committee proposes to solve the problem of Third World indebtedness by halting all high-technology transfers to them, and substituting population reduction and labor-intensive, low-technology projects. If a Third World country succumbs, the bankers promise to ease the schedules on their loan repayments.

President Reagan has so far opposed this no-growth approach. But leading elements of the State Department have joined with the Basel-based Bank for International Settlements (BIS) to change that.

In its latest report, the BIS, which is the central bank for the world's central banks, reversed itself and stated that continuation of the policies of U.S. Federal Reserve Chairman Paul Volcker would bring on a new world depression.

The same BIS report went on to propose a shift from "capital-intensive" to "labor-intensive" industry in the Third World, and stressed the need for these nations to reduce their budget deficits. The latter demand means that Third World countries would be forced to dismantle their tariff barriers and sub-

sidy arrangements designed to nurture developing industries and internal improvement projects.

This is exactly the tack that the U.S. State Department will take in trying to sell the Brandt Commission to President Reagan.

According to John Sewell, the head of the Overseas Development Council (ODC), the Brandt Commission's official arm in the U.S., "There are people at the State Department right now who are working on a study of the Brandt Commission proposals. They are stressing the free enterprise benefits the U.S. gets if the Third World lowers its trade barriers.

"There is a lot to be made in the Third World, especially in what I call the three most important areas for investment: energy of all types; raw materials; and small, labor-intensive farms," Sewell emphasized. "The Third World has to undergo population reduction and live within its own means," he continued. "They have to get out of capital-intensive industries. In this, the Brandt Commission report and the *Global 2000 Report* have very similar and correct solutions."

Asked what this policy meant for the Third World, Sewell replied that it could be a pretext for austerity: "Are you familiar with Lester Thurow? His idea of the zero-sum society is correct. If some people get something in the Third World, some people in the advanced sector have to give things up."

Sewell confirmed that State Department Assistant Secretary for Economic Affairs Meyer Rashish, Rashish's assistant Robert Hormats, the State Department's AID director Robert McPherson, and the Treasury Department were all working on reports emphasizing this viewpoint for use at the Ottawa summit and the North-South meeting in Cancún, Mexico in October.

Commented Sewell, "This type of view, of course, emphasizes the free enterprise angle—and isn't that, after all, what the Reagan administration is all about? This is the type of viewpoint for the Third World the President could feel comfortable with."

Sewell, in short, made it quite clear that the appeal to U.S. industry was the equivalent of an 18th-century British looting expedition.

But if the strategy is to succeed at Ottawa, not only President Reagan, but European nations as well—relying on high-technology exports to sustain economic progress—must be arm-twisted into accepting this nonsense.

The State Department's Rashish, who is writing a reworked version of the Brandt Commission report from the "supply side," has threatened the Europeans with trade warfare unless they stop subsidizing high-technology exports to the Third World. He was backed up at last month's OECD meeting by the Treasury Department's number-two man, Tim McNamar.

Such a policy, if adopted by France, Italy, and Japan, would end their attempts to export their way out of recession. At the same time, a collapse of trade credit would cut off high-technology exports to the Third World, as the Brandt Commission advocates.

## No comparison

*The distance between a Degas and a Picasso is as unbridgeable as the distance between reason and modernism.*

In my last column I reported on the extravagant price of \$5.3 million that a collector paid for Pablo Picasso's early *Self-Portrait*. The "worth" of this painting, as I reported there, does not arise from its internal merit, but is conferred on it by the cult of modernism.

During the same sale I mentioned Degas' portrait of Manet sold for more than \$2 million. Does this mean that Degas, too, benefits from the cult of modernism? The answer is a qualified no. The excessive price is the result of the speculative craze now raging in the world that seeks investment outlets; modern art is one of its prime targets. But Degas is not Picasso. He is the last significant artist who was thoroughly trained in the Academy tradition, and who, therefore, represents a tradition of real merit in contrast to the synthetic cult character of Picasso's modernism.

The Academy tradition is the tradition of artistic training based on the principle that laws of composition exist to govern the creation of fine arts. For nearly seven centuries—from the time of Dante to Degas—this tradition in Western art had unparalleled success in generating geniuses, with the laws of composition taught through mastery of draftsmanship.

Although throughout this long history genius was always considered to be more important than skill, it was also believed that genius could never exist independent of

skill. Then in the 19th century, with the emergence of John Ruskin in England and Baudelaire in France, the thesis was that skill was an impediment to genius. Instead, genius was now considered to be the expression of the Bohemian, who acted out his irrational impulses through his art. One such example was Van Gogh, who cut off his ear and eventually shot himself.

The triumph of irrationality, however, took place in the early 20th century with the successful manipulation of Picasso by the American lesbian Gertrude Stein, the "salon-keeper" of modernism. Picasso was a conflict-ridden individual who was easily provoked to attack his own previous training under his father, who had been head of the Academy in Barcelona.

At the same time, history was rewritten by Aby Warburg, the son of Hamburg's leading banker who sponsored the Warburg Institute, which still operates in London. Warburg stated that the function of art is to give names to our fantasies, and he proceeded to slander the Renaissance by presenting it as an epoch of superstition.

In fact, the Academy tradition is that fine art through knowable laws of composition can actually express the unfolding of the universe more truthfully than mere appearance. This kind of composition was called by Leon Battista Alberti, the leading Renaissance writer on art, *istoria*. In his time, it was generally

recognized that the Florentine poet and political leader Dante Alighieri inspired, even founded, modern Western art. Dante, in his *Divine Comedy* had illustrated for the first time the progress of the soul from beast to blessedness through the experience of concrete human episodes.

Dante influenced the workshops of such artists as Duccio and Giotto. There the youthful apprentices were introduced to such laws of composition as the golden section and the perfect triangle. One such example is the architect Brunelleschi's training of the sculptor Donatello and the painter Masaccio in the 1420s in Florence.

The influence of René Descartes in France in the mid-17th century stultified the Academy movement by reducing the laws of composition to mere rules. Descartes' outlook has been perpetuated to our own day through the Royal Academy of England. It is only flip-side "modernism," which has made "academic" a derogatory term, implying that any one with compositional skills is dry and uncreative.

The real tradition of the Academy was carried on by Gottfried Wilhelm Leibniz, the opponent of Descartes and Newton. Leibniz inspired the great Academy tradition of the first half of the 19th century, Semper in Dresden, the von Humboldts and Schinkel in Berlin, and Samuel F. B. Morse in America. Morse founded the National Academy of Design in New York, which is still going strong.

While Degas' many defects can be held against him, he provides access to the art of the Academy for us today. In contrast to Picasso, his art serves to demonstrate that the laws of reason apply to art.

# World Trade

by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
<b>NEW DEALS</b>			
\$50 mn.	Ghana from Italy/U.S.A.	Aluminum lamination plant being built by Fata Industriale, using technology and equipment of New Hunter Engineering of California. Uses local bauxite smelted in existing primary aluminum plant on site.	Wells Fargo-led consortium includes Bank of China; 8½ yrs. at 7.75%.
\$180 mn.	Argentina from Austria	Kreisky govt. announced approval for Daimler sale of 57 light tanks to Argentina. The Curisser tanks weigh 19 tons and have 105 mm. canons. Finance Min. Salcher opposed sale.	Tanks had been ordered by Argentine adversary Chile last year, but canceled because of rights violations.
\$15 mn.	El Salvador from Argentina	Agreement signed to finance exports of Argentine machinery and technical assistance.	Foreign ministers deny Argentina sending any military aid.
\$157 mn.	Iraq from Japan	Toshiba won Iraqi bidding for powerhouse equipment for a dam being built on Tigris River near Baghdad. Toshiba will provide 4 large water wheels and turbines. Turbines will come from as yet unselected European bidders.	Payments will be in yen, marks, and Swiss francs to avoid exchange risk.
\$53 mn.	Iraq from Japan	Furukawa Electric will build telephone networks near Baghdad.	
\$250 mn.	Brazil from Italy	ENI subsidiary Snamprogetti will assemble oil platforms for Petrobras. Both are state-owned.	
\$0.6 mn.	Bolivia/Brazil from Italy	Snamprogetti won bidding for study of 2,000 km. gas pipeline between Bolivia and São Paulo, Brazil.	Brazil will soon replace Argentina as Bolivian gas market.
\$46 mn.	Turkey from World Bank	The IFC-branch of the World Bank has pulled together a wide variety of investors to build a 20,000 tpy glass-works. IFC loaning \$11 mn.	Will increase Turkey's output by 80%.
<b>UPDATE</b>			
\$350 mn.	Gabon from Europe	Eurotrag consortium is expected to win 2nd phase of railroad in oil-exporting African nation of Gabon. Eurotrag is 51% French; 22% British; 22% German, with participation by Italian, Belgian, and Dutch construction companies.	Had huge cost overruns on first 325 km., which will cost \$1 bn.
<b>CANCELED DEALS</b>			
\$3.4 bn.	U.S.A./Japan/West Germany	Officials of the 3 nations agreed to kill plans for big coal liquefaction plant in West Virginia. Plant would have turned 6,000 tons per day of high sulfur coal into 20,000 bpd of liquids. West Germans and Japanese were to pay 25% each of cost, U.S. private companies led by Gulf Oil \$100 mn., and U.S. taxpayers the remainder. \$3.4 mn. current cost estimate by DOE does not include coal supply. About \$50 mn. has been wasted on this synfuels project.	Germans have agreed with Reagan that it was an over-priced boondoggle; Japanese angry at cancellation.
\$85 mn.	U.S.A. from Canada	Alcan has postponed for 2 yrs. modernization and expansion of Oswego, N.Y. plant, including 75,000 tpy continuous heat-treat aluminum sheet line.	Slack demand from auto industry is problem.



# Britain's strategy forces a turning point for oil producers

by Judith Wyer

The surprise move by Britain last week to chop over \$4 a barrel from its \$39.25 oil price was not motivated by economic altruism, but is part of a scheme to restructure the world energy markets.

Though Britain is not an official member of the OPEC oil cartel, it has increasingly become a dominant force in setting world oil prices. This is made evident by Britain's alliance with Libya and other pricing militants, which over the last two years doubled world oil prices to a ceiling of \$40 a barrel.

The decision was in fact made by the Bank of England, which, according to European reports, calculated that the loss of oil revenues would be made up by continued high interest rates, which would maintain high parities for the dollar, in which Britain conducts oil trade.

One of the objectives was to realign British oil-pricing policy with the moderate stance of Saudi Arabia and in so doing strengthen the Saudi bid to reunify oil prices by forcing countries like Libya to drop their price to the Saudis' \$32 a barrel range.

Over the last 18 months, Saudi Arabia has sustained a record level of nearly 2 million barrels a day (mbd) over its official production ceiling in order to flood the world markets and force a drop in prices. Since the OPEC meeting last month, that strategy has begun to pay off.

However, Britain's motivation in lowering its price differs from that of Saudi Arabian chief policy-maker Prince Fahd. Oil Minister Zaki Yamani was speaking for Fahd last month when he declared that his country wanted to lower oil prices to stimulate demand for oil and give the flagging world economy a boost.

Britain's strategy is to ally with Saudi Arabia and strengthen its effort to lower oil prices in exchange for gaining Saudi backing for a scheme to index the price of OPEC oil to a monetarist formula based on a combination of a basket of Western currencies and the rate of inflation in the industrial nations. There is no way that such a plan can be implemented without Saudi support, since Saudi Arabia is the largest exporter in OPEC.

Saudi King Khalid led a high-powered delegation to Britain days before the British price drop, where he conferred with not only the Thatcher government but

also Britain's most powerful noblemen. Whether or not the talks touched on oil policy is not known. However, it is known that during a brief stopover in Geneva, Khalid conferred with Venezuelan Oil Minister Humberto Calderón Berti, a staunch supporter of indexing.

A week later the OPEC Long Range Strategy Committee, headed by Saudi Oil Minister Zaki Yamani, met in Geneva to work out long-range pricing plans. The only other oil minister present was Calderón Berti, who is reported to be aggressively pushing the indexing scheme.

The indexation plan would infringe upon the rights of sovereign nations to determine their own oil policies. In its place, the Bank of England, and its oligarchical ally, the Swiss-based Bank for International Settlements, favors the creation of a supranational authority to regulate oil prices along strict monetarist guidelines. According to this plan, the indexed oil price would eventually serve as a benchmark for all world energy sources and create the foundation for what is referred to in elite banking circles as a mega-energy cartel.

It is known that a faction within the Saudi Supreme Petroleum Council favors this pricing formula but that Crown Prince Fahd has been ambivalent toward it. Since the death of King Faisal in 1975, a London-allied faction associated with Prince Abdullah within the royal family and Saudi technocrats has gained influence. It is this group which is thought to have influenced Saudi Oil Minister Yamani to adopt the indexing scheme back in 1978 during lengthy meetings with then British Oil Minister Anthony Wedgwood Benn. Together Benn and Yamani drew up the OPEC Long-Range Planning Strategy which advocates the indexing scheme.

This indexing plan has been enthusiastically pushed by the Brandt Commission. It was endorsed two years ago by the prestigious New York Council on Foreign Relations in a controversial 30-volume study known as the *1980s Project*. But in fact, the plan goes back to 1971 when Treasury Secretary John Connally, working with the Bank of England, depegged the dollar from gold. At that time the scheme was introduced into OPEC by London, and it has been a recurrent negotiating subject for the cartel ever since.

Figure 1

**Big Seven crude oil production**

(millions of barrels per day)

	1977	1978	1979	1980	Percent change 1979-1980
United States	18.4	18.8	18.4	16.4	-11%
Japan	5.0	5.1	5.2	4.8	-7%
West Germany	2.5	2.6	2.7	2.3	-15%
France	2.0	2.1	2.1	2.0	-4%
Britain	1.7	1.7	1.7	1.5	-12%
Italy	1.5	1.6	1.6	1.6	0%
Canada	1.7	1.7	1.8	1.7	-6%

Source: OECD

In the last month the world oil price has begun a marked downward slide to the point where even the price of Saudi crude on the spot market (where small noncontracted oil sales are conducted) has slipped even below the Saudi \$32 a barrel price. This is not, as the financial press reports, the result of some natural glut resulting from an imbalance of supply and demand, but is the result of the high interest-rate policy of U.S. Federal Reserve Chairman Paul Volcker, himself a director of the CFR *1980s Project*. High interest rates, which have stifled capital formation and industrial growth along with the so-called second "energy shock" of 1979-80 which Britain rigged, has forced a precipitous drop in world oil consumption. Unless the usurious interest-rate policy is reversed, the likelihood that lower oil prices will reverse the world slide into depression is very remote.

This is in part because oil trade is conducted in dollars, the value of which has been artificially pumped up by the high interest rates. In real terms oil importers

must pay more to purchase dollars to pay for oil imports. Though oil importers are buying less crude even at lower prices, they will be paying more to buy expensive dollars with their own devalued currencies.

Moreover, should there be no substantial rebounding of oil consumption, it will have a potentially disastrous impact on a number of "second-tier" oil exporters such as Mexico, Nigeria, and Indonesia, which depend on oil income for their development plans.

A study just concluded by Salomon Brothers concludes that over the next 18 months world oil consumption (minus the communist countries) will level off at about 47 mbd. The study concludes that demand for OPEC oil will not exceed 23.5 mbd over this same period as compared to OPEC's production high of over 31 mbd in 1977. A 23.5 mbd average will leave roughly 13 mbd of unused production capacity within OPEC.

This means that these developing countries will not be able to export the quantities of oil their long-term development programs forecast as long as the Volcker

Figure 2

**Big Seven imports of crude oil**

(millions of barrels per day)

	1977	1978	1979	1980	Percent change 1979-1980
United States	6.6	6.3	6.5	5.2	-20%
Japan	4.8	4.7	4.8	4.4	-8%
West Germany	2.0	1.9	2.1	2.0	-5%
France	2.4	2.3	2.5	2.2	-12%
Britain	1.4	1.3	1.2	0.885	-26%
Italy	2.1	2.2	2.3	1.7	-26%
Canada	0.68	0.62	0.62	0.58	-7%

Source: OECD

dictatorship continues to depress economic growth. Moreover, even with built-in oil price increases based on indexation, these countries will lose revenues. This will occur because they will be forced to borrow vast sums of money at prevailing interest rates to maintain their development momentum. Moreover, London and the World Bank are aiming to restructure oil flows from these "South" countries increasingly away from the industrial "North" nations and toward other developing countries, in what the Brandt Commission refers to as a "South-South" economic relationship. Because non-oil-developing countries cannot pay the full market price for oil, this will further cut into the oil income of the larger oil exporters.

At the same time, the Brandt Commission and the World Bank are promoting increasing "energy self-sufficiency" south of the equator. Their plan calls not only for redirecting oil flows but for investment in backward forms of energy such as peat moss and other nonsense. In fact this "South-South" energy relationship is principally aimed at breaking any oil-for-technology relationship existing between the oil producers and the industrial states in order to stifle the industrial development of these oil producers.

This Brandt Commission-World Bank scheme is designed to leave countries like Mexico with nothing but a pile of unpayable debt by the end of the decade.

The price drop by Britain, and the comparable drop by its ally Norway, have thrown down the gauntlet particularly to the North African producers and Mexico to either lower their own prices or cut production. In either case it means a loss of billions of dollars in development income. Already a number of New York banks are predicting that these countries will be forced to borrow several billion dollars at prevailing interest rates to make up the difference.

Britain reportedly will raise its oil production now that its price has dropped, to attract new buyers. Lawrence Goldstein of Petroleum Industries Research Foundation commented after the British price drop that "if the African producers aren't responsive, they're going to be hurt even more."

Nigeria is the most vulnerable of the African producers. Official Nigerian reports show that its production for May 1981 was at 1.3 mbd, 800,000 bpd less than May 1980. Unofficial industry sources report that at present Nigerian exports are about half of what they were this time last year. Though Nigeria and its fellow African producers Libya and Algeria vowed last month not to cut their prices, each of these countries is unofficially shaving its price up to \$4 a barrel. Various banking sources concur that if the downward pressure on oil prices lasts only through this year, Nigeria will feel no serious effects. However, if the situation prevails into 1982 Nigeria will be forced to cut into its develop-

ment budget, a move that could provoke instability among Nigeria's delicately balanced factions. The Muslim Brotherhood—a secret fanatical Muslim cult—working through Libya is known to be building influence in northern Nigeria. A full-scale economic crisis there would provide the pretext for an Iran-style blowout that would set back all of black Africa.

In late June, Indonesia announced that it would cut 10 percent of its oil production and, following a meeting with Indonesian Oil Minister Subroto, President Suharto, announced that in the future Indonesia would "depend less on oil" as a source of income.

Last month the World Bank issued a confidential 600-page document urging Indonesia to "decontrol" its economy and let the private sector take over. It also urged the Indonesian leadership to exact harsh austerity, such as doing away with all fuel subsidies to prepare for future waning oil income. The report has caused a furor within the Suharto regime, and the Jakarta leadership is fighting such dictates.

Last month, the board of the Indonesian state oil company Pertamina was shaken up and new management associated with the former head of the company Ibn Sutowo was installed. Sutowo has been the most outspoken advocate of full-scale heavy industrial development, which led to his ouster in 1977 by the World Bank. Indonesia in recent weeks has been moving aggressively to seal a number of multibillion-dollar deals, particularly with Japan, to ensure its continued industrial development.

Like Nigeria, Indonesia is plagued with Muslim Brotherhood networks which, in league with the Chinese merchant class, could pose a threat to Indonesia's stability should an economic crisis due to declining oil income persist.

In Mexico, a showdown is expected to come July 1 when six American oil companies will renegotiate new oil contracts. It is expected that the oil companies will not accept the price Mexico is asking. The situation is complicated by the fact that Díaz Serrano, the former Pemex director, earlier this month announced an across-the-board decrease in Mexican oil prices by \$4 a barrel. A few days later Díaz Serrano was ousted, and there are press reports that Mexico will try to raise its oil price back up by \$2 a barrel, but it is expected that the oil companies will refuse to accept a significant price hike.

Should Mexico be forced to accept terms dictated by the oil companies, Mexico City Mayor Hank González and his Anglo-Jesuit allies will be strengthened in their bid to prove that President José López Portillo's plan for an oil-funded industrial development perspective cannot work. This could provide them with political ammunition to name the next president, and undermine Mexico's prospects for industrial development, at least for the next decade.

# Business Briefs

## Banking

### Savers tax bill won't rescue the S&Ls

The House Ways and Means Committee and the Senate Finance Committee last month approved an "all savers" provision that would exclude from taxation the first \$1,000 of annual interest on a new savings certificate for individuals, and \$2,000 for couples. The certificates would pay an almost totally deregulated interest rate of up to 70 percent of the rate on one-year Treasury bills.

The U.S. League of Savings Associations, which pushed the bill, believes it will draw desperately needed new deposits, but in the long run higher interest-rate costs will more than compensate for the gains, if the Volcker policy persists.

Treasury Secretary Regan has said that he wants to let S&Ls and commercial banks pay 15 percent and up for short-term deposits, which would only further bleed the thrifts.

## Public Policy

### Investment banker attacks Volcker

John Wright, president of Wright Investors Service of Connecticut, broke the U.S. investment community silence on the effects of Federal Reserve Board chairman Paul Volcker's sky-high interest rates in the June 21 *New York Times*.

High interest rates, "instead of curbing inflation have stimulated it," Wright stated. "There is no way," he wrote, "that the waste of our manpower through unemployment can be reduced or the productivity of our workers increased while interest rates are significantly above 8 percent. Until interest rates are reduced to a level at which it is profitable for small, medium, and large businesses to borrow capital, unemployment will increase, government expenses for unemployment and welfare will grow, while taxable revenues fall."

Wright, who said that Volcker's high interest rates "diminish the producers and expand the lenders" states that contrary to the contention of monetarist economists like Milton Friedman, the growth of money supply is not the major cause of inflation. He points out that while GNP grew by 37 percent in the 1970-80 decade in constant dollars, M1-B money supply actually fell by 3 percent when measured in constant dollars during the same period. Wright emphasized that the two major sources of inflation are the 1973-74 and 1978-79 oil shocks and the stupendous growth of the Euro-dollar market, which at \$550 billion, net of interbank obligations, is larger than the M1-B money supply of \$400 billion.

## International Investment

### Italian 'fondi' buy up the United States

\$177 billion of shares on the New York Stock Exchange, or about one-fifth of the value of all U.S. corporate equity, is owned by foreigners, the majority of which are anonymous funds invested through Swiss banks. This startling revelation was made in a report issued this week by the American Securities Industry Association, which challenged as hopelessly erroneous an earlier Treasury Department estimate that only \$76 billion of U.S. stocks were foreign owned.

Although American securities law demands that the holder of 5 percent of the stock of a U.S. company make the holding public, foreigners can use Liechtenstein-based fronts to buy up parcels of less than 5 percent and accumulate controlling interest without detection.

Treasury figures show that foreign investments, listed usually as of "Swiss" origin, center on oil, banking, electronics, telecommunications, real estate, and life-insurance companies. If the \$177 billion is concentrated in these areas, the conclusion is unavoidable that IBM, Exxon, AT&T, Chase Manhattan Bank, and Prudential Life Insurance are foreign controlled.

This represents a massive deployment of the ancient Venetian-Genoese family fortunes, or *fondi*, into control of U.S. corporate equity. This year alone, more than \$10 billion in flight capital left Italy alone—in flagrant violation of Italian exchange controls—to move into the "boom" stock markets.

## Real Estate

### New zoning to boost the Koch machine

The New York City Planning Commission has proposed a zoning plan, promoted by major developers for the past decade, to discourage new East Side construction and foster building on the depressed West Side. Developers would get an automatic 50 percent tax exemption phased over a 10-year period.

According to former city housing commissioner Roger Starr, "The people who will gain will be all the developers who are financing the Koch campaign," the Rudins, Fisher brothers, Minskoffs, and their favorite real-estate lawyer, Roy M. Cohn.

An investment expansion area will also benefit the flight-capital investors whose current New York holdings have shown price weakening lately. Brokers say that Corporate Property Investors, which invests funds for the Agnellis, Dorias, and Giustianis, is especially pleased.

## Military Budget

### Fight approaches over defense contract policy

Members of the House of Representatives will return to the Hill this month to a tough floor fight over Defense Secretary Caspar Weinberger's multiyear budgeting proposal. The House Armed Services Committee adopted the Weinberger plan to raise the penalty for contract termination from \$5 million to a maximum of \$100 million per contractor

for contract cancellation.

This would lock in present defense programs and contractors—and lock out new programs, research and development, and competitive bidding among contractors during the course of procurement, a process called second-sourcing.

Although industry is said to be nearly unanimously lined up behind former Rep. Richard Ichord's lobbying efforts on behalf of multiyear contracting, the chairman of the Government Operations Committee, Jack Brooks (D-Tex.), and the head of the Defense Appropriations Subcommittee, Joseph Abbaddo (D-N.Y.), have strong reservations. Brooks attached an amendment to the Armed Services version that would retain both congressional control over the defense budgeting process and the present cancellation penalty.

## Labor

### 'War' brewing over Davis-Bacon

A "big war" in Congress is the objective of certain Republicans responsible for an amendment that would weaken the Davis-Bacon Act, the legislation guaranteeing union-scale wages on federally funded construction projects.

Aides to Sen. Don Nickles (R-Okla.) who are linked to the Heritage Foundation say he will seize this opportunity to push for full repeal of the 50-year-old statute. Nickles's aides have already been meeting with the offices of Senators Jesse Helms (R-N.C.) and William Armstrong (R-Colo.) to map strategy.

After discussions with GOP Majority Leader Howard Baker (Tenn.) and Sen. Orrin Hatch (Utah), chairman of the Labor and Human Resources Committee, which has jurisdiction over Davis-Bacon, the decision was made to let the rider come to the floor for a vote.

The White House has let it be known they don't want it to come up on the floor. Once it gets there, as aides have let it be known, all hell will break loose, with Democrats mounting a filibuster. It is at

this point that Nickles wants to make a move for full repeal.

Secretary of Labor Ray Donovan intends to announce new regulations next week, changing the way prevailing wages are calculated under Davis-Bacon—they won't be union-scale. The result will probably be a mobilization against the administration by the building trades.

Last week, Sen. Strom Thurmond (R-S.C.) pushed a rider onto the 1982 military construction appropriations bill exempting it from Davis-Bacon. The rider, which passed the Senate Armed Services Committee June 18 by voice vote, would affect some \$4 billion in military construction projects.

"We don't care if the White House burns its fingers," said a spokesman for the open-shop contractors group, the Associated Builders and Contractors. They have been working with Nickles. "If we get a chance, we move for repeal."

Nickles's aides say it's the fight they want. The senator isn't sure he has the votes to pass the rider.

## Metal Markets

### Nobody will buy American scrap

In the first four months of 1981, U.S. sales of scrap iron, an important ingredient in the production of steel, have fallen drastically. If present trends remain, scrap steel sales will drop by one-third down to 7 million tons.

The largest drop in sales comes from Europe, indicating potentially very heavy declines in steel production. Spain which bought an average of 1.28 million tons in the 1975-80 period, is expected to order only 270 thousand tons this year, barely one-fifth the previous six-year average.

Italy, which took an average of 713 thousand tons in the previous six-year period, is expected to buy only 39 thousand tons in 1981. In April 1981, Italy did not buy any U.S. scrap.

Impoverished Bangladesh bought 23 thousand tons of U.S. scrap iron in April 1981. Britain bought 16 tons.

## Briefly

● **PEMEX** chief Julio Rodolfo Moctezuma Cid announced a multi-billion-dollar investment plan June 23 for petrochemicals, involving three more industrial complexes like Cangrejera, Latin America's largest. "By the end of the century, our population will be 100 million people and our economic growth will be four or five times greater," he stated.

● **EXIMBANK** will get restored funding in the second half of 1981, according to numerous Washington lobbyists. Chamber of Commerce officials report major corporations supported the funding cutback to back President Reagan "in the first blush of establishing a budget," but that in recent weeks that have succeeded in engineering an "evolution" in administration export policy, allegedly by convincing the White House that trade war with France is imminent.

● **SIMON STRAUSS**, head of the American Mining Congress, thinks that so long as American mining firms can acquire Canadian companies and land, Canadian firms like Seagram should be given an open door to acquisitions in the U.S. Earlier this year, when St. Joe minerals fought off a Seagram takeover, St. Joe asserted that questions of "national security" were involved. Strauss counters: "National security is an issue in takeovers only so long as other governments pursue policies of extreme nationalism." Seagram is now bidding for Conoco.

● **JAKE GARN** and Paul Laxalt were briefed last week that the Department of Defense will recommend the abandonment of the MX missile program. The senators learned that the Townes Commission report, commissioned by Defense Secretary Caspar Weinberger, will recommend development and deployment of the MX with a sight-based, low-altitude antiballistic missile system, well-placed sources told *EIR*.

## Italy's P-2 scandal implicates Haig and the Trilateralists

by Vivian Zoakos, European Editor

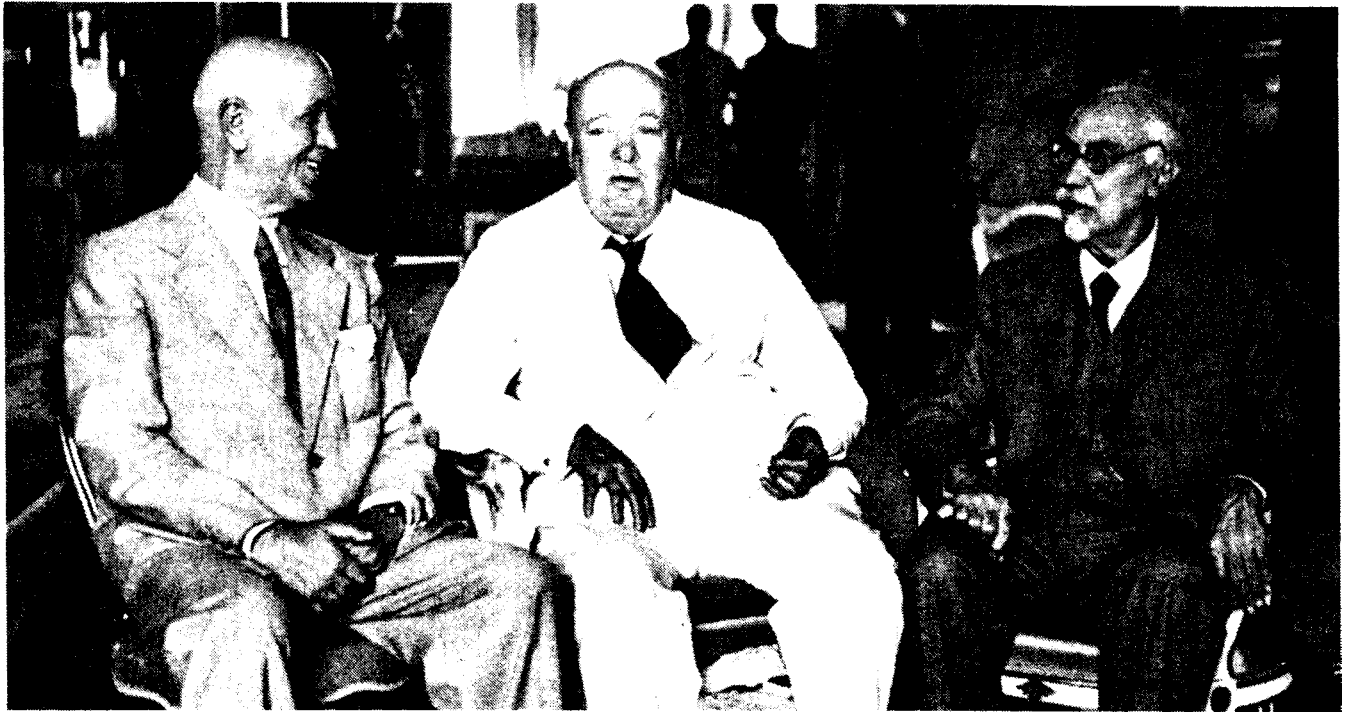
In mid-May, shortly after the assassination attempt against Pope John Paul II, the criminal activities and membership of the Italian Freemasonic Lodge known as Propaganda Due (commonly called P-2) became known to the public, producing a scandal which has not only placed scores of Italian bankers and politicians in jail, but has expanded into an international exposé of citizens above suspicion in many nations. More than the future of individuals is involved. The nature of the revelations is such that an enormous strategic-policy fight is at the core of the P-2 affair.

Now implicated in connection with P-2's control of international terrorism, drug-running, and worldwide "dirty money" flows are several members of David Rockefeller's Trilateral Commission featuring George Ball, Rockefeller himself, former U.S. ambassador to Italy Richard Gardner, and former Secretary of State Henry Kissinger. Also implicated—in P-2's *creation* as well as activities—is the current secretary of state of the United States, Alexander M. Haig.

The well-known Rome daily *Paese Sera* unleashed this latest bombshell June 16, when it documented that Haig as well as Kissinger have collaborated closely with Italian business leaders and military personnel who were preparing a coup d'état in 1969, and whose names all appear on the P-2 membership list. *Paese Sera* charges that dossiers found in the possession of P-2's fugitive leader Licio Gelli show Haig under the category "friend," and suggest that plans for a coup have been revived with Haig's entry into the U.S. State Department.

Reportedly, Haig and the Trilateral Commissioners under Rockefeller are running scared. P-2 linked sources in Rome say that a special commission has secretly formed in America to prevent the scandal from spilling across the Atlantic and into the State Department's offices. It is not yet clear whether former President Gerald Ford, one of only 17 "Blue Cap" Masons in the United States, who is now allegedly heading this coverup commission, has been fully informed by Henry Kissinger of what is actually involved.

According to both the London *Times* and the internal evidence of the



*Winston Churchill meets with the leaders of the Republic of Salò in 1944: Marshal Pietro Badoglio (l) and Ivanhoe Bonomi.*

case, the P-2 scandal erupted through the efforts of certain factions in the Vatican who forced publication of a partial membership list of the highly secretive P-2 Freemasonic Lodge. This occurred fully two months after the list had come into the possession of the Italian government.

Arnaldo Forlani, prime minister at the time, had refused to publish it, not least because he himself, together with three members of his cabinet, and the very highest levels of the Italian secret services and military establishment, were directly implicated in the scandal. The Vatican, however, forced Forlani's hand after the attempted assassination of the Pope—the crowning event in a conspiracy against the Catholic Church. The Church, and Pope John Paul II personally, were targeted because of their role as the leading institutional opposition to the global depopulation policies of the P-2 conspirators.

### **The Carter connection confirmed**

The Carter administration, including the former President himself, has been revealed to be deeply involved in the P-2 scandal. It was the Carter administration that commissioned and then adopted the study labeled "Global 2000" calling for the reduction of global population by 2 billion people by the year 2000 as the primary necessity of U.S. strategic interests.

Why such a policy? What networks were involved in its adoption and implementation? The answers are what the P-2 scandal is unraveling.

First, the P-2 affair is shedding light on the real dimensions of the Billygate scandal involving Billy

Carter and the Carter administration's links to terrorist Libya. It happens that all the leading controllers of the Sicilian separatist movement are members of P-2. This includes the nobleman Alliata di Montereale, the acknowledged funder of Sicilian separatism throughout the postwar period. It also includes all the top Italian oligarchical households and other fascists and Socialists that *EIR* had identified at the time of Billygate as controlling Sicilian terrorism. Many of these individuals, such as the "black prince," Junio Valerio Borghese, are P-2 members.

The connection to Billygate arises because the best known public spokesman of Sicilian separatism, Michele Papa, arranged Billy Carter's trip to Libya and acted as the liaison between the President's brother and Libyan dictator Qaddafi. Libya itself is a state fully controlled by the founders of P-2, namely the notorious Italo Balbo of Mussolini-period fame, who on behalf of the Venetian and allied oligarchy was viceroy of Libya for some time.

### **Student and master**

Qaddafi himself as a young man was trained in Spain under the auspices of P-2's Grand Master Licio Gelli and Gelli's two close associates: Argentine dictator Juan Perón, whose friendship with Gelli was intimate and of long duration, and the notorious Nazi Otto Skorzeny, head of the infamous Black Orchestra intelligence organization during World War II, who snatched Mussolini from the hands of the Allies so that he might establish the final Fascist state known as the Salò

## Paese Sera reports on Haig's role in Italy

*The following is a translation of an article that appeared in the June 16 Italian daily Paese Sera under the byline of John Capelli, datelined New York. The "Haig documents" existence was also reported by the June 15 issue of Le Nouvel Observateur.*

1969, at least according to informed sources in New York, was the year that officers of the U.S. national security staff decided to protect with a Masonic cover story an organization that would have liked to impose a subversive shift on Italian politics. At that time, this role was granted to the P-2 lodge that was already active in the fields of business and investments. It is important to stress that at this time the number-two man in U.S. national security was Alexander Haig. Haig, the future generalissimo, established a series of contacts with what he called Italian "businessmen."

There are no documents to confirm this thesis of Haig's links to the P-2 lodge (besides the one found among the dossiers of Gelli with Haig's name on it). We have only the statements of sources close to both the Italian Masonry and the U.S. Freemasons, who are operating these days to clarify the situation and clearly differentiate between the activities and responsibilities of individuals linked to the P-2 in Italy and the United States and those Freemasons who take authentic positions of Masonry.

The Vice-Grand Master of New York, Judge Charles W. Froessel, who is responsible for the foreign relations of the Masonry, confirmed to us that Lino Salvini and Giordano Gamberini repeatedly tried between 1970 and 1978 to obtain the support of the American Masons for their efforts to place their men in the Grande Oriente d'Italia [a branch of Italian Masonry—ed.]. But Froessel refused any help to them that would give a Masonic cover for their activities.

They even tried to approach Grand Master Bruce Widger during their visit to the United States for the inauguration of Reagan last January. During the same period, Spartaco Mannini, the Grand Master of

Palazzo Giustiniani [Grande Oriente—ed.] and his associate Battelli arrived in the United States to celebrate the bicentennial of the New York lodge.

The American Masonry is now preoccupied with the bad effects that the P-2 affair may create for the whole organization. What Gelli did with the P-2, says the grand master of New York, cannot be justified from any standpoint.

It must be said that the period between 1970 and 1980, that saw in Italy the development of the golpista strategy, meant, on the contrary, for the United States the Watergate scandal and the exit from the political scene of the men that had favored the NATO project of 1969. But the election of Reagan has provided over the past months the context for renewing contacts with important U.S. personalities, "friends" of P-2.

A source linked to American Masonry tells us (and it is clear why) that on one of his journeys to Italy he spoke with many military men about the possibility that Alexander Haig would soon have an important position in a possible Reagan administration. Many of these military people, says a source today, appeared on the long list of the names of the members of the P-2 lodge. It should be noted that the enthusiasm and optimism of the Italians vis-à-vis the possibility of Haig's gaining a powerful new position under Reagan was expressed four months before Reagan was nominated by the Republican national convention, and nine months before the appointment of Haig as secretary of state. And there is more: the visit of General Santovito to Washington only a few days after the confirmation of Haig at the State Department.

It was the French Grand Master who accused the P-2 of being an instrument of the CIA and Trilateral Commission. The fact is that already in 1944 a document of the British Organization for Special Services existed, dated Sept. 15, 1944, and numbered 9A-322199. This document signaled that right-wing forces in Italy wanted to give a Masonic cover to "communist-terrorist" groups to negatively influence the Communist Party electorate.



Republic in 1944. Gelli, Perón and Skorzeny, all resident in Madrid during the 1960s, were the indoctrinators of Qaddafi and the actual authors of Qaddafi's *Green Book* of revolution.

Jimmy Carter's personal invitation to Licio Gelli to attend his inauguration, and Gelli's boast of close friendship with the former President, now become explicable as the true scope of Billygate and its subsequent coverup begin to emerge.

Jimmy Carter was, of course, the hand-picked candidate of the Trilateral Commission under the auspices of his subsequent national security adviser Zbigniew Brzezinski. That story is a well-known one. It became a scandal that the Commission was ubiquitous at all levels of the Carter team.

It is therefore not surprising to find the Commission being charged as the entity behind the Fascist-Socialist conspiracy comprising the P-2 lodge. Roger Leray, Grand Master of the French Grand Orient Lodge, told the press late last month that the Trilateral Commission and its highly influential members ran the P-2 lodge.

### Haig's involvement

As we report here, information now emerging from the P-2 affair implicates Trilateraloid personalities within the Reagan administration itself. Specifically, the name of Alexander Haig is being linked to the scandals as one individual working with Trilateral member Henry Kissinger during the Carter administration to further the activities of the tainted Sicilian separatist networks.

The targeting of Haig in connection with P-2 has generated one of the most explosive aspects of the P-2 affair. Haig's profound involvement in a conspiratorial organization founded by Fascists, and responsible for terrorism and drug-running, is the number-one item of discussion in Washington corridors and back rooms throughout the nation.

The issue has been raised in State Department briefings; and highly placed Masonic sources in Europe report that the Haig State Department is desperately attempting to use American muscle to put the lid on the entire P-2 affair, both in the United States and in Italy. This is difficult to do, because at the same time Haig is continuing with his policy, adopted from the Carter administration, of Global 2000 depopulation and deindustrialization. The "Augustinian" forces in the Catholic Church are bound by considerations of both survival and epistemology, to escalate the fight. In this way they will be aided by other, nonreligious, groups and political leaders, people vehemently opposed to Club of Rome-style depopulation policies, who wish instead to reinstitute science and economic growth to their former predominant positions both in the United States and abroad.

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## THE FASCIST CONNECTIONS

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# A history of the P-2 conspiracy

by Umberto Pascali, Rome Correspondent

"The biggest scandal in the history of the Republic," as the Italian press put it, broke open with the publication May 20 of the names of the 962 members of the Italian secret Masonic Lodge Propaganda Due (P-2). A few days later, the government of the Honorable Arnaldo Forlani was forced to resign. The P-2 lodge, directed by the Venerable Master Licio Gelli, former torturer for Mussolini's Republic of Salò, cast in the role of the grand puppetmaster, had been accused in the past of being implicated in arms trafficking, terrorism, illegal currency flight, blackmail, kidnapping, attempted coups d'état, and other criminal activities. It always came out unscathed—even in cases where its filthy role was most evident.

Forlani had the list of names in his hands since March 27 and had waited almost two months before he acceded to requests for publication. The higher-ups in NATO had put him under a lot of pressure to impede the divulging of the names, and for clear reasons. On the list were three ministers in the Forlani government, and even that of Mario Semprini, head of the prime minister's office. Also on the list were 59 political leaders, among them 43 parliamentarians, almost all either Socialists or of the Christian Democratic faction of former Industry Minister Toni Bisaglia and Amintore Fanfani; all the heads of the Italian secret services, the commander of the Financial Guard, 50 high officials in the army, 29 in the Navy, 32 from the Carabinieri (military police), 9 from the air force, 9 diplomats, 49 high banking officials, 83 industrial leaders, judges, journalists, famous publishers, etc.

Notwithstanding the pressure to contain the scandal, it immediately spread like an oil slick. A key person involved in investigating P-2, Col. Luciano Rossi of the Financial Guard, suddenly committed "suicide," amid well-warranted charges of assassination. The situation has gotten so hot that gossips in Rome and other European capitals insist on the possibility of a "sudden disappearance" of the President of the Republic, Alessandro Pertini, who would be immediately replaced by the political leader most directly implicated in the scandal, Senate President Amintore Fanfani. According to the rumors, Fanfani would sandbag the investigation and would install as President of the Council another political

personage tied to Gelli, the secretary of the Socialist Party, Bettino Craxi.

Moreover, the investigations have exposed the international networks of which Gelli's lodge is a part: the Trilateral Commission, Bilderberg Society, and the Scottish Rite Masonry directed by the Duke of Kent, the cousin of Her Britannic Majesty. The revelations around P-2 open the way to clearing up some of the most scalding mysteries of the Italian postwar period, from the assassination of ENI President Enrico Mattei in 1962, to that of Christian Democratic President Aldo Moro in 1978. Gelli's lodge is not a domestic Italian creation.

### **The tip of the iceberg**

The secret lodge of Venerable Master Licio Gelli is the tip of the iceberg of the secret organizations of the international oligarchy, starting with the deposed Italian royal House of Savoy. This powerful underground network bases itself on ancient oligarchic patrimony. In regard to Italy, the ultimate purpose of Gelli's lodge has been to subvert the Italian republican institutions and to restore the monarchy evicted in 1946. It is no exaggeration to say that Gelli conceives of himself as the Lord Chamberlain of the House of Savoy for whom everything is permissible to achieve his end, as the documents revealed in recent weeks confirm.

Gelli began his postwar career as the caretaker of the great oligarchic families whom he had helped in their flight from Italy before the end of World War II. His accomplice was the scion of one of the most powerful noble families, Prince Junio Valerio Borghese. The most important name on the P-2 list was the heir to the defunct throne of Italy, Prince Vittorio Emanuele, a member of the United Grand Lodge of England and the Grand Orient of Italy (the Masonic rite of which P-2 is a part). Within Gelli's lodge the Savoy Prince was already considered the king; the Venerable Master bestowed him with the title Vittorio Emanuele IV.

### **Gelli's career**

What is the real history of Gelli, this modern Cagliostro, who only last December, in an interview in a major Italian daily, stated that *he* directly controlled a large part of the Italian parliament; that he sought to alter Italy's constitution; and that his childhood dream was to become a "puppetmaster"? This man officially remains in the shadows but enjoys the personal friendships of the Duke of Kent, the President of the West German Christian Social Union Franz-Josef Strauss, and former U.S. President Jimmy Carter. Gelli controlled Juan Perón in the last period of Perón's life. He is friends with Romanian President Nicolae Ceausescu; apparently Gelli pulls Libyan Colonel Qaddafi's strings. He also controls an immense fortune. How was this man created, whom many of the world's most powerful

leaders treat with deference and who not long ago proposed replacing the United Nations with a kind of international Masonry created by himself?

Licio Gelli began his career during the Fascist period. Born in Pistoia in 1919, after a rowdy and anarchistic childhood, he volunteered at age 17 in the Fascist troops Mussolini sent to Spain. He fought with the Spanish foreign legion, the famous Tercio, which gathered the most violent elements of the international Fascist groups. Gelli then became a paratrooper and volunteered in Finland with the Nazis, heading a demolition squad. But it was in the Republic of Salò that Gelli emerged in his true colors.

The Italian Social Republic known by the name of its capital, Salò, was created by the Nazis in 1944 in northern Italy. Mussolini was installed as figurehead of the "republic" after his liberation from the Campo Imperatore prison in Abruzzo by commandos led by Otto Skorzeny. Officially, the Republic of Salò was at war against the Italian monarchy which resided at Brindisi in the south, the area occupied by the Anglo-Americans. The Savoy monarchs had figured out what the outcome of the war would be, and tried to save themselves by ordering the arrest of the Duce, their former protégé.

The monarchist Italy of the south was officially led by the king's lieutenant, Marshal Pietro Badoglio, but it and the Fascist republic of the north were two sides of the same coin, both dominated by the monarchist networks who were maneuvering to come out on top following the end of the war, and by Fascism, which the monarchy itself had put into power with the aid of the British Crown and Winston Churchill.

Under Salò, Gelli was the official liaison between the Fascists, the secret police of Salò, and the Nazi SS. Gelli became well known as a torturer, a skill he learned from the Nazis in Germany.

To better understand how Gelli succeeded in avoiding being tried for war crimes, it is useful to understand the activities of the Anglo-American secret services in Italy at that time. One person to consider in this context is James Jesus Angleton.

### **Gelli and the OSS**

Angleton was sent to Italy at the end of the war and directed the special operations of American intelligence in Italy, first from Rome, later from Washington, until 1970.

James J. Angleton made contact with all the important oligarchic families implicated in the Fascist movement and participated in setting up operations in favor of the monarchy and neofascist movements before and after the 1946 referendum that sealed the end of the monarchy. Angleton was also directly responsible for saving the life of Gelli's closest collaborator in his



Italy's Grand Orient Masonic Lodge, 19th century precursor of Propaganda Due.

Masonic-terrorist plot: Prince Junio Valerio Borghese.

Borghese, known as the "Black Prince," was the commander of a notorious X Mas, an independent military corps that operated in Liguria, financed by the Venetian oligarchic families, and was known for its barbarities in the antipartisan repression. Despite Borghese's service to the Republic of Salò, he retained the best of contacts with the House of Savoy.

One of the most important jobs of the X Mas was espionage and compilation of dossiers. Condemned to death by the partisans, Borghese was removed from his Milanese residence by Angleton personally, who released him to Rear Admiral Ellery Stone, a monarchist and Fascist sympathizer who was then head of the Allied Control Commission. Borghese began to collaborate with Gelli in the creation of Masonic *golpista* networks. Borghese and Gelli attempted a coup d'état in December 1970; and Borghese, who later died in Spain, was a member of the P-2 lodge. Despite the myth that Fascism dismantled Freemasonry, Mussolini's highest officials, from "hierarchs" Achille Starace and Roberto Farinacci to Italo Balbo, one of the "quadrumvirate" who organized the March on Rome in 1922 and became head of the Italian air force and governor of

Libya, were important Scottish Rite Masons. Balbo was the head of this secret Masonry that especially recruited among army officers and secret service officials. Former Masonic Grand Masters in the pre-Fascist period like Raoul Palermi became leaders in the OVRA secret police. There is still a debate among historians as to whether the OVRA infiltrated the Masons or vice versa!

### How the P-2 lodge was set up

It was Badoglio who set up a sort of "proto" P-2 lodge with the help of the British secret service (and most probably his friend James J. Angleton) in the immediate postwar period, putting together ex-Salò republicans and loyal monarchists under the guidance of high-ranking persons above suspicion. Before the 1946 referendum to decide if Italy would be a monarchy or republic, the House of Savoy was extremely active in creating groups of provocateurs, such as the Unione Proletaria, which was run out of Rome at that time.

In 1944-45, Badoglio, under Savoy orders, began to mobilize the old monarchist networks under the auspices of the monarchist and Masonic leader Roberto Bencivenga to create a new Masonic lodge. According to an American OSS report of Jan. 2, 1945, members of the lodge included such people as Arturo Labriola, one of the leaders of the Socialist Party (Silviano Labriola, parliamentary leader of Craxi's Socialist Party, is a member of the P-2 lodge); and Luigi Einaudi and Enrico de Nicola, both of whom were elected President of the Republic after the war. According to the OSS report: "The lodge is under British authority and will request their political and economic aid, things which the members cannot get through their respective parties without exposing themselves to accusations of being paid by the British."

In addition to its ties to the Italian and British monarchy, this lodge was also close to the Sicilian separatist movement of Prince Giovanni Alliata di Montereale (of the P-2 lodge) and of Prince Spadafora. The Sicilian separatist movement aimed to have Sicily secede and become a British colony.

At the end of the war, Gelli fled to Argentina. His principal activity there was exporting oligarchist fortunes and Fascist money out of the new Republic of Italy. The amount of flight capital, even by official estimates, was enormous. In Argentina Gelli was in contact with José López Rega, Perón's adviser and the founder of the terrorist AAA, the Argentine Anticomunist Alliance, a cover group for drug trafficking. Gelli's coadjutor in this flight capital operation was Prince Borghese.

Meanwhile, in Italy the Anglo-American secret services were "restructuring" Freemasonry. Officially, they were purging the postwar Masonic movement of those elements comprised by Fascism; in reality they were

laying the basis for a Masonic movement that would be on the same wavelength as the leading circles of Anglo-American intelligence. A typical example is Vanni Montana, a U.S. secret service agent and leader of the garment workers union (ILGWU). Montana was in close contact with Masonic elements in Italian political parties like the Social Democrats (whose secretary, Pietro Longo, is a P-2 member). The grand master of the Grand Orient at that time, Giordano Gamberini, regularly visited Vanni Montana in the United States.

Another American secret service agent, Frank Gigliotti, led a delegation of American Masons after the war to ask for and obtain the return of the Giustiniani Palace to Freemasonry. The palace, the Roman seat of pre-Fascist Masonry, was seized by Mussolini in his ostensible “elimination of Masonry.”

An interesting role was played by Prince Giovanni Alliata di Montereale, a Monarchist Party parliamentarian who received the postwar franchise from the Southern Jurisdiction of U.S. Masons (the area directed by Henry Klausen). Alliata was thus named the only legitimate representative for the Southern Jurisdiction in Italy. This recognition enabled Alliata to become one of the highest Masonic officials in the Giustiniani Palace, despite the fact that he was indicted for bigamy and accused of having ordered the May 1, 1947 massacre of Sicilian peasants by the famous bandit Giuliano, a tool of the British-inspired “separatist” movement.

### **P-2, NATO, and terrorism**

Grand Master Gamberini was meanwhile carrying out an extensive integration between the Grand Orient of Italy and the American lodges that organized the high NATO officials based in Italy. He established contact with American lodges in the Veneto, Livorno, and Bagnoli (Naples), all cities with NATO bases.

It was Gamberini who prepared Gelli’s ascension. The future head of P-2 had established not only good contacts with Perón’s group, but also with the head of the so-called Black International, the neo-Fascist organization that came out of the Nazi and Fascist networks and was located on the Iberian peninsula and South America after the war. In particular, Gelli was in contact from the beginning with the famous Aginterpress, the press agency in Lisbon that for years had been the brains behind the Black International and whose heads, OAS legionnaires Guerin Srac and Robert Le Roy, were previously part of the Nazi army.

In the early 1960s, Licio Gelli received orders from the Anglo-American Scottish Rite Masons to return and organize in the Italian Masonry. The P-2 lodge began to take form. According to a recent statement by the Grand Master of the Grand Orient in France Roger Leray, this project was based upon a decision taken by the Bilderberg Society (which in turn created David

Rockefeller’s Trilateral Commission).

The Bilderberg Society was founded in May 1954, in the Bilderberg Hotel in the Dutch city of Osterbeck. Headed by Prince Bernhard of Holland, the Society made plans for reorganizing international geopolitics, and quickly became the most important oligarchic institution in the world. Almost all the leaders of the Bilderberg Society were Scottish Rite Masons. Mata Gonzales, in the book *Les Vrais Maîtres du Monde*, wrote, “The point of the diamond of the Scottish Rite in Europe has been for many years, not a Grand Orient, as would seem logical, but a tiny lodge belonging to the Grand Orient of Italy: Licio Gelli’s P-2.”

The old Masons in the military contacted by Gelli were about to retire, but were extremely useful for establishing contact with the officials at the peak of their careers, especially in the secret services. By 1966 this first part of Gelli’s operation was completed. That year, Grand Master Giordano Gamberini elevated him “suddenly and unexpectedly” (according to the ex-number two at Giustiniani Palace, Ermenegildo Benedetti, later dumped by Gamberini for opposing Gelli) to the degree of Master and was installed in the P-2 lodge—which up to that time had been a “secret lodge” but of little importance.

Gelli began to recruit high-ranking officers. One of his first conquests was Gen. Giovanni Allavena, a collaborator of the ex-head of the Sifar (the Italian secret service that became the SID), Giovanni De Lorenzo. Allavena brought with him 33,000 dossiers compiled by General De Lorenzo in preparation for a coup d’état he attempted to carry out in 1964. These dossiers contained blackmail material, probably in part from OVRA’s archives, on political, military, and industrial leaders.

Officially, the Sifar dossiers were destroyed by order of the government after De Lorenzo’s putsch was discovered. But the officer who was to have carried out the destruction was Antonio Viezzer, one of Gelli’s close collaborators in the P-2 lodge.

With these dossiers Gelli was ready to blackmail most Italian politicians, and he escalated rapidly. Together with Grand Master Gamberini, and then with his successor, the Socialist Lino Salvini, all those Masons who had a certain importance were funneled into P-2. It became clear to many military men and politicians that if they wanted a career, they had to sign up with Gelli’s lodge.

The expansion of P-2 corresponds to the explosion of terrorism and to a series of coups d’état in which military members of the lodge were implicated. Gelli began to circulate statements saying: “Philosophy has been banished, but we have decided to discuss only solid and concrete topics that concern all of military life.”

What kind of topics was spelled out by Gelli in a letter sent to Masonic army officers in which he laments “the lack of an initiative and of a position taken which

can put an end to this state of affairs: the military.” Gelli declared that Italy needed a Greek-style coup. Masons who still opposed Gelli’s activities and his shift in program were told by Gamberini and Salvini “that we must accept this principle to ensure recognition by the Grand Masonic Lodge” directed by the Duke of Kent.

On the night of Dec. 7, 1970, Gelli’s collaborator, Prince Junio Valerio Borghese, attempted a coup d’état led in Rome by neo-Fascist commandos and a detachment of forest rangers who were armed to the teeth with automatic weapons. The neo-Fascists occupied the Interior Ministry undisturbed. Suddenly, the order to retreat arrived. General Miceli was accused of collusion with Borghese.

May 17, 1973 saw another attempted coup prepared by the P-2 lodge and NATO. This is the famous case of the secret organization Rosa dei Venti (Windrose—which took its name from NATO’s symbol). The conspirators were high officials in the NATO psychological warfare center at Verona and a group of industrialists. Gelli himself was the stage manager of the coup and obtained the necessary financing.

The conspirators had also met in Gelli’s house. Prince Alliata de Montereale took care of the ideological side with his magazine *Opinione Pubblica* (*Public Opinion*), Rosa dei Venti’s house organ, which he founded at Verona together with NATO Gen. Francesco Nardella. Among the other conspirators were the head of the NATO psychological warfare section, Dominionio; the head of the secret services at Verona, Col. Amos Spiazzi; Rosa’s treasurer, Mason Giancarlo de Marchi; Gen. Ugo Ricci, commander of the central military region (Mason); and one Cavallaro, who functioned as a liaison between the conspirators and the NATO secret services in Italy.

Judge Giovanni Tamburino, who began his investigation in September 1973 despite innumerable acts of sabotage by the secret services, discovered that if the coup d’état had succeeded, it would have automatically meant “the physical elimination of almost 2,000 political and military figures and the radioactive contamination of the aqueducts that serve many important cities.”

But Gelli was also implicated in other acts of terrorist subversion. On the night of Aug. 3, 1974 a bomb exploded on the international train *Italicus*, traveling between Tuscany and Emilia. Twelve passengers were killed and many others badly wounded. Aurelio Fianchini, a cellmate of one Luciano Franci, one of those arrested for the bombing, declared to the magazine *Epoca* that he knew that the organizers of the bombing of *Italicus* were tied to a “secret and very powerful Masonic lodge.” In vain Judge Angelo Vella, who was investigating the bombing, tried to interrogate Fianchini in the Arezzo jail. But Arezzo is totally controlled by Gelli, and resisted every attempt. It is only now, after the breaking of the P-2

scandal, that the investigation into the *Italicus* bombing has been reopened.

Finally, there is incontrovertible proof of the involvement of the P-2 lodge in the so-called kidnaping industry, which is tied to drug trafficking. The clue that ties the kidnapings to Gelli was discovered by the assistant head of the motor division of the Rome police department, Elio Cioppa. Cioppa was investigating a group of criminals from Marseilles who formerly specialized in drug trafficking. The group, captained by Jacques Berenguer and Albert Bergamelli, was responsible for several kidnapings in Rome between 1973 and 1976.

Cioppa then discovered that the real head of the group was the lawyer Gian Antonio Minghelli, a member of P-2 and close collaborator of Gelli. Minghelli was a cashier and consultant for the group; his job was to launder the dirty kidnaping money, and he felt safe enough to deposit large sums in the bank opened in the Justice Ministry building in Rome. The lawyer for Rosa’s General Nardella, Adamo Degli Occhi, who was arrested for complicity with the *golpistas*, was found in possession of bank notes used as ransom for a Milanese industrialist kidnaped by the so-called Anonima Sequestri.

After Minghelli’s arrest there was still more evidence that pointed to the P-2 lodge. The Roman Judge Vittorio Occorsio began to investigate Gelli as well. He ordered wiretaps and surveillance placed on the Venerable Master. By July 9, 1976, Occorsio was certain of his suspicions. He told the journalist Franco Scottoni, “I am working on something that could be explosive.” He showed the journalist the text of a speech that Gelli gave to the international Masonic conference held in Rio de Janeiro in May of 1976.

There Gelli presented a proposal to create a kind of Masonic United Nations, the so-called World Organization of Masonic Thought and Assistance (Ompam), of which he was named secretary, claiming the membership of 36 countries. According to Gelli, the scope of the organization was to “offer assistance for solving international problems by means of coordination of all Masonic forces in the relevant countries, so as to favor and possibly achieve an equitable settlement of claims, disagreements, and conflicts, which have arisen for political, economic, religious, and social reasons.” In case such conflicts should explode, Ompam offered to intervene “at the request of the states,” offering mediation services by “Masonic institutions in the interested nations.”

As the head of Ompam, Gelli acquired a sumptuous villa in the center of Rome for \$8 million. Occorsio tried to discover the origin of this amount of money and to get to the bottom of Ompam. One day later, he was assassinated by Pier Luigi Concutelli, the military “commander” of the terrorist organization Ordine Nuovo. Concutelli was part of the Anonima Sequestri.

# A map of the financial powers that control P-2 operations

by David Goldman, Economics Editor

Italian banking has been more international in character than any other country's since the 14th century, and it is not likely that a scandal implicating the board chairmen of every major Italian bank could fail to have worldwide ramifications. In fact, the publication of P-2 Grand Master Licio Gelli's membership list sent shock waves out to Canada, Hong Kong, and the Caribbean. The evidence now in the public domain comes very close to demonstrating the existence of a tightly coordinated world network for dirty money transactions—a "Dope, Inc.," as this publication first characterized it in an October 1978 feature.

Not merely the major Italian banks, but Bank of America and Chase Manhattan in the United States, the Hongkong and Shanghai Bank, and major institutions in most European countries are up to their ears in the scandal. This result is not, ultimately, surprising: in a world where international banking has come to be dominated by a \$1.5 trillion unregulated "offshore" market, and this market dominated by a \$200 billion *per year* flow of narcotics revenues plus uncountable amounts of so-called flight capital, large institutions had to be involved in witting "money-laundering" operations. Only large institutions could handle the volume. Italy, where 20 percent of the national economy runs "underground," and where old oligarchical family links to the Caribbean and the South China Sea run back centuries, is an appropriate starting point.

Of special importance are Banco Ambrosiano Chairman Roberto Calvi, now awaiting trial for illegal currency operations in a Milan jail; the Siena-based Monte dei Paschi Bank, a 400-year-old institution with \$20 billion in assets; and the giant Banca Nazionale del Lavoro and Banca Commerciale Italiana. The latter is now negotiating the purchase of the \$2 billion Long Island Trust Co., whose vice-chairman of the board resigned some months ago to become director of the Central Intelligence Agency. Its chairman, former finance minister Gaetano Stamatì, is on the P-2 list, along with colleagues from the above-cited and other major institutions.

Roberto Calvi—whose arrest with a handful of others started the whole affair—gives the investigator an un-

precedented opportunity to work through the Chinese boxes of money-laundering from the inside outwards. The most prominent financier of the Italian Socialist Party, Calvi built the \$6 billion Banco Ambrosiano as the core of a \$20 billion international empire of merged and associated companies. But Ambrosiano itself fits tightly into a larger series of boxes, a publicity-shy but powerful international syndicate known as "Inter-Alpha," among the first. It includes West Germany's BHF-Bank, France's Swiss-connected Crédit Commercial, the Kreditbank of Luxemburg, and the British combination of Williams and Glyn's-Royal Bank of Scotland, the latter about to merge with the Hongkong and Shanghai Bank.

Ambrosiano is thoroughly Italian in character, but not in ownership. Crédit Commercial de France, the successor to the 1894-founded Banque Suisse et Française, and BHF-Bank together own a controlling share, along with fellow Inter-Alpha member Privatbank of Denmark. "They are not just a consortium," said a senior Ambrosiano official. "They have ties of mutual ownership and interchangeable management as a matter of policy." Apparently the Italian leg of the international syndicate functioned as a lightning rod for dubious operations. A Milan-based officer of Ambrosiano's international department comments, "We knew for some time that we were on the watch list of the bank regulators. Ambrosiano had trouble explaining some of its operations. Very large deposits would suddenly appear on its books and move halfway around the world, usually for investment in an Asian or Mideastern country. These investments looked awfully risky, although the bank somehow made money on them."

In fact, Inter-Alpha was founded in 1972 to become the premier flight-capital conduit between the Far East and Latin America "offshore" markets, with special expertise in the transfer of very private and very large old family fortunes. Although Inter-Alpha maintains a common real-time computer operation in Europe, its only full-service banking operations are conducted in Asia, through a finance company in Singapore and a bank in Hong Kong. These, in turn, are owned by a holding company in Luxemburg, which provides an interface

with the Latin American markets. A profile of Inter-Alpha's members and current operations indicates that the syndicate has a specialized and highly elite role in the circulation of the multi-hundred-billion-dollar annual volume of illegal money transfers. Unlike, say, the Caribbean branches of several leading Canadian banks, it does not handle petty transfers for nationals of Third World countries who wish to evade exchange controls. The boxes-within-boxes of Inter-Alpha are a glittering array of Swiss, French, and German family fortunes, who require a vehicle for anonymous international movement. We will review the relevant names below, after starting from the top.

### **Inter-Alpha and the Club of Rome**

Ambrosiano, Williams and Glyn's, BHF-Bank, Cr dit Commercial de France, Kredietbank, Nederlandsche Mittelstand Bank, and Privatbank capitalized a joint securities venture as an Inter-Alpha project in the late 1970s. It still operates in New York and Z rich under the name "Ultrafin." Details of the subsidiary's formation were left to Roberto Calvi of Ambrosiano and his close friend Aurelio Peccei, the former Fiat Corporation Argentina chief who had founded the Club of Rome in 1966. According to sources close to Calvi, it was at Peccei's suggestion that Calvi hired then Columbia University Prof. Richard Gardner as the group's "chief of intelligence," under cover of a board position at the New York offices of Ultrafin.

Gardner, whose wife, Daniele Luzzato, hails from one of the oldest (and once most-feared) families of Venice, subsequently left the post to become the Carter administration's ambassador to Italy. At the time of his employment with Ultrafin he was the leading economic light of the Rockefeller-funded Trilateral Commission, and a partner in the Coudert law firm in New York. His connections to Fiat chief Gianni Agnelli, a fellow member of the Trilateral Commission and board member of Chase Manhattan Bank, were responsible for his assignment to Calvi, reports an Ambrosiano officer who claims to have been the go-between for the Milan banker and Agnelli. Gardner prepared monthly reports "on the world political situation and its impact on Inter-Alpha," the sources at Ambrosiano explained.

This set of facts would be of remote interest except that 1) Fiat employee and Trilateral Commission member Carlo Bonomi was arrested for illegal currency dealings in the same sweep that netted Roberto Calvi; 2) also arrested was the head of the Venetian Industrialists Association and former head of the Venetian Chamber of Commerce, Mario Valeri di Manera, a business partner of Calvi's in an Ambrosiano subsidiary, Banca Cattolica di Venezia. Valeri di Manera is a leading figure among the surviving Venetian oligarchy, who bears the nickname, "the last Doge of Venice." He

is a business partner and intimate of Richard Gardner's in-laws, the Luzzato family. He is also linked to the Loredano clan, who provided a thousand years' of rulers and diplomats to the old Venetian Republic until it moved to Argentina in 1977.

Banker Calvi's personal role affords a view, in one glimpse, from the level of policy-makers like Gardner and Peccei down to the pit of dirty-money operations and hired terror. His arrest led to the raid on Grand Master Licio Gelli's mansion, said a friend of Calvi's, because "everyone knew that Calvi was guilty as all hell, that he was running the biggest flight-capital operation in Italy. Gelli was the connection to Argentina. He was close to the last military government there and to the present one. If you wanted to move money between Italy and South America he was the guy you had to go to."

When the case officer for Calvi and Gelli died in a terrorist set-up last fall, Italian press noted that the murdered Judge Alessandrini was holding two case-books: Calvi's and that of the so-called Front Line branch of the terrorist Red Brigades. Well-informed Italian law enforcement sources say that Calvi was financing Prima Linea privately, while he bankrolled the Socialist Party in public. Surprisingly, this accusation does not faze friends of Calvi. "When Alessandrini died I naturally assumed that Calvi was behind it," said a senior officer of Banco Ambrosiano.

### **Inter-Alpha's world nexus**

After every world war since Napoleon, titles to ownership of areas subject to conflict have gone underground and re-emerged in new corporate formats—although the "beneficial ownership" has changed much less than casual observers think. Dozens of private banks and private fortunes found it convenient to cease to exist for purposes of record in the late 1930s. Europe's master quick-change artist, Hans F rstenburg of the BHF-Bank, moved to Switzerland in 1938, bringing with him the fortune that the Rothschild family left in Germany when it closed the Frankfurt branch of the family bank in 1902. The family interests associated with BHF as of the 1923 board of directors included the Goldschmid-Rothschild private bank (part of the 17th-century British fortune Mocatta Goldschmid); the Von Metzler and Oppenheim private banks, which still maintain their independent operations in West Germany today; and the Rothschild-related Oppenheim fortune, still embodied in Sal. Oppenheim in Frankfurt, perhaps West Germany's premier private investment bank at the moment. Although Hans F rstenburg left for Switzerland at the publication of the Nuremberg laws, BHF functioned intact throughout the war, reaching the status of number-five bank in Nazi Germany in 1939.

The Soviets shut down the bank, then known as the

Berliner Handelsgesellschaft, in 1945. It remained moribund for the first years of occupation, until Herman Jannsen, who had meanwhile been the manager of the Reichskredit Gesellschaft AG in Berlin, invited BHG to take over its offices and staff, since the Russians would not permit the Nazi-associated bank to reopen. Jannsen was an old employee of the Goldschmid-Rothschild private bank, part of the consortium that controlled BHG before Hitler; today he is chairman of the (merged) Berliner Handelsgesellschaft und Frankfurter Bank's Supervisory board of directors. Another octogenarian, Hans Fürstenburg, remains chairman of the managing board.

What family fortunes are buried in these private banks which kept one foot in Switzerland and the other in Nazi Germany throughout the war is not known. However, the BHG (later BHF) network became the principal pied-à-terre for a branch of U.S. Army Intelligence directed by German emigré Fritz Kraemer, the creator of Henry Kissinger and Alexander Haig. G-2 officer Kraemer recruited young Heinz Kissinger into his British-controlled branch of American intelligence. Kraemer, whose reputation in print as a postwar "super-spook" has come to rival that of James Angleton, told a reporter last year that his networks in West Germany operate out of the BHF Bank.

Re-founded in 1893 with the name of a 16th-century Milan bank, Banco Ambrosiano is a joint project of the families associated with BHF and the Crédit Commercial de France. The latter, founded in 1894 as Banque Suisse et Française, has been France's most important "Swiss connection" for most of a century. It also absorbed a dozen of the most influential French private banks, including the Banque Savoie, Banque George Morhange et Cie., Banque Privée de Dépôts et Crédit, and, most important, the Banque Ribaud. Apart from its stock in Ambrosiano, it also owns a significant chunk of its Inter-Alpha Group partners Kredietbank, Privatbanken, and BHF itself. Its other international interests include 80 percent of the West German subsidiary of the South African-British investment bank Hill Samuel, and 1 percent of Italy's giant Mediobanca, whose chairman Renato Cuccia has been the principal financier of the Agnelli interests and the Italian contact for Lazard Frères for the past two decades.

Crédit Commercial de France binds together those French interests who overlap—through Switzerland—with fellow syndicate member BHF Bank. Its biggest stockholder (with over 15 percent) due to a postwar merger is Eduard de Ribes, Chairman of the CCF subsidiary Banque Ribaud, manages what used to be the French connection to Indochina. At one point after World War II, Banque Ribaud controlled two-thirds of narcotics-producing French plantations in Indochina. CCF's vice-chairman of the board, Ambroise Roux, is

also the chairman of France's Compagnie Générale d'Electricité, and also Henry Kissinger's closest friend in France.

Without underrating the global standing of the Venetians associated with banker Roberto Calvi in Milan, the above-named banks are his owners, in the juridical sense. Together they represent a private intelligence and financing apparatus which transcends two world wars, with a charter more enduring than that of any existing intelligence agency. Without this background it seems implausible that Henry Kissinger would have dispatched Alexander Haig to Italy in 1969 to found a secret freemasonic lodge for irregular political dealings. But through Fritz Kraemer and the networks that rewired postwar Germany, Kissinger is as much a creature of P-2 as P-2 is a creature of Henry Kissinger.

### **Hong Kong and the American banking connection**

The British leg of the Inter-Alpha Syndicate, Williams and Glyn's is only (due to peculiar British banking laws) the English name for the Royal Bank of Scotland. Royal Bank, since the turn of the 19th century, has been the principal financier of the Scottish "Hong's" or Far East traders who founded the world opium traffic in its modern form, and ran it, as a matter of public record, up through the end of the Second World War. In a 1978 bestseller, two editors of *EIR* demonstrated that the Scottish "Hong's" did not abandon the narcotics traffic after the war, but merely transferred it—through the arbitration of the Far East section of the Royal Institute for International Affairs—to Chinese junior partners.\* Principal among these Scottish "Hong's," and a dominant force on the board of the Hongkong and Shanghai Bank, was Jardine and Mattheson (the "Noble House" of the latest Richard Clavell novel).

Today, Royal Bank of Scotland's Chairman Sir Michael Young-Herries is a veteran of 19 years' service with Jardine Mattheson in Hong Kong. In Scottish financial tradition, he returned to Scotland in 1976 as a reward of sorts for long service in Asia. Young-Herries became a director of Jardine Mattheson in 1959, and chairman and managing director in 1963. In the meantime he served as chairman of Hong Kong University and as a member of the Hong Kong legislative council. Between 1972 and 1976 he chaired the Jardine Japan Investment Trust.

Inter-Alpha's British partner is the top level of control of the Hong Kong market, the world's biggest source of illegal funds. More than \$10 billion in illicit narcotics revenues passes through the city every year, most of it through the Jardine-controlled Hongkong and Shanghai Bank, the book *Dope, Inc.* documented. The present merger negotiations between Royal Bank of Scotland and Hongkong and Shanghai Bank repre-



sent a proposed consolidation of financial networks that have cooperated for more than a century.

Hong Kong is both the freest and most tightly controlled market in the world. It may have minimal law enforcement and draw freebooters' money from all of Asia, but the Hongkong and Shanghai Bank, which prints the island's currency, has say-so over who may take deposits and make loans there. When Chase Manhattan decided to go after what bank officers euphemistically called "mafia money" in the Hong Kong market in 1966, it did not find the going easy. Until Chase brought Hongkong and Shanghai Bank board member and leading shipowner Y. K. Pao onto its own board of directors several years ago, Chase was in no position to conduct the spectacular expansion in Hong Kong market funding that it subsequently enjoyed.

San Francisco's Bank of America took the same course—and got in on the ground floor. Old A. P. Giannini maintained close ties to the financial crowd who later formed the P-2 lodge throughout the Mussolini years. He and his daughter, Mrs. Claire Giannini Hoffman, lived in Fascist Italy for several years in total, maintaining a large Italian branch network through the Banca d'America e d'Italia. The Italian subsidiary of Bank of America (which changed its own name from "Bank of Italy" half a century ago) became the number-three private bank in Italy during the 1970s. Responsible for Italian operations in the postwar period for Bank of America is the bank's recently retired Vice-Chairman Rudolph Peterson, who received the Grand Order of Merit of Italy for his efforts.

Bank of America provided an early source of support for Ambrosiano Chairman Roberto Calvi's expansion drive. Together with the Banca Nazionale della Agricoltura, the Banca d'America e d'Italia capitalized a joint venture with Calvi's Ambrosiano, the \$3 billion Interbanca Spa.

Banker Peterson defends Bank of America's involvement with Calvi. "Banco Ambrosiano is a fine upstanding bank of good reputation," Peterson said in a recent discussion with a reporter. "I'm sure this scandal concerning them will wash away. Even when there is chaos all around them, the bankers and especially the central bank know how to get through. The banks and central bank will continue with their direction, while they pull through and the scandal washes away." But Peterson, in a more important sense, is a walking measure of the power of the financial network responsible for P-2. When he became Bank of America president in 1963, the bank had only 5 percent of its assets abroad; when he retired in 1976, the figure had risen to 33 percent, with massive involvement in Asia and Latin America. Peterson, who now heads the Asia Foundation, is a leading architect of what has been called the "Pacific Basin Strategy." At Bank of America, he arranged a

\$100,000 per year stipend for the Asia Institute at the University of California at Berkeley, and brought in the Stanford Research Institute's Asia specialists in the early 1960s to help reorient the bank's international lending strategy.

Bank of America's major Asian involvement began in Hong Kong after World War II, Peterson said. "The Hongkong and Shanghai Bank is the dominant institution there, but we found a way to work with them so that they wouldn't see us as a threat," the banker explained.

The apparent drawing power of the immensely profitable, and patently illegal, money flows of the Hong Kong market is enough to make institutions the size of Chase and Bank of America deal on the terms set by the dominant force in the Hong Kong market—which happen to be the controllers of the ugly little P-2 Masonic lodge. That such dealings took place is not surprising, considering that the political networks who appeared to direct the deployment of P-2's nasty capabilities included men like Aurelio Peccei and Richard Gardner, intellectual stars of the Club of Rome and Trilateral Commission. Numerous P-2 members are also members of the Trilateral Commission.

But the case of Hong Kong and Inter-Alpha shows how the power of flight capital and the old financial families has stood up against what, on paper, looked like growing financial domination of the American banks. Experienced European bankers know better. One well-informed West German banking source described Inter-Alpha this way:

This is a bank with an aristocratic background. It is made up of private bankers who do not meddle with just anybody, and, in fact, it is not really a public bank. The partners are not the important guys. They just manage the business. There are silent partners, sleeping partners, whose names are not known to the public, and it is their money which is really the bank. You would be astonished at the fundraising power of that bank; even though they participate little in the interbank market, it is enormous.

Now the anonymity, at least to some extent, is no longer intact. Along with the names of Mussolini-vintage political scum, the P-2 affair has raked up Mario Valeri di Manera, the Luzzatos, the Loredans, and some other very old names. It is only a start, but enough to pinpoint who is really calling the shots in the \$1.5 trillion offshore banking market.

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*\*Dope, Inc.: Britain's Opium War Against the United States*, by David Goldman and Jeffrey Steinberg. Benjamin Franklin House; New York 1978 (scheduled for 2nd edition in 1981).

# Masonic P-2 operatives in Mexico brought to account by the PLM

by Dennis Small, Latin America Editor

The lid was blown off the Mexican branch of the fascist P-2 Masonic lodge conspiracy this week, sending its members scurrying for cover. The first arrest warrants have yet to be issued, but the scandal is reaching such proportions that more than a few high-level Mexican businessmen and politicians could well end up behind bars and ousted from office before too long.

The first to go might be Mexico City Mayor Carlos Hank González, a 33rd-Degree Mason who has extensive business and political ties to P-2 plotters in Italy, such as former Prime Minister Amintore Fanfani, and to members of the Italian black nobility, such as Princess Beatrice of Savoy who currently resides in Mexico.

The Mexican wing of this criminal cabal got the shock of their lives earlier this week when they were denounced—name by name—by one of Mexico's top political leaders, Marivilia Carrasco, the head of the Mexican Labor Party (PLM). Carrasco dropped the bombshell in a Mexico City press conference on June 18 when she gave a detailed briefing to 15 journalists who intensely took notes on the sophisticated plot for more than an hour. The PLM leader emphasized that P-2 was not an isolated entity whose exposure just happened to bring down the Italian government last month, but "an open international conspiracy to impose genocide on the human race."

The exposé made waves internationally when it was carried by the Italian news agency ANSA and played prominently by a number of Italian radio stations.

One of the individuals singled out by Carrasco was Carlos Vásquez Rangel, the country's leading Mason, who was forced to take to the press himself to try to clear his name (see box).

In an earlier confidential interview with a Mexican journalist, which Carrasco made public at her press conference, Vásquez had sworn: "The Mexican P-2 names will not be known."

So far, Vásquez has managed to keep his pledge. But pressure is building that threatens to blow the whole conspiracy sky-high. The widely read social column "Carrusel," in the Mexico City daily *El Universal*, titlered: "The real news, and real hot news it is, is that there

is already talk about a 'Mexican connection' and that 30 names of very important figures in Mexico have come to light."

The column ended by calling for an investigation of "why this business of Masonry and its connection to high-level politics in Italy happened at the same time as the assassination attempt on John Paul II."

Carrasco's Partido Laboral Mexicano has also announced an all-out campaign to have the 30 names released. Various Masonic leaders in Mexico—who trace their roots to the humanist causes of Washington, Lincoln, and Mexico's own Benito Juárez—have also called for the secret P-2 list to be made public, so that its members can be purged from the Masonry to clear that group's tarnished name.

Carrasco's press briefing, conducted with the aid of

## Mexico's leading Mason leaves himself exposed

*EIR has obtained a transcript of the explosive confidential conversation of an enterprising Mexican journalist with Carlos Vásquez Rangel, Mexico's leading Mason. Head of Mexico's umbrella group of Freemasonic organizations, the National Confederation of Liberal Organizations, Vásquez spoke frankly about the international Masonic conspiracy and its Mexican networks. It was this interview, excerpts of which we print below, that Marivilia Carrasco of the Mexican Labor Party cited in her June 18 press conference, which sent political shock waves throughout Mexico.*

Yes, it is true that Aurelio Peccei [head of the Club of Rome] is a Mason. When he came to Mexico, I introduced him around. . . . Peccei's Mexican contact was General Rincón Gallardo [an identified P-2

blackboards and flow-charts, was a virtual police blotter of Mexico's top criminals—most of whom are "citizens above suspicion."

Some of the individuals identified are:

- **Carlos Hank González.** Mayor of Mexico City, Hank is intimate with top Mason Carlos Vásquez Rangel, and is himself a 33rd-Degree Mason. He is Mexico's leading advocate of deurbanization and other Club of Rome policies, and is the principal political opponent of Mexican President José López Portillo and his high-growth economic policies. He is the bankroller of and personally involved with Mexican journalist Mauricio González de la Garza, who just wrote a book that violently slanders the Mexican president. Carrasco charged that de la Garza's "attack on the presidency is unprecedented since the assassination of President Alvaro Obregón in the early part of this century. . . . It is designed to carry out the Club of Rome's policy of destroying the nation-state as an institution for progress."

- **Princess Beatrice of Savoy.** This decrepit specimen of Europe's black nobility currently lives in Cuernavaca, Mexico, where she consorts with Mexico's and Europe's oligarchy. Carrasco charged her with being a protector of international terrorists, such as the son of the Italian politician Carlo Donat-Cattin, and of working closely with the Italian branch of P-2 in this effort. Indicative of her inclinations, said Carrasco, is the fact that "she has still not lost hope of retaking the Italian throne."

- **Bruno Pagliai.** An Italian oligarch who moved to Mexico in the 1950s, Pagliai helped set up the steel plant TAMSA in Mexico. With extensive political links to Hank González and former Mexican president Miguel Alemán, Pagliai's TAMSA works closely with the Italian firm Italimpianti—whose director is currently in jail in Italy for his involvement in the P-2 affair. Also on TAMSA's board of directors is Roberto Einaudi, son of former Italian president and Mussolini follower Luigi Einaudi.

- **Gaetano Zocchi.** Zocchi is also on the TAMSA board, while heading a Mexican insurance company called Seguros Cuauhtémoc—a subsidiary of the Italian Adriatica di Assicurazioni, whose involvement in the P-2 case has been proven in Italy. Zocchi is also a board member of the notorious corporate façade Permindex, the assassination bureau responsible for the murder of John F. Kennedy and the numerous attempts on the life of France's Gen. Charles de Gaulle.

- **Victor Urquidi.** Mexico's only official member of the Club of Rome, Urquidi delivered one of the major speeches at the recent Club of Rome annual conference in Caracas, Venezuela. His presentation was made on behalf of a Mexican think tank he directs, called the Centro Tepoztlán, whose other members include Japanese Trilateral Commission member and former Foreign Minister Saburo Okita, as well as close policy advisers to Mexico's secretary of budget and planning, Miguel de la Madrid.

member] who died recently. Rincón Gallardo had a lot of business ties in Guatemala and Colombia, especially in the beer industry. His family has two branches: one right-wing, the other left-wing, including members of the Mexican Communist Party. . . .

The only people who can take control of the Italian government at this time are the Masons. We have people in all the parties. Don't worry, the P-2 scandal has been stopped, and in three months' time we will again have control of the Italian government.

In the beginning of the P-2 scandal, it was said that there were 17 Mexicans on the list. But we didn't allow their names to be published—nobody knows them—because we didn't want an unnecessary scandal in Mexico. People don't understand these things, so it's not necessary to mention their names. . . . We now control the Mexican House of Representatives and Senate, so the Mexican names on the P-2 list will not be known.

*Vásquez struck a different note 48 hours later, after Mrs. Carrasco had broken the P-2 story in the Mexican*

*press. The Masonic conspirator allowed himself to be interviewed in the June 20 Mexico City daily El Universal, in a desperate effort to cover his tracks and defend the P-2's activities. Excerpts follow:*

We Mexican Masons would never try a coup d'état, because we are already in power. . . . Why, in the Vatican itself we have four functioning Masonic lodges, and nothing has happened there. . . .

It's no secret that [the Masons] are the people who direct the main actions of the [Italian] government at all levels. That is, we Masons are in power—so why would we want to seize it? . . .

Since the beginning of contemporary history, we have constituted ourselves into a world army that fights for liberty, using the paths of fraternity. . . .

We Mexican Masons give our solidarity to the Italian Masons, because we understand that they are going through a difficult time right now, since our secular enemies are trying to claim that membership in an institution of such high philosophical and moral principles is a sin.

## Japan and Southeast Asia reject Haig's China Card

by Richard Katz

Last week a former foreign policy adviser to Ronald Reagan commenting on the proposed arms sales to China warned *EIR* that if Secretary of State Alexander Haig carried his China Card strategy too far, "we'll end up with only one ally in East Asia, i.e. China. The rest will go neutralist." The speaker was University of California Prof. Chalmers Johnson, a top expert on Asia who served on Reagan's Foreign Policy Advisory Board during the 1980 campaign.

The warning (see *EIR*, June 30) was born out by the angry reception Haig received June 19-20 in Manila at the Foreign Ministers Conference hosted by the Association of Southeast Asian Nations (ASEAN). The reactions included:

- an incredible warning by new Japanese Foreign Minister Sunao Sonoda in private conversations with Haig that the U.S.-Japan Security Alliance was "jeopardized" by Haig and Defense Secretary Caspar Weinberger's heavy-handed pressures on Japan to play a regional military role as an adjunct to the China Card;
- a warning by a high-level Japanese Foreign Ministry "official"—thought by some to be Sonoda himself—that the U.S. arms sales to China "added an element of instability to the Asian region";
- the statement by Indonesian Foreign Minister Mochtar that the ASEAN nations—which include Indonesia, Malaysia, Thailand, Philippines, and Singapore—were "jolted" by Haig's arms sales decision, and Mochtar's comment that "I don't see how it can be helpful";

- the fear expressed by an unidentified ASEAN foreign minister to the *Washington Post* that "Washington was prepared to let China play a bigger role in the region, leading to future Chinese dominance over the whole area";

- the rejection by ASEAN of Haig's proposal of armed support to a Khmer Rouge-led united front and "military pressure" on Vietnam in favor of a proposal for a political solution to the Kampuchean problem through the use of U.N. peacekeeping troops and disarming of the various Kampuchean factions following a negotiated withdrawal of Vietnamese troops.

### ASEAN versus the China Card

Alexander Haig walked into the Manila meeting with tough talk and "guns blazing." He declared that "the Soviets or their proxies [Vietnam] remain the greatest threat to international peace," and loudly proclaimed his determination "to challenge active Soviet interventionism wherever it occurs." He proposed increased military aid to ASEAN countries.

Earlier in Peking, Haig's Assistant Secretary of State for East Asian and Pacific Affairs John Holdridge, a former Kissinger aide, had proposed U.S. "military pressure" on Vietnam. However, when the ASEAN nations didn't react well, Haig declared that the proposal was supposed to have been an off-the-record remark.

In reality, according to Washington sources, Haig's ostentatious declamations on the Kampuchean issue—

including proposals for U.S. arms supplies to a Pol Pot-led “united front”—are not prompted by an illusion that the Kampuchean people would rally against the Vietnamese in favor of a regime that murdered 3 million Kampucheans between 1975 and 1978. Rather, Haig was prompted by a memo written in February of this year by two Carter holdovers, then-Deputy Assistant Secretaries of State Michael Armacost and John Negroponte. The memo suggested that U.S. agitation around the Kampuchea issue could be used to both solidify U.S. ties to China and to suppress widespread anti-China feeling among the ASEAN countries.

ASEAN reality is quite different. Indonesia and Malaysia strongly oppose Communist China. This is partly due to the large ethnic Chinese populations in these countries which dominate many businesses and are viewed as an obstacle to industrialization. Typical of the feeling in these countries—whose population totals 165 million people—is an editorial in the Malaysian *New Straits Times* on Haig’s proposed arms sales to China:

ASEAN is understandably very concerned at the escalation of this romance which explicitly identifies Russia to be the principal, if not only, superpower ready to gobble up Southeast Asia as part of its grand design for the whole world. Regrettably, the Chinese threat has been reduced to being a bogey only. But nothing has happened to alter the fact that both the Russians and the Chinese have had their own designs on the freedom and neutrality of Southeast Asia. The Kampuchean issue has placed China closer to ASEAN. But, as [Interior Minister] Tan Sri Ghazali Shafie puts it, that very closeness will turn to peril in about half a decade when the Vietnamese situation has abated. China’s camouflage as an ASEAN benefactor is too thin to hide the historic ambitions Peking has always had in this region.

Another ASEAN diplomat added, “Although the ASEAN countries now see Vietnam as the main threat in the region, in the longer term China could be the main threat.”

Opposite Indonesia and Malaysia is Chinese-populated city-state of Singapore, which supports China on many regional issues. This is why the *New York Times* often chooses to cite Singapore (whose population is only 2.5 million) when it wants a “Third World” quote. Typical of Singapore is an editorial in their *Straits Times* supporting Holdridge’s call for military pressure on Vietnam.

Thailand, due to its geographic position opposite Kampuchea, is more dependent on China, but reportedly chafes at that dependence. The Philippines politically is in the middle of the five.

A year ago the Singapore attitude had greater weight within ASEAN as a whole. However, at the latest ASEAN foreign ministers’ meeting, ASEAN moved closer to the Indonesia-Malaysia view rejecting Haig’s confrontation politics in favor of seriously negotiating settlement with Vietnam over Kampuchea.

The ASEAN communiqué, issued June 18 just before Haig’s arrival as a guest, condemns the Vietnamese troop presence in Kampuchea and declares the current Heng Samrin government illegitimate. It also “welcomes the current consultations among the Kampuchean nationalists [a reference to both the Pol Pot-Khmer Rouge forces and the far smaller proposed “united front” partners Prince Sihanouk and former Prime Minister Son Sann—R.K.] with a view to setting up a coalition government.” However, the communiqué nowhere proposes ASEAN, or U.S. or Chinese, aid to such a “united front.” Indeed, Thai Foreign Minister Siddhi had earlier written letters to several American newspapers denying reports that he supported arms aid to a “united front” as proposed by Haig.

With Son Sann declaring that “the Khmer Rouge would like to murder me in my sleep,” according to the *Far Eastern Economic Review*, Haig’s united front is a chimera and plays no role in the ASEAN peace plan. The ASEAN communiqué instead proposes:

- 1) The dispatch of the U.N. peacekeeping forces to Kampuchea;
- 2) The withdrawal of all armed forces from Kampuchea in the shortest time possible under the supervision of U.N. peacekeeping forces;
- 3) The disarming of all Khmer [Kampuchean] factions immediately after the completion of the withdrawal of all foreign forces from Kampuchea.

The third point is aimed at the Khmer Rouge. The communiqué adds, “The establishment of a truly representative Government must remain a matter for the Kampuchean people themselves to decide and pursue.”

Philippines Foreign Minister Carlos Romulo, speaking for ASEAN, dispelled any hint of linkage between this plan and Haig’s by stating that the U.N. force “is there to try and establish a U.N. presence of peace. It will not be there to fight and expel Vietnamese troops.”

The *Bangkok Post* adds that the ministers agreed that:

If Vietnam withdraws its forces from Kampuchea, ASEAN and the Indochina states could work together to prevent intervention of any major powers and meet external threats. To this end they proposed economic and technical assistance to Vietnam and Kampuchea to rebuild their economies after so many years of war.

It hardly sounds like a proposal to join Haig in fighting

what he provocatively calls "Soviet proxies."

Although in public Vietnam condemned the ASEAN meeting, it made counterproposals that indicate the possibility of conciliation. Following a June 15 meeting of the foreign ministers of Vietnam, Laos, and Kampuchea, the Indochina states communicated to Malaysian representatives that if China guaranteed an end to military and political support to the Khmer Rouge, Vietnam would withdraw its troops from Kampuchea. The Indochina states' communiqué, issued before the ASEAN conference, added: "Right now, if peace and stability on the Kampuchea-Thai border are secured, Vietnam and Kampuchea will reach agreement on the partial withdrawal of Vietnamese troops from Kampuchea."

While neither the Vietnamese nor ASEAN proposals in their present form will be accepted by the other, both sides are gradually shifting positions and engaging in small bilateral meetings. A negotiated settlement is by no means out of the question, since ASEAN is approaching the situation now from the standpoint of eliminating a source of regional tension rather than being a pawn of China Card geopolitics à la Haig.

Eventually ASEAN may tacitly recognize that the Pol Pot forces will never again rule what is left of the population of Kampuchea, and that the Heng Samrin government, or its successors, is there to stay, just as the United States recognized Peking. ASEAN will be satisfied with withdrawal of Vietnamese troops, which the Vietnamese say they will do once Chinese threats to themselves and Kampuchea are ended.

Thus the major factor maintaining the conflict is China's desire to further its own regional ambitions and Haig's support of China in furtherance of Kissinger's China Card strategy. Any U.S. policy that presumes that ASEAN will have indefinite patience with the current situation is doomed to backfire as badly as Haig's arms supplies to China.

### **Japan's revolt against Haig**

On his way to the Manila conference, where he supported the ASEAN view, the tart-tongued new Japanese foreign minister, Sunao Sonoda, told the press that he would demand of Haig whether Washington wanted Japan to be "an obedient faithful partner or a partner worthy of trust and consultations," according to Kyodo news service.

Sonoda's comments were prompted by Haig and Weinberger's pressure on Japan to launch a drastic military buildup and regional military role as an adjunct to the China Card. Even prominent advocates of a stronger Japanese defense role, such as Nomura Research, Inc. President Kiichi Saeki, balk at Haig's measures. Saeki told a Washington conference June 12:

The concept of a United Front strategy involving

Japan, the U.S., Europe, and China to counter the Soviet military threat is perhaps going too far. It is dangerous to corner the Soviet Union, and while cooperation with China is necessary, caution should be exercised so that the U.S.S.R. will not overreact in the fear it is being encircled.

Americans traveling with Saeki on the May 21-23 Trilateral Commission visit to China report that he was strongly opposed to any U.S. arms sale to China. Saeki is no dove, but a strong collaborator with the Atlantic Council in advocating a Japanese defense buildup.

Imagine, then, Japan's shock when, at a Hawaii "working level" U.S.-Japan meeting on defense in June, Pentagon officials told Japan to scrap its current defense plan and prepare to resist invasion for a "prolonged time" without U.S. help, as Kyodo reported. The shock was amplified by Haig's China arms decision.

Sonoda emphatically told the press conference that he rejected the Pentagon proposal. He added that he would "seek an explanation" from Haig of the arms deal for China, and Sonoda's foreign ministry officials termed the deal a source of instability in Asia. Sonoda drove the point home by adding that during his recent tour of Europe, accompanying Prime Minister Zenko Suzuki, he was impressed by European arguments that arms talks were merely a means and détente the goal—a fundamental rejection of Haig's strategy.

Haig had operated on the presumption that with sufficient pressure, Japan would do almost anything. That attitude lost Haig-supporter Foreign Minister Masayoshi Ito his job to Sonoda in May. Further pressure from Haig may boomerang even more sharply.

One indication of Japan's new disentanglement from Haig's China Card came in Sonoda's Manila presentation. Ito had supported the Brzezinski-Haig line on Kampuchea, going so far as to give foreign aid to the Khmer Rouge. Sonoda reversed this. Sonoda supported the ASEAN peace plan, and went even further. He did not mention the "united front" at all in his June 20 speech. Instead, like ASEAN, Sonoda proposed U.N. peacekeeping forces and phased Vietnamese troop withdrawal. The foreign minister then added a proposal for U.N.-supervised elections to form a national assembly and draw up a new constitution. Finally, Sonoda proposed that the major powers guarantee the peace, on the basis of an international fund for the reconstruction of Kampuchea.

Sonoda added that a July U.N. conference on Kampuchea—proposed by ASEAN and boycotted by Vietnam—should "avoid making the conference a forum solely to condemn Vietnam."

America's most important friends in East Asia have clearly rejected Haig's China Card. Washington can either have them as allies and friends or have the China Card; it cannot have both.

# Moscow on a military footing

*Soviet Sector Editor Rachel Douglas analyzes the fundamental Kremlin shift away from diplomacy, toward war-preparedness.*

Leonid Brezhnev signaled on June 23 that the Soviet political command has shifted emphasis from war-avoidance diplomacy to military preparedness. They are no longer in the mode characterized, for example, by a Soviet Central Committee resolution on foreign policy exactly one year ago to the day (June 23, 1980), which stated that there existed Western state leaders who could "avert the threat of world thermonuclear conflict."

The leading such figure, France's President Valéry Giscard d'Estaing, who was Brezhnev's leading negotiating partner, is out of office. West German Chancellor Helmut Schmidt, whose alliance with Giscard preserved the peace throughout the Carter years, is weakened, and the Franco-German alliance has evaporated.

Soviet President Brezhnev delivered a speech denouncing "bellicose-minded imperialist circles" before the Supreme Soviet on June 23. Brezhnev evoked images from World War II—the "holy war against the Nazis"—and recalled "the millions of Soviet people who fell."

Brezhnev's June 23 speech spoke of no trustworthy or reasonable heads of state in the West, but called only on "parliaments and peoples" in the West to seek peace.

The change in basic Soviet strategic posture is encapsulated in that difference in the language of June 1980 and the language of June 1981. *EIR* founder Lyndon H. LaRouche, Jr. recently observed: "Under conditions of perceived threats to the 'Soviet fatherland,' key elements of nearly all Soviet factions will reunite as one fist around the memory of World War II."

Soviet sources, from Brezhnev's entourage to the military, are currently motivating the kind of Soviet nationalist mobilization LaRouche forecast.

Leonid Zamyatin, whose Central Committee International Information Department was founded to publicize Brezhnev's policies, told a national television audience that the subversion of Poland and NATO plans to install medium-range Pershing rockets in Western Europe are two prongs of an offensive meant to split the socialist bloc. Marshal Viktor Kulikov, Warsaw Pact commander, wrote in the Russian army daily that "counterrevolutionary forces are trying to tear [Poland] out of the socialist community."

Defense Minister Marshal Dmitrii Ustinov warned in *Pravda* in a statement comparing today's war danger with that in the 1930s, that the U.S.S.R. will "match" any military challenge.

The late June newspapers reporting these warnings also carried news of the latest Soviet space launch, Cosmos 1267, a satellite that docked with the orbiting laboratory Salyut. The Cosmos series subsumes many experiments for the Soviet military, and Cosmos 1267 was the first step toward a permanent space station with military as well as civilian capabilities.

## How relations became strained

The election of Ronald Reagan was not the decisive cause of Moscow's shift toward a war-fighting military posture as the dominant feature of its foreign policy. Many of Brezhnev's advisers welcomed the political elimination of the unstable Jimmy Carter.

But troubles that began with the destabilization of Poland in the summer of 1980 culminated in the ouster of President Giscard in the May 1981 French elections. With Giscard's defeat, Brezhnev lost a mainstay of his war-avoidance approach to world affairs. Although Brezhnev is slated to meet West German Chancellor Helmut Schmidt later this year, this is a less powerful combination than it was when the Giscard-Schmidt team shaped European policies.

Personal diplomacy between Reagan and Brezhnev still could avert superpower confrontation, but there are weighty forces both in the West and in the Soviet Union working to prevent such a rapprochement.

The behavior of some Trilateral Commission members and Reagan administration officers bespeaks a remarkable inclination to plunge into World War III.

The much-publicized Peking ventures of Secretary of State Alexander Haig, especially, displayed to the Soviets that the most dangerous Carter-era policies have been reborn with a vengeance under Haig's stewardship over American foreign policy. If the United States arms China and Pakistan, with Giscard gone and Schmidt weakened, the Soviet supreme command concludes that

there are growing military threats on all fronts.

In the Polish crisis, too, the Trilateral Commission is goading the Soviets.

It would be easy to conclude, for instance, that David Rockefeller wants the Soviet Union to invade Poland. Rockefeller's practically bankrupt Chase Manhattan Bank was a major force in a June 19 creditors' meeting on the Polish debt. This was a rump meeting of American banks only, preparing an independent stand to submit to the 19-bank Multinational Task Force on Polish Debt the next week.

The American committee recommended a freeze on principal payments and deferral of a comprehensive decision on rescheduling until the end of this year, while attempting to collect interest payments in the meantime. This blocked a European plan to reschedule the debt over seven-and-a-half years. Chase and its fellow American creditors appeared to be hoping for realization of the scenario offered by the Swiss financial paper *Neue Zürcher Zeitung* some months back, according to which the Soviet Union would invade an economically and politically disintegrating Poland and guarantee the debt. The West German business daily *Handelsblatt* commented with alarm June 16, "The participating U.S. banks have proven themselves to be difficult negotiating partners."

German industrialists with a stake in their Polish projects and possible future investment there were not the only ones objecting to the American banks' unbridled pursuit of payment on the Polish debt. The geopolitical designs of British intelligence circles on the entire Soviet bloc could also be upset by a Polish default and certainly by a Soviet invasion.

Hence Richard Portes, a University of London professor who has advised the New York Council on Foreign Relations for several years on the strategic weight of the Soviet bloc debt, cautioned in a June 19 *New York Times* column that U.S. banks were "risking very dangerous consequences for no clear benefits."

This seemingly more sober attitude emerged not only on the Polish question, but from a faction of British strategists who are considering a broad web of international relations, from China to Poland to the world economy. This last element is key.

On June 14, the Basel-based Bank for International Settlements (BIS) reversed its earlier policy, and denounced the usurious interest-rate policies of the U.S. Federal Reserve. Arrigo Levi of the London International Institute for Strategic Studies gave a defense for such a switch, in a June 11 column reporting statements of David Watt, head of the Royal Institute for International Affairs. Said Watt, according to Levi, "The most important thing for the alliance is to get our economic situation right, to get more growth."

Days later, former U.S. Secretary of State Cyrus

Vance returned from a trip to Moscow full of criticism for Haig's arranging arms sales to China. "Bear-baiting," he called it. The *London Times* concurred: "It is with the Soviet Union, not China, that we share the European continent. . . It is, therefore, with the Soviet Union that we have to do business directly in order to lessen the dangers inherent in this relationship."

Reality, the eventual defeat of an economically depleted West in military confrontation with the Soviet Union, had registered with these circles, though not with Haig or Trilateral Commission members like David Rockefeller.

William Beecher of the *Boston Globe*, who was on intimate terms with the Carter administration State Department run by Cyrus Vance, gave the long view: The best hope, Beecher wrote from Moscow June 19, would be for Poland's model of economic liberalization to succeed and then be emulated by the entire Soviet bloc, including the U.S.S.R. The Polish model, however, consists of deindustrialization, and deindustrialization stops where Soviet military requirements begin; the "long view" of Beecher and Arrigo Levi, who predicted the "disintegration of the Soviet Empire," contains the seeds of yet another strategic miscalculation.

Vance's mid-June visit to Moscow was for a session of the Independent Commission on Disarmament and Security Questions (the "Palme Commission"). With fellow members—Social Democrats Olof Palme of Sweden, David Owen of Great Britain, and Egon Bahr of West Germany—he sought Soviet collaboration on crisis management, still in a world subject to deindustrialization. Sources close to the Palme Commission revealed that the agenda in Moscow focused on nuclear nonproliferation, technology control, and North-South relations, especially respecting the Mideast.

While wining and dining Vance and the other commissioners, the Soviets telegraphed an underlying policy of readying for military conflict. Brezhnev used a meeting with Palme, displayed on the front page of *Pravda*, as a platform to attack the Reagan administration; Palme Commission member Georgii Arbatov said that no new proposals on arms negotiations would be forthcoming until the United States changed its stand on ones already tabled.

Vance's Palme Commission venture, which its organizers boast is a fallback channel for superpower dialogue, served to increase the danger of war. It invited new Soviet expressions of hostility toward Reagan, and it encouraged Soviet backing for international economic policies that cause greater instability than ever.

### **Russian maneuvers, Iranian bloodbath**

Soviet connivance with the Socialist International and international terrorism originates from Soviet fac-



tions that interlock with British intelligence and European oligarchical networks, and has often undercut Soviet state policy. Prominent in the Soviet factions involved are the machine of the old Communist International, certain Moscow think tanks, and the KGB.

It is a feature of Soviet politics since Giscard's defeat that the line between Brezhnev and representatives of these factions, such as Central Committee Secretary Boris Ponomarev, is increasingly blurred. It is Brezhnev who will receive Socialist International chairman Willy Brandt June 30 and Brezhnev who has warmly praised the Ponomarev-patronized, Socialist-led peace movement in Europe in three consecutive speeches. The entire Soviet press choruses in support: *Izvestia* proposes that Britain's Lord Carrington could lead Britain into "détente" with Moscow, and *Pravda* hails the great example set for disarmament advocates by Bertrand Lord Russell, the British intelligence master whose Campaign for Nuclear Disarmament in the 1950s pioneered the use of antiwar mobilizations to block scientific and industrial progress and to destabilize chosen governments.

Moscow's fanfares for the Socialist International fully accord with the underlying military preparations mode, if the Soviets are calculating that war is inevitable. From the military point of view, movements that weaken the potential adversary are welcome.

Olof Palme's next stop after Moscow was Teheran, for his ongoing mediation of the Iraq-Iran war. Landing in Teheran the same day, also from Moscow, was Ayatollah Sadegh Khalkhali, the reputed chief of Iran's supersecret *Fedayeen-e Islam* society.

Khalkhali, a recent visitor to Peking, had toured several Soviet republics where Islam is practiced. His hosts were the government Council for Religious Affairs and the Spiritual Administration of Muslims; like the Russian Orthodox Church—which joins forces in disarmament campaigns with the Socialist International and prominent Anglicans and Episcopalians, among them Cyrus Vance—the Spiritual Administration of Muslims is tightly interpenetrated with the KGB.

Within hours of his return, Khalkhali was spurring Iranians into new chaos and civil strife with calls to shoot "renegades" to the Islamic revolution and cries of "Death to America." Soviet commentator Alexander Bovin, who has relayed Brezhnev's policies to the world in the past, did raise some doubt about the ultimate outcome of the Iranian mullahs' rampage. Iran's real problems "are beyond the limits of their understanding," said Bovin of the mullahs.

But for now, Moscow is not backing any alternative for Iran. The KGB and Socialist International forces, who helped the ayatollahs to power in 1978, are ascendant there, in part because the Soviet leadership has cut back on war-avoidance endeavors internationally.

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## Book Review

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# What are the true roots of Islam?

by Thierry LeMarc

Numerous books published over the past several months have addressed themselves to the task of defining a future to the Arab-Islamic world, a world in crisis since the takeover of Iran by Ayatollah Khomeini two years ago. The central feature in that ongoing philosophical and political debate is the very existence of the nation-state as it is known today: the most advanced form of society.

Since the "Islamic revolution" in Iran, various styled organizations have taken it upon themselves to pave the way for the annihilation of the nations of the Islamic world, but a key proponent is one Zia Uddin Sardar, consultant to Saudi Arabia's King Abdul Aziz University and an Islamic member of the "Aquarian conspiracy," named after the famous book by Marilyn Ferguson, with whom Sardar entertains close relations. In a recent discussion about his latest book, *The Future of Muslim Civilizations*, Sardar explained that presently existing nations in the Middle East, Africa, and Southwest Asia are key "obstacles to a true Islamic revival. . . . Imposed by the West, present nations are primarily relying on geographical boundaries and do not care about human development. The nation-state never existed until the 19th century in the Islamic world. All was not rosy during the Ottoman Empire, but you had better human communication," he continued.

As one could guess, Sardar's present target is primarily Saudi Arabia—as it was from Iran a few years ago. Thus he moans that in the kingdom "the nomads have lost their identity. They have become alienated from their own history. The nice old cities have been replaced by high buildings. De-urbanization, that's what I want," he concluded before going on to proudly stress that his ideas were being studied in numerous Middle Eastern-based institutes of "futurology" and that the "nation-state is already crumbling. We have to reinforce local

control. It is already happening.”

Sardar's fundamental untruth lies in what he tries to hide. His proposals are not Islamic per se, or in general, but are indeed representative of a particular political faction of Islam generally associated with the arch-reactionary mystic philosopher of the 11th century al-Ghazali. It is a straightforward feudalistic outlook based on an Islamic world exploded into numerous fiefdoms without any identity other than the local tribe. In such a world, the great mass of the population is sent back to pastoral imbecility and nomadic savagery, while a handful of priests, of the likes of Sardar, maintains for itself what little technology it deems necessary. In the same discussion, he outlined that, although high technology such as nuclear power would have to be eliminated, smaller-scale technology, “appropriate and Islamic technologies, will have to be kept.”

### Is the nation-state ‘un-Islamic’?

The alternative to Sardar's scenarios and ravings were given last winter at the seminar held in Paris by *EIR* to celebrate the millennium of ibn Sina (known in Europe as Avicenna) (*EIR*, Dec. 30), especially in the presentation by Prof. Aly Mahazeri of the Paris Ecole des Hautes Etudes en Science Sociale. In Professor Mazaheri's presentation on *The Virtuous City*, written by ibn Sina's 10th-century predecessor al-Farabi, he showed the enormous contribution of al-Farabi in the process that built the nation-states of Europe. Coming during the decay of the Abbasid Caliphate of Baghdad, al-Farabi conceived his *Virtuous City*—in which he defined the rights and duties of both the rulers and the ruled—as the necessary step forward that the Islamic society of his time had to accomplish to reverse its entropic process of decentralization.

Truly Neoplatonic, al-Farabi warned the rulers of their duties to meet the spiritual and material demands of their subjects, to continuously face the task of raising their abilities toward reason. That his scheme was called the “scientific city” was no accident, as he recognized that the city was one of the achievements of civilization without which society as a whole would not have progressed from the stone or pastoral ages of earlier technologies. Implicit in the proposals of al-Farabi was especially the need to regulate the financial and monetary flow in the caliphate, seizing it from the handful of bankers who, through their monetarist lootings, had led the entire caliphate to the point of disintegration.

As history teaches us, none of this advice was implemented. Local communities became the dominant focus of social activities, and the caliphate was split into numerous kingdoms, fiefdoms whose only common feature was a belief in obscurantism of al-Ghazali's sort. As a matter of fact, in Iraq it took until the 1970s to rebuild the kind of irrigation system first established in the ninth century by the Abassids, but which had been

left to degradation afterward for lack of credit and centralized authority—11 centuries!

### Contribution to Europe

Contrary to what Sardar would have us believe, Europe was built into nation-states only after the philosophical and political achievements of such persons as al-Farabi or ibn Sina had become known. So much for the nation-state as a “Western colonialist creation.” As detailed in the recent books *Fascination de l'Islam* by Maxime Rodinson and *Lumières d'Orient* by Jean Tourniac, the building of Europe was achieved by such currents as “Augustinian Avicennism,” a philosophical and political network born out of the research and work of the philosophy of both a deliberate voluntarist Transmitting their conclusions to the main arenas of Europe, these networks based themselves on a synthesis of the philosophy of both a deliberate voluntarist outlook, and on the commonality of al-Farabi's *Virtuous City* and St. Augustine's *City of God*. Their aim was to end feudalism, and they did. Such products led to 13th-century philosopher-king Frederick II Hohenstaufen, a grand and controversial figure who drafted the first modern constitution, based on his knowledge of such philosophers. A similar result was achieved in the 15th century with Louis XI, who founded the French nation, through his educators among the Brotherhood of the Common Life, an Augustinian order modeled on the earlier Ismaili currents of Islam. Similarly, through the 15th-century Greek philosopher Plethon Gemisthos based in Italy, Europe was introduced to the key notion of labor force and of political economy, initially developed in raw form by ibn Khaldun.\*

How ironic it is: Europe could not have been built without the great contributions of such thinkers, generally considered as Islamic thinkers. By contrast, the Islamic world not only fell into decay, but even submitted to the domination of the many mystical schools originated by al-Ghazali and became an easy prey for the Mongolian troops who met little resistance. In effect, it was not natural phenomena, but a direct political action by the followers of al-Ghazali to permit the Mongol invasions rather than see their own power challenged by rational philosophical currents. To do so, the followers of al-Ghazali did not hesitate to ally themselves with similar feudal forces in Europe who were fighting against Frederick Hohenstaufen and his colleagues.

Out of his London office, Sardar, through his close collaboration with the Club of Rome, the Aquarian conspirators, and the Brandt Commission, seems to be willing to continue on such a path.

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\*For a more general reading on Islam, see Montgomery Watt's *What is Islam*, Longmann Group Ltd. and Librairie du Liban, London and Beirut, 1980.

# The Club of Rome launches its Latin American 'pilot project'

by Gretchen Small

How can a small group of men and women most efficiently induce—or coerce—the world's governments and peoples, starting with Latin America as a "pilot project," to turn over their rights of self-government to a "one-world" government? That was the central item on the agenda for the Club of Rome's 1981 annual conference held June 16 through 19 in Caracas, Venezuela. Some 250 delegates from more than 40 countries attended, listening to presentations from about 80 speakers on such topics as "The New International Order—A Challenge to the Capacity to Govern." Although the conference was organized around the theme "Alternatives for Humankind: Mission for Latin America," a review of the speeches and debates of these men and women leads an objective observer to the conclusion that "Alternatives to Humankind" was the real subject of their planning. The Club of Rome is an elite spinoff of NATO and the OECD, founded in 1968.

On one level, the Caracas '81 conference was a successful coup for the Club of Rome. The first annual conference ever held in a Third World country, this year's was not only financed but officially cosponsored by the government of Venezuela. President Luis Herrera Campins, in fact, opened the conference; several cabinet ministers addressed the body; and top government bureaucrats and politicians attended throughout, on government encouragement. The extensive media coverage of the event impressed and pleased the Club members immensely, as several noted in their speeches. For days, their Malthusian ideas were aired on national TV, and in page after page of coverage in the local press.

Reality was not wholly excluded from the event, however. This "Caracas adventure" must have "fallen like a pearl" in the lap of Aurelio Peccei (a Club of Rome founder), a columnist in one of Caracas' major dailies, *El Nacional*, commented following the conference: "What more can he want in these calamitous times, but to live far from Rome, stirred by the scandal of the Propaganda-2 Lodge, in which saints and sinners, civilians and military, believers and Masons," have been

implicated. "The Club of Rome does well to travel," the column, titled "Fasten Your Seatbelt," drily noted.

The columnist's reference to the scandal around the Masonic P-2 lodge led by Mussolini secret police officer Licio Gelli was an understatement. Peccei and the Club of Rome as an institution have already been exposed as assets of the P-2 Lodge, whose members are now being hunted down internationally on charges of crimes ranging from murder and terrorism to bribery and speculation.

The timely cosponsorship by the Herrera Campins government in Caracas (the government, it must be noted, that Secretary of State Haig and his assistant secretary Thomas Enders insist is the United States' best ally in the area) was precisely the step of official recognition and legitimization needed by the Club of Rome.

The topic on the agenda, however, was how to pull in the rest of the continent—thus securing Latin America as a primary base of operations for eliminating national sovereignty internationally.

## An experiment

Confronted with the still-strong commitment of most of the world's governments to the principle of their sovereign right to develop their nations, for the past two years the Club of Rome has shifted its focus to the creation of powerful regional blocs as an intermediate step toward the creation of the "one-world" government they envisage. Club sociologists argue that countries will more easily cede aspects of their sovereignty to regional bodies, through which more and more of the "global goals" sought by this crowd can be introduced.

Of the different regions of the world, Latin America is best suited to dedicating itself to "undertakings of a planetary scope," Peccei stressed in his opening speech before the conference, since it is "neither so developed as to be captive to an essentially materialist civilization," nor so poor as to be concerned only with its survival.

Latin America should be a "pilot project" on how

to introduce our ideas through a "regional base oriented to the global," Yehezkel Dror announced during the panel on the "New International Order—a Challenge to the Capacity to Govern."

Club member Dror, a professor at the Hebrew University in Jerusalem who created the theory of "states gone crazy" for such countries as Iran and Libya, presented one of the most sophisticated—and openly Nazi—speeches of the entire conference. Dror's hatred is directed at the present world structure based on "sovereign nation-states," which allows governments and leaders to focus on the "microconsiderations" of the needs of their populations.

Only a small elite of a "few highly qualified persons" will ever be able to make the brutal decisions required by the long-range decline of the universe he foresees, Dror emphasized. An immediate priority must therefore be placed by the Club of Rome on the creation of a few institutions to serve as training centers for this elite, Dror said, suggesting a "School for Global Policy" and an "Institute of Higher Studies in Global Policy." The legions of genocidal planners coming out of these institutions can then induce most governments—like the Venezuelans—to follow their prescriptions.

But, Dror warned, we must "firmly confront the fact" that there exist governments that are totally against the international order—sovereign governments, which he equated with Nazi Germany because they refuse to go along with international law! Dror left unspoken his suggestions for dealing with such regimes.

Other speakers made specific proposals on how to overcome the tremendous resistance to their policies. Ervin Laszlo, the head of Unitar, one of the many branches of the United Nations, proposed that a Central Common Fund be set up modeled on the European Community Common Agricultural Fund, which could finance regional ventures. Those countries that lose markets or industries as a result of concessions required by joining a regional agreement would be recompensed by the Fund; those that gained should contribute.

Cultural and educational programs as means to introduce issues of "global concerns" on a mass-scale was another focus of the conference. Venezuela's minister of intelligence, Luis Alberto Machado, urged the Club of Rome to initiate the founding of an "International Alliance for the Development of Intelligence," which would push the controversial education programs he has implemented in Venezuela, programs that were developed out of the artificial intelligence project of the 1960s and treat the human mind as nothing more than a defective computer.

An immediate target of the Club of Rome futurologists is the mid-October heads of state summit scheduled to take place in Cancún, Mexico. On the agenda there is the future direction of North-South relations, and Club

kooks hope to seize control of the discussions in advance. If Latin America can be won over, these futurologists hope, they stand a better chance of breaking down opposition from other countries—including opposition they foresee from the executive group under Reagan—to their one-world program.

According to one U.S. Club member, just returned from the Caracas meeting, the Club is planning to invite all participants in the North-South meeting to a "pre-meeting" in Vienna, Austria at the International Institute for Applied Systems Analysis in September, where they hope to convince national representatives that they cannot discuss "narrow nationalist issues" at Cancún.

Mexico, however, a republic whose commitment to national sovereignty is the base of all its institutions, remains a big obstacle to the whole scheme, especially as it is the host country to the October summit. Peccei, along with several others, left Caracas straight for Mexico, to head up a similar conference of genocidal technicians that took place there at the end of June (see Dateline Mexico).

Peccei's Mexico meeting, however, was met with demonstrations and a growing scandal around the P-2 sponsors of the Club of Rome that is rapidly becoming the center of Mexican politics. Despite the smooth sailing in Caracas, Peccei's crowd may not find the same elsewhere.

## A challenge to Peccei bursts out in Mexico

by Elsa Ennis

Latin American governments had not yet realized the full implications of the Caracas Club of Rome meeting when Club leader Aurelio Peccei was already in Acapulco running an international symposium on "futurology" and "informatic sciences" June 22-23. In Peccei's jargon, the word "informatic" means an effort to subject sovereign nations to a supranational dictatorship of U.N. technocrats and one-worldists based on control and use of information and computer systems.

The Acapulco conclave was jointly organized by the Intergovernmental Bureau of Informatics (IBI), a U.N.-sponsored agency in Rome, and the "informatic center" of Mexico's Ministry of Planning and Budget.

Besides Peccei, the Acapulco meeting included such top zero-growthers as Gerald O. Barney, the coordinator of the Carter administration's *Global 2000 Report*, the Malthusian blueprint recommending a drastic reduction of world population because of supposed resources scar-

city and lack of energy.

Another star attendee was Club of Rome founder Alexander King, who heads the International Federation of Institutes for Advanced Studies, specializing in psychological warfare techniques and propaganda for environmentalism and zero-growth. But it was Alvin Toffler, the author of futurologist bestsellers like *Future Shock* and *The Third Wave* who has achieved the most notoriety by insulting Mexico's political leadership.

Toffler's books specialize in depicting doomsday scenarios of war and destruction, especially in countries that are most resistant to the "informatic" and "technetronic" society. In *The Third Wave*, Toffler takes to an extreme the "Iran scenario" often predicted for oil-rich Mexico: "What happens . . . when Mexico begins in earnest to exploit its oil and faces a sudden, overpowering influx of petro-pesos? Will the ruling oligarchy have the desire to distribute the bulk of that wealth to Mexico's malnourished and long-suffering peasants? And can it do so rapidly enough to prevent today's low-level guerrilla activity there from exploding into a full-scale war on the doorstep of the United States?" Based on extensive profiles of Mexican-American populations in the U.S. Southwest, Toffler further speculates on the possible eruption of a separatist movement there.

### A not so friendly welcome

Contrary to the lavish embrace the Club of Rome received from the Venezuelan government, the futurologist crowd ran into intense flak in Mexico. Peccei's June 23 press conference in Mexico City fell into total disarray when members of the prodevelopment Mexican Labor Party (PLM) distributed a leaflet to the journalists detailing the futurologists' "crimes against humanity."

During the press conference itself, Peccei and his friends were bombarded with hostile questions about their stated recommendations of genocide to stop population growth, their insistence on stopping Third World industrialization, and Peccei's public endorsement of cannibalism as a justifiable means of survival. The press made a special effort to find out Peccei's connections to the P-2 Masonic scandal now shaking Italy. The next day, the Mexican press was full of Peccei's desperate denials of the various accusations.

In a ceremony at the presidential residence, where the futurologists visited President López Portillo to tell him of their symposium's conclusions and plans for the future, the Mexican president warned them that "we condemn technocracy because it does not respect systems based on law, which it turns into governments of men. . . . Western experience teaches us to choose governments of law, because sooner or later, governments become corrupted, no matter how pure the technocrats appear."

## The speakers' roster at the Caracas session

The Club of Rome's 1981 annual conference in Caracas on "Alternatives for Humankind: Mission for Latin America," drew many political and economic leaders, including presidents and ex-presidents of Costa Rica, Venezuela, Mexico, and Chile as scheduled speakers.

Former Venezuelan President **Rafael Caldera**, who is hoping to run for president again in 1983, spoke for a model of "pluralist solidarism" that opposes large concentrations of capital that must be tailored to the special needs of Latin American "ideology," whether socialist or capitalist. **Teodoro Petkoff**, the Maoist ex-guerrilla who was associated with French terrorist Régis Debray in the 1960s and now heads a leftist faction in Venezuela's parliament, countered that the only route to the future was a socialism that rejects the Western model of industrialization in favor of "small and medium" industries.

Despite their seeming disagreements, both speakers started from the Club of Rome's premise that the current "crisis" means that there must be "limits to growth."

Other Latin American leaders who spoke at the conference included: **Luis Herrera Campins**, Christian Democratic president of Venezuela, who said in his opening address, "It is not rare that man lives in a state of insecurity. More and more he lives in fear. Man is afraid of what he produces; he does not control his creatures; he wants to dominate creation, but he does not dominate his creations."

**Eduardo Frei**, former president of Chile, a member of the Brandt Commission, and head of Chile's Christian Democratic Party, who supported the 1973 Pinochet coup, advocated: "In the face of a billion hungry people, Latin America cannot continue asking for aid. I don't like nations that beg. To continue ahead, it is necessary that democracy not be a reign of ease. Liberty is responsibility and effort. We need self-discipline to solve the extremes of poverty and misery."

**Felipe Herrera**, former IMF director, ex-president of the Inter-American Development Bank, and now president of Unesco's International Fund for Culture, is the only Latin American on the Club of Rome's executive board. He stated: "We must begin from the fact that we are living . . . in a world [that is becoming] smaller and more concentrated, with the same resources that came from Adam and Eve, and with a tremendous numerical growth in the population."

# The new French cabinet: who gained

by Dana Sloan

French President François Mitterrand's Socialist Party (SP) won an overwhelming majority in the parliamentary elections at the end of June, giving the new president the means to pursue his objectives without need to bargain or negotiate on the level of inter-party politics.

While the American press has given front-page headlines to the appointment of four members of the Communist Party (PCF) to the cabinet, there is much greater reason for Western nations to be concerned with the appointment of Robert Badinter—a French equivalent of William Kunstler—to the sensitive post of justice minister. Mitterrand, with near-total power now in his hands, will accelerate the process he began shortly after his inauguration with a purge of several hundred intelligence agents and the prison release of more than 40 convicted terrorists.

If the Reagan administration is going to cut off the flow of sensitive intelligence to the French government, it should be for the right reasons: not because the PCF happens to be in the cabinet, presiding over its own annihilation, but because, from all appearances, the Mitterrand government has become terrorism's best friend in the West.

The appointment of Robert Badinter as minister of justice should properly become the focus of attention of France's allies. Along with Régis Debray's ascension to the Elysée as foreign policy adviser to Mitterrand, Badinter's presence in the cabinet confirms the government's intention to dismantle the antiterrorism cooperation laboriously assembled on an international and especially European-wide basis by the Giscard government.

A lawyer trained in part at Columbia University, Robert Badinter has intervened every time the previous administration undertook to keep its international anti-terrorism pledges. Badinter served as attorney for Klaus Croissant, a West German lawyer who defended Baader-Meinhof terrorists, was prosecuted as an accomplice of the gang, and was extradited from France in 1977. Freed from jail in December 1979, Croissant re-entered France shortly after Mitterrand's presidential election. Badinter has also served as defense attorney for Franco Piperno, Red Brigades leader extradited from France in 1978.

The Socialists did not receive a mandate for this

unleashing of terrorism. The opposition simply handed over a mass of sheeplike voters to Mitterrand—while an exceptionally high 25 percent abstained. The only thing comparable (in an inverted way) to the Socialist Party's victory in the parliamentary elections that ended June 21 is the massive swing behind Charles de Gaulle's UDR party in the parliamentary elections that followed the May 1968 student revolt, when the UDR won 297 seats. The Socialist Party and its tiny ally, the Left Radicals, won 285 seats, 169 more than they had in the previous National Assembly, which is composed of a total of 491 seats. Socialist gains were across the board, including areas previously considered impregnable. There is no longer a basis for talking about a conservative northern France and a socialist southern France: the Socialist Party made advances throughout the country. In the Seine Saint-Denis district, which has long been called the "red belt" suburb of Paris because the PCF has controlled the nine seats as long as anyone can remember, the SP took four of those seats.

Former President Giscard's UDF coalition lost nearly half its representation, dropping from 122 to 64 seats. The RPR, neo-Gaullist leader Jacques Chirac's party, lost 67 seats—the most forfeited by any of the losers—dropping to 151. The Communist Party went from 86 seats to 44, with party secretary Georges Marchais the only member of the Politburo left with a seat in the Assembly. That may soon be the only job he has.

The PCF was brought into the government after two days of negotiations, which resulted in the Communists committing themselves to "unfailing solidarity" with the new government. What this means is that the PCF, despite its large pro-growth union base, has swallowed the entire gamut of Socialist International policies, from disarmament to deindustrialization. In exchange for four cabinet posts (transportation, administrative reform, health, and professional training), the PCF will be asked to rein in the country's large labor confederation, the more than 4-million-member CGT, which it basically controls. This will particularly be the case in transportation, where strikes are expected this fall.

## K. D. Malaviya: an Indian nation-builder

by Ganesh Shukla

*On May 27 Keshav Dev Malaviya died at the age of 77 after a long illness. Malaviya was one of India's great men. In his memory we reprint here brief excerpts of the obituary written by his good friend, the editor of the Indian weekly New Wave, Ganesh Shukla.*

Along with the fiery Defense Minister V. K. Krishna Menon, Malaviyaji was one of the most controversial figures during the postindependence period, when, under Nehru's leadership, the Indian republic was trying to lay the foundations of industrialization.

A chemical engineer by education, Malaviyaji's commitment to India's scientific and technological progress was a shining example of patriotism to the younger generation of political workers and a source of strength to the scientific community. For the past four years, despite his fairly advanced age, he had been struggling to publish a monthly scientific journal which he used to fight against the ruralist offensive aimed at India's scientific and technological progress. He was impatient with the slow pace of progress in this vital area. Notwithstanding his age and indifferent health, he kept moving up and down the country meeting scientists, and writing note after note to the Prime Minister.

He was recruited to nationalist politics by Motilal Nehru [Jawaharlal Nehru's father] as a young boy. Though proud of his uncle, the great Hindu leader Madan Mohan Malaviya, Keshav Dev became part of the Nehru household in the 1920s.

I first heard Malaviyaji's name during the Quit India Movement [the movement against British rule during World War II], of course in a hush-hush way as he was engaged in organizing anti-British activities and setting up a clandestine broadcasting unit. By then he had already served in the first Congress-led ministry [government] in Uttar Pradesh [U.P.] and was a member of the All-India Congress Committee and one of the general secretaries of the U.P. Congress Committee.

I first met Malaviyaji in January 1957, when he had come to my district in U.P. to seek election to the Lok Shaba [the lower house of parliament]. Knowing his objective, which we had already decided to support, I badgered him with a long list of the Congress's failings.

He patiently listened to me, his mischievous, mirthful smile occasionally enlivening the atmosphere. "Have you finished?" he asked me, adding, "I need young men like you. You agree we have to defeat the reactionary Hindu Mahashbha candidate. Let us do this. Then we shall have a longer conversation." Malaviyaji won.

During the Nehru period the Congress was a funny organization. At that time, more of the real enemies of Jawaharlal Nehru and all that he stood for were inside the Congress than outside. Most of these fellows had sold their consciences to foreign lobbies, which used their greed and ignorance to subvert the Congress. The press was controlled by agents, hired touts and Cold Warriors. Since these elements could not directly confront Nehru, they singled out Krishna Menon and K. D. Malaviya for attack.

In 1963 the foreign oil multinationals, upset by Malaviya's efforts to build up a domestic oil industry, organized a "corruption scandal" to oust him from the cabinet. A donation of 10,000 rupees made by a mine-owner to a Congress candidate on Malaviya's request was made a big scandal by agent politicians and hired newsmen. Nehru was forced to ask Malaviya to resign.

Despite personal harm, calumny, and character assassination, Malaviyaji continued the fight for India's right to have its own national oil industry, its own scientific and technological capability. Verily, Malaviya is the father of the modern Indian oil industry. The Prime Minister has honored the Indian oil industry by naming the Petroleum Research Institute in Dehradun after him.

Last year I suggested to Malaviyaji that he go to Frankfurt to address a conference on India's economic development [sponsored by the Fusion Energy Foundation and the *Executive Intelligence Review*]. A few days earlier he was to go to Moscow to attend the meeting of the committee which awards the Lenin Peace Prize. It was quite strenuous but he agreed.

In Frankfurt he called an old British geologist friend to come and see him. He came and remained closeted with him for three hours. "This man," Malaviyaji later told me, "has been insisting since 1950 that we should drill 5-6,000 meters deep in the foothills of the Himalayas. We shall either strike oil and gas, or sweet water. The Himalayas are floating on water. If we get that water we can convert the Gangetic plain into the breadbasket of the world."

For the past few months, Malaviyaji was working on a proposal to hold an international conference of scientists in India to discuss "Energy and Economic Development." He was writing notes to the Prime Minister and holding discussions with Professor Nural Hassan in addition to many eminent scientists. He wanted an assembly of top Indian, Soviet, American, and European scientists on the Indian soil to restart the broken processes of détente on the level of the best brains of the world.

## The case of the 'Centro Tepoztlán'

*His Club of Rome links will hurt the planning minister's presidential aspirations.*

Last week's Club of Rome meeting in Caracas, Venezuela was of particular significance for Mexico's elite. First of all, it was the first annual Club of Rome gathering to be held on Latin American soil in six years. Second, Club of Rome members were flaunting their intent to influence the policies of all the nations, including Mexico, that will attend the North-South meeting in Cancún, Mexico.

And third, Mexico was represented in Caracas by a number of important personages, including former President Luis Echeverría (once a strident opponent of the Club of Rome's antigrowth philosophy); current United Nations Ambassador Porfirio Muñoz Ledo, a strong candidate in many people's book to succeed Jorge Castañeda as Mexico's foreign minister; and the well-known Victor Urquidi, the only Mexican who is an official member of the Club of Rome.

Urquidi's role has received particular backroom attention here since the Caracas event, primarily because he delivered his presentation—which was totally blacked out in the Mexican press—in the name of the "Centro Tepoztlán," a little-known but very powerful Mexican think tank.

My research indicates that the Centro Tepoztlán exerts significant influence on policy matters both domestically and internationally, despite the fact that its antigrowth tilt makes it hostile to the economic

development policies of the current Mexican government. A quick review of the Center's founding members indicates the source of their influence.

One of them is Saburo Okita, member of the Club of Rome and the Trilateral Commission, and former Japanese foreign minister. Okita played an important inside role in sabotaging possible oil-for-technology accords between Japan and Mexico back in May 1980, when Japanese Prime Minister Ohira visited Mexico.

Two others are Maurice Strong and Ignacy Sachs, both members of the editorial board of the Dutch ecologist magazine *Mazingira*.

The networks that the Centro Tepoztlán plugs into through *Mazingira* are highly significant. A frequent collaborator of the Dutch magazine is the Soviet Dzhermen Gvishiani, son-in-law of the late Aleksei Kosygin and the cofounder of the Vienna-based International Institute for Applied Systems Analysis. Gvishiani has been identified as an important member of the KGB faction that supports the Club of Rome's policies.

Other Mexican members of the Tepoztlán Center include the Social Democrat Jorge Hernández Campos; Leopoldo Solís, the monetarist sub-director of the Mexican Central Bank; and Manuel Camacho. Camacho's participation in the Tepoztlán Center has led to a flurry of speculation, since he is one of the

top advisers to Miguel de la Madrid, Mexico's secretary of budget and planning (SPP) and a leading presidential hopeful. The question on everyone's mind is whether Camacho's preference for antidevelopment philosophies reflects that of his boss De la Madrid.

This hypothesis gained credence here late in the week when news got around that De la Madrid's SPP was also sponsoring a World Conference on Information Strategies in Mexico City, which brought to Mexico the Club of Rome's leader Aurelio Peccei; Club of Rome founder and ex-NATO official Alexander King; the pro-Nazi futurologist Alvin Toffler; and the co-author of the Malthusian *Global 2000 Report*, Gerald Barney.

All this will hardly stand De la Madrid in good stead for the presidential succession fight.

In fact, President López Portillo took the occasion of a visit to his office by De la Madrid and the conference's leaders to sharply attack the concept of information theory. "This power runs the risk of becoming arbitrary, abusive, and it will help bring about the tremendously unfortunate system of technocracy."

The word "technocracy" in Mexican politics is a virtual synonym for the presidential hopes of De la Madrid—a man constantly identified as an able "technocrat" in the media and official circles.

After the president's unmistakable broadside against the man thought by many to be the front-runner for the presidential nomination, the word is out that former Pemex chief Jorge Díaz Serrano is not the only aspirant sent to the showers early this spring.



## The fuse is lit

*Israel's hit on Iraq has set off a chain reaction that could engulf the entire region*

Israel's June 7 raid on the Iraqi nuclear research facilities has touched off a potentially catastrophic chain reaction in Arab politics and throughout the Middle East—one that could have incalculable consequences for American interests in the region.

But the Reagan administration, still preoccupied with its budget and tax squabbles, is not paying sufficient attention to the growing crisis. Despite sharp evidence of Israeli violation of American law in bombing Iraq's reactor, Washington has acted as if the violation will simply go away.

By violating the most sacrosanct principle of international law—namely, that of national sovereignty—Israel has forced Iraq into an extremely difficult and dangerous position.

Despite the U.S.-Iraqi compromise at the United Nations Security Council debate last week, the Iraqi government is still intent on seeking justice for what Israel did. That, the Iraqi government believes, can only come when President Reagan declares that Israel has indeed violated American law and takes appropriate steps in response. "We insist that Israel be punished for its acts," said an Iraqi official.

But, because Reagan has indicated that he is willing to accept the advice of Secretary of State Alexander Haig and National Security Adviser Richard Allen in justifying Israel's attack, and because of Rea-

gan's seeming apology in his press conference for the Israeli raid, Iraqi officials are already hinting of a coming storm in U.S.-Iraqi and U.S.-Arab ties.

At a June 22 Arab conference, Iraq's speaker of the parliament, Naim Haddad, issued the strongest statement yet by an Iraqi official, warning that the Arabs should consider an oil embargo and financial warfare against the United States because of the Israeli bombing raid on Osirak.

Then, on June 23, President Saddam Hussein issued a startling call for the developed countries to "assist the Arabs in one way or another to obtain the nuclear bomb in order to confront Israel's existing bombs."

He said that "what terrified Begin was our scientific, cultural, human, political, economic, social, and educational development, and our sound concern with knowledge."

Moreover, he said, the attack on Iraq on June 7 signifies that Israel "would interfere even with roads someplace in Saudi Arabia and ask that their direction be changed under the pretext that they pose a threat to the Zionist entity" and "will ask the Arabs to cancel the study of chemistry, physics, mathematics, or astronomy . . . because they give the Arabs knowledge in the military sphere."

One Iraqi source declared that the Reagan administration is in-

formed by Iraq of how seriously Baghdad takes the implication of the Israeli raid. And, he added, "We know that Menachem Begin was trying to disrupt U.S.-Arab ties and to push us into alliance with the Soviet Union, but perhaps we have no other choice."

Two days ago, Deputy Prime Minister Taha Yassin Ramadan of Iraq paid a visit to Moscow. Now, according to reliable reports, a high-ranking Syrian delegation will soon visit Baghdad for talks on reconciliation following the June 24 visit to Iraq by Libya's Maj. Abdel-Salam Jalloud. The Iraqi press has now ceased attacking Syria and Libya, concentrating its propaganda on Khomeini's Iran and Begin.

"We will play our Soviet card," said one Iraqi source. "And the Saudis will go along—or we will force them to go along. It is a fact that we cannot accept what Israel has done, and we will never accept it. President Reagan must understand that, or he will find that Iraq will destroy America's interests in the Middle East."

According to U.S. congressional sources, there is no prospect for an immediate U.S. response to the Israeli raid. To cover up for its lack of decisiveness, the Reagan administration has sought to delay its official finding on the Israeli raid, hoping that the problem will go away.

But it will not.

"When Reagan came in," said an Arab diplomat, "we had hopes that he would be different than Carter. Unfortunately, our hopes seem to have proved wrong."

"It appears that the Trilateral Commission and the Zionist lobby have a controlling influence still, even over Reagan."

# International Intelligence

## **Egypt turning toward Iraq?**

A report in the Egyptian newspaper *al-Siyassi* that President Anwar Sadat of Egypt has offered to help Iraq rebuild its nuclear reactor is just one sign that a rapprochement between Egypt and Iraq may be in the works.

Following Israel's June 7 bombing of Iraq's nuclear reactor, Egypt's relations with Israel have cooled, and Egypt has announced that all peace negotiations with Israel have been frozen.

Egypt was the first country in the Arab world to condemn the Israeli raid on Iraq. Last week, Iraq sent a letter to Egypt thanking it for its expression of concern.

Intelligence sources say that an operation to destabilize Sadat and prevent him from shifting courses may now be under way. Last week Muslim-Christian riots broke out in Cairo, leaving 10 people dead. The riots were reportedly instigated by the secret Muslim Brotherhood society and Coptic Church leaders.

## **Quebec youth to police themselves**

Canadian Justice Minister Jean Chrétien and Solicitor General Robert Kaplan have announced a \$600,000 expenditure on a special "criminology" program for the youth of Quebec. "The program combines media publicity, newsletters and public conferences to familiarize laymen with criminal issues ranging from the ins and outs of legal aid to alternatives to prison sentences."

The program bears the markings of a "soft brainwashing" project of the type associated with the Tavistock Institute of Sussex, England. It occurs as a followup to the Local Initiative Program (LIP) of the 1970s, which funded "alternate life-style" groupings, including some active in terrorism and drug traffic.

Kaplan describes such groups as

"new service agencies" in what is envisaged as a "postindustrial" future. "This is especially important," he said of the new program, "as Canada is moving into an age where we will have to rely on the community itself more and more in the fight against crime as our agencies and protection forces get in shorter supply."

In the past 10 years, Chrétien's Justice Ministry has pardoned over 200,000 individuals convicted of possessing and trafficking in marijuana, moving them into "work sentences and community participation."

## **Peruvian army commander killed**

Peruvian Army Commander Gen. Rafael Hoyos Rubio died in a helicopter crash June 18, not far from where Ecuadorian President Jaime Roldós had crashed a month before.

Hoyos's death occurred amidst rumors that the Peruvian military was considering a revolt against civilian President Fernando Belaunde's new policy of giving away generous oil concessions to such companies as Occidental and Royal Dutch Shell. Hoyos was the last survivor in active military life of the "four colonels" who had helped Gen. Juan Velasco oust Belaunde in 1968 after Belaunde had been caught giving a secret \$600 million tax break to Rockefeller's Standard Oil.

Hoyos would be president now had not his predecessor as army commander, Gen. Pedro Richter, manipulated the army to return social democrat Belaunde to power. Richter ran the "civilianization" operation in coordination with Luigi Einaudi of the State Department and a banking team which prepared Peru's new "open door" policy on oil exploration. The consortium of Lehman Brothers Kuhn Loeb, Lazard Frères and Warburg was hired by Peru's state Banco de la Nación, which was simultaneously engaged in forcing Peru's national oil company into bankruptcy. The president of the Banco de la Nación has since been

rewarded with the presidency of Banco Ambrosiano Andino, the cocaine belt subsidiary of the main Italian P-2 bank.

Hoyos Rubio, a progressive nationalist with widespread support among troop commanders, was apparently seeking to block the oil denationalization.

Former Foreign Minister Gen. Mercado Jarrin complained two weeks before Hoyos's mysterious death that military supporters of Belaunde's policies had staged Peru's recent border conflict with Ecuador in such a way as to prevent any military opponent from emerging as a "national hero" capable of challenging Belaunde and his technocrats. The army border region commander perished in the same crash with Hoyos.

## **PLO, Qaddafi restructure terrorist movements**

Libya and the PLO are rebuilding the Chicano and Puerto Rican terrorist networks in the United States, according to an exposé appearing in the latest issue of *Investigative Leads*, a counterintelligence newsletter published twice monthly by *EIR*. The PLO is handling terrorist recruitment directly, while Libya is funding activities, according to the report.

The Libya-PLO joint deployment developed out of the conference of the Palestinian National Congress in Beirut in May, where a reconciliation between the PLO, the more radical Popular Front for the Liberation of Palestine (PFLP), and the Black September organization occurred.

Since that time, law-enforcement authorities have detected a constant flow of PLO and PFLP operatives into the United States. This has coincided with development of alliances between such racist radical organizations as the National Black United Front, Stokely Carmichael's All-African Revolutionary Peoples Party, sections of the Communist Workers Party, and various Black Muslim sectlets. Notably involved is Libyan sympathizer Louis Farrakan, known as a Muslim Brotherhood opera-

tive in the United States.

Among Chicano and Puerto Rican networks, the Socialist Workers Party serves as the "cutout" for terrorist recruitment and funding.

Recently a Libyan political leader Ahmed Shehata quietly visited the United States for meetings with high-ranking, behind-the-scenes controllers of "left" organizations in the United States. Among these was Thomas Ricks, and Georgetown University's Father McSorley of the Society of Jesus.

### ***Brazil exposes Israeli bomb 'calumnies'***

Brazil has withdrawn its ambassador from Tel Aviv in protest of a bizarre story planted by the Israel secret service in the Brazilian press. The story, run by *O Estado de São Paulo* June 17, alleged that the Brazilians had loaded two Iraqi planes with uranium Jan. 14, but that the planes had been forced down by F-5 fighters before reaching Iraq. *O Estado* further reported that Brazil is conducting a "secret nuclear program" parallel to the official one.

*Jornal do Brasil*, one of the regular Zionist conduits in Brazil, then reported it had been offered the same story by Mossad agents in Israel, but had refused to print it.

Brazilian spokesmen denounced the Israelis for "spreading calumnies." They explained that Brazil cannot yet make uranium oxide, but when it can, it will be glad to sell it to Iraq "subject to international juridical obligations and AIEA safeguards."

While Brazil has refused demands for nuclear cooperation from terrorist Libya, it has been eager to work with Iraq and Argentina on peaceful atomic energy.

Brazilian spokesman Bernardo Pericas concluded that the Israeli line that Brazil was helping make a supposed Iraqi bomb was an attempt to "distract international attention" from the fact of Israeli bombing of Iraq's nuclear plant.

The Mossad story is also being played up in some press circles to discredit the Brazilian nuclear program and its chief supplier, the Germany of Chancellor Helmut Schmidt.

### ***Population reducers targeting Kenya***

"Kenya has achieved the dubious distinction of becoming the first country to record a 4 percent rate of natural population increase, a figure that means its 16 million population will double in 18 years," reports a feature article in the June 10 *Washington Post*. The article cites U.S. AID officials blaming population growth for Kenya's failure to develop.

The article is a signal that leading operatives of the genocide-oriented "depopulation" networks behind the *Global 2000 Report*—including *Post* publisher and Brandt Commission member Katharine Meyer Graham—are preparing to make Kenya an example in their strategy. Starvation is to be feared as the chosen method.

The *Post* stresses that for the past two years, Kenya has had to import food, but fails to mention why, leaving the reader to conclude that "overpopulation" of the vastly underpopulated country is the reason. High oil costs plus high interest rates have forced a shift of Kenyan agricultural production away from food and into cash crops for export.

The *Post* cites "drought" as a cause for food-production problems. In fact, expansion of arable land has been obstructed by the World Bank "appropriate technology" approach and IMF loan conditionalities, making irrigation of new land impossible.

Global 2000 figures like Connecticut patrician Philander Claxton and Aspen Institute spokesmen have been projecting a crisis in Kenya. Located in the refugee-ridden area between Uganda and Somalia, a Kenya disaster could push the entire Horn of Africa into a holocaust.

## ***Briefly***

● **HELMUT SCHMIDT** challenged the United States at a June 20 American-German relations forum to engage in political cooperation with the Soviet Union to preserve world peace. The chancellor said that President Reagan favors the idea, but "some people from the sixth and seventh level of the new U.S. administration seem to have other views, so that from time to time the top level must correct the public's impression of the administration's real views."

● **EAST GERMAN** Politburo member Hermann Axen became the first such ranking official ever to visit Great Britain for talks with a prime minister last week. Received by both Prime Minister Margaret Thatcher and Foreign Secretary Lord Carrington, Axen is considered a "hard-liner" on relations with the West.

● **TOP P-2** members are also members of the Knights of Malta, the ancient cult with close ties to the British royal family. They include: Umberto Ortolani, the order's ambassador in Montevideo, Paraguay, where P-2 chief Licio Gelli is reported hiding; Giovanni Torrisi, Italian Armed Forces chief of staff; Gen. Giulio Grassini, Italy's SISDE secret service chief; Giuseppe Santovito, the SISMI intelligence chief; Giovanni Allavena, former chief of the SIFAR intelligence organizations; and Giovanni Guidi, chairman of the Bank of Rome.

● **ITALIAN** industrialists, engineers, politicians, and scientists formed a "Committee to Lower Interest Rates" at a meeting in the city of Brescia last week. The group blamed the U.S. Federal Reserve for "exporting" high rates to Italy—now with a 25 percent prime. They also seek a two-tier credit system favoring industry, agriculture, and scientific research.

## A victory for Reagan... or for Haig and Volcker?

by Richard Cohen

The question now, following President Reagan's mammoth budget victory, is whether the administration will sit back and realize that it must next take on the interest-rate question, or whether it will delude itself that its political momentum is so great that it need not deal with Paul Volcker's crushing policies. As it stands, knowingly or unknowingly, on June 26 the House and David Stockman delivered a victory for Volcker, not for the White House.

During the third week in June, Democratic senators opposed to high interest rates met privately with President Reagan at the White House. The main question on the agenda was whether the President would immediately take open steps against the Federal Reserve's devastating credit policy. The President's "blunt and disturbing response" left the senators with no doubt that "in the immediate period," as an aide to one senator put it, the White House would not challenge the Federal Reserve chairman.

After shutting the door on this eleventh-hour appeal, the President announced that the administration would mobilize all its resources to confront and defeat the growing opposition to the President's revised and deepened budget cuts and "linked" tax proposals in the House of Representatives. The White House decision, announced June 19, to plunge headlong into confrontation with the House was sealed weeks earlier when the President and moderate House Democrats led by Majority Leader Jim Wright of Texas failed to enter into an

economic compromise that would have "dealt with the Volcker problem." Instead, the President succumbed to a series of private threats from Volcker's Wall Street backers and entered into a de facto truce with the Fed chairman around the time of Volcker's pro-Reagan performance at the international monetary conference in Lausanne, Switzerland.

### Stockman covers for Volcker

Since that time, the administration has moved with increasing vigor to cover for the staggering effects on the federal budget deficit of the higher cost of Treasury borrowing. It has unleashed Office of Management and Budget Director David Stockman to raid the already inadequate 1981 budget while proposing even deeper cuts in the 1982 budget. Washington insiders are convinced that the June 19 declaration of war on the budget in truth represented a near-fatal capitulation to a man who only three weeks ago was rumored to be on his way out of Washington. That man, Paul Volcker, is now running U.S. economic policy.

And, with the President and his immediate staff totally fixated on the mechanics of passing the President's "economic package," U.S. foreign policy fell firmly under the control of Secretary of State Haig. Like Volcker, Haig had been lurching toward early retirement when, following the attempt on the President's life, a truce was arranged between the White House and Foggy Bottom. As one source pointed out,

"The two individuals, Haig and Volcker, furthest away from the President are now running the show while the President is sent off to do the commercials."

White House sources have reported a rapidly growing isolation on the part of the President and his Oval Office intimates from the actual implications of the "economic package." They say the President and his associates have increasingly assigned the package's success or failure a solely political value. Now, however, the package—dangerous from the beginning—has been transformed into something far more lethal under the effects of Volcker's high interest rates and Haig's increasingly provocative substitute for U.S. military modernization, namely, arming China and Pakistan. The "circle the wagons" effort engineered by Meese and Nofziger, in conjunction with the "campaign atmosphere" rampant throughout the administration, has blinded the President's inner circle to the fact that the package around which they have built so much momentum is now pure Trilateral Commission.

In recent meetings with high-level administration officials, *EIR* founder Lyndon H. LaRouche, Jr., who chairs the advisory board of the National Democratic Policy Committee, warned that if the President does not "use his powers of emergency in concert with Congress to establish in one broad stroke a series of necessary monetary, banking, and tax reforms, the administration will feel the brunt of a September-October economic collapse that would make the 1930s depression look minor by comparison."

The combined effect of the Reagan budget will be to cut the 1982 budget by an additional \$5 billion below the original administration package and projects \$145 billion in "savings" from the combined 1982-84 budgets. Importantly, an estimated \$45 billion comes in the form of *permanent cuts*: reduced eligibilities for entitlement programs such as welfare, Social Security, school lunches, and Medicaid, the programs that have ameliorated depressionary conditions since 1965. David Stockman will be allowed to define the poverty level. (Similar stepped-up attempts by the administration to ram through "block grant" programs aimed at covering for direct program budget reductions failed miserably in House and Senate committees, but were partially restored on the House floor June 26.) In addition, Stockman's rescissions and deferrals in the 1981 budget, such as the recent decision to defer \$102 million in the Army Corps of Engineers' 1981 budget, demonstrate that in order to pay Volcker's higher debt service charges, the administration is already going far beyond trimming fat and is cutting essential meat and bone.

In the past several days, Mr. LaRouche has reported that another essential ingredient required to "wake the White House up" would be for leading moderate House and Senate Democrats to take their case to the White

House *publicly* on the interest-rate question: That process began June 23, when, under the leadership of Sen. David Boren (D-Okla.) and Sen. James Sasser (D-Tenn.), 11 senators took the floor to lambast the Federal Reserve's policies, draw attention to the drastic national and international consequences, and propose a nonpartisan joint effort with the White House to develop an immediate strategy to bring rates down—an appeal made in the form of a formal resolution by Democrat Jennings Randolph of West Virginia.

### Will protest suffice?

More generally, the interest-rate question has broken into the open on both sides of the House aisle. At a June 22 meeting of the House Agriculture Committee, scores of Democrats and Republicans alike attacked the Federal Reserve's policy and called for immediate relief for farmers. The same day, the National Coalition to Reduce Interest Rates held a Washington press conference (see page 57), drawing an exceptionally high number of press representatives.

Yet, whatever Congress says on the subject, there is no guarantee that the President will move off his current course toward disaster.

The connection between interest rates and foreign policy has been drawn, in its own way, by the Council on Foreign Relations. The overseas attack on high interest rates launched last month through the Bank for International Settlements, was generated by high-level concern over the rapidly hardening Soviet behavior. A series of cautionary attacks on Haig and Reagan began in the leading CFR press organs. The array includes the *Christian Science Monitor*, CFR columnist Joseph Kraft, the *New York Times's* Scotty Reston, citing John J. McCloy, and CFR leader Cyrus Vance, all protesting Haig's "goads to the Soviet bear." What these forces are beginning to see, and what they have been told by "realistic" Europeans, is that the Soviet leadership has been moved to assess all questions of the West in military mode. The traditional response of the anti-Trilateral CFR faction has been to attempt to sedate the Soviets through general support of Second International activity.

While this faction may move to curb the excesses of Haig and Kissinger, their most probable alternative to the Volcker policy, which has undercut all U.S. military-industrial credibility, will be a rerun of the 1970-71 "Nixon project"—wage/price controls and trade war—which Nixon bought from then-Treasury Undersecretary Paul Volcker and Henry Reuss. The P-2 scandal has placed Haig himself in jeopardy. But the nation at large remains under the control of the same groupings that together brought each disaster of the postwar period, so long as the President defends Volcker and Stockman.

# The Office of Management and Budget: a subversive institution gone wild

by Vin Berg

For the approximately 10 years it has existed, the so-called Office of Management and Budget (OMB) has done a unique amount of damage to the American economy, and to government policy in every field. Although it is undeniable that David Stockman and his deputies on the OMB's current staff are zero-growth fanatics—social democrats laundered into the administration—the OMB itself is the real “mole” in U.S. government.

In the same way that the FEC was created to help dismantle the constituency-centered foundation of the American political process, the OMB was created to systematically eliminate the essential connection between U.S. government programs and private-sector industrial growth. With the power to subject every branch of government to budgetary review in terms of “cost-benefit analysis,” the gnomes of the OMB have subjected government decision-making to a method of scrutiny which is intrinsically incapable of assessing the actual “benefits” of any form of incurred government cost. For such reasons, the application of the forms of cost-accounting for which the OMB was created is necessarily disastrous to the policy-making process, which properly ought to treat budget-making as the derived feature within a competent overview of those programs that will guarantee the nation's most rapid development. Such programs, however expensive in relation to alternatives, are far cheaper in the long run than the OMB analyst's crude proposals for short-term savings.

If, therefore, the leading figures now occupying offices at the OMB under David Stockman turn out to be, in fact, advocates of the “postindustrial society” policy developed by the leading enemies of the American nation, that is only to say they are qualified for the hatchet job the OMB was created to perform. As the following dossiers show, they are very qualified indeed.

**David Stockman:** At age 34, David Stockman is the “whiz kid” among socialists placed in the Reagan administration by the controlling agency behind the Heritage Foundation, Britain's Fabian Society and the associated Mont Pelerin Society. Stockman now talks “supply-side” and “free market.” A short time ago, however,

he was deployed on the the side that requires a “left-wing” public relations image. To pass him off to Reagan circles as a “conservative” required considerable laundering.

Stockman first came to the attention of Socialist International agents in 1967, when he functioned as the only full-time paid organizer for the Vietnam Summer organization in Lansing, Michigan.

Then, at Harvard, he lived with social democrat Daniel Patrick Moynihan, and received a thorough social-democratic indoctrination at the hands of sociologist Daniel Bell (author of *The Coming of Post-Industrial Society*), pundit Irving Kristol, and others. Bell and, in particular, former leftist Kristol, a long-time friend of the Fabian and Mont Pelerin societies' Friedrich von Hayek, arranged for Stockman's laundering as a “conservative,” first by publishing “fiscal conservative” articles under Stockman's byline in Kristol's *Public Interest* magazine, then by placing him on the staff of then “conservative” Rep. John Anderson.

Stockman was sent to Congress by Dr. George Roche III, president of Hillsdale College—the “informal college of the Mont Pelerin Society in the United States,” which Roche describes as the “powerbroker” in Michigan's 4th Congressional District.

Harvard Professor Bell, who remains close to Stockman, says that nothing has really changed since Vietnam Summer, just the rhetoric. “The postindustrial thesis has been his consistent outlook since his student days . . . although he can't say so in the current Washington environment.” According to Bell, Stockman has designed his entire budgetary program “to push the United States toward the postindustrial future outlined in the Carter administration's President's Commission on a National Agenda for the Eighties.”

That report calls for the urban centers and industrial base of the Northeast and Midwest to be dismantled, with populations relocated to the “Sunbelt.” Or, as Fabian Society functionary Stuart Butler, now a policy analyst at the Heritage Foundation, stated: “Stockman's role is to let Chrysler and other heavy industrial companies like it crash, to create a permanent labor pool for the

postindustrial corporations.”

**Edwin Harper:** Deputy OMB Director Edwin Harper is a life-long “cost-benefit analyst” closely associated with postindustrial planners. Harper spent many years working for the Warburg-linked Insurance Company of North America (INA) and its subsidiaries; he managed the elite firm’s real-estate speculation, and supervised the cost-benefit asset-stripping of several manufacturing subsidiaries for a time.

Harper worked closely with then Deputy Budget Director Caspar Weinberger to set up the OMB during the 1969-73 period, when Harper was an assistant director of President Nixon’s Domestic Council. Andrew M. Rouse, then director for resource planning in the old budget bureau, introduced him to the cost-benefit models that the Cambridge-based consultants Arthur D. Little and Co. used internationally to convince governments that economic growth costs too much.

Rouse and Harper dismantled the Johnson-era Planning, Programming and Budget (PPB) program, preparing the way for the OMB. “Ed had a major role in showing that many government spending programs just had to go,” according to Rouse. “And we succeeded. After the demise of PPB, the budgeters no longer had a tool which could credibly analyse the benefits, relative to the costs, of social programs. So the programs were not funded.”

It was Rouse, an executive vice-president at INA, who brought Harper to the insurance conglomerate in 1972. INA was then collaborating with the leading New York commercial banks and such other insurance giants as Prudential to begin the “rationalization” and “consolidation” of the American banking system into a British-style system comprising a few dozen financial giants. Harper, as senior lieutenant to INA Chairman Donald Meads, handled all non-insurance subsidiaries at the time INA bought Blyth, Eastman Dillon.

Harper followed Meads to the subsidiary Certain Teed Corporation in 1975. In 1978, when Meads left the firm, Harper was recruited to the Emerson Electric Company, where he administered the “ABC Budgeting” program. Each division had three budgets; if sales and profits did not meet Budget A’s target, the division was automatically cut back to Budget B until sales performance improved.

**Lawrence Kudlow:** As the OMB’s assistant director for economic policy, Kudlow is a monetarist extremist and “postindustrial society” advocate. He comes from the Wall Street brokerage house Bear Stearns and Co., which is closely linked to the seamier side of Mont Pelerin Society activities. Bear Stearns is the New York Urban Development Corporation’s investment bank. Wall Street sources say that Bear Stearns enjoys “special forms” of collaboration with mob-linked lawyer Roy M. Cohn, who works for the UDC on bond marketing.

Kudlow was an economic analyst for the New York Federal Reserve Bank from 1973-75, and a special assistant to the Office of Bank Supervision. In 1975, at age 26, he became chief economist for Paine Webber, moving to Bear Stearns in 1979.

Although he now protrays himself as a “young conservative” like Stockman, he formerly worked for John Gardner’s Common Cause muckraker organization.

Kudlow’s appointment to OMB was secured through the Mont Pelerin Society and Heritage Foundation. He has frequently testified in Congress for Heritage Foundation “tight money” programs. A fellow at Lewis Lehrman’s private institute, he is also considered an “errand boy” for William Rees-Mogg, leader of the Mont Pelerin Society’s British branch. Rees-Mogg and Heritage Foundation figures introduced Kudlow to Rep. Jack Kemp and David Stockman.

**Annelise Anderson:** As associate director for economics and government, Annelise Anderson controls budgeting for industrial projects and infrastructural projects. She is a member of the Mont Pelerin Society, along with her husband, Martin Anderson, now head of the Office of Policy Development in the White House.

Mrs. Anderson is also a senior member of the Hoover Institution, through which Mont Pelerin Society figures penetrated Reagan inner circles in California during the 1970s. She opposes all water projects which she terms budgeting on the “microlevel.” In general, according to one of her aides, “Industrial policy will now focus away from the microlevel of things like supporting Chrysler and other industries. . . . We will take a much more macro approach, and not worry about selecting winners and losers. We will remove artificial government supports and let the free market decide where capital will flow.”

**Frederick Khedouri:** Thirty-year-old Fred Khedouri comes to OMB from David Stockman’s congressional staff, where he was legislative director, and after 1977, chief energy adviser to the congressman from Hillsdale College. In Khedouri’s case, free-market rhetoric barely disguises hard-line antinuclear environmentalist ideology. As associate director for natural resources, energy and science, he is responsible for budgetary policy for conservation and the complete range of energy, science and technology programs. An aide says that his policy is to target cuts in federal programs so as to drive up the cost of energy and natural resources—“through the free market.” “We’re not abandoning the strict conservation policies of the last administration at all.”

A Khedouri deputy, Hugh Loweth, says “To promote synthetic fuels without government subsidies of synfuel production, we’ll have to see to it that market prices rise, which they will if we cut the subsidies. . . . We’ll consider nuclear energy as a last resort, but we don’t intend to promote it.”

# The Federal Election Commission: a weapon against constituency politics

by Frieda Greenberg

In mid-May, President Reagan called a White House meeting and gave the go-ahead to a Senate drive to abolish the Federal Elections Commission (FEC). The meeting was reported in the *Washington Star* May 15 by columnists Germond and Witcover. Reagan is said to have responded to a suggestion by Sen. Howard Baker, telling Baker, Sen. Paul Laxalt, and White House Chief of Staff James Baker that if they got bipartisan support for the idea, he would support it.

Since the publication of the Germond and Witcover column, some Senate Republicans have discussed limiting the FEC's authorization, but no bipartisan anti-FEC drive has materialized. If a strategy to obtain bipartisan support to abolish the FEC was planned, the Germond and Witcover leak seems to have dampened the effort.

This is not to say there is no controversy surrounding the commission. The FEC's powers include severe restrictions on electoral campaign contributions by individuals and organizations, full disclosure of all contributors, and severe restrictions on campaign spending by candidates. Twenty years ago, the FEC would have been considered a travesty of the U.S. Constitution and the system of republican government embodied in it. Today, the FEC is an accepted, though perhaps grudgingly, fact of life. This is the case despite numerous documented cases of harassment by the commission; despite lengthy and abusive audits and "fishing expeditions"; despite complaints of selective enforcement and unauthorized dispensing of confidential information to the press; and above all, despite the fact that the commission makes illegal the very political process that, as many Americans should still remember, "worked."

Since the commission opened its doors for the 1976 presidential election, individuals from such seemingly diverse groups as the American Civil Liberties Union, the John Birch Society, and conservative Republicans have challenged the FEC for its infringement of First Amendment rights.

Conservative campaigns have frequently scored the commission for harping on harassing detail. In April of this year, counsels for the 1980 presidential campaigns of Ronald Reagan, Jimmy Carter, John Connally, Howard Baker, and a counsel to the Republican National Com-

mittee sent a letter to commission chairman John McGarry expressing their concern "that vague laws and regulations . . . ex post facto interpretation of regulations, the lack of standardized accounting procedures and the extraordinary, almost arbitrary authority given your auditors combine to threaten the campaign process . . . the hyper-technicalities bear little relationship to the basic purposes and policies of the election laws."

A transition report to the Reagan administration prepared by the Heritage Foundation recommended the commission be dissolved. Alternative recommendations from conservatives include eliminating contribution limits and transferring audit procedures to the Government Accounting Office (GAO).

From a different angle, individuals in the Democratic National Committee have attacked the commission for not doing enough to scrutinize campaigns. Russ Hemenway of the National Committee for an Effective Congress (NCEC), who was central in founding the FEC and who remains one of its leading defenders, calls the FEC regrettably "toothless." Other supporters of the FEC have responded to accusations of "nitpicking" with the defense that the FEC pursues petty issues because it lacks the political clout to go after more serious irregularities.

Dissatisfied Democrats tend to blame the GOP for the FEC's impotence, while GOP opponents of the commission blame the Democrats for the FEC's bias and harassment. To date, indications from the congressional oversight committees are that the Federal Election Campaign Act (FECA) will stand unaltered except perhaps for restrictions on political action committees emanating from Sen. Charles Mathias at the Senate Rules Committee.

## The real problem with the FEC

If the "controversy" synopsis above is confusing at best, that is only because it represents a false trail left by the real architects of the FEC. Contrary to the accepted history, the founding fathers of the FEC were not the liberal reformers of the NCEC, the Kennedyites, or the Socialist International elements of the AFL-CIO and Democratic Party. These individuals are merely deployables of a highly integrated political intelligence



network featuring the Aspen Institute for Humanistic Studies; it includes such sister bodies as the London International Institute for Strategic Studies (IISS), the Twentieth-Century Fund, and the Club of Rome. This network has been responsible for a social-engineering project designed to destroy constituency politics in the United States as part of a broader strategy to eliminate sovereign nation-states in favor of a "postindustrial" world federalist society.

The Aspen crowd and its associates have pursued three interconnected tracks: first, programs to take control of the American press; second, the deployment of the Twentieth-Century Fund to lead the election reform movement of the late 1960s and early 1970s that culminated in the FEC; and last, the establishment of an ongoing "governance" project to redefine "constituency politics" in the United States.

The assault on constituency politics involves the destruction of the political institutions that represent the population. The argument is that political institutions like trade unions, and business and farm organizations are elitist "interest groups," and that a true democracy is a "participatory democracy" where an unmediated population participates directly in the political process. In reality, this formula removes the ability of the population to effectively assert their interest, while leaving them prey to the manipulations of the mass media, controlled by an oligarchy.

In a March 1980 interview, Douglas Cater, the head of the Aspen "governance" project, described the Aspen policy: "We have given too much power to the average citizen. . . . These little people will destroy us. They force politicians to play for an audience, to please constituencies, uneducated, stupid constituencies, who know nothing about the way the real world works. . . . I propose that we create a new federalism, a new internationalism based not on these poor stupid uninformed people, but on an elite, an elite that imposes reality. That says what is real. I think that the idea is to act like Walter Lippmann . . . to create a new brain trust for the 1980s and have it change the way we run this country. We must end mass democracy." Cater said of the President: "Reagan thinks in the other direction. The candidate of the little man, exactly the wrong way to go."

Cater's "elite" means oligarchy; it should not be confused with the notion of a republican elite like that which founded the nation. While Cater et al. cite Alexander Hamilton to back up their oligarchical ravings, Hamilton was, contrary to Cater, part of a republican elite committed to an educated, informed citizenry.

### **Constituency politics made illegal**

The Federal Election Campaign Act was designed to force a shift in the composition of the major parties. In this sense it was the culmination of a *systematic*

*campaign beginning in the 1950's to make constituency politics illegal.*

The operation required the complicity of individuals in federal and local government, the press, and the legal profession. Today this network exists through elements of the FBI, the Public Integrity Section of the Justice Department, the Justice Department's Organized Crime Strike Forces, and U.S. attorneys, the press, the General Accounting Office, and among staff members of congressional committees including the Senate Labor Committee, the Senate Permanent Investigations Subcommittee, and the Senate Ethics Committee.

The campaign to make constituency politics illegal

## **The grey eminence of the FEC apparatus**

Since its inception the FEC has been comprised of a combination of former GAO accountants in the auditing staff, and liberal Democrats primarily associated with Ted Kennedy in the general counsel's office.

The FEC's most prominent commissioner is Thomas E. Harris, whose personal career has intersected the wartime and postwar efforts that led to the Aspen project, as well as the Kennedy Justice apparatus that was central to the investigations of organized labor during the 1960s.

Harris's career, which began at the Washington law firm of Covington & Burling, has included:

- 1943: Board of Economic Warfare working in close association with Nelson Rockefeller, who headed the Office of Inter-American Affairs.
- 1945-46: U.S. Military Government in Germany during the psychological warfare operations there.
- 1947-48: Department of Justice, Special Assistant to the Assistant Attorney General for Alien Property Division.
- 1948-55: Assistant General Counsel to the Congress of Industrial Organizations under Arthur Goldberg. Harris was associated with the newly formed Americans for Democratic Action, Hubert Humphrey, and union-buster Joseph Rauh.
- 1955-60s: Associate General Counsel, AFL-CIO.
- 1960s: Worked closely with the Kennedy Justice Department on several projects.
- 1971- : Involved in the election reform movement; helped draft the FECA of 1974; appointed to the FEC in 1975.

took off with the New York Waterfront Commission investigations and the Justice Department's "Get Hoffa Squad" in the 1950s. The charge in the courts and the press was that organized labor, i.e., the longshoremen, and the Teamsters, was organized crime.

This assault on two of the most powerful constituency organizations in the country was expanded when, in 1968, under Attorney General Ramsey Clark, a decision was made to enforce the Federal Corrupt Practices Act (FCPA) of 1925 for the first time in more than 15 years. The act barred corporations and labor unions from making direct contributions to federal candidates. Its enforcement scandalized the relationship between certain industries and unions and certain public officials. What followed were probes and indictments of officers of the Seafarers International Union (SIU) and the United Mineworkers (UMW). Targeted as well were the shipping, dairy, commercial banking, and aerospace industries. The Nixon administration, with its significant labor and industry base, was under intense pressure from within the administration and the Congress to continue the probes. U.S. attorneys and the federal

grand juries were already in motion.

Public officials were selectively held responsible for *the receipt of contributions!* In 1970, Representatives Garmatz, Boggs, Rivers, and Senator Magnuson were among 15 congressmen implicated in the receipt of contributions from the shipping industry and the SIU. When UMW President Tony Boyle and other union officials were indicted by a federal grand jury for contributions to Hubert Humphrey, the Justice Department determined that Humphrey was not complicit.

As the probes continued, the U.S. attorneys and the press moved increasingly toward President Nixon, indicated by the indictment in October 1970 of SIU president Hall just as Nixon signed a bill to help the merchant marine industry. The *New York Times* editorialized that the contributions from the SIU to Nixon "paid off."

From this point through Watergate and Nixon's resignation, the "election reform" drive was led by a task force of the Twentieth-Century Fund that included the National Committee for an Effective Congress, Common Cause, and congressional liberals including

## Campaign groups cite FEC violations

In 1976, the FEC filed a civil complaint against the Central Long Island Tax Reform Immediately Committee (Clitrim) charging it with failure to report as a political action committee. Clitrim had published and distributed a pamphlet costing approximately \$100 that called for lower taxes and less government. In a February 1980 decision handed down by the U.S. Court of Appeals in the Second Circuit, the court found in favor of Clitrim, holding that the FEC had, in fact, overstepped its authority.

The FEC has not desisted since this decision. In April 1981, representatives of the 1980 presidential campaign committees of Ronald Reagan, Jimmy Carter, John Connally, Howard Baker, and a representative for the Republican National Committee jointly submitted a letter of protest to FEC chairman John McGarry, charging:

- **Retroactive application of legal principles.** "If the Commission wishes to adopt one particular notion of 'reasonable' behavior, it should do so prospectively by way of new regulations—not substitute its judgment for that of committees which have acted in good faith." The letter pointed out the multitude of challenges made by the FEC over allocations of phone,

travel, and other campaign expenses.

- **Lack of access to information.** "At critical stages during the audit process committees are denied access to information that bears directly on issues of interest to them . . . although committees receive a copy of the preliminary audit report, the General Counsel's comments on that report are not available."

- **Lack of a hearing.** "Committee officials have no opportunity to present their case orally to the members of the FEC at any point during the audit process."

- **Length of audit process.** Committees must stay in operation long after the close of the campaign solely to interact with the FEC during their frequently long audits, incurring large staff and office costs.

In the overall environment created by the already noted FEC policies, a wide-ranging variety of harassment has been reported by campaign committees. To date, the FEC has subpoenaed 32 contributors to the Citizens for LaRouche Democratic presidential campaign concerning contributions well below the contribution limit. Yet the FEC has indicated no probable cause for its probes. The LaRouche campaign committee has even been questioned regarding expenditures for Mr. and Mrs. LaRouche's dog and cat. Last year, the commission also challenged the cost of having a masseur in the Bush campaign entourage for about two weeks when the candidate was working 14-hour days.

former Rep. John Anderson and his top aide, David Stockman. *David Stockman, the "opponent of government regulation," is credited with writing the 1971 Federal Election Campaign Act.* While George McGovern and Joseph Califano pushed for the elimination of federal campaign contributions replaced by 100 percent financing through the U.S. Treasury (for "established" campaigns), they settled for the FECA of 1974. This was enacted several days after Nixon's 1974 resignation. The linkage had been clearly made: Nixon's ties to certain constituencies were a crime.

At this point a transformation was well under way to alter the composition of the political parties. The limitations on contributions and the fear of overt labor/business/public-official relations helped the demise of traditional party politics.

Democratic Party officials admit that the GOP has beat them in mastering the election reform laws. These officials have initiated major fundraising programs to better compete with the Republicans, while Socialist International elements among Democrats are promoting fragmentation into several ideologically based parties. GOP officials have expressed self-satisfaction with the Reagan victory, crediting direct-mail schemes for the fact that the victory was the most significant "constituency" mobilization for a candidate in more than a decade.

### **Abolish the FEC**

For President Reagan, the question of the FEC is critical. The proposals he has received to abolish the FEC, i.e., raise or remove contribution limits, and turn over auditing and enforcement to existing agencies like the GAO and the Department of Justice, could worsen and, at best, certainly not repair the damage done to American politics. Properly executed, the abolition of the FEC means cleaning out the networks within the Justice Department, the Congress, and the administration itself that have been and continue to be part of the Aspen project. For example, OMB head David Stockman was, in his previous life, a founding father of the FEC. Stockman remains on record in agreement with all key aspects of the Aspen Institute program.

These networks have most recently carried out the Abscam-Brilab-Pendorf entrapments. These are also the networks who are trying to bring down Mr. Reagan through desperate efforts to involve his constituents—the Teamsters, his congressional base, and his personal associates—in a new "Watergate."

The Congress must seriously reflect on the last twenty years. Recognizing the history of the subversion of American constituency politics, Congress should repeal the FECA of 1974, and reaffirm the political process specified in the U.S. Constitution that is the very foundation of the Republic.

## **Anti-Volcker moves shake up Washington**

President Reagan's economic recovery program is doomed unless interest rates are brought down, according to spokesmen of the National Coalition to Reduce Interest Rates who told a large Washington press corps turnout June 22 that the nation needs: 1) an immediate lowering of interest rates; 2) the removal of Paul Volcker as chairman of the Federal Reserve; 3) emergency lower-interest credit for productive industry; 4) increased congressional oversight of the Fed; and 5) amendment of the Federal Reserve Act to ensure "that in the future, there will always be long-term, low-interest credit accessible to productive industry," in the words of coalition chairman Stan Hoynitski.

Hoynitski heads the Pennsylvania car-retailers association. Also on the steering committee are Lloyd McBride, United Steelworkers (USWA) president; John McCarrel, UAW local 544 (Pittsburgh) president; and Mike Bonn, USWA local 2227 (Pittsburgh) president.

Hoynitski stressed that continued high interest rates threaten the economies, and therefore the national security, of every nation in the Western alliance, then pointed to statements by Japanese and European leaders indicating that they will make this a number-one priority for discussion at the Ottawa heads of state summit in July.

Jim Smith, who spoke for USWA head Lloyd McBride, stated: "The experiment that Volcker is trying is not a new experiment, nor is it one where we don't already know the results. . . . The results of the Thatcher program [in Britain] have been that inflation is higher and the number of people at work is lower." Wouldn't lowering interest rates cause more inflation? asked a *Money* magazine reporter. "No," said Smith. "High interest rates cause inflation." "After 18 months of Volcker's program," added Hoynitski, "inflation should be down nearly 6 percent—and it isn't." Further, Hoynitski explained, the Volcker measures cause "Eurodollars to pour into this country" to take advantage of high rates, aggravating inflation.

Mike Bonn of the Steelworkers reported: "The steel industry is stagnant, it's old and has to be rebuilt—or we fight our next war with rubber bullets, not steel."

UPI, Reuters, Public Affairs Broadcasting, the Field News Service and others questioned the spokesmen for nearly an hour with Hoynitski reporting on morning meetings with Democratic Senators Boren, Melcher, Pryor, Sasser, and Zorinsky.

## How Rep. Stenholm sees his policy role

*Charles Stenholm (D-Texas) is the coordinator of the Conservative Democratic Forum in Congress. He serves on the Agriculture and Small Business Committees. The following excerpted interview was conducted on June 22 by EIR's Stanley Ezrol in the heat of the congressional battle over the President's tax and budget plans.*

**EIR:** How do you see the Democratic Party's role in this Congress in terms of economic policy?

**Stenholm:** The first expression I would make is one of disappointment in the fact that we, as Democrats, as yet have not come forward with an economic plan that is any kind of positive and concrete change in economic direction that we could rally behind. All that I have heard thus far has been criticism of the President's plan, but I am one of these that believes that if you're going to criticize someone else's plan, you should put forward one of your own. . . . The role as Democrats, from the standpoint of our leadership, has been one of disappointment to me.



Now, we will speak as the Conservative Democratic Forum and those of us who believe that there is a better way. We think that right now the bipartisan plan [Gramm-Latta] that we have supported has good possibilities of working. . . . I certainly have reservations about a three-year tax reduction. I have reservations about . . . the full Kemp-Roth approach. I campaigned against it two years ago, because at that time we were talking about . . . not necessarily reducing expenditures, and I didn't believe that that would work at all. Now we find that we've come a long way toward meeting many of the objections that I've had.

**EIR:** What do you see as the role of the Federal Reserve? Do you think that Congress should be taking any action to modify the powers and responsibilities of the Fed?

**Stenholm:** I think it's time for us to have a good, in-depth study of the Reserve—its past, its present, and its future role. I think Congress certainly has a power and a responsibility, and one we should exercise to see whether or not there could be some improvement.

**EIR:** The President has appointed a commission to study the use of gold in the monetary system. Do you see any reason to restore some sort of gold reserve system?

**Stenholm:** I do. I think that there is one of the areas that we should take a good, in-depth look at to see if that would not be meritorious as far as future financial stability. . . . I think it has some considerable merit.

**EIR:** You said earlier that you had feelings of disappointment with the Democratic Party leadership. Do you mean the Democratic National Committee, the congressional leadership, or both?

**Stenholm:** Both. You see, the frustration that we conservative Democrats have had built up over a period of years has been the almost total control by the more liberal element of the party. . . . All I hear is criticism of us conservative Democrats, criticism of what we're doing, threats by some to kick some of us out of the party. I don't think this will be helpful in pulling us together in the long run.

**EIR:** Would you like to see any particular changes in the rules of the party?

**Stenholm:** I think it's absolutely imperative that we have a reform of the rules of the Democratic Party. Beginning in the late sixties and early seventies has begun the demise of the Democratic Party in my opinion. I participated in Texas in the Democratic Party and have seen the same thing occur on the state level that has occurred on the national level. The rules, the regulations, the reforms, the McGovern rules. All of this has contributed to the demise of the Democratic Party, and I think that it's only realistic for us to look—sitting down and re-evaluating and seeing what we can do to make the best of a bad situation.

**EIR:** Looking ahead to the 1982 mid-term convention, is there anything specific in terms of platform changes or rules changes that you would like to get out of that?

**Stenholm:** Well, I would like to see a Democratic platform that addressed productivity . . . that stressed the revival of the free-enterprise system, that stressed the importance of American jobs. . . . I would like to see concern expressed about the economy rather than a continuation of the concern with the social issues.

I happen to be one of those who believes that we can best solve our social problems by re-addressing America's problems in the manner in which our forefathers intended the free-enterprise system to work.

## Eye on Washington by Stanley Ezrol

### EIR is a new D.C. policy force

Last week, a phone call was made to *EIR* headquarters by the State Department. Foggy Bottom, of course, has been the target of many of our well-deserved blasts, so every call we receive from that Department is cause for interest. But last week's call was especially notable.

It seems a certain *EIR* article on U.S. policy toward Asia circulated particularly fast in Washington.

With the article a major cause for discussion on Capitol Hill and among Asia specialists, the Asia divisions within State scrambled for copies, and orders to procure one were given to the Department library. Keeping a stiff upper lip, the librarian dutifully contacted *EIR*, and informed us that the controversial article was the latest in a series of requests for *EIR* articles from at least four divisions of State.

The department is now considering a subscription, the librarian reported, adding that a spot check with other government libraries found several of them also actively considering *EIR* subscriptions. "The Congressional Research Service already subscribes," she noted.

That call from State is worth noting because it is typical of a new (and sometimes grudging) acceptance of *EIR* throughout Washington as a major policy and information source. This recognition, which pits *EIR* directly against the more "established" research organizations such as the Congressional Research Service, the Brookings Institution, and Georgetown's CSIS, has developed especially over the past several months. During that time *EIR* has sponsored five major seminars in the capital and

*EIR* subscriptions have expanded to more than 100 congressional offices.

The *EIR* plan, starting in early spring, was to use the circulation of the *EIR* journal, combined with the seminars, to fill the policy vacuum in the capital following the November political shakeup.

That is what has begun.

"Fresh air in a stale city," is how one administration official described *EIR*.

The seminars have been the most visible of the *EIR* activities. Topics have included Europe's attitude toward high American interest rates, the summit meeting between President Reagan and Mexican President López Portillo, and the effects of the administration's economic program on the U.S. economy. All were chosen to highlight critical issues. The aim was to bring together American and foreign officials from business and government for open policy discussions. A longtime Democratic Party leader who attended one of the recent events commented that no other organization in the country could bring together such a seemingly diverse audience.

All told, 12 of the 13 cabinet departments have attended the seminars, as well as White House and executive agency officials, 20 foreign embassies, Capitol Hill representatives, and corporations.

The seminar on the U.S.-Mexico summit, held on March 26-27, had nine of the 13 cabinet departments in attendance, including many officials directly responsible for drafting policy proposals for the López Portillo-Reagan summit.

Another example was the seminar on the U.S. economy held June 10. The keynote speech was given by *EIR* founder Lyndon H. LaRouche, Jr., who spoke on the outlook for the Ottawa summit. When LaRouche concluded, dozens of of-

ficials competed for limited phone lines to call in reports on the speech to their departments.

At this time, 26 senators receive *EIR* directly at their offices, as do 75 members of the House, and five members of the Reagan cabinet. In many cases, these subscriptions were provided by constituents—a message that makes the elected official take particular notice.

The sheer depth of *EIR*'s weekly reporting has now caught on on a Capitol Hill notoriously starved for actual information.

In the past few weeks, an aide to a Democratic leader of the Senate Agricultural Committee confirmed that *EIR*'s information on agriculture is "top-notch." Former astronaut Senator Harrison Schmitt (R-N.M.) requested extra copies of the *EIR*'s May 5 Space Shuttle issue, saying he wanted to pass them around. A chief Senate committee staffer told us he loves to read *EIR*, especially its economics coverage. But "I never get to see it until the senator has made it completely dog-eared."

On the other end, note the use of *EIR* to lobby Congress by the endangered Savings & Loan Associations. In June, Rep. Stephen Neal (D-N.C.) of the House Banking Committee called the Washington *EIR* office, saying that a pile of *EIR* articles had been presented to the congressman by North Carolina S&L leaders.

At least one cabinet department has tried to use information from *EIR* to fight the Reagan budget cuts. A short time ago, officials from the Social Security Administration asked *EIR* for information on how the high interest rates add to the federal budget deficit. At the time, *EIR* was the only information source making this connection, in regular articles on the budget. "A lot of people around here have seen your articles," the caller said.

## Senate Democrats: Reagan must lower interest rates

Senate Democrats June 23 unanimously passed a Caucus resolution urging "the administration to take such steps as may be necessary to lower the current high rate of interest which is severely damaging personal and corporate savings and investment planning.

"The Senate Democratic Caucus," the resolution stated, "urges the President and the administration to take notice of the serious and immediate nature of the threat to our national economy, and further urges that a program be devised to keep the situation from becoming more critical."

The Caucus also called for tax exemptions for the homebuilding industry and thrift institutions, and for regulatory changes to aid hard-pressed financial institutions.

Led by Sen. David Boren (D-Okla.), Democrats began a colloquy June 23 to attack high interest rates. They plan to continue this for an hour every day during the week-long debate on the budget. "All of us have been coming to the floor to speak against high interest rates," Boren said, "not in any partisan way but to urge the President to take note of the situation personally, to come forward to work with us on a plan on which he will certainly have cooperation in Congress."

Since the colloquy began, Boren has been joined every day by 8 to 12 Democrats.

The senators have outlined the devastation wrought by high interest rates, particularly to the savings

and loans, the homebuilding industry, farmers, and small business.

In his statements calling for immediate action on interest rates, Sen. Jennings Randolph (W. Va.) recalled the time of the 1930s Depression and a meeting he had with President Franklin Roosevelt when Randolph was in the House. Roosevelt, warned that he was trying to do too much economically, told Randolph and other congressmen present, "Do you realize we must act now? By acting now we will assuredly make mistakes, but if we do not act now, perhaps a little later we shall not even have the chance to make the mistakes."

## Agriculture Subcommittee roasts interest rates

Fifteen members of the Conservation, Credit, and Rural Development Subcommittee of the House Agriculture Committee, 7 Republicans and 8 Democrats, adamantly condemned high interest rates before administration witnesses at June 23 hearings held "to discuss interest rates and the availability of credit" for the U.S. farm sector. Subcommittee chairman Ed Jones (D-Tenn.) pronounced the unanimous "opposition to high interest rates" among the subcommittee members.

Frederick Schultz, vice-chairman of the Fed's Board of Governors, Frank Naylor, undersecretary for small communities and rural development of the Agriculture Department, Donald Wilkin-son, governor of the credit admin-

istration, and Manuel Johnson, deputy assistant secretary for economic policy of the Treasury Department, were heatedly pressured to bring down interest rates.

"Interest rates are the most debilitating problem we face today," charged Rep. Joe Skeen (R-N.M.) in his opening statement. "Interest rates as used by the Federal Reserve are exactly the problem. . . . Agriculture is now a walking dead industry; everything you make today goes to pay debt because of the high interest rates."

Fellow Republican John Napier (S.C.) agreed that "high interest rates are the number-one issue on the minds of people in my district. When people ask me what the President means by a reasonable monetary policy, all I can say is I just hope it means interest rates will come down."

Pat Roberts, Republican of Kansas, countered administration witness claims that things are better today than a year ago. "Interest rates are higher, inflation is higher, and farm prices are lower. How can the current generation of farmers even hang on?"

Kansas Democrat Dan Glickman made the most incisive economic and political points. High interest rates, Glickman said, are "one of the causes of inflation." They "are the destructive flaw" in the economic recovery programs. Glickman warned, "This administration, just like Jimmy Carter, has acquiesced to high interest rates. . . . Interest rates have been high for 4 years now," he pointed out, and "some economists are saying they'll remain high regard-

less of what Congress passes. They haven't stopped inflation, but keep adding to the cost of production."

Byron Dorgan (D-N.D.) then ridiculed witness statements that there is greater credit availability today than a year ago. "Do you believe telling a farmer that credit is available at 21 percent is any different than being told there is no credit available at all?"

## Surgeon general nomination is still stalled

Efforts to clear the way for the nomination of Dr. C. Everett Koop as surgeon general were stalled June 17 when the House and Senate conferences failed to reach full agreement on how to lift all the age-related barriers holding up the nomination.

In fact, the Koop nomination is being deliberately held up by House members because Koop is a leading opponent of the genocidal *Global 2000 Report's* perspective. Koop has repeatedly warned that euthanasia and infanticide is the philosophy resulting from the cheapened view of human life that flourished with the advent of such things as abortion on demand. These policies are in concert with the all-out genocide conducted by the Nazis during World War II, Koop has warned.

Koop is opposed by House Democratic liberals led by Rep. Henry Waxman (D-Calif.), who are pushing extensive family planning programs and cost-effective medicine—i.e., less medical care, of poorer quality.

agreed in conference to lift the mandatory retirement age of 64 for the surgeon general post but refused Senate pleas to lift in the same process the retirement age for membership in the Public Health Service Corps, which is also 64. Koop is over this retirement age.

Waxman is determined to stall the appointment. He has introduced legislation which lifts the retirement age provisions, but other aspects of his bill, H.R. 3831, are considered impediments to Koop's appointment by his Capitol Hill backers. Waxman also wants to hold hearings on his legislation, thus further delaying the appointment.

Representative Henry Hyde (R-Ill.) has another bill, H.R. 3154, which would lift the barriers to the appointment which he is trying to speed to the floor without lengthy committee action. Hyde needs 218 signatures to get a "discharge petition" to push through the bill. Little opposition to lifting all these barriers in the Republican-controlled Senate is expected.

## Port improvement bill introduced in Senate

Senator John Warner (R-Va.) introduced the National Port and Navigation Improvement Act (S. 1389) on June 18. The bill is aimed at expanding major deep-draft commercial ports, and for the first time sets up a cost-sharing program to finance port expansions.

Rather than continuing total federal financing for port development, Warner's bill would have the federal government pick up no less than 60 percent for construction of navigational improvement projects while the federal share of operation and maintenance costs would be 75 percent or more. The remaining costs would be met by the states with the ports and harbors.

Non-federal funding would be reimbursed through imposition of user fees at ports, though the exact method of imposing such fees has not been worked out yet. The administration has proposed that the federal government remove itself from financing port development, but Capitol Hill sources report that the administration is willing to negotiate on this.

Warner's bill also seeks to speed up port development by, in his words, "provisions which will mandate expedited permitting, congressional authorization, environmental review and judicial review processes." Rep. Paul Trible (R-Va.) has introduced similar legislation on the House side.

Warner's bill has been sent to the Environment and Public Works Committee, which has already held a series of hearings on waterway and port development policy generally. The House Merchant Marine and Fisheries Committee will be holding hearings on the issue in late July. However, action on a specific bill is not expected until the administration releases its coal export program in July, assessing future port needs in relation to the volume of expected coal exports.

# National News

## Sen. Melcher blasts Butcher on interest rates

Sen. John Melcher (D-Mont.) used the occasion of Senate Policy Forum hearings June 25 on the impact of the Volcker measures on agriculture to lash out at the chairman of Chase Manhattan bank, Willard Butcher, for misrepresenting the implications of high interest rates to America's allies abroad. Butcher has been "telling the Japanese that interest rates will remain high for the next several years, and it's a price worth paying," said the senator.

He told the June 25 hearings, "I don't think it is a price worth paying for, and I find it interesting that he goes to Tokyo where their prime rate is 6.75 percent, even though their inflation rate is about as high as ours. They manage their money in an entirely different way. They make certain that there is credit to keep basic industry going."

The hearings were filled with adverse forecasts for American food-production if the Volcker measures are allowed to continue. "The amber waves of grain will soon be deep brown," reported Sen. David Pryor (D-Ark.). Sen. Edward Zorinsky (D-Neb.) declared: "The American farmer is being hit with a double whammy. We have to send a signal to this administration. The end is in sight for the family farm. We won't have to have hearings like this in the future because there won't be anybody out there in that field of endeavor."

## Texas passes tough antidrug laws

The state of Texas has put into law five pieces of antidrug legislation ranging from stiff penalties for sale of narcotics to minors to the revocation of professional licenses for medical doctors and pharmacists convicted of illicit drug sales. All but one of the bills has been

signed into law by Texas Gov. William Clements, and will take effect Sept. 1.

Drug dealers have moved into southern states, including Texas, in growing numbers since Operations "Grouper" and "Greenback" by the federal Drug Enforcement Administration curtailed kingpin trafficking in Florida. Governor Clements initiated the legislative package, calling it the "Texas war on drugs."

The bills sped through the state assembly in four-and-a-half months, thanks to a mobilization of Texas citizenry in their support. Legislators who normally received only 10 or 20 letters on a given issue received thousands of letters on the drug bills, according to Rick Salwen, counsel for the war on drugs program.

H.B. 729, the Delivery to Minors Act, makes possession or delivery of narcotics to a person under 17 years of age a 1st degree felony with a 5-years-to-life sentence. Probation and parole are available but not deferred adjudication, which would wipe away the criminal record of a well-behaved first offender.

The remaining three laws prohibit the manufacture, delivery, and possession of "drug paraphernalia," require prescriptions made out in triplicate, and provide for professional license revocation in case of violations.

## Paraquat revealed as posing no health hazard

Dr. Ernest Shapiro has prepared a study of HEW and National Institute on Drug Abuse tests of the herbicide paraquat, and concludes that it is impossible to consume enough paraquat-contaminated marijuana to pose even the possibility of a health hazard.

Joseph Califano, the Carter administration's HEW secretary, deemed paraquat a potential hazard, prompting the 1978 Percy Amendment against U.S. antidrug aid to countries using the herbicide or illicit crops. Paraquat is the most effective killer of marijuana and opium poppy plants.

Dr. Shapiro's study, commissioned by the National Antidrug Coalition and corroborated by other leading medical experts in the field, will be presented to government and private-sector leaders in Colombia.

## State, White House react to P-2

Nationwide distribution of a leaflet—including 3,000 in Washington, D.C.—implicating Alexander Haig, Henry Kissinger and David Rockefeller in the P-2 Masonic lodge's criminal activities in Italy, provoked frantic denials from the State Department, and later, the White House.

The leaflet was distributed by the National Democratic Policy Committee, which intends to issue one million. *EIR* reporters with copies of the leaflet in hand raised the issue at the June 19 State Department press briefing.

The State Department spokesman fielding questions was David Passage, whose unflappable Aristotelian demeanor has earned him the nickname "Mr. Spock." But at the mention of P-2, he lost control.

"These allegations are absolutely preposterous. As a fervent believer in democratic principle, I abhor this kind of nonsense." He also called the allegations pending against Haig "balderdash" before he was through. Nothing had ever been so "fervent" about David Passage before.

"As a member of Sierra Club," he continued, "I object to cutting down trees to print such trash." He waved the leaflet the whole time.

On June 22, Passage again lost control. He asserted that any allegations against Haig were "poppycock," "stuff and nonsense," and, once again, "balderdash." The White House still had no comment.

At the White House, spokesmen were not informed about P-2, they said. Finally, the next day, a White House spokes-



man called the P-2 affair, which had toppled a government and placed leading bankers and politicians in jail, "absurd." Have you investigated Mr. Haig's connection as charged in Italian press? "Unnecessary," came the reply. "You're barking up the wrong tree."

## Postal strike looms as negotiations lag

Negotiations between the United States Postal Service and the postal unions began late last month, nearly three months behind schedule. Sources close to the negotiations doubt that an acceptable pact will be reached by the July 20 deadline. If they are right, the Reagan administration will face a strike of 600,000 Postal Service employees, or wildcats that could tie up the nation's mail.

"It couldn't go on for long," said a Postal Service spokesman. "Reagan would have to call out the troops to move the mail"—as Richard Nixon did in 1970.

Moe Biller and Vince Sombrotto were leaders of the 1970 job action. Biller is now president of the American Postal Workers; Sombrotto is president of the Letter Carriers. Both have promised their membership they will lead strikes if no contract agreement is reached.

Biller, who headed the New York City postal union in 1970 presided over an organization rife with drug- and gun-running networks featuring the so-called Maoist Revolutionary Communist Party.

The U.S. Postal Service, headed by Postmaster General William Bolger, appears to be encouraging such "militants" in the unions. He has refused to negotiate, demanding that the National Labor Relations Board designate one of the four unions as sole bargaining agent. The NLRB took nearly three months to decide against the Postal Service.

Bolger has claimed that the service has no money, and has demanded give-backs, as well as a cap on the cost-of-living adjustment.

## LULAC's membership rejects Global 2000

The oldest and largest Hispanic lobby in the United States, the League of United Latin American Citizens (LULAC), resolved at its national convention June 20 to "vigorously condemn the *Global 2000 Report* and demand its repudiation by government and any other agencies propagating it." *Global 2000* is the State Department document that recommends a reduction of world population.

While the vote reflected the sentiments of the membership of LULAC, the organization's leadership was not pleased.

Arnoldo S. Torres, LULAC's Washington lobbyist, had endorsed *Global 2000* this May in congressional hearings, saying that "LULAC stands ready to offer its assistance and concern to *Global 2000's* effort. . . . We are in total agreement with *Global 2000.*" LULAC membership was not informed about the congressional testimony.

The anti-*Global 2000* resolution was introduced by Fernando Oliver of the National Democratic Policy Committee. Torres attempted to get the resolution voted down. Failing that, he covered himself quickly by offering a "counter-resolution" that copied Oliver's, declaring that LULAC "vigorously condemns the *Global 2000 Report*" for failing to consider "inexhaustible sources of energy" and for discrimination against Hispanics.

A second NDPC resolution dominating discussion called for tightened international and domestic law enforcement against illegal drug traffic and use. The leadership succeeded in amending it before passage to omit a call for recriminalization of marijuana.

Altogether, Oliver pushed four resolutions through, the remaining two involving an oil-for-technology approach to U.S. relations with Mexico, and repudiation of "I.D. card" approaches to migrant Mexican labor.

## Briefly

● **JENNINGS RANDOLPH**, Democrat of West Virginia, introduced a formal resolution into the Senate June 25 calling on the administration "to establish a non-partisan working group of the administration and Congress to find a quick solution to the problem of high interest rates."

● **CHARLES BENNETT**, Democratic congressman from Florida, has introduced a modification of the *posse comitatus* law in order to allow military backup for interdiction of drug traffickers. Submitted as an amendment to the military authorization bill, it has already passed the House Armed Services Committee. Under the new interpretation, for example, naval intelligence regarding suspected narcotics smuggling could be forwarded to drug-enforcement agents, and sophisticated technology including satellites could be made available to fight illegal drugs.

● **PHILIP GEYELIN**, board member of the Council on Foreign Relations and *Washington Post* columnist, told a reporter that Carter Defense Secretary Harold Brown briefed Alexander Haig before Haig's trip to Peking. During their discussion Brown urged Haig to carry out the Carter policy of arming China, establishing a joint monitoring station on Soviet military activities, and allying with Peking's policy for Southeast Asia. "Carter would have done what Haig did if he had been re-elected," Geyelin added.

● **JOHN GAVIN**, U.S. ambassador to Mexico, said that Mexico could serve as "communicator between the North and the South" at a San Diego symposium on immigration June 20. He characterized the meeting between Mexican President López Portillo and Ronald Reagan as "a hopeful starting point."

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