EIR

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Mitterrand, oil multis battle Mexico
Lord Bethell moves to blow up Yugoslavia
Venetian funds recolonize the U.S. economy

David Rockefeller and the Trilaterals' White House coup

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From the Editor

The Trilateral Commission's David Rockefeller has consolidated policy control over the White House, a control documented in our National section, and his family interests are leading the assault on Mexico's petroleum income and currency parity. The Trilateral faction has also obtained a U.S. budget that undercuts scientific, space, and military strength—in the expectation of what *EIR* founder Lyndon H. LaRouche, Jr. characterizes as a "new Yalta" accord with the Soviets that will allow deindustrialization and depopulation to proceed globally without interference from Moscow. A financial blowout is intended to consummate supranational monetarist control of world credit, and supranational political control through neo-fascist "emergency decree" rulers. The Ottawa summit, within this plan, has been designed as an Orwellian confrontation between the Franco-Canadian "North-South" prescriptions, and the U.S. State Department's "East-West" prescriptions—each a formula for disaster.

EIR readers, who not only observe but make weighty decisions, will see the intelligence presented this week is intelligence that can transform the world conjuncture. Our Special Report, prepared by David Goldman and Renée Sigerson under the direction of Editor-in-Chief Criton Zoakos, reveals the extent to which the American corporate colossus has become a hollow front for the centuries-old feudal families against whom the War of Independence was fought. We provide a preliminary estimate of the magnitude of the takeover, and an exclusive account of the methods by which it has been accomplished. Congressmen and business leaders concerned with national security will understand that these are more than "foreign" interests: they are profoundly *alien* to the principles of progress to which the republic is dedicated.

Our intelligence on the ever-widening P-2 Freemasonic revelations, and how those revelations are linked to Cardinal Casaroli's declaration that the possibility of a conspiracy against the Pope must be investigated, provides a map of the fundamental policy battles. The ongoing assassination danger to President Reagan as well as the Pope, we report, cannot be underestimated.

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Note: Each year, *EIR* skips publication of the issue that is produced during the July 4 holiday week. Hence the absence of last week's issue.

Economics

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Special Report

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National

Trilateral Commission spokesman David Rockefeller. UPI

After a financial panic: rule by decree planned

by David Goldman

West German Chancellor Helmut Schmidt's July 7 warning, in an interview with the Hannover *Allgemeine Zeitung,* against a "deflationary policy" and "decree government" of the type associated with pre-Hitler Chancellor Brüning 1928-31, should set intelligent observers on edge. A tumble of events is on—some known, some still to be reported—which leads to world financial conditions not substantially different from what prevailed under Brüning's government.

Schmidt, a man not prone to exaggeration, has done his best by way of warning.

To step back for a moment: an article published in this space March 24, 1981, arguing that OMB director David Stockman envisioned a post-panic *dirigisme* of the Brüning variety has occasioned some angry responses from readers who refused to believe that such treachery is possible.

Since this report four months ago drew more controversy than any we published in the past year, it is worthwhile asking: what is Fritz Kraemer doing in charge of Emergency Planning at the Defense Intelligence Agency? What is former Rand Corporation President Henry Rowan doing as chairman of the National Intelligence Council of the Central Intelligence Agency? These two appointments during the past week constitute an apparent mini-coup by the "government-within-a-government" associated with the Federal Emergency Management Agency, or FEMA. Under the last year of the Carter administration FEMA created a parallel structure of administration, expanding from the old Defense Preparedness Agency, and took over actual executive functions in several "emergencies" ranging from the Three Mile Island nuclear brouhaha to the financial side of the November 1979 freeze of Iranian assets in the United States.

Henry Rowan, now a top aide to CIA director William Casey, played the key role under Carter Energy Secretary Charles Duncan in preparing "emergency scenarios" for the eventuality of a shutoff of energy imports to the United States, reaching the conclusion that such a shutoff would be beneficial to the American economy. It would, according to Rand estimates prepared for the Energy Department, compel Americans to stop consuming oil and gas and switch over to coal, and finally convince the United States population that it must make drastic adjustments to deal with the alleged energy crisis.

Fritz Kraemer, the man who invented Henry Kissinger and Alexander Haig during his 30-year encystment at the Department of Defense as the senior civil servant in charge of economic intelligence, is an even more dangerous figure. He is a committed adherent of the

European circles associated publicly with the remnants of the Hapsburg monarchy and less publicly with the busted Propaganda 2 Freemasonic dirty-money and coup capability in Italy.

If there's no funeral, what are the undertakers doing here?

The shape of the crisis

It is not adequately perceived how close the world is to a major financial blowout. A handful of developments—the shutdown of the Italian stock market for the first time since 1917, the continued rise of American interest rates, the budget crises in West Germany and other European nations, the continued collapse of most commodity prices—have made market participants ill at ease.

For that matter, it is only necessary to read the most recent *International Finance* newsletter of Chase Manhattan Bank and the most recent *Financial Digest* of Manufacturers Hanover Trust to see the unwarranted glibness with which the major banks view the inability of developing nations to meet this year's obligations. Chase has increased its estimate of less developed country (LDC) payments deficits from $50 billion for 1980 to $59 billion for 1981, assuming a drop in export revenues of LDCs due to lower commodity prices and restricted, depressed Western markets; but different and equally reasonable assumptions could produce a deficit forecast for this year in the range of $70 to $80 billion, as Chase's economists well know.

Manufacturers Hanover notes the 50 percent declines in the past year in coffee, cocoa, and sugar, and the 15 percent more price declines in copper and other metals, adding, "In an effort to generate sufficient foreign exchange to pay for higher oil import costs, other necessary imports and the rising cost of debt servicing, many LDCs have increased exports of basic commodities in spite of falling demand and declining prices. To the degree that a particular LDC's exports are concentrated in a single, or a small number of export commodities, these price declines have had a major impact on their domestic economies as well. . . . Many if not most, LDCs are dependent on one or a few predominant exports for a large part of their foreign exchange earnings." None of this is new, certainly not in this publication.

What is new is the extreme likelihood of a wave of major bankruptcies of European banks due to Third World insolvencies and the lack of collaboration of the Bank for International Settlements. We know of one significant institution that last month had to sell off its entire portfolio of gold bullion to raise cash to cover bad debts, and blames the European-wide consequences of the election of François Mitterrand to the French presidency for its own national central bank's refusal to help. With the entire *Landesbanken* system of West Germany showing a loss, the giant Commerzbank missing its most recent dividend, and the German bond market in shambles, the German economy is poised for the same type of crisis that has already blown out the Italian currency and stock market.

There are no important local implications of these developments; the shock waves will exceed those that spread when the Darmstadter Bank closed its doors in 1931.

IBFs the fallback

Almost a year ago, when the American Banking Association and the Reserve City Bankers Association threw their weight behind the New York banks' two-year-old plan for "international banking facilities" to conduct Eurodollar-type business on American soil, it was stated plainly by the proponents of IBFs—and reported here—that the object of the plan was to provide a fallback in case of a crash on the Eurodollar interbank market. The $1.5 trillion Eurodollar market includes about $600 billion of loans between banks, of which the heaviest drawers have been European banks seeking dollars to fund loans to developing countries. A chain of defaults, therefore, threatens not only individual banks, but the banks' creditors down the road.

The big American banks are walking coldbloodedly into this sort of crisis, as the Fed's approval of the international banking facilities (which open Nov. 1) should have made clear. In short, the Fed has stepped over the question of whether it should bail out American commercial banks through the discount window, by obtaining legal sanction to commit the whole public credit to the United States for the defense of the bad loan portfolios of American commercial banks.

Former Chase Manhattan Chairman David Rockefeller is not concerned with a Caribbean "development zone" for altruistic reasons. As we show elsewhere in this issue, the Caribbean is the nexus of the multi-hundred-billion-dollar per year world capital flight market, which Chase has tapped as a source of funding and as a matter of policy since 1966.

The apparent objective of the "international banking facilities" and "Caribbean zone" formats is to erect a *dollar zone* fed by flight capital, including the $70 billion in narcotics-related revenues arising from Latin America, which would stand despite a collapse of the European sector of the interbank market. This implies a global regime of currency *blocs*, a plan advanced in late March by the giant Assicurazioni Generali di Trieste at a conference featuring Prof. Robert Triffin, and since adopted by the Italian and French governments.

Examining the actual dimensions of the Eurodollar interbank market, it is possible to see the mad logic behind David Rockefeller's thinking. As of June 30, 1980, commercial banks in the United States had $185.4 billion in deposits from foreign sources, of which $61 billion were liabilities to banks' own foreign offices, i.e., funding from abroad for loan purposes. The net liabilities to foreigners came to $124 billion.

Of these net liabilities, $20 billion came from Latin America and the Caribbean, and $34 billion from Asia, that is to say, roughly half of the net total came from the two great flight capital centers: the Singapore-Hong Kong axis, and the Venezuela-Jamaica-Bahamas triangle.

The biggest chunk of net liabilities comes from Western Europe, at $61 billion; but of these, two-thirds are from countries whose central banks are virtual arms of the Bank for International Settlements and which would most likely cooperate with the Fed during a crunch. This includes $7 billion to England, over $13 billion to Switzerland, and $3.5 billion to Belgium and Luxembourg, the three European markets closest to the Caribbean-Hong Kong "offshore" nexus.

Of course, the creation of a "dollar zone" based on the offshore markets noted could not be handled so easily, but the cited measures give some sort of geographical order and perspective on the size of the actual problem. American banks' loans to Third World countries net of deposits are now, by official measure, $100 billion, and substantially m

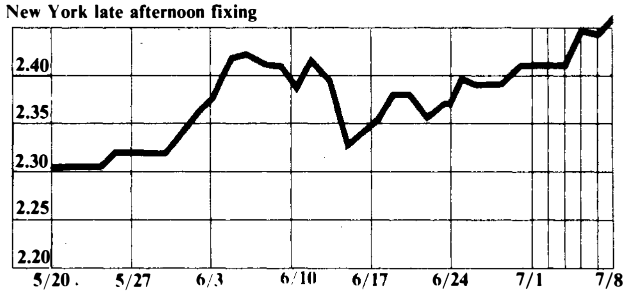
loans from foreign subsidiaries are figured in; it must be assumed that many of these offshore subsidiaries would be abandoned, and that the Fed would additionally have to buy up between $40 and $60 billion of bad paper.

In other words, the type of "dollar zone" the bankers have in mind as a fallback option, based on the federal printing presses, Latin American narcotics revenues, and other dubious sources of funding, is a prepackaged hyperinflationary disaster. No wonder that international investors are willing to pay 20 percent interest to buy oil and gas in the ground! That they are apparently not willing to buy gold at current low prices is a far more complex issue, treated separately in this issue (see Gold).

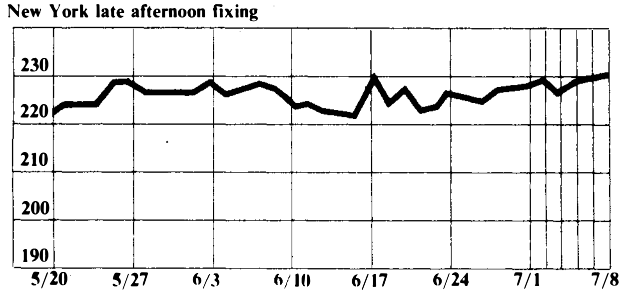
This type of disaster is unmanageable under the stock of methods the Reagan administration heretofore imagined it had available. It implies a highly visible hand directing national economic affairs. Whether the form of the crisis will be the one outlined above is not possible to say; it is only important evidence that leading market participants are following a scenario of this type. Meanwhile, the administration, whether the President knows it or not, is on alert status for economic rule by decree.

Currency Rates

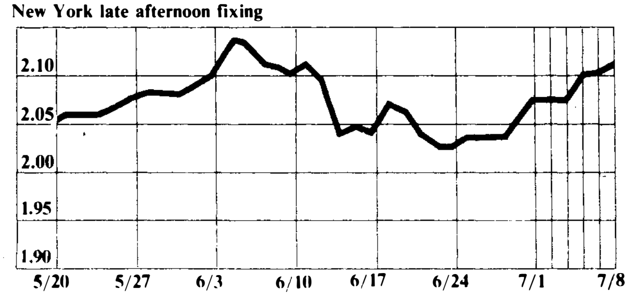
The dollar in deutschemarks
New York late afternoon fixing



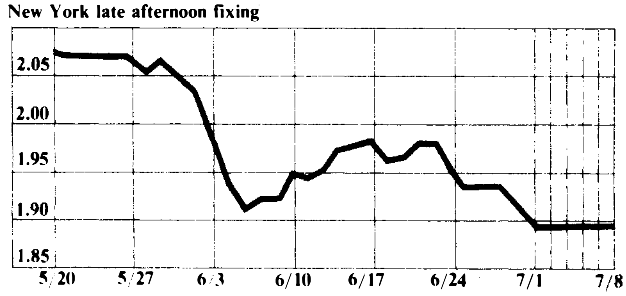
The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



What Haig and the Socialist International intend for Ottawa

by Kathy Burdman

Operating on both sides of the Atlantic, the officials planning the July 20-21 heads of state economic summit in Ottawa are working from a scenario written by David Rockefeller's Trilateral Commission for the destruction of the summit itself as a forum in which national governments may deliberate on the urgent new economic policies needed to head off the coming international depression.

Negotiations for the summit, according to sources in the Haig State Department and European capitals, have already hardened into a classic "left-right" split, in which the Socialist International governments of François Mitterrand in France and Pierre Elliot Trudeau in Canada will promote "left Keynesian" programs such as the Brandt Commission's program for the developing sector, while Britain's Margaret Thatcher will draw President Ronald Reagan into a "right-wing" free-market hardline position.

"The result," said a summit organizer at Donald Regan's U.S. Treasury Department, "could be a potential fist fight between the U.S. and the U.K., and the rest of Europe."

The Socialist International in fact is manipulating both sides of the game. The leading U.S. organizers of the Ottawa summit—Secretary of State Alexander Haig, former Secretary of State Henry Kissinger, Treasury Secretary Donald Regan, and their aides—are acting in policy alliance with the Socialists within the United States.

Caught in the center, and expected to be paralyzed under the scenario, are West German Chancellor Helmut Schmidt and Japanese Prime Minister Zenko Suzuki, who have been urging President Reagan to halt the extreme "free market" policies of U.S. Federal Reserve Chairman Paul A. Volcker. Volcker's current 20 percent interest-rate regime threatens the economic collapse of the West.

The aim of the Rockefeller Trilateral Commission, which is operating on behalf of the Propaganda 2 (P-2) Freemasonic lodge of the Venetian oligarchy, is thus to preclude all competent discussion of urgent economic questions. The result will be a deliberate world depression, implemented as Venetian policy, under the continuation of the Volcker interest-rate policy.

The end of economic policy

The pressing need for the Ottawa heads of state summit is for discussion by President Ronald Reagan, Chancellor Schmidt, and Prime Minister Suzuki on a series of measures to relaunch the world economy:

- The immediate and significant lowering of the *high interest-rate policy* of the U.S. Federal Reserve, to be followed by the major central banks of Europe under direction from their elected national governments.
- The stabilization of the *world currency system* through the remonetization of U.S. and European gold reserves at approximately $500 an ounce as a basis for the issuance of new international credits.
- The agreement by Western governments on the return to high-technology, heavy industrial *export trade* with the nations of the developing sector, to be aided by increased export credits.
- The radical revision of Western *tax* and *industrial policy* along Hamiltonian lines, to eliminate both the Keynesian and "supply-side" tax policies which impede heavy industry in favor of "postindustrial" service sector employment, and use taxation instead to enforce investment in capital goods and research and development.

Instead, according to a Trilateral Commission planning document for the summit now being used by both the United States and Great Britain, the Ottawa summit must not discuss economic policy, but rather turn exclusively to "political" topics such as relations with the Soviet Union.

The Trilateral document, " 'Trilateralism' and the Governance of the International Economy in the 1980s," was released by David Rockefeller at the March 1981 meeting of the Trilateral Commission in Washington on the day of the attempted assassination of President Ronald Reagan. The report, which is a plan for economic summits, was authored by Miriam Camps, senior fellow of the New York Council on Foreign Relations and leading author of the CFR's 30-volume

François Mitterrand: one side of the setup.

1980s Project, which demands "controlled disintegration in the 1980s."

The Trilateral thesis is that nation-states can no longer make economic policy, which is best left to the "independent" central banks and their "technical" supranational organizations such as the International Monetary Fund and Bank for International Settlements. "There is a disjuncture, a lack of congruence, between the economic world, which is becoming truly global, and the political world, which remains dominated by the nation-state," Camps writes. "Now we are experiencing the problems of living in a world . . . that is becoming increasingly overcrowded."

"So far as summitry is concerned, it is not well suited to the kind of continuing consultations on macroeconomic policy that could usefully be carried on by a restricted group within the International Monetary Fund. Moreover, particularly at a time when relationships with the Soviet Union are difficult, dangerous, and potentially divisive, the summits must be 'political,' and must be concerned with seeking to reach agreed appraisals of the nature of the challenges confronting the West and with the economics of defense."

The Trilateral plan was first put forward by the Margaret Thatcher government of Britain at summit pre-meetings during May, and then endorsed as an Anglo-American "joint venture" for the summit by the U.S. negotiating team. The U.S. team, which reports to Vice-President George Bush, a former Trilateral member, is headed by President Reagan's personal representative for the economic summit, Undersecretary of State Meyer Rashish.

With the approval of Secretary of State Alexander Haig and Treasury Secretary Donald Regan, Rashish and the Treasury team preparing for Ottawa have adopted the Trilateral perspective as the basis for U.S. briefing papers to President Reagan on the entire conduct of the summit.

Secretary Haig's ties to the Trilateral Commission and the Venetian oligarchy's P-2 lodge have already been the subject of reports in the leading European press. Undersecretary Rashish for his part has long worked for the Rockefeller family, having begun his career in 1953 as director of John D. Rockefeller III's Resources for the Future.

Mr. Rashish was first brought into the State Department in 1960 by leading Trilateral member George Ball, Undersecretary of State for the Kennedy Administration, whose Lehman Brothers-Kuhn, Loeb investment bank is heavily implicated in the P-2 affair. Mr. Rashish's chief summit deputy, Assistant Secretary of State Robert Hormats, is a protégé of former Trilateral Commission Executive Director Henry Kissinger, who brought Hormats onto the National Security Council in 1969, where Mr. Hormats also acted as an adviser to Alexander Haig.

The left-right scenario

With the United States' acceptance of the Trilateral plan as of this writing, the Ottawa summit is scheduled to break down into what is known as a "classical left-right scenario" as developed by the sociological profilers at the London Tavistock Institute (Sussex), the leading center of Venetian scenario-writing in Britain.

The United States and Britain are profiled to take the extreme "right" position on the crucial issues of interest rates, Third World development, and trade. Their basic premise will be that these issues are *not for debate* at the summit at all, as the Trilateral Commission negotiating paper states, since the United States and Britain have already decided upon their unilateral policies:

On *interest rates*, "the United States' position is clear," said an aide to Undersecretary of State Meyer

Rashish this week. "The United States has no intention of lowering its interest rates, nor of taking any artificial measures to loosen credit. President Reagan is absolutely firm in his commitment to this. There is nothing the Europeans can possibly say or do to change this or have any effect on U.S. interest rates whatsoever, and they are well aware of it."

The attitude being taken by the U.S. team is that "U.S. domestic considerations and domestic economic objectives come first, and that if we get our own house in order, the world economy will follow," said the State Department aide.

The British position is identical.

On the *international currency* markets, the U.S. and Britain take the position that the tremendous collapse of European currencies and destabilization of the European Monetary System (EMS) caused by high U.S. and British rates "is Europe's problem," a spokesman for Undersecretary of the Treasury for Monetary Affairs Beryl Sprinkel stated. "This administration believes that currency rates are best handled by the free markets. If the West German mark and French franc are falling, that is because their economies are weak. It is a problem of their own making. If the EMS is in trouble, that's their problem. The U.S. doesn't belong to it."

On the urgent need of *Third World* nations for credit relief and industrial exports from the West, the United States and Britain intend to preach "supply-side" economics, according to Mr. Rashish's office. The "supply-side" policy, as now being followed in the U.S. and British domestic economies, calls for an extreme free-market approach of tight money, coupled with tax cuts and budget cuts. In their view, the Third World requires no action from the West, nor relief from the 20 percent interest rates of the U.S. Federal Reserve which have made international credit intolerably expensive to most developing nations. Rather, Mr. Rashish's aide stated, the United States and Britain will advise the Third World to adopt its own supply-side policies, "to stimulate private-sector investment, to place greater reliance on the private sector, to shift away from development assistance, and to remove their domestic price-subsidy programs which now keep the price of food, energy, and credit in most developing nations at artificially low levels."

On *trade*, the United States has declared it will go to "trade war" against Europe and Japan unless these governments abandon their $6 billion in annual export-credit subsidies for trade, to which Washington and London object as a violation of the free market. Unless these credits are halted, warned Deputy Secretary of the Treasury R. T. McNamar in France recently, "There will be an export credit war."

The Regan Treasury, which is closely allied to the Haig State Department, is in fact considering the unilateral invocation of Section 301 of the 1974 U.S. Trade Act, which would close U.S. markets totally to European goods, according to Treasury sources. Such an action would cause a drop in world trade worse than that of the 1930 Smoot-Hawley tariff that touched off the Great Depression.

All these Anglo-American positions are non-negotiable as of this writing.

The Socialist position

The Socialist International governments of France and Canada, for their part, are profiled to take the extreme "left" position on these crucial issues. French President François Mitterrand and Canadian Prime Minister Pierre Trudeau will indeed demand that economics be discussed, but from a Keynesian standpoint calculated to drive President Reagan and Prime Minister Thatcher into hardened opposition.

On *interest rates*, French President Mitterrand and French Finance Minister Jacques Delors have announced their intention to confront the United States loudly with demands for a Keynesian-style "reflation" program to lower world rates through inflationary printing-press money.

With the backing of Mitterrand, Italian Finance Minister Andreatta, and the Dutch and Belgian governments, the Mitterrand government has announced that Europe "will speak with one voice against American interest rates" at Ottawa.

On the *international currency* markets, French Finance Minister Delors has devised a plan to use the European Monetary System for an attempted collapse of the U.S. dollar, with which France will threaten President Reagan at the summit, according to White House sources. France has proposed that all European nations place their dollar reserves into the EMS, which would then proceed to dump large quantities of the American currency onto world markets to pump-prime a run on the dollar.

On *Third World* development policy, Pierre Trudeau of Canada intends to push strenuously for endorsement at the summit for the 1979 report of the Brandt Commission, the Socialist body headed by Socialist International Chairman Willy Brandt, former chancellor of West Germany. The Brandt report calls not for competent industrialization of the developing sector, but rather for a "welfare" program of labor-intensive make-work projects in the LDCs to reduce economic growth there and lower population growth. Chief among Trudeau's plans is the Brandt Commission's support for the proposed new World Bank Energy Affiliate, which would spend $25 billion in Western government funds, and a total of $92.3 billion in funds, by 1985, to set up soft-energy projects such as solar energy, gasohol, and dung recycling in the LDCs. The objective is to drastically reduce Third World oil imports and energy consumption.

To finance the Brandt scheme, Trudeau and Mitterrand will reportedly call for a large-scale "transfer of resources" from the industrial West, which would suffer a cutback in living standards and capital investment, in order to redistribute funds to the LDCs.

On *trade*, the Mitterrand government, which has already denounced the U.S. Treasury's trade posture as "trade warfare," will propose a "Global Davignon Plan" modeled on the European Commission program of Count Etienne Davignon. The Davignon Plan has already erected a supranational control commission over the European steel industry that has rationalized and shut down more than 10 percent of European steel capacity over the past few years on the excuse of "apportioning markets."

"Mitterrand rejects the nationalism of Reagan and Thatcher," said a source close to the French government, "and believes that the U.S., Japan, Europe, and the Newly Industrialized Countries [NICs] must be brought into a global trade framework. This should reorganize and rationalize world steel and other industries such as automobile production and chemicals." The French idea is to shut down large sections of Western industrial production and grant them to the NICs.

Every one of these supranational Fabian proposals is deliberately designed to provoke maximum rage and rejection in Washington and London.

The consensus process

All of these positions of the left and right have been thoroughly aired during the pre-summit meetings. There is now an effort by Undersecretary of State Rashish and his deputies to promote the idea in Washington that differences at the summit can be "papered over" for the immediate period of the summit, in the interests of focusing discussion on a Western "consensus" regarding relations with the Soviet Union. This, of course, was also originally proposed in the Trilateral Commission summit scenario.

According to Mr. Rashish's office, the heads of state may agree to disagree for the time being on the basis of the European perception that the United States and Britain are absolutely immovable in their policies—with the proviso that the Reagan administration is prepared to endorse the right of France and Canada to implement their Fabian programs if they choose in their countries.

The governments at Ottawa "will agree on the need to forget differences over the smaller issues in the interets of strategic objectives," asserted a White House source this week "because the Europeans realize the U.S. is immovable in its policies."

The official stated that the Reagan administration is now prepared to reach an "entente" with the Mitterrand government on the basis that Reagan "will not condemn what Mitterrand is doing in his own country." The White House source further stated that Reagan's policies and those of Mitterrand are "the same" on a fundamental level, in that both are attempting to promote investment in the "postindustrial" service sectors and shift capital out of the heavy industries.

Undersecretary Rashish's office also reports that the United States may now accept the Canadian government's position paper on North-South issues which contains many of the Brandt Commission provisions as "a good paper to begin negotiations."

It is true that the Trilateral Commission and Thatcher version of supply-side economics, notably the Volcker interest-rate policy, which has been adopted by the Reagan administration to date, is in fact the identical policy to that of the Socialist International in its net effect on the world economy. Supply-side economics would simply let the developing sector and Western economies slide into hell via the free market, using a depression enforced by high interest rates. The Brandt Commission approach of Mitterrand and Trudeau would use supranational agreements to shut down industry in the West and enforce mass starvation in the developing sector.

It is also true that there is now a great deal of effort at the Haig State Department to focus the discussion at Ottawa on the plans of British Foreign Minister Lord Carrington for a "new Yalta" agreement with the Soviet Union.

The British and U.S. defense community are concerned to reach some agreement with the U.S.S.R. on world military matters for the near term, in order to allow the planned shift of Western economies into the "postindustrial" era to proceed as scheduled. The Anglo-Americans are aware that any need for a competent technology based military buildup in the West could never be accommodated under the "postindustrial" program, and wish to avoid the need for such a buildup for as long as possible.

Accordingly, Rashish's office is quite concerned to promote the idea that the Ottawa summit can reach some sort of "consensus" on the strategic question.

Whether an outright clash erupts, or whether "consensus" is the predominant atmosphere, the results for the real-world economy will be the same, unless the concerns and recommendations of Chancellor Schmidt and Prime Minister Suzuki are seriously addressed by the United States.

Yet, it is possible that the summit communiqué may not publicize a split in the West, there can, however, be no such "papering-over" of the fundamental situation as forecast by Rashish.

Conference Report

U.S. business outlook expands in India

by Paul Zykofsky

U.S. business appears to be waking up to the enormous potential for expanded economic relations with India. This was the impression I got at the day-long meeting of the India Chamber of Commerce of America held in New York June 25.

In summing up their experiences, most of the speakers emphasized that India's large pool of scientific, technical, and managerial manpower has made it possible to find qualified personnel for even the most advanced operations in India.

One reason for the improved investment climate is the set of measures by the Indian government since Prime Minister Indira Gandhi returned to office in January 1980 to relax investment and trade policies.

Growth opportunities

However, judging from a recent study by the Indo-American Chamber of Commerce covering 30 joint enterprises in India, the opportunities have existed for many years. The study, involving companies in such diverse areas as engineering, consumer products, chemicals and pharmaceuticals in the period from 1975 to 1980 showed that:

- combined sales grew at an average compound rate of 16 percent;
- gross profits registered a 15.2 percent growth;
- net profits grew at an annual rate of 14 percent;
- dividends grew at an annual rate of 19 percent;
- net worth grew at 12.3 percent; and
- wages, salaries and bonuses registered a 12 percent growth rate.

The large attendance at this year's meeting and the tone of the presentations by both Indian and U.S. speakers was upbeat in a new way. Of special importance were statements by U.S. businessmen highlighting opportunities for doing business with India rather than its rival Asian power, China. While the Carter administration was able to sell its "China Card" policy to gullible businessmen, China's cancellation of numerous contracts during the past year is finally causing corporate planners to wake up. An official of Amexco, for example, told journalists at the meeting that "at this point India is way ahead of China" regarding business opportunities for U.S. companies. Similar views were expressed privately by other businessmen disillusioned with the China Card.

The new interest in India was reinforced by representatives of both small and large U.S. firms who spoke about their experience doing business in India over many years. General Electric's manager for Central Asia and Thailand summed up these views, noting that "doing business with India can be exasperating . . . yet exciting and rewarding."

A large delegation of Indian businessmen, fresh from the sixth annual meeting of the India-U.S. Business Council in Washington, highlighted the improved economic situation in India and advised U.S. business on how to go about investing there. Despite some restrictions limiting foreign ownership in Indian firms to 40 percent, several businessmen noted that these do not apply to investment in high-technology areas. In addition, there are special tax incentives for research and development work.

What is most ironic is that the new interest in India has emerged at a time when the U.S. State Department is pursuing a policy in Asia which will seriously undermine relations with India. The administration's decision to sell advanced weapons to China and Pakistan while cutting off shipments of enriched uranium for India's Tarapur nuclear power plant will have serious repercussions on Indo-U.S. relations.

India's ambassador to Washington, K. R. Narayanan, pointed out the fallacies of this "short-term" approach to policy-making in a brief statement at the meeting. While noting that "China has a lot of political sex appeal in the U.S. these days," Narayanan emphasized that India has proven its political stability as a democratic republic since it gained independence from the British 30 years ago. During this period India has made substantial, steady gains in agriculture and industry and has built up the third largest pool of scientific and technical manpower in the world after the United States and the Soviet Union.

Given this background, Narayanan noted, businessmen eager to invest in Asia should ask themselves whether say 25 years from now, China will be as politically and economically stable as India.

Narayanan emphasized that "new impetus to economic recovery and growth in the developed countries lies in expanded trade and economic relations with the Third World . . . India has immense potentialities."

The ambassador concluded by warning that "unless we give concrete economic substance to our political relations . . . they will have fragility in the long term."

Gold by Montresor

The brotherhood and the gold price

In which the oldest money and its managers expect an excellent price for bullion to revive.

After a certain amount of digging, I have uncovered the truth behind the recent weeks' sharp break in the price of gold. Not to my surprise, the perpetrators are revealed to be a group of men whom I have watched for some time.

At the beginning of July, gold market observers in Frankfurt were surprised to note a clear pattern of rumors emanating from the city of Zürich, where the Union Bank of Switzerland makes its home, to the effect that an imminent gold-price collapse may be expected. As UBS would have it, gold is headed for the $350 or $300 per ounce level.

Together with the rumors, these same astute Germans noted a small but strategically well-placed series of bullion sales by both the Union Bank and certain old Italian institutions. At each turn in the gold price, so it seemed, the gentlemen in Zürich and Milan were acting to frighten the market, at a net cost to themselves, of perhaps as few as five tons of metal.

In due course, the gold price did indeed collapse by $60 during the first weeks of July, breaking the $400 per ounce barrier to fall to $397 on July 8 in London.

The mystery deepened when my friends in Frankfurt discovered that the Italian, French, and German central banks, large portions of whose reserves are held in gold, had inexplicably ceased to intervene to support the yellow metal, as had always been their custom. Although the Banca d'Italia values its huge gold holdings at $480 an ounce and the Banque de France at $460, they stood by. This, in spite of the weakness of all their currencies, a severe run against which has only been prevented in recent months by the knowledge of speculators that these three hold over $112.1 billion in gold at the $460 valuation.

Why would the central banks of nations stand deliberately by while the credit of those nations is ruined, when those nations, under the European Monetary System, are committed to the remonetization of gold as a pillar of the international monetary system? What can the future for those currencies be, when the American central bank continues to raise world interest rates above 21 percent, threatening to pull more funds out of Europe?

To complete the picture, by mid-July our German colleagues had to report unmistakable signs of gold sales by the Soviet Union, which had been kept from the open markets for many months.

Considering the matter, I reported to my German associates the fact that precisely these three central banks, the Italian, French, and German, had for some months subordinated the interests of their national governments to the tight-credit dictates of the Basel-based Bank for International Settlements.

I further reported to my colleagues the renewed offensive against the Vatican and the increased capital flight out of Europe now being conducted by the Propaganda 2 lodge of Venetian Freemasons, the exposure of whose illegal money transfers has recently toppled the Italian government. I suggested to them that the Banco Ambrosiano and Banca Commerciale Italiana, whose officials Roberto Calvi and Gaetano Stammati have been named as P-2 Masons, are under scrutiny for illegal money transfers, bore suspicion in the gold matter.

Upon investigation, my Frankfurt friends were able to report indeed that the "strategic bombing" gold sales were almost certainly coming from the two Masonic banks in Milan.

Meanwhile, colleagues at the Vatican in Rome had discovered that the Union Bank of Switzerland itself was no random Swiss bank, but the Swiss bank of choice for Sr. Calvi himself. Among the papers of Licio Gelli, Grand Master of the P-2 Masonic lodge, have been found at least two receipts on Union Bank in Lugano and Geneva for illegal payments by Roberto Calvi, Sr. Gelli's banker. The first was for a $7 million bribe to Italian Socialist chief Bettino Craxi, for a loan arranged by Craxi to the Italian state oil concern ENI. The second was an $800,000 payment by Calvi to Italian Supreme Court Justice Zilletti for the illegal release of Sr. Gelli's impounded passport.

The P-2 financiers were unmasked as the force driving millions of small investors out of the gold market. Meanwhile, I suspect, they are buying gold off the market from Moscow and Johannesburg. Later this year, only they will benefit from a planned gold-price rise.

Domestic Credit by Richard Freeman

Volcker's third-quarter outlook

If high rates persist, the ominous May economic figures will be an outright disaster.

As economic figures pour in from across the nation, the U.S. economy is on the threshold of a third-quarter economic crisis. Already, the damage inflicted during the second quarter is far more significant than most people realize. If the Federal Open Market Committee (FMOC) of the Federal Reserve Board, under Fed Chairman Paul Volcker's direction, opted July 6 at its monthly meeting to keep credit expensive and the federal funds rate high—as is widely expected—then the consequences will be profound and far-reaching.

The economic casualties in the second quarter were broad based, ranging from auto to construction spending to home spending, and was foreshadowed by the May performance of the index of leading economic indicators. That index fell in May by 1.8 percent from its April level, the largest monthly drop in 12 months.

U.S. construction spending in May was $237.3 billion, 4.7 percent below the previous month's level. Public construction for roads, hospitals, etc. fell by 9.9 percent for that month, and the fall in new home construction was even steeper. But, indicating the real depth of the problem, when the May total private and public construction spending figures are put in constant 1972 dollars, the level is 5 percent below the May 1980 level, itself one of the lowest levels in post-World War II history.

In the auto sector, for the last 10 day period of June, sales of domestically produced U.S. cars averaged only 5.2 million on an annual basis. This is the lowest daily auto-sales rate for any period in June in the last 23 years. For the first six months of 1981, the average selling rate of domestically produced U.S. cars was 6.6 million—which is unchanged from the dismal rate for all of 1980.

Indeed, in auto, the problems Volcker has created have been self-feeding. The U.S. automakers, strapped for cash, raised the transaction price of new cars by 13 percent this year, thus pricing themselves further out of the range of consumers.

Moreover, in May, orders for new machine tools fell to $229 million, a staggering drop of 25 percent from April, and an amazing 47 percent drop from last year's levels. Since machine tools are crucial for all capital formation, the drop in orders simply confirms what is known: high interest rates are poisoning all attempts at industrial development. Not even the Reagan tax package will induce businessmen to spend for capital goods.

As this news came in, Volcker and the FMOC met behind closed doors in Washington July 6 for its monthly meeting. Over the last month Volcker and the FMOC, which is charged with administering the monthly monetary targets on a daily basis, kept the federal funds rate in the range of 19 to 21 percent. The federal funds rate, at which banks borrow excess reserves from each other on an overnight basis, because it constitutes the lowest cost of borrowed funds for the banks, when set at the 19 to 21 percent high range enforces a prime lending rate of 20 percent and up.

If the economy is weakening, and Volcker keeps interest rates high, then the stage is set for Volcker to pound business activity into the ground as he did in March 1980.

"The big worry around here," Robert Synch, an economist of the Wall Street investment house Bear Sterns reported July 6, "is that Volcker will overkill. That is, he'll tighten too long. Volcker kept the federal funds rate at high levels all during June on the expectation that money supply would grow," Synch said. "But in fact, the money supply was negative for the month. Now, the Fed is expecting a bulge in the money supply for July, with a predicted $5 billion extra in Social Security payments. If the Fed holds tight, the economy is going to be hit bad."

The gravest danger is that Volcker will detonate one of a half-dozen danger zones strewn all across the economy.

These danger zones include the money market funds, which have resumed a growth rate of $2 billion per week (now totaling $127 billion in assets) and which contain so much unsecured bad paper that one well-connected investor told *EIR* this week, "Some smart money people I know took $300 million out of money market funds over the last two weeks and put it in Treasury bills." Other danger zones are the financial side of the overbid housing and real-estate market.

Med fly blight spreads in California

The Zen governor's protection of this pest may have severe consequences for the state and nation.

By refusing to authorize aerial spraying of pesticides in the San Francisco area to combat the med fly blight, California Governor Jerry Brown has just placed in jeopardy the state's $14 to $18 billion a year agricultural industry.

The crop-destroying med fly, or Mediterranean fruit fly, first appeared in Santa Clara County last summer.

But instead of taking the obvious step of aerial spraying with the proven and safe pesticide malathion, Brown's administration sent the California Conservation Corps and volunteer groups into the area of infestation to hand pick and destroy hundreds of tons of fruits and vegetables—a tactic reminiscent of Mao Tse-tung's campaign to rid China of flies.

In addition to being very costly and inefficient, the method did not work. Last week, state authorities registered 110 new incidents of med fly infestation just in Santa Clara County.

Did Governor Brown now heed the warnings of agricultural experts and authorize the aerial sprayings? No. At a press conference in Sacramento July 8, Brown announced that he was rejecting aerial sprayings over Santa Clara County, citing an alleged threat to pregnant women, and was instead ordering a "massive, all-out ground spraying" and mandatory fruit-stripping program to eliminate the pest.

The United States Department of Agriculture, meanwhile, is on record as stating that only aerial spraying can stop the pest from spreading.

The med fly is a dangerous agricultural pest that feeds on more than 200 varieties of fruit and vegetables. The fly, which infests parts of Europe, South America, and Hawaii, first appeared in California briefly in 1975. The Los Angeles County outbreak was stemmed, not through a $700 million "sterile male" program, but by ground spraying with Baytex (malathion and fenthion) as authorized by the EPA.

The fly did not reappear until last summer, when it was presumably brought into the state in infected fruit from abroad. The state health department found the fly in localized residential areas near San Francisco.

Federal agricultural experts had advised aerial spraying wih malathion, as has been done previously with no ill effects on the population in Texas and Florida. Texas, which suffered a major infestation in 1956, used malathion spraying to totally destroy the med fly. Moreover, malathion is widely used in home pest sprays.

In the recent California epidemic, Governor Brown allowed only a limited amount of ground spraying with malathion, and the release of sterilized male insects in an attempt to sexually frustrate the flies. This last ploy has cost some $170 million, per week, and has met with only limited success. Further, it is physically impossible to pick every kind of fruit known to be attacked by the med fly. A single fruit per square block of residential area will attract female flies from all over the neighborhood, and produce dozens to hundreds of new adults within a month.

While the flies went into dormancy last fall, they have now re-emerged and are again threatening California's crops. Both state legislative houses have passed resolutions calling for aerial spraying, along with the USDA. Despite Brown's control program, the fly has spread to 83 localities over a several hundred-square mile area in the Santa Clara Valley.

Although major agricultural areas have not yet been infested, some countries have begun to embargo imports of California fruits. Taiwan and Japan have banned California food imports, as Texas had done last year.

And if the fly does reach the California agricultural belt, including the San Joaquin Valley, a widespread cutoff of out-of-state sales is expected that will devastate the industry even if the fly actually destroys only a small part of the crop.

Further, if a major spraying effort is not undertaken, the fly may become endemic, necessitating blanket spraying programs over large areas of the state every year to control the infestation.

And if Brown continues to work with groups like the environmentalist Ad Hoc Emergency Committee Against Aerial Spraying, California may be pesticide-free, and economically devasted.

World Trade by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
$3 bn. plus	Japan/ U.S.S.R.	Japan and the Soviet Union have agreed that Japan will buy 3 mn. tpy of LNG and oil from fields off Sakhalin Island over 20 years, beginning 1988. Commercial production plans to be drawn up by end of 1982 will probably cost $3 bn., with most of the work going to Japanese firms and financing coming from Japan's Ex-Im Bank.	Japan also pursuing onshore LNG potential in Siberia; original U.S. partners have been forced out by Afghan embargo.
$1 bn.	Iraq from U.K.	Economic and technology pact signed which could bring $1 bn. per year orders to Britain. Follows bad political relations since 1975.	*Financial Times* says Iraq wants Rapier anti-aircraft missiles and other British arms, since Soviets cut arms supply during Iraq conflict with Iran.
$175 mn.	Colombia from France	Creusot-Loire will build pulp and paper mill near Cali, Colombia, for joint venture (Papelcol) in which it is major partner. Will use sugar cane bagasse.	FF 1 bn. buyer's credit from French banks led by Banque de L'Union Européenne, of same group as Creusot-Loire.
$133 mn.	India from U.K./France	India's M and M is building new diesel engine plant to make 25,000 motors per year, using Peugeot technology and British equipment. It will also raise capacity of existing Maharashtra state plant from 13,000 to 25,000 tractor and jeep diesels per year.	Financing from World Bank's IFC and variety of Indian and British sources.
UPDATE			
$850 mn.	Libya from Japan/South Korea	Kobe Steel has subcontracted to South Korea's Samsung work on Misurata steel complex. Samsung will perform $130 mn. work on basic structures and on mechanical installations of 9 of complex's 24 plants.	Kobe-Libya deal reported *EIR*, May 12.
CANCELLED DEALS			
$656 mn.	Jamaica from U.S.A./ Norway/ World Bank	Plans to double Alcoa's 550,000 tpy alumina refinery (as reported *EIR* June 16) have fallen through. Norsk Hydro, Elkem and Ardal Og Sundal Verk of Norway, which were to provide half the cost, have dropped out due to negative projections of world aluminum market growth and Norwegian political questions.	Cancellation on top of cancellation (also reported June 16) of Arab-Soviet refinery plans is severe blow for Prime Minister Seaga. He won election on promise to bring investments and jobs. Aluminum is only modern industry on populous island.
	France and 8 other oil purchasers from Mexico	Pemex announced 9 clients have suspended or reduced Mexican crude oil purchases by 550,000 bpd, as of July 2. Clients are Exxon, Ashland, Charter, and Clark of U.S.A., plus France, Sweden, India, Yugoslavia, and Philippines on state-state basis. Mexico has lost 40% of oil exports.	Mexican Industry Ministry responded July 4 by ruling all French companies ineligible for Mexican development project contracts, including explicitly nuclear, auto, and subway.

Business Briefs

Foreign Exchange

European currencies in difficulties

Despite a strengthening of European currencies against the dollar toward the end of the week of July 6-10, the dollar should remain strong in the next few weeks, and the European Monetary System currencies may need realignments.

The German deutschemark improved from 2.47 to the dollar to 2.42 during the end of the week, on the strength of heavy Bundesbank intervention on behalf of the mark and rumors that the U.S. Federal Reserve Board would lower its federal funds rates which would bring down the U.S. prime lending rates.

However, reports David K. Sandberg, chief currency trader for Bankers Trust, "Even though the U.S. dollar is substantially overvalued relative to the DM, and this may hurt the U.S. exporters, the dollar will remain strong for three months. The lira, following the close of the Italian stock exchange, will fall not only against the dollar, but now will start falling against the other European currencies. The nationalization of industry in France by Mitterrand is and will continue to hurt the French franc. The Belgian franc is under tremendous pressure. There will most likely have to be official devaluations and there will be a lot of currency instability."

Regulatory Policy

Florida drug money crisis still unsolved

Much more is involved in the current "test case" in Florida involving North Carolina National Bank's bid to acquire Florida National Banks of Florida than a precedent on statewide banking deregulation.

North Carolina National's bid was made public after the recent death of Edward K. Ball, the Florida DuPont family trustee who controlled a 24 percent share in the Jacksonville branch of Florida National Banks of Florida. Ball had gained some notoriety last year due to his association with the "Billygate" scandal, through his directorship on the board of Charter Oil Company.

The issue of Florida statewide deregulation has been used in recent years in fights between groups contending to get a "cut" in the estimated $10-$20 billion annual illegal narcotics funds laundering operations run by Florida banks. Recently, the *Chicago Tribune* ran a series of articles on a semisecret U.S. Treasury Department report which names at least eight Florida banks as complicit in illegal narcotics funds laundering.

One of the banks cited in the Treasury study, according to the *Tribune*, is Southeast National Banks, which ran the statewide lobbying campaign for deregulation.

In addition to Florida National, Southeast also had close ties to the Carter administration. Its vice-chairman, Charles Zwick, headed Carter's special Commission on Military Compensation in 1979. Southeast board member Lloyd Cutler, meanwhile, was Carter's White House Counsel.

Trade

NSC, Haig declare war on Siberian project

Alexander Haig's State Department and the National Security Council met this weekend to review policy on East-West trade. Haig and NSC personnel want to limit the types of technology that may be transferred to the Soviet Union—by the U.S. as well as its European allies. Last week, Assistant Secretary of State Robert Hormats told *EIR* that the results of the East-West trade review would form the bulk of President Reagan's presentation at the Ottawa economic summit.

In particular, Haig wants to halt the 3,000-mile Yamal gas pipeline project that will run from Siberia into Western Europe. The project was one of the chief results of the 1978 accords between Soviet President Brezhnev and West German Chancellor Schmidt. The NSC trade-review meeting considered revoking a license granted to Caterpillar Tractor to participate in the project, on grounds that it will increase European dependence on the Soviet Union.

The survival of West Germany's steel industry could depend on the project.

Fifty U.S. lawmakers led by Sen. Jake Garn of Utah have lent support to such attacks on the economies of European nations by signing a letter to President Reagan calling the Yamal project "a clear and present danger to Western security." The letter urges an "aggressive" U.S. campaign to force European investment in U.S. coal projects and synthetic-fuels boondoggles, imposing low-energy technology on Europe.

Domestic Credit

Fed model predicts over $20 billion more cuts

Econometric projections prepared by the Federal Reserve Board, which are highly confidential, project an additional cut in the U.S. fiscal 1982 budget of over $20 billion taken completely out of unemployment benefits, Social Security, and other essential programs, Fed sources said July 9.

The Federal Reserve, sources told *EIR*, views the official econometric projections of the Reagan administration as "a pile of supply-side garbage." In particular, the Fed totally disagrees with the administration's projection that interest rates, now at over 20 percent, will fall below the 10 percent level by the end of 1981. The Fed also ridicules the administration's projections of a higher economic growth rate as "nonsense," and itself predicts a continued low rate of growth for the next year and a half.

Rather, "we plan to keep interest rates above 15 percent, well above it, for the forseeable future," the official stated. He added that, due to the fact that the

Fed will keep rates about twice as high as the administration projects, the Reagan administration will be hit with an additional charge to the budget to pay for the higher rates of $20 billion or over, which is not included in the President's calculations. Yet the Fed model projects the same budget deficit for fiscal 1982 as does the administration—some $50 billion. How will the administration finance more than $20 billion in unexpected interest-rate costs? "They are going to have to cut the basic social programs further," stated the Fed official. "They have already made the easy cuts. Now it has got to hurt. And it's our information they're prepared to go a lot further down that path."

International Markets

Financial crisis spreads in Italy

The Italian stock exchanges were shut down on July 8 for the first time since 1917, when Austria overran the country, because stock prices collapsed in a full-blown crisis of confidence. The crisis began in mid-June, shortly after the P-2 scandal implicated many leading figures in Italy's financial capital, Milan. Hot-money specialists and ordinary citizens began selling shares in Italian companies.

Overall, between June 1 and July 7, the Milan stock-exchange index fell from 1,700 to 1,180, or 50 percent. Several of the companies run by the Italian oligarchy took a beating: Fiat, controlled by the Agnellis, had its stock fall by 26 percent; Olivetti's stock fell by 24 percent; Pirelli's by 25 percent and Banco Ambrosiano, headed by Roberto Calvi, by even more.

While Italy has been stripped down industrially, the Italian capital-flight managers were borrowing $10 to $15 billion in the first five months of 1981 on the international markets, which they quickly siphoned out of Italy into havens into the Bahamas, Hong Kong, the United States, and so forth.

Banking

British system pushed for United States

Spokesmen for the Volcker Federal Reserve and Department of Justice told Congress July 8 that the free marketeers in the Reagan administration plan to give full rein to large Canadian and New York banks who hope to buy up entire sections of the U.S. banking system. Such an operation, which would result in a few major banks run by David Rockefeller's Trilateral Commission dominating the nation, would place the U.S. on a British banking model.

Assistant Attorney General William F. Baxter, addressing the House Judiciary Subcommittee, wholeheartedly endorsed the recent acquisitions by American Express Co. of the Shearson, Loeb, Rhoades brokerage and by Prudential Insurance of the Bache Group brokerage. "These mergers are the most dramatic examples of efforts by financial institutions to expand the services they offer their customers," Baxter said.

Going further, the Justice official endorsed proposals in Congress to repeal all or part of the 1934 Glass-Steagall Act, which separates commercial banks from investment banks and brokerages. Such a plan would hand most major brokerages over to Chase Manhattan and other large commercial banks, while many small commercial banks around the nation would be snapped up by Lehman Bros. and other Trilateral Commission-dominated investment houses.

"The optimal range of services can be obtained only if the markets are allowed to operate without artificial restrictions," the Justice official stated.

Baxter was seconded by Federal Reserve director Lyle Granley, who told the House hearings that "these innovations are a sign of a healthy, dynamic, and innovative financial sector."

Senate Banking Committee Chairman Jake Garn (R-Utah), until recently an opponent of such banking consolidation, has joined the Trilateral lobby and proposed a series of bills to repeal Glass-Steagall, his office announced this week.

Briefly

- **CONNECTICUT** passed a "free zone" bill July 7 cutting state income taxes in half for 10 years for businesses that locate in depressed urban areas, and offering an 80 percent reduction in property taxes for five years. At least six zones will be created in the state, emphasizing low-wage businesses. Commerce Secretary Baldridge, former head of the Connecticut-based Scovill Manufacturing Company, coordinated the state plan with national "urban zone" sponsor Jack Kemp.

- **NUNZIO PROVENZANO,** who is the president of Teamsters Local 560, was sentenced July 6 to ten years in prison, $50,000 in fines, and was stripped of union office in a New Jersey federal court. The extraordinary proceedings used, known as a "Fattico hearing," may have violated due process, Judge H. Lee Sarokin admitted. The Justice Department cited "unidentified informants" who did not have to undergo defense cross-examination.

- **A COMMITTEE** of 11 U.S. banks, headed by Bankers Trust of New York, which is handling negotiations for 400 U.S. banks on Poland's debt, has won European banks' agreement to its demand that Poland pay $2.7 billion in debt this year, and specify in detail how it plans to raise money abroad and what sources of income it will use to repay debt.

- **FEDERAL RESERVE** Board sources report, "As a result of the P-2 scandal, the Banco Ambrosiano and the Banca Commerciale Italiana have had their deposits badly eaten away."

- **TORONTO** bankers tell *EIR* that most of the foreign banks that have offered Canada a $3 billion credit line to stabilize the Canadian dollar are American banks. They say the kitty will serve to cover for investment in corporate takeovers of American companies.

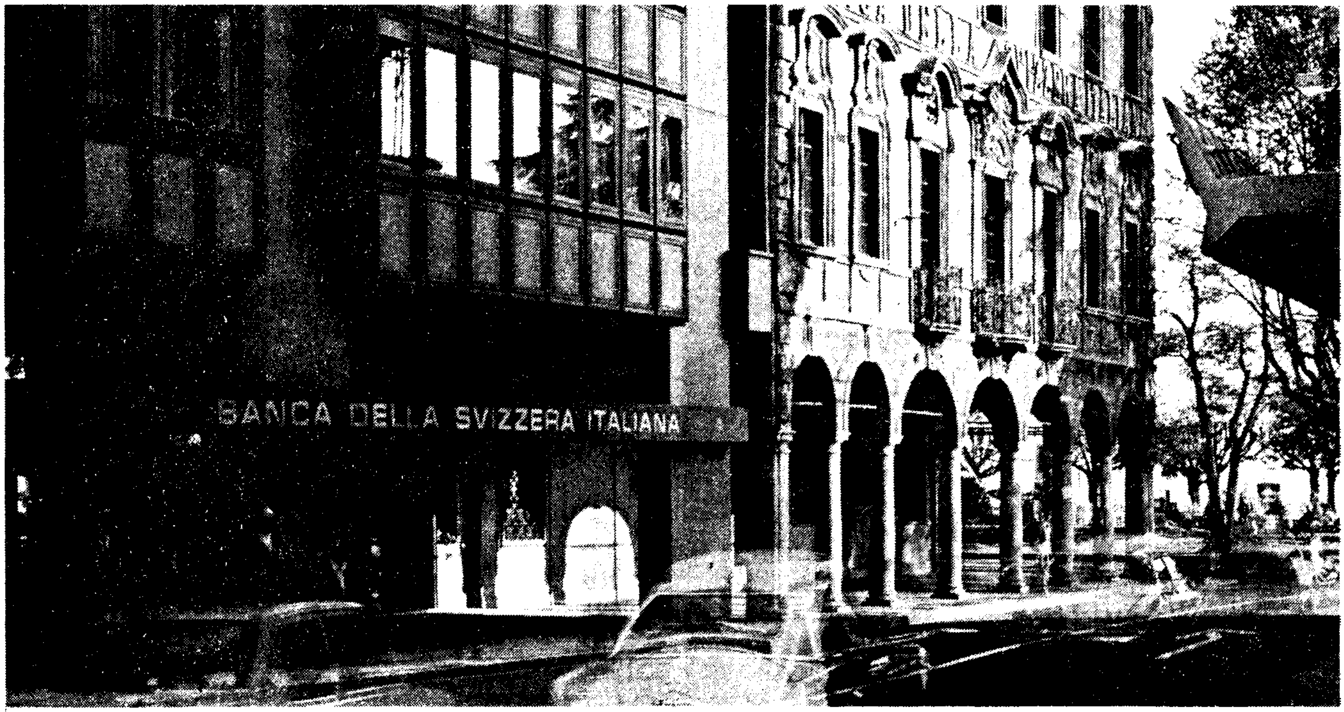
Venetian funds recolonize the U.S. economy

by Criton Zoakos, Editor-in-Chief

America's strategically most important industrial and financial fortresses have been conquered, in the course of the past 10 years, by the ancient, semi-clandestine financial fortunes of the old black European nobility working through British, Swiss, Italian, Benelux, and Far Eastern banking front organizations. As *EIR* Economics Editor David Goldman's accompanying analysis demonstrates, the critical controlling margins (in some instances over 35 percent) of American industrial and financial equity is now in the hands of ancient family *fondi*, i.e., funds whose pedigree goes back to the financing of the Crusades by Genoa, Venice et al.

From 1971 to 1981, the U.S. dollar was devalued by about 50 percent and U.S. stock equity by about 70 percent as a result of combined inflation and stock-market erosion. A similar collapse of the dollar and equity values in the American economy had occurred during the 1929-33 period, which had then also led to European aristocrats' buying into the American economy under the guise of panic gold flights from the potential European war zone to the relatively safer United States. Then, as well as now, American economic assets have been bought "a dime on the dollar."

Economic giants which are considered symbols of American pride and arrogance are thoroughly controlled by the same discreet and faceless oligarch-financiers who have ruined the European economies. Chase Manhattan, bankrupt since 1978, now survives at the mercy of Hongkong and Shanghai Banking Corporation which cut the Rockefeller bank into the lucrative Asian money markets (and dope trade). The merger of Chase Bank with the Warburgs' Bank of Manhattan represented an earlier and only partial form of control over American commercial banking by the ancient fondi. California's Bank of America, founded by the old financial cult of Genoa and Venice, represents a more emphatic case of European oligarch-financier control over American economic affairs. Xerox, Bendix, Texas Instruments, Standard Oil of Ohio, and other such giants which the deluded popular mind identifies with American industrial excellence, are further useful examples of what the oligarchical fondi control in this country.



Headquarters of the Banca della Svizzera Italiana.

A preliminary conclusion, drawn from an in-depth study now being conducted by the *EIR* staff, has already indicated that it would be reasonable to assume that virtually everything outside of the assets of regional banks and union pension funds is either directly or indirectly controlled by these oligarchical fondi.

Assimilation of such a shocking fact would require that the student of this matter undertake three intellectual tasks simultaneously: first, do a number of experimental spot-checks to determine the existence of these fondi; second, study the method by which the fondi have operated throughout history and how they operate now in the United States; third, make a serious effort to shed the dangerous "typical American" delusions of America's being "number one," because of "our free-enterprise economy," and so forth. The European oligarchy against which this country was founded is employing "free enterprise" techniques to take apart this country's economy piece by piece.

What are the 'fondi'?

The fondi is a generic name traditionally given to the accumulated, highly diversified property holdings of historical family groupings. They are made up of large portfolios, each composed of real-estate paper, industrial stocks, government bonds of virtually every government and every great municipality, ownership of trading-companies paper, commodity exchanges, etc. To the extent that these massive, diversified holdings are kept together under the direct control of a family or a clan, they are *fondi*, i.e., a deployable instrument of of their power.

Investment banks and commercial banks properly viewed are mere "front organizations" of the highly secretive family fondi. Any one given oligarchical family may employ more than two, three, or four prestigious investment houses for the purpose of managing the continued survival and increase of the fondi. Management of the fondi is one thing primarily: *capital flight*. By capital flight, we mean generically the international deployment of mammoth sums of capital without the knowledge or supervision of governments. For the purpose of carrying out capital flight, the highly secretive owners of the fondi require investment houses, such as Rothschild, Lazard, Hambro's, et al., which are halfway into the world of financial mist: sufficiently secretive to protect the anonymity of the powerful clients and sufficiently public to engage in capital-flight operations.

The origins of the modern family fondi are to be found in the era of Genoese and Venetian emergence to financial pre-eminence, the period of the Crusades. On the basis of fees earned for the shipping and transport services to crusading armies, the great families of Genoa established private fondi which they later employed to buy up the House of Hapsburg, and with it the economies of Spain, Portugal, Austria, and the Low Countries. In the time of Emperor Charles V and Philip II, the Spanish court was dominated by Genoese creditor aristocrats who refused to trade in anything but "pure paper." From the Spanish and Portuguese colonial ventures the Genoese and the Venetian fondi moved to establish the Dutch East India Company and then the British East India Company. At a later point, Genoa and Venice jointly founded the Confederatio Helvetica, the modern Switzerland, as a world banking haven for the family fondi. The constitution of modern Switzerland was written by a senior Venetian intelligence gamemaster, Giovanni Capo d'Istria.

Today's giants, British Petroleum and Royal Dutch Shell, are the best examples of Anglo-Dutch fondi established and organized by Genoese-Venetian management. British Petroleum and Shell today call the shots in overall policy for the American oil majors.

Economic giants which are considered symbols of American pride and arrogance are thoroughly controlled by the same discreet and faceless oligarch-financiers who have ruined the European economies.

Virtually all of the best-known investment houses in New York City today function as fronts, covering up and clerking for the old European oligarchical fondi. Lehman Brothers, the firm of former Undersecretary of State George Ball, is owned by Banca Commerciale Italiana, which in turn is a subsidiary of Assicurazioni Generali di Venezia. Lazard Brothers is a front office for the fondi of the ancient David-Weil family of France, Portugal, and Benelux. And this family is one of the key stockholders of Assicurazioni Generali di Venezia, the world's largest insurance company.

Assicurazioni di Venezia is an excellent case study of what the fondi are and how they operate. The board of directors of Assicurazioni is made up of officers from Lazard Frères, Rothschilds, Pierson, Fink (of the German Merck und Fink), Hambro's, Lambert, and so forth; among them, these six outfits represent total control and oversight over capital flight involving the major family fondi of France, Belgium, Germany, the United States, Italy, and Latin America; in addition, the board of directors includes the Duke of Alba, heir to the title of the Hapsburgs' field marshal in the Netherlands, the Doria family, the chief Genoese financiers of the Spanish Hapsburgs, and the Giustiniani family of Venice and Genoa, descendants of the sixth-century A.D. Emperor Justinian who shut down the Platonic Academy, as well as of Gen. Giovanni Giustiniani who betrayed Constantinople to Ottoman conquerors in 1453.

When President John F. Kennedy won the election in 1960, a member of the Assicurazioni di Venezia, André Meyer, also owner of the *Washington Post*, boasted at a private victory celebration that "I own the President of the United States." The Kennedy family of course does its banking at André Meyer's Lazard Frères to this day. The irony, however, was that Meyer, the man who "owned the President," was himself very low on the totem pole of oligarchical-financial power. He had merely been selected as the temporary financial capo-manager for the David-Weil family fondi, at a time when that family had shrewdly observed that none of its then-living members had the brains to keep the family fortune intact for the next generation. So they hired André Meyer; and he tried to buy himself an American President to add to his bosses' holdings.

How the 'fondi' operate

André Meyer may have discovered that buying an American President was not a simple proposition. It is reasonable to assume that that discovery probably cost President Kennedy his life. However, apart from the office of the chief executive, virtually everything else was being auctioned off. Especially the secretaries of Treasury and chairmen of the Federal Reserve Board.

In the less visible world of intelligence services and agents-of-influence, the managers of the family fondi had developed a highly effective "clearinghouse" of policy and operations, generally identified with the "Propaganda 2" Masonic lodge in Italy. Most of the leaders of that lodge, as identified by the public prosecutor in Italy, belong to circles associated with Assicurazioni Generali di Venezia, Banca Commerciale Italiana, the versatile Banco Ambrosiano, circles influencing the Bank for International Settlements, the world's most powerful "central bank of central banks"; the Propaganda 2 lodge personnel were assembled during the period after the Second World War by Allen Dulles (then operating out of Switzerland) and Bruno Luzzato, the Venetian financier who ran the Marshall Plan administration, father-in-law of Carter's ambassador to Italy, Richard Gardner, of Billygate fame. Henry Kissinger and Alexander Haig were promoted into public life as instruments of this P-2 operation.

In the middle of the 1960s, the European financial oligarchy had pretty much settled on the outlines of the strategy to finally take over the U.S. economy. The strategy is now known as "Global 2000."

The general weakening of potential American resistance was carried out by first establishing the so-called

Eurodollar market, a pool for foreign-held United States dollar obligations of over $1.5 trillion in a "supranational" financial market that is beyond the regulatory reach of the U.S. government, and second, the delinking of the U.S. dollar from gold. Once the Eurodollar market was established at the beginning of the 1970s, the second tier of operations began, that of gradual long-term corporate takeovers. The commercial operations of the fondi are buttressed by certain types of unique sources of gigantic cash flow: the fondi control the cash flow of the world narcotics trade, estimated to be between $200 and $400 billion per year; they control the petrodollar cash flow, which slips through the fingers of OPEC countries to end up in the hands of fondi-associated commercial banks. Similar controls are exercised over certain key high cash-flow commodity markets such as sugar and coffee. The general parameters for the deployment of such cash are set for the purpose of maximizing the influence of the *fondi.*

Political perspectives of the fondi

The essential characteristic of the people who run the largest part of the West's financial institutions at this time is that they are fanatically dedicated to some of the weirdest forms of cultist world outlook. For instance, Robert S. McNamara, former head of the World Bank, is notorious for his habit of "moon-bathing" under the shine of a full moon, in order to improve his biorhythm, as he believes; Johannes Witteveen, former head of the IMF, is a high ranking Sufi mystic; A. W. Clausen of the Bank of America is the highest ranking Mason in the Grand Lodge founded by Giacomo Mazzini, a thoroughgoing Lucifer worshipper. Similarly with the leaders of the notorious P-2 lodge, which is closely associated with Rockefeller's Trilateral Commission.

When they have to make a choice between maintaining their opposition to the scientific outlook, and the maintenance of nation-states, the old oligarchs have preferred the destruction of nations.

The emphatic ideological preference of these cultist notables is to place a permanent end to the era of scientific and technological progress, and endorse, worldwide, a neo-romantic era, variously dubbed the "postindustrial society," the "New Dark Age," the "Age of Aquarius," and so forth. The significance of the fondi's takeover of key parts of the American economy is situated in this weird ideological commitment of the "new management."

The question for the United States as a state power is: what will happen if the Soviet leadership refuses to play along with the "New Dark Ages" game? Can the "new management" afford to happily dismantle the industrial and logistical infrastructure of the United States while the Soviet Union embarks on a desperate, determined effort to build up their military-industrial logistical base to the greatest extent possible?

The fondi have a very disturbing history of accommodating to this type of question. In the past, when they had to make a choice between maintaining their ideological preference—i.e., their opposition to the dissemination of the scientific outlook in their societies—and the maintenance and salvation of the nation-states upon whose existence they depended, the old oligarchs have preferred the destruction of nations for the sake of their cult-ideological commitments.

In succession they destroyed Genoa and Venice—their very bases of operations—then Spain and Portugal, then Belgium and the Low Countries, then England; Switzerland, the Caribbean, Hong Kong are retained as stabilized bases of operations and playgrounds; now they have come to the United States. The dilemma of the new management is: in order for the United States to recover industrially and strategically, it must pursue a Hamiltonian financial policy of redeeming our $1.5 trillion Eurodollar debt (and thus placing it under government, not private, control), by means of return to the gold standard, and further pursue a scientific and technological mobilization on a scale comparable to the earlier space programs. This kind of perspective would get the United States out of its present course toward the Dark Ages, and thus 180 degrees away from the ideological preferences of the "new management."

The alternative will be a resounding financial crash, probably toward year's-end, and a drastic industrial and technological decline of the United States in world affairs. The prospect of the "Soviets' Rule in the 1980s," as *EIR* founder Lyndon H. LaRouche has warned, will soon be on the table.

A large part of the decisions in these matters will be decided at the upcoming Ottawa summit. Past history indicates that the old fondi don't think twice before they double-cross and ruin the empires they have subverted and parasitized.

Investment control: who holds it, and why it remains clandestine

by Renée Sigerson

Since the beginning of 1980, the volume of flight capital—semilegal and illegal private fund transfers—leaving Western Europe for portfolio investment in North America and Hong Kong has reached such proportions that it is changing the shape of world finance. In a just-released standard projection of 1980-82 world current account balances, Chase Manhattan Bank provides one example of the startling patterns this flight capital is forming; the projection discovered that for that three-year period, $110 billion in the world payments system appears to be "missing."

Since 1974, world current account balances have been performed by dividing the world into oil-producers and consumers. In 1980, all deficits of oil-consuming countries outstripped the surplus of oil-producers by $29 billion; for the 24-month period of 1981-82, the deficit overshoot is projected at $80 billion. The gap cannot be accounted for by payments flows, since if, for example, oil consumers in the developing sector were expected to transfer, let's say, $40 billion to the advanced sector, the deficit in the advanced sector would be reduced by just that amount. No matter which way the numbers are hypothetically juggled, if the world sum of surpluses and payments doesn't equal zero at year end, then something is amiss.

Chase argues that the only likely explanation for this startling discrepancy is that the advanced countries are deliberately overvaluing their deficits—although Chase never explains what would motivate them to do that. The fact is that the discrepancy cited—between $30 and $40 billion annually—is virtually identical to what some sources are now saying is the value of unreported international portfolio investment in U.S. corporate stock!

How much foreigners have been investing in U.S. stocks in recent years has become a source of contention now between the U.S. Treasury Department and the Securities Industry Association, the research group that services Wall Street brokerage firms.

In its December 1980 study, "Foreign Portfolio Investment in the United States," the Treasury claims that during 1980, $5.6 billion in new portfolio investments were made by foreigners in the United States. SIA disagrees. In a recent newsletter, which reviews the Treasury report, SIA puts the volume of net foreign portfolio investment in U.S. stocks during 1980 at $30 billion.

For 1980, Chase Manhattan reports, the discrepancy between oil-producers' surplus ($110 billion) and oil-consumers deficits ($139 billion) was $29 billion. If we subtract Treasury's estimate of foreign portfolio investment from SIA's, we find that approximately $24.4 billion more foreign investment than anyone ever reported to U.S. regulatory authorities was placed in U.S. stocks last year. Subtracting that from Chase's 1980 discrepancy of $29 billion in world payments, there is an additional $4.9 billion to be accounted for. Knowing that in addition to New York, Hong Kong is currently also a leading recipient of flight capital investment, it can be safely

Figure 1
Foreign control of U.S. corporate stocks, by industry

Metal mining	47.9%
Coal mining	23.4
Oil and gas extraction	24.2
Nonmetallic minerals, except fuels	63.0
Heavy construction contractors	31.6
Special trade contractors	26.6
Tobacco manufacturers	31.8
Chemicals and allied products	27.9
Machinery, except electrical	39.8
Electrical and electronic equipment	32.9
Instruments and related products	32.7
Banking	16.9*
Security, commodity brokers, services	32.7
Amusement and recreation	28.7
Health services	37.6

Source: Extrapolations based on 1978 Treasury data.

*Recent and continuing mergers with foreign banks make this percentage much higher than simple extrapolation from the 1978 numbers would show. Adjustment of this percentage would lower the foreign ownership percentages in other sectors. However, variations in S&P appreciation rates for different sectors mean that some sectors would remain high.

assumed that that $4.9 billion is now sitting comfortably in some Asian stock market. In Figure 1, in addition, we provide a preliminary estimation of the control which that unreported, largely illegal mass of funds coming into the United States from abroad has given to foreigners over U.S. corporate activity.

Why all the secrecy?

In 1976, the Italian government enacted strict exchange controls in an effort to stabilize the Italian economy. One month after the legislation passed parliament, a Lugano, Switzerland-based bank named Banca della Svizzera Italiana (BSI) took out a full-page advertisement in *Panorama* magazine, inviting Italian investors to secretly ship their capital abroad.

BSI took the advertisement out in the name of one of its top subsidiaries, the Canadian real estate firm Fidinam. BSI is no ordinary bank: its shareholders and subsidiaries encompass some of the most powerful Italian banking institutions, including several top bankers named as members of the secret fascist Masonic lodge, Propaganda 2, in the ongoing worldwide scandal that erupted in Italy in May. BSI's U.S. associates, in addition, include a core group of investment bankers who had top positions in the postwar Allied Occupation and Marshall Plan administrations in Italy. The advertisement—although it was quickly discontinued—was a deliberate insult perpetrated by powerful Italian oligarchs against the Italian government.

While not typical of current, more sophisticated techniques used to transfer European oligarchical fortunes into North America, the incident captures the aggressivity and the contempt of national sovereign governments that Europe's private investment funds have shown in recent years, both in disinvesting in European industry and in pursuing a conscious policy of recolonizing U.S. industry through large-scale purchase of shareholding positions.

There is a relatively simple sequence of steps through which foreign portfolio investment can be made in U.S. stocks behind the back of U.S. agencies. These procedures have been described to *EIR* by Wall Street brokerage firms, experienced bankers who have worked with the Treasury reporting system, and private financial advisers to European family funds.

European laws mandate that investment funds cannot approach brokerage houses abroad directly for equity purchases. For example, in Germany there are three investment funds that manage the majority of private fortunes in that country, one of which was set up by Bernie Cornfeld's Investors Overseas Services (IOS) and was quickly reconstituted after IOS was liquidated in 1974.

To purchase U.S. corporate stocks, these funds must work through a mediator, most often a Swiss bank. In the first phase, when that Swiss bank purchases stock through a U.S. broker, the broker must report to the Treasury both the size and nationality of the "nominee"—in this case, the Swiss bank, not the investor in behalf of whom the Swiss are acting.

Figure 2

Estimates of total foreign portfolio investment in the United States, 1979-80, based on adjusted turnover rates

(billions of dollars)

	1979	**1980**
Estimated year-end holdings (1978 Treasury data adjusted for appreciation)	$55.4	$75
Gross foreign activity	$43.7	$75.3
Implied turnover rate	79%	101%
Adjusted year-end holdings for a turnover rate of 54.2%	$88.4	$137
Adjusted year-end holdings for a turnover rate equivalent to that of major institutional investors	$147	$176

Note: When accumulated direct investment (purchase of 10% or more of total company shares) since 1978 is added (estimated at $49 billion), the 1980 total portfolio investment is $225 billion.

Source: *Treasury Report on Foreign Portfolio Investment in the United States*, December 1980; Security Industries Association.

Thus, when the Treasury reports (see Figure 3) that over the past decade, Swiss addresses consistently held over 25 percent of total foreign-held stocks of U.S. companies, this must be translated into such arrangements.

Over the past decade, in addition, the Swiss in particular have found a second step that then allows them to completely bypass Treasury reporting procedures.

Step two

What the Swiss have done is to cultivate relations with U.S. brokerage houses numbering in the hundreds. After doing an initial spate of business, the Swiss often make an offer to invest in the brokerage firm itself. If the investment is made, the Swiss client, becoming a minority shareholder, no longer need pay commissions on transactions. The brokerage house, in turn, now has access to low-interest foreign loans giving it a decided advantage in the market.

"Loans on Wall Street have been hard to come by over the past decade," one veteran stockbroker recently emphasized in describing these arrangements.

At that point, if the Swiss minority shareholder deposits funds with its brokerage house, its cash deposits no longer qualify as foreign funds. Considered deposits with an American address, transactions done

Figure 3

Ten largest foreign portfolio investment positions in U.S. equity securities: 1974 and 1978

(millions of constant dollars)

	1974		1978	
	Amount	Percent of total	Amount	Percent of total
Grand total	$24,671	100.0%	$47,859	100.0%
Switzerland	7,032	28.5	12,255	25.6
Canada	3,580	14.5	7,104	14.8
United Kingdom	3,782	15.3	6,812	14.2
Oil-exporting countries	614	2.5	6,202	13.0
France	1,758	7.1	3,185	6.7
Netherlands	2,110	8.6	2,990	6.2
Germany	808	3.3	1,713	3.6
Belgium-Luxembourg	728	3.0	900	1.9
Bermuda	278	1.1	863	1.8
Netherlands Antilles	318	1.3	802	1.7
Subtotal	$21,008	85.2%	$42,826	89.4%
Other countries	$ 3,663	14.8%	$ 5,033	10.5%

Source: Treasury *Report on Foreign Portfolio Investment in the United States*, December 1980.

in behalf of these deposits are no longer required to be reported to the Treasury.

"Sometimes the Swiss or other foreign firm decides to pull their money out of the brokerage house," one source explained. "Hundreds of New York brokerage houses went under over the past decade as a result of losing their foreign capital."

A $100 billion discrepancy

Figure 2 summarizes the reasoning used by the Securities Industry Association to debunk the Treasury Department estimate that in 1978, foreign investors only held cumulatively $48 billion in U.S. stocks.

Since 1977, under an amendment to a law sponsored by Sen. Harrison Williams, brokerage houses are obligated to report the nationality of any investor for whom a transaction is performed in U.S. stocks. This allows the Treasury to determine "gross foreign activity." However, as noted in the arrangements described above, it is impossible for the Treasury to determine whether such transactions represent new foreign funds just sent to the United States, or a shift in existent portfolio arrangements.

SIA points out that if Treasury's figures on cumulative foreign holdings are accurate, the turnover rate of stocks held by foreigners, based on gross activity, would be twice that of any category of U.S. investor. If gross activity sums are multiplied by more realistic turnover ratios, comparable to U.S. institutional investors, it is demonstrated that $20 to $30 billion in new foreign purchases have taken place annually since 1978.

While the Treasury asserts that cumulative foreign portfolio investment in the United States in 1978 was no more than $48 billion, SIA's adjustment is a strong argument in favor of its assertion that foreign portfolio investment since 1978 rose from a range of $98-$147 billion in 1979, to $127-$177 billion in 1980.

Compilations of foreign portfolio investment do not include direct investment, or purchase of 10 percent or more of total shares of a company, including takeovers. *EIR* has added a conservative estimate of the value of

Figure 4

Net foreign equity purchases as a percentage of new issues

(millions of constant dollars)

Year	Net purchases	New issues	Percentages
1970	$ 626	$ 5,463	11.5%
1971	731	11,344	6.4
1972	2,188	12,978	16.9
1973	2,790	6,900	40.4
1974	540	2,646	20.4
1975	4,678	6,777	69.0
1976	2,753	8,102	34.0
1977	2,675	6,615	40.4
1978	2,423	6,063	40.0
1979	1,658	5,748	28.8
1980	5,358	13,341	40.1
Total	$26,420	$85,977	30.7%

Source: Treasury *Bulletin* and *Investment Dealers' Digest*.

such direct investment through 1980—$49 billion—to arrive at the conclusion that foreign shareholdings of U.S. companies currently are reasonably on the order of $225 billion, 20 percent of the total value of all U.S. stocks.

In 1974, a debate broke out in the U.S. Congress over whether large volumes of foreign investment in U.S. companies could in any way injure U.S. strategic interests. Most of the debate centered around Arab investment, which grew 910 percent between 1974 and 1978, according to Treasury. In 1978, when the Shah of Iran made a bid to take over Pan American Airways, the Civil Aeronautics Board stopped the takeover on the grounds that airline companies were part of the national defense fleet, and had to be controlled by national interests.

National security at issue

The emotionalism around the question of direct investment by Arabs has only served to deflect what must quickly become serious concern about an issue that intimately affects national security.

In Figure 1, we disaggregate the estimated $225 billion composite foreign ownership of U.S. shares, using the same ratios of how foreign funds are dispersed that the Treasury Department applied to its $48 billion estimate of 1978 holdings. We compared the disaggregated $225 billion to the total value of stocks for the listed industries. The results, while preliminary, are alarming, indicating a conscious policy of foreign recolonization of U.S. industry.

It is no secret that whatever the actual total volume of foreign shareholdings of U.S. stocks, that these purchases have been carefully targeted. SIA notes: "Equities issued by U.S. firms with assets of $1 billion or more, basically representing the 200 largest industrial companies in the United States, accounted for over 77 percent of all foreign portfolio investment in the U.S."

There is convincing evidence here that foreign capital has been a major, driving force behind the division of U.S. industry into "sunrise-sunset" categories. The same European oligarchs who, in yanking their funds out of Europe, have condemned European industry to disinvestment, have channeled their capital so as to stampede investment out of basic steel, auto, industrial chemicals, heavy equipment, and consumer durables, in favor of gadget electronics, computers, services, pharmaceuticals, and energy companies.

While some U.S. congressmen currently argue that U.S. industry would not survive without infusions of foreign investment, such targeting condemns industry in this country to the same fate as much of Europe: a short-lived investment boom that would leave the United States a "once-industrialized" colony.

The 'underground economy' managers

by David Goldman

The setting is not the antiseptic offices of a downtown commerical bank or the electronic jumble of a brokerage house, but the apartment of an old man in Manhattan's East 50s, with Brueghel and Bosch originals bordering the small living room, and a replica kilogram gold bar on the coffee table. The speaker, Dr. Franz Pick, is known to Americans mostly through *Barron's* ads for gold newsletters. But the "adviser to the subterranean economy," as Dr. Pick describes himself, still consults for what he calls "my oldest client," the powerful Assicurazioni Generali di Trieste e Venezia. He is also the investment adviser to the Father General of the Society of Jesus, Fr. Pedro Arrupe, the "Black Pope," as Dr. Pick calls him.

Here is a portion of an unedited transcript of a conversation between Franz Pick and a recent visitor:

Q: There is a group of people who looted the finances of the Vatican. That includes [Michele] Sindona, [Luigi] Menini, [Umberto] Ortolani, Licio Gelli, [Gaetano] Stammati, and a number of others.
A: I have no contact with the Italian world.

Q: Some say these are the same people who tried to kill the Pope, that this is the conspiracy that Cardinal Casaroli denounced.
A: The Secretary of State [Casaroli] is a powerful man today.

Q: They should have feared him.
A: I don't know. It's not in my sphere of interest, and my sphere of interest is small. It's the dollar, and the subterranean economy.

Q: But the Assicurazioni Generali di Trieste is one of the great forces in the world in the subterranean economy. The Jesuit order is very powerful. All of the people you say that you work for are known to us to be powerful forces in the subterranean economy.
A: Look, the banking power—in part of the world the

Hongkong and Shanghai Banking Corporation rules, from Singapore to Vladivostok. The other powerful banks—the Banque National de Paris [the giant state-owned French bank] is less powerful than the Paribas [the first among the French *banques d'affaires*]. The man who runs Paribas in Geneva is the number-one man in Geneva. The Union Bank of Switzerland is powerful; the Société de Banque Suisse has little power, the Crédit Suisse medium.

Q: The Jesuits are up to their necks in this traffic.
A: The underground markets?

Q: Absolutely.
A: Could be.

Q: Particularly in Latin America.
A: Could be, could be. The transfers of sales results of narcotics and other things out of the United States and back into the United States requires a special technique and a special knowledge, and, if possible, government connections and customs connections. Of the money supply which exists today, one-third belongs to the underground economy. One of the new tricks—one of the underground groups no later than this morning sold 10 bars of 400 ounces of gold, so about \$18,000—\$18 million, excuse me—and bought certificates of deposit at 17 percent for three months!

Of Pick's estimate that one-third of world money supply reflects the underground economy, including the narcotics traffic, there is little to say, because he declines to reveal his methods of calculation. But his expert knowledge of the institutions which control illegal money traffic must be recognized. The list of institutions he cited among the great powers in the underground economy is demonstrably accurate, and his 30-year affiliation with the Assicurazioni Generali di Trieste (the "Generali") and the Jesuit order give him a certain vantage point.

The currency offenses for which Banco Ambrosiano Chairman Roberto Calvi went to jail and "Propaganda 2" Venerable Master Licio Gelli fled to South America center on illegal money transfers between Italy and Argentina. In our July 7 Special Report, *EIR* noted the role of the "Inter-Alpha" banking syndicate, including Ambrosiano and its owners, BHF Bank of West Germany, Crédit Commercial de France, the Royal Bank of Scotland-Williams and Glyns, and Kredietbank of Luxembourg, among others. This syndicate of mutual ownership and overlapping personnel and computer money-transfer facilities appeared in 1972, providing facilities for the transfer of very large amounts of funds in a very private fashion for very old European families.

In Italy, Inter-Alpha enjoyed the protection of Fiat chief Gianni Agnelli, until Agnelli's chief lieutenant Carlo Bonomi went to jail in May in the same police sweep that netted Roberto Calvi of the Ambrosiano.

But more important, and older, institutions underlie Ambrosiano's power, especially in Latin America. One such institution is the official bank of the Jesuit order in Latin America, whose real estate and other holdings there reportedly exceed \$50 billion: the Sudameris Bank, or, to give its full name, Banque Française et Italienne pour l'Amérique du Sud.

Paribas of France owns a 12 percent share in this bank, and the Generali of Trieste and the Banca Commerciale Italiana have somewhat smaller stakes.

Sudameris is one of the world's least known and most extraordinary banking institutions.

Some continental European banking sources state point-blank that Sudameris "owns Argentina," in the same hyperbolic sense that Licio Gelli's collaborator Umberto Ortolani "owns Uruguay," i.e., that they are the outstanding vehicles for the flow of European and Asian flight capital into Argentina. In Argentina itself, Sudameris has 24 branches, but it maintains important outlets elsewhere.

In Peru it controls a share of the Banco de la Nación, which two years ago accommodated the Banco Ambrosiano by absorbing a majority share of its Lima outlet, the Banco Andino. The merger was required under new Peruvian banking laws stating that all banks in Peru had to be majority Peruvian-owned.

The Banco Andino incident shows what is important in the relationship: the older, Jesuit-linked Sudameris bank established the conditions under which the newer (and more exposed) Ambrosiano could do business in the area.

Perhaps more interesting is who the shareholders of Sudameris turn out to be.

On the Italian side they include the institution that Franz Pick identifies as the most influential in the world, the Generali of Trieste, and the Banca Commerciale Italiana. BCI, which has had a permanent board seat at the Generali since the former institution was founded a century ago, may be considered part of the same unit. On the French side, the big shareholder is Paribas, the premier French merchant bank, and one of the handful on Dr. Pick's short list of dominant banks in the subterranean economy.

The Bahamas dimension

"Half the suitcases on airplanes coming in and out of the Bahamas," Dr. Pick commented at one point, "are filled with cash." Again, the Austrian "subterranean economy" expert is in a position to know: he is a consultant to the Banca Commerciale Italiana's Bahamas outlet, BCI Overseas Bank. BCI's Caribbean branch is one of the largest in the Bahamas.

Coincidentally, its local board of directors included until his recent retirement Dr. Felice Pick, Franz Pick's cousin and former private secretary to Italian central banker Guido Carli.

Felice Pick's presence on the local board is doubly interesting, because the former Italian central bank official also served for 20 years as the Italian representative on the board of directors of the Sudameris Bank, representing the interests of the Banca Commerciale Italiana and the Assicurazioni Generali di Trieste. The latter's adviser, as noted above, was the Jesuit order's investment adviser as well: Dr. Franz Pick, the authority on illegal money movements.

Where did this cozy arrangement come from? "The Banca Commerciale Italiana people approached me, they sent me a letter in the mail," Franz Pick demurred in a recent interview. But the underground-economy specialist acknowledges that jailed financier Luigi Menini, a one-time associate of former Vatican financier Michele Sindona, brought him on board as the Jesuit order's financial adviser.

Menini's most famous transaction, before Italian authorities jailed him for fraud, involved the sale to the Savoy family interests of Italy's big real-estate holding company Immobiliare Roma from the Vatican's central bank, the Istituto per le Opere Religiose (IOR). The middleman for the transaction was Michele Sindona. Menini's old patron at the Vatican's IOR was Paul C. Marcinkus, a Vatican finance and executive-protection specialist; the present Vatican leadership, i.e. Cardinal Casaroli, had wanted Marcinkus out of Vatican investment management for some time, and succeeded only recently. Nonetheless, Marcinkus still has a seat on the board of directors of the Ambrosiano Overseas Bank headquartered in the Bahamas.

What emerges are 1) a virtual identity between the finances of a handful of Italian oligarchical families and the finances of *one side* of the Catholic Church, that is, the side associated with the Jesuits, Sindona, Menini, Marcinkus, and the Pick cousins; 2) the muscle that this Church-and-family-money combination wields in Latin America in particular; and 3) an extraordinary reliance on the Bahamas.

Franz Pick confirmed that the Bahamas is an important overseas money-washing center. By a factor of two, the Bahamas are bigger than any of the other "offshore" banking centers in the Western Hemisphere. Most banks there conduct only foreign business, i.e., they may not take deposits or issue loans in the islands themselves. A handful of banks, however, have domestic banking privileges in the islands, including the big British and Canadian banks, Bank of America, Citibank, and—as of this month—the Banco Ambrosiano Overseas Bank.

Domestic banking privileges there are important for one reason. Unlike the United States, where gambling casinos are among the most regulated of institutions, the Bahamian casinos and the big casino complex on Paradise Island can do virtually anything they want. Under these circumstances, the Bahamas casinos maintained by Resorts International and other large casino companies are among the largest cash-laundering operations in the world.

Apart from casino business, the concentration of insurance companies and commercial banks in the Bahamas facilitates large cash transactions that are otherwise cumbersome under the domestic banking laws of most countries.

In the United States, any cash deposit of $10,000 or more must be reported individually to the Treasury Department's Internal Revenue Service. The deposit forms required under the 1974 Banking Secrecy Act have provided Treasury agents with an audit trail to banks that have accepted alleged drug deposits. Treasury investigations produced a wave of indictments during 1980 involving a relatively small group of banks, and a new investigation has turned up the names of some large institutions. One, cited in Florida news accounts reporting the objects of Treasury investigation, is Southeast Banks of Florida, whose board includes Carter White House Counsel Lloyd Cutler.

Hooking into the United States

The biggest bottleneck to the "subterranean economy" of the United States is the final requirement to convert cash into some transferable instrument that may be hidden from official scrutiny. Racetracks, casinos, restaurants, department stores, and other businesses that handle large volumes of cash are convenient devices for laundering cash derived from the $100 billion-plus annual volume of sales of narcotics in the United States.

However, even the most foolproof cover runs the gauntlet of official reporting at some stage. These considerations have driven much of the cash laundering business offshore, to the Bahamas. Presumably, the banks who specialize in converting large amounts of anonymous cash into bank transfers or investments are the ones with authority to conduct domestic banking business.

It is interesting to note the wide range of big American financial institutions that became involved in formation of the casino business in the Bahamas, what ultimately became the Paradise Island complex of Resorts International. Resorts' international security subsidiary, the scandal-ridden International Intelligence Inc., boasted a staff composed of former National Security Agency and Justice Department special agents, and a board of directors on which were represented R. H. Macy's and Prudential Life Insurance.

Lord Bethell moves to blow up Yugoslavia

by Lyndon H. LaRouche, Jr.

The British Secret Intelligence Service, under direction of Lord Nicholas Bethell's masters, has detonated the first phase of a long-prepared scenario for the dismemberment of post-Tito Yugoslavia. The Albanian government has deployed forces in support of an Albanian insurrection against the Serbian-dominated Yugoslav regime, with the heavily armed Croatian fascists waiting to be deployed as the next step.

According to some of the most highly placed circles in governments and intelligence agencies of several nations, British intelligence's launching of the dismemberment of Yugoslavia is the pivot-point for a "new Yalta" agreement presently being negotiated between London and Moscow.

Reports of a "new Yalta" deal between London and Moscow have been pouring into our files for about three months. In addition to reports confided by high-level governmental and intelligence sources of the Western alliance, we have received corroborating intelligence from our contacts in the Arab world and from underground sources in Iran. These are not merely high-level documents and rumors. Anyone who has been following closely both the British and Soviet press, and who has noticed the escalation of the Albanian operation aimed at the dismemberment of Yugoslavia, has ample evidence that the "new Yalta" is an ongoing operation—at least, from the British side.

The putative authorship of the "new Yalta" scheme is a transatlantic network of influentials usually known to insiders as "the Circle." This network was consolidated after the public disgrace of the former Nazi SS officer Prince Bernhard (of the Netherlands and World Wildlife Fund), as the putative replacement for the outdated Bilderbergers. Among the active features of the new coalition of influentials is the prominent role of the Bavarian crowd around Franz-Josef Strauss and Otto von Hapsburg. The Circle is the crowd which brought down President Giscard and put Mitterrand into power in France.

Nominally, the Circle is presently directed by such British figures as the same Julian Amery who codeployed with Willy Brandt to set President-elect Reagan up for a fall during meetings held in Washington, D.C. at the beginning of December 1980. For those who know the inside of the Circle, the controlling interest is the ancient Byzantine family funds of Venice—to which most readers are paying rent or debt-service, directly or indirectly at the present time. However, since the Circle's transactions must be conducted in large part through the instruments of nation-states, it is the British monarchy which is presently the chief acting representative for the Circle's involvement in the "new Yalta" project.

A significant number of the members of the Circle are known personally by either this writer or his immediate collaborators. With many of those, we have discussed crucial aspects of the current policy outlook of the Circle's constituents. What we report here is, in the main, a summary restatement of the objections we have presented to such persons in earlier private discussions.

Imagine that you were a British oligarch, closely connected to the inner circles of that British aristocracy assembled under the roof of the British monarch's private household. Imagine you were Julian Amery. How would you attempt to solve Britain's devastating problems on terms agreeable to British aristocrats? You might very well come up with some evil scenario such as the "new Yalta" scheme for which Circle-puppet Alexander Haig is currently deployed.

It is true that some leading protégés of the Circle, such as some among those around Georgetown's Center for Strategic and International Studies (CSIS), are not exactly pleased with Haig's present style of performance. Haig has no subtlety. He insists on making a bungling ass of himself on every mission—as we witnessed the day President Reagan was shot. They do not object to the policy Haig is attempting to implement. They object merely to his propensity for bungling bombast and other crudities in the execution of the efforts.

Britain itself is a disaster. The adoption of the von Hayek-Friedman variety of monetarism has transformed the decaying British economy into a mass of rotting wreckage. If Britain is to maintain its power over most of the world, it must do something quickly, before the reality of economic rot overtakes the artificially and monstrously inflated international exchange-value of the pound.

Britain knows that the looming world depression could be prevented. The discussions of Hamilton's economics among beginning-of-the-century Round Table circles preparing for World War I leave us no doubt that the British know that "free trade" is the death of industrial-capitalist economy. Putting the U.S.A. back on a gold-reserve basis (at approximately $500 an ounce) would stop the depression and monetary inflation cold. The British know that quite well. However, if the world were to adopt Hamilton's approach to economic growth, the British oligarchs would lose the greater part of their relative financial and political power over other nations, especially the United States.

Meanwhile, the British and their Venetian patrons have nearly succeeded in bringing the entire Western world into that neo-Malthusian, world-federalist sort of "postindustrial society" they have desired ever since the 15th century's Golden Renaissance nearly destroyed the old feudalist order. To resume industrial-capitalist growth now would mean abandoning all of the institutions of "environmentalism" and irrationalist cultisms which the British have been building up so obsessively since the days of Lord Palmerston and John Ruskin. How can a Julian Amery find a solution satisfactory to the British monarchy and the Venetian family funds? How can a Julian Amery solve the strategic problem of relative growth of Soviet power without giving up the Club of Rome's genocidal policies?

The drive toward a "postindustrial society," set into motion in U.S. policy during 1965-1967 under the Joseph Califanos, Ramsey Clarks, and Cyrus Vances of the Johnson administration, has been accelerated on the working assumption that Anglo-Venetian penetration of high-ranking Soviet circles would enable the Anglo-Venetian crowd to collapse the industrial economies of the West without giving strategic preponderance to the Soviet Union. The case of Dzhermen Gvishiani, the late A. Kosygin's son-in-law, and the case of British "triple," KGB Gen. Harold "Kim" Philby, are exemplary of the reasons that Anglo-Venetians believed they could destabilize the Soviet bloc at the same rate they collapsed the industrial power of the West.

As a result of this policy, the West is now at the brink of the worst monetary collapse in modern history, while the "Soviet Empire" is by no means at the point of crumbling. It is true that there are important weak points in the Soviet strategic complex, but these are weak points readily controlled by deployment of a relative superiority of present Soviet strategic capabilities. The will of the Soviet leadership to act in defense of the integrity of the "Soviet Fatherland" is relatively strengthened, and the past 15 years' rotting-away of Western strategic-industrial capabilities provides the Soviets with a growing margin of Soviet material capability, even with an attenuated rate of net Soviet economic growth.

Therefore, the British instinct is to "buy time." The "new Yalta" scheme is the expression of that instinct.

The Yugoslav caper

The idea of drawing the Soviet bloc into occupation of eastern portions of Yugoslavia, and of giving Moscow both Iran and strategic hegemony over a weakened Arab region, is the direct expression of the "new Yalta" thinking among Lord Bethell's masters.

To understand the Yugoslav scenario, it is necessary to emphasize that the thinking is Venetian, not British. Venice is not morally a part of Saint Augustine's Western Europe; it is the capital of the Byzantine Empire, the center of the concentric circles of old Byzantine aristocratic families spread throughout Europe (and into Latin America) at the point that Venice and Patriarch Gennadios directed the 1453 conquest of Greece by the Turk Muhammed the Conqueror. Gennadios's letter to Muhammed the Conqueror still exists, as do the details of the actions by which the Greek patriarchate and Venice and Genoa accomplished the destruction of Paleologue Constantinople. In return, Venice ran the Ottoman Empire from the inside, especially through the dragoman and janissary system.

From Byzantine times, especially from the 12th century onward, Venice controlled the Adriatic region now identified by Greece, Albania, and Yugoslavia. Most of the Bulgarian, Romanian, and Austro-Hungarian aristocracy were either Byzantine families or Venetian families, as well as the "black hundred families" of the Russian aristocracy. Switzerland has been nothing but a colony of Venetian family funds since Venice wrote Switzerland's present constitution at the close of the Napoleonic wars. The British monarchy itself was a creation of Venetian family funds, and British financial power to date is nothing but an extension of the Venetian family funds which took over the City of London in 1603. Britain is Venice's (Saint George's) principal agent-of-influence in the world.

From that standpoint, one can describe the present effort to destabilize the Balkans as a British operation. It is a Venetian operation conducted under the British flag.

During the period the Venetians ran the Ottoman Empire from the inside, the Albanians were the principal body of armed thugs deployed against the South Serbs and Macedonians of the adjoining region—this is the reason there is a significant Albanian population in South Serbia today. During and following World War II, Albania, like Montenegro and Croatia have been assets of British intelligence throughout, including British intelligence asset Enver Hoxha. Granted, the Croatian operations were run from Austria, Bavaria, Latin America, and Canada, but the formal responsibility for controlling the Croatian nationalist movement—and arming it in Bavaria—has been British.

Although the Albania operation is directed from the University at Palermo (Sicily), the strategic control of Albanian intelligence operations is maintained from London.

Britain's control over Enver Hoxha (as well as the family of exiled King Zog) was used to launder British "triple agent" Harold "Kim" Philby to Moscow shortly after World War II. The British set up a dummy coup against Hoxha, duped the U.S. intelligence services into adopting the project, and then shipped advance details of the American plan into Moscow, giving Philby credit. The backers of Gvishiani in Soviet circles always knew that Philby was a British "triple," but it was necessary to fool the Soviet leaders within the state-apparatus (Soviet nationalist) faction.

Now, the British intelligence's Albanian caper is operational, under the direction of Fitzroy Maclean, Lord Bethell, et al. The latest reports show that the Albanian government itself is already directly involved in the small war now ongoing within the South Serbian region. The question is: when will the British (and Venetians) unleash the second phase of the operation, the deploying of the Croatian armed insurrection (from Bavaria, et al.)? In case of the second, Croatian, element, the Serbians will howl for help from the East, at about the same time that the echoing insurrections of Macedonians involve Bulgaria, Turkey, and Greece directly into the fragmentation of the Yugoslav nation.

This is precalculated. Will the Soviets honor the proposed terms of the "new Yalta" agreement, and limit themselves to occupying Yugoslavia only up to the "Dalmation Line"?

The Middle East

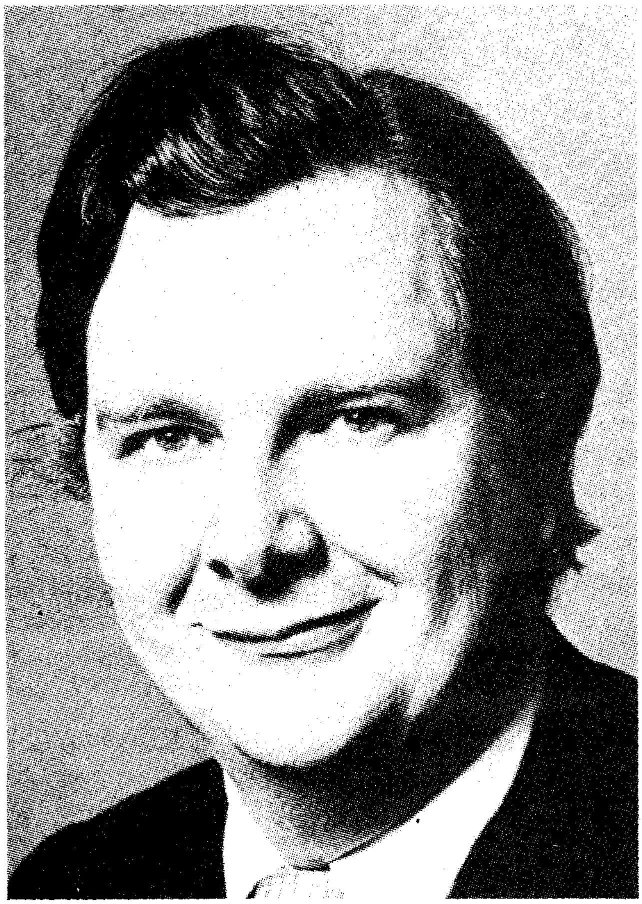
Thanks to Henry Kissinger, Carter's Zbigniew Brzezinski, and misinformed President Reagan's Alexander Haig, the Soviets now control Iran from within. The mullahs are merely the surface of power: Philby's Tudeh party has seized power from beneath, aided by Israeli and British intelligence, and by Princeton University's Bernard Lewis, Richard Falk, and by Ramsey Clark and Warren Christopher. The next-to-final step of turning Iran over to Moscow was arranged in Washington among Henry Kissinger, Olof Palme, and Georgii Arbatov during the period Palme was attending the Dec. 5-7 meeting of Willy Brandt's Socialist International and "Wimpy" Winpisinger in that city. Julian Amery was also in town for the negotiations. With the dumping of Bani-Sadr, Soviet control is now virtually completed.

By actions of the U.S. State Department under Haig and Philip Habib, Menachem Begin was encouraged to launch a bombing attack on Baghdad. The Reagan administration's capitulation to pressures of Haig and Israeli-sponsored Richard Allen (among others) had the effect of pushing a reluctant Iraq to make fresh approaches to Moscow. Reagan had slapped a friendly Iraq in the face. The entire Middle East is going into the Soviet camp, courtesy of the Benedict Arnold-like roles of Kissinger, Haig, et al.

This, is consistent with the "new Yalta" deal being offered to Moscow by London. London orders President Reagan: "Go get them thar Commies." Reagan obeys. London assures Moscow, "We British are your true friends."

General object

London's object in these and relations operations is twofold. Immediately, London imagines that sucking a Poland-plus-Afghanistan-occupied Moscow into the Balkans and the Middle East will "bog Moscow down" in these undertakings. Otherwise, London is aiming to save and strengthen its assets in the Soviet command, and to buy time until the Soviet Union itself is ripe for


Lord Bethell

destabilizations spread into such regions as the Ukraine and Kazakhstan.

Now, let us assume that Moscow chooses not to become bogged down. If there are General Douglas MacArthurs in Moscow, where would they strike to neutralize the whole game? Where would a MacArthur bogged down in the "North Korea" of Afghanistan choose to strike? How would a von Schlieffen assess this strategic situation? Afghanistan need but formalize the state of war between itself and Pakistan—before London delivers nuclear weapons now en route to Pakistan. The deployment of Soviet forces as allies of Afghanistan to neutralize bases of operation "across the Yalu" means the immediate destabilization of not only Pakistan, but a chain-like reaction of coups within Peking. From a military standpoint, Pakistan is the counter-target of least effort and maximum opportunity for Soviet action. Furthermore, this action is mandatory (pending a coup within Pakistan) prior to the establishment of British-delivered nuclear-weapons capabilities to Pakistan.

The Soviets have other options besides hot pursuit attacks on bases within Pakistan. Since the British have obligingly developed the Baluchistan operation (under the Bernard Lewis Plan), that potential can be judoed. The option of cutting the China-Pakistan highway also exists. As a high-level official of the subcontinent observed after learning of idiotic James Buckley's proffering of new U.S. military aircraft to Pakistan, "This means the dismemberment of Pakistan."

The objection to such speculation is, "World opinion would not tolerate such a Soviet move." Precisely so. Such moves occur at exactly the point the Soviets no longer give much of a damn about "world opinion." That condition was approached by the successive actions of Menachem Begin's bombing of Baghdad, the arming of Pakistan, and Haig's big mouth in Peking, Hong Kong, and Manila. The Soviets are in the ugliest mood since November 1962, and, this time, perceive themselves to have a relative preponderance of strategic capability.

In brief, Moscow will exploit the negotiations of the "new Yalta" agreement without actually agreeing to such an arrangement.

Continental European views

Leading insider families of continental Europe are tolerating the "new Yalta" tactic, but without much confidence. Never has so much flight-capital run from Europe into the Western Hemisphere since the Battle at Stalingrad. The Venetian colony known as Uruguay is quite occupied with conduiting such financial transactions currently.

Nonetheless, most of the members of the Circle are playing out the game.

If the Soviets "buy" (or appear to buy) the "new Yalta" package, the outbreak of monetary collapse will be the signal for establishing fascist governments approximating the 1920s Mussolini regime, and, in most cases (France, Germany, Italy, et al.) under socialist prime ministers or presidents. This includes the United States—as Jack Kemp's sponsorship of the socialist New York City "free enterprise zone" scheme illustrates.

New York City under Felix Rohatyn's Ed Koch and Roy M. Cohn is already a fascist economy. Cleveland and Detroit are high on the list of other cities which Rohatyn is currently assigned to transform into fascist entities. The fostering of chaos—as Koch has done in New York City—is the precondition for a subsequent "reaction."

The London crowd has no intention of making President Ronald Reagan a fascist ruler. Reagan is intended to be gone soon after the new depression hits. Roy Cohn's cronies in the New York East Side Conservative Club are already committed to lining up with Katharine Graham and the IPS crowd to accomplish a fast "Reagangate." Reagan, because of his presently neglected social base among moderate Republican and Democratic constituencies, is seen as potentially a "wild card," who might rebel against fascism by instinct, and might use the power of the Presidency to upset the project in view. This crowd wishes Reagan out and Pope John Paul II dead—as what it views as the leading two potential institutional threats to the fascist scheme.

Best estimate

When push comes to shove, the Soviet leadership will react on the basis of deeply embedded memories of World War II. They will not react in the adventurous manner of fascists such as Adolf Hitler or Menachem Begin, will not indulge in wild, reckless gambles on emotional impulse. Rather, they will act ruthlessly, at points of time and places of their own choosing. They will act as Marshal Zhukov exemplified for their memories in developing the Stalingrad counteroffensive. They will insulate themselves against "outside world opinion," and view every provocation with suspicion as a calculated attempt to force them to react. They will tend to react to provocations by strategic surprises on other flanks of action.

The controlling feature of their response—the proverbial bottom-line—will be "Soviet nationalism." The question of risk is the balancing of risk of action against the risk of destruction of the Soviet state. At the point that the prospective dismemberment of the Soviet state is perceived to be a threat, or an intolerable strategic threat is developed, all thresholds of deterrence cease operation.

The Soviets will not launch preventive nuclear war. Faced with the imminent monetary collapse of the West, they will adjust their position to maintain assured preponderance of strategic advantage for every foreseen contingency, convinced that the political-psychological effect of a new world depression will be a quantum-leap in Soviet moral hegemony both within and outside the Soviet bloc.

This intrinsic impulse of Soviet policy will make the London crowd all the more desperate and reckless. It is in this aspect of the matter that the danger of plunging into thermonuclear war by strategic miscalculation lies.

The Yugoslav caper is the bloody line which must not be crossed. Unless such a caper is offset by a coup within Peking, Moscow will be strategically impelled to offset the bogging-down implications of the Balkan situation by neutralizing the threat within Asia. Pakistan is the key point of action uniquely indicated for this purpose.

The added problem here is the British mentality. As Wellington's "meat wall" and Montgomery's set-piece tactics illustrate, the British have never accepted the principles of warfare established by the Carnot and Scharnhorst reforms at the turn into the 19th century. Like our own U.S.A. "utopians" of Rand Corporation varieties, the British are deeply committed to revivals of principles of 18th-century cabinet warfare, as the case of the lunatic "Rapid Deployment Force" proposal illustrates. The fact that the Pentagon transformed by the moonstruck Robert S. McNamara has assimilated that British view—that we no longer honor the traditions honored by MacArthur—means that our military and intelligence command is infected by the same hysterical disposition for strategic miscalculation as the British.

Therefore, if a British or U.S. strategic planner attempts to play Schlieffen-type strategic war-games in attempted evaluation of Soviet responses, the loss of traditionalist military-science viewpoints among Americans will usually prompt them to misestimate Soviet strategic thinking. The Soviet military is unhampered by the lunacies of "cost-benefit analysis." IIASA's (International Institute for Applied Systems Analysis) influence has not yet reached that far into Soviet command.

The solution to the strategic problems underlined here ought to be clear. If the United States acts now to establish a gold-reserve basis for international marketing of U.S. currency-notes (e.g., $500 an ounce), and regulates its domestic and foreign banking relations accordingly, monetary inflation can be halted immediately. Through issuance for "hard-commodity" lending of gold-reserve-denominated currency-notes, and by crushing the resistance of the "environmentalists," a general revival of the industrial power of the West can be set into motion.

This requires an abandonment of the follies of Keynes, Friedman, and Adam Smith, in favor of the American System of Hamilton, Carey, List, and Lincoln. The stability and power imparted to nations participating in such high-technology-vectored economic growth provides the means and premises for solving all of the detectable strategic problems.

If we continue to refuse the "Hamiltonian" solution, then only two options exist. Either we stumble into general nuclear war by successive strategic miscalculations, or the Soviets will come to rule the world over the course of the 1980s and 1990s.

There are those, of course, who proceed through life with the delusion that all must turn out well in the end for them. Such fools ignore the fact that a nation or culture which loses the moral fitness to survive seldom survives a crisis as acute as that which confronts us now. Either we implement a Hamiltonian solution now, or, failing to do so, we illustrate in that war, as well as by the New Sodom New York City has become, that we, like the Cities of the Plain, have lost the moral fitness to survive.

Behind the Kosovo riots: an international insurgency

by Irene Beaudry and Rachel Douglas

Nearly one year after the death of President-for-Life Marshal Josip Broz Tito, Yugoslavia faces an outbreak of localist squabbles that are straining its integrity as a nation. Riots occurred this spring under the flag of Albanian nationalism in the small province of Kosovo, Serbia. Their aftermath can make waves a long way from Yugoslavia's Adriatic Sea coastline.

The communist leadership of neighboring Albania is implicated in the destabilization of Yugoslavia. So are Albanian emigrés based in Italy, a section of the Eastern and Balkan assets of the old Venetian nobility—Yugoslavia, after all, was Venice's territory for centuries. And finally, the radicals of the Praxis organization, a New Left umbrella for terrorists and theoreticians of destabilization spanning Europe and North America, have reconstituted themselves in Yugoslavia.

It is a combination of diverse forces, but a familiar one: the same blend devastatingly exposed in Italy's "Propaganda Due" Masonic scandal, where Socialists, oligarchs, and right-wing military intelligence officers turned up in the same secret organization against the Italian nation.

The echoes of Poland and Iran are also audible in Yugoslavia this year, as "Polish" polemics against heavy industry and "Iranian" pleas for a return to feudal values dominate the upheaval in Islamic Kosovo.

At the very least, the Kosovo affair will serve the organizers of Yugoslavia's latest experiment in social economics: assignment to economically backward areas of so-called appropriate technologies rather than advanced industry. After scrapping its nuclear power program last year, Yugoslavia adopted a code of conduct for relations between its advanced and its backward areas that closely matches the prescriptions of the International Commission on North-South Relations, run by a frequent visitor to Yugoslavia, Willy Brandt of the Socialist International.

The crisis could also turn, with help from armed ethnic Albanian peasants who have already taken to the Kosovo hills, into a hot conflict right at a crucial East-West junction. Yugoslavia sits on the Mediterranean flank of NATO and in the Warsaw Pact's back yard.

Yugoslavia comprises six republics and two autonomous provinces, Kosovo and Vojvodina, located within the republic of Serbia. Kosovo, adjacent to Albania, 75 percent ethnic Albanian, and heavily Islamic, is Yugoslavia's poorest, least developed region.

The riots took place in March, mainly in Kosovo's capital, Pristina. They began at the 37,000-student University of Pristina, and by the time they ended, nine people were dead and scores injured. Over 400 members of the Kosovo League of Communists, including its Provincial Committee president, resigned in following weeks. The university was shut down.

Slogans like "Down with Revisionism!" and "Long Live Enver Hoxha!" identified the students with the peculiar Albanian communist regime of Enver Hoxha, which denounces the West as "imperialists" and the Soviet bloc as "social imperialists," and not long ago split with its only friend, Peking. And the Albanians pitched in with overt support for Albanian separatism in Kosovo. The official paper *Zeri I Popullit,* for example, declared on May 17 that Albanians throughout Yugoslavia are part of "one Albanian nation," an incitement of ethnic Albanians in the neighboring republics of Macedonia and Montenegro to join the fray. "We Are Albanians, Not Yugoslavs," and "We Want A Unified Albania!" read the Pristina banners.

Greater Albania existed once before in this century, under the patronage of Italian Socialist-turned-Fascist Benito Mussolini during World War II. Kosovo was attached to Albania then.

Spring 1981 witnessed an eerie replay on both sides of the Adriatic. While the Kosovo Albanians rioted, Italian Socialist Party chief Bettino Craxi convened a party congress—in Palermo, Sicily, where Sicilian Mafia chief Count Guttierrez di Spadafora employs a large Albanian emigré community in assorted drug and gun-running enterprises—as a springboard for his bid to become "the new Mussolini," as it was put by many Italians.

Last month, *EIR* learned from emigré Albanian nobility sources in Italy that the Kosovo affair is viewed in such circles as part of a drive for Albanian unification. The bestowal of the Nobel Peace Prize on the Albanian nun Mother Theresa, according to these sources, would enable her to become a rallying point for this campaign—an Albanian Khomeini.

Kosovo and the Yugoslav economy

The Organization for Economic Cooperation and Development (OECD) offices in Paris, where Club of Rome and similar strategies for world deindustrialization and genocide are made, recently praised Yugoslavia's economic performance (which features double-digit inflation and double-digit unemployment), provided that more stringent austerity measures and labor-intensive activity were instituted. The Kosovo fracas will help this happen.

In 1947, Kosovo had 55 percent illiteracy and 81 percent of the population was employed in agriculture. Organized around clan chieftains and Muslim leaders, Kosovo carried the legacy of 500 years of Turkish domination, unimproved under Royal Yugoslavia (1918-1941).

Under Tito, Kosovo emerged from the dark ages into the light of the 20th century. The annual rate of population growth shot up to 44 births per 1,000 inhabitants, among the highest rates in the world. By 1971, industry in Kosovo was 82 percent automated and employed a much larger slice of the population, although the workers, only a generation off the farm, retained the village orientation of their peasant upbringing, and that factor remains a powerful lever for reversing progress in Kosovo.

Beset by quarreling over resources, including between the two largest republics, inland Serbia and coastal, industrialized Croatia, Tito's government established a Federal Development Fund in 1965. Each republic and province was taxed a fixed percentage of its social product for central deployment for industrialization. Backward Kosovo got special attention from the beginning, receiving as much as 30 percent of the fund in the form of 15-year loans at 3 percent with a 3-year grace period. The Belgrade government emphasized education of technical and intellectual personnel and the development of basic industries and infrastructure. Pristina University itself was the result of this policy; established in 1970, it has become the third largest university in Yugoslavia.

Yugoslavia's nationalities policy, formulated by Tito's adviser, the late Edvard Kardelj, managed to undercut the benefits to the Kosovo population from industrialization and education. Pristina's thousands of graduates, more than the Kosovo economy can absorb, complete their course of study in Albanian, which was not even a written language until this century. They are hard put to find work in the rest of the country, where

Serbo-Croatian and other Slavic languages are spoken.

The solution preferred by Enver Hoxha's agitators and the OECD is a return to the old Albanian low-technology ways so well-preserved in Albania proper. A Radio Free Europe research paper this spring suggested that neglect of "small business, private farming, and the crafts, all based on free enterprise" will have to be remedied. A Yugoslav League of Communists Presidium meeting late last year, held to draft a new Five-Year Plan, moved decisively in that direction and mirrored the Brandt Commission's policy of population control by credit manipulation.

Party leaders from the richer regions—Croatia, Slovenia, and Vojvodina—argued that all parts of the country could not develop equally, due to the realities of the international economic situation. They called for scrapping the Federal Development Fund by reducing the taxation on each republic's social product and permitting up to one-half of the tax amount to be replaced by voluntary investments in development, with no nationally assigned investment priorities. What there was of national coordination will be replaced by cut-throat competition for resources.

The Yugoslav army has been called out in Kosovo.

Disguised by its advocates as "evenhandedness," the policy means divesting Yugoslavia of the heavy-industry concentrations that had been built up under Tito. Kosovo, for instance, will be exploited through labor-intensive coal projects.

According to one Western observer partial to the Club of Rome and World Bank who had visited Belgrade during the critical Five-Year Plan discussion, this shift makes Yugoslavia ripe for Western investment once again. "Conditions are now right for a concerted effort for labor-intensive investment in Yugoslavia," he said, "What we need is direct joint ventures in the mining of coal, for example."

The argument is the same as for Iran and Poland: industry is the source of all difficulties. The *Wall Street Journal* summarized June 2, "Yugoslavia is in such poor economic shape [because of] its injudicious investment policy over the years, financed largely by foreign banks. The country has . . . been on a building orgy while ignoring such basic areas as agriculture. 'They've put far too much money into huge projects,' says one Western diplomat."

According to sources recently in Belgrade, the Kosovo riots triggered a resurgence of debate over nationalities policy in the entire country. The weekly paper *Politika* wrote that mistakes dating back to the 1960s were involved and high-level resignations might be in order. A simmering fight between the Croatian League of Communists and the Catholic Church in Croatia bubbled over into open polemics about Church attempts to rehabilitate the late Aloisius Cardinal Stepinac, charged by the League with wartime collaboration with the Nazis. The Croatian Catholic Bishops Conference secretary, Msgr. Nikola Saldo, joined Croatian intellectuals in a petition for the release of political prisoners held in Croatia. Croatian emigrés in West Germany, seized with enthusiasm for Albanian separatism and their own, demonstrated this spring under the banner, "Mercy Death for Yugoslavia."

In the context of these tensions, one of the most momentous events in Yugoslavia this spring was the resurgence, after seven dormant years, of Praxis International, which held a three-week conference in Dubrovnik, Croatia, shortly after the Kosovo riots. The theme was "Civil Disobedience"; the focus was Poland.

Praxis International was active in the late 1960s and early 1970s, after Western intellectuals from the New Left and the evolving network of academic supporters of radical terrorism picked up on the potential of a group of University of Belgrade professors who called themselves and their publication *Praxis.* Its International Support Committee featured New Left guru Herbert Marcuse; Norman Birnbaum of the Socialist International; Oxford-based charter member of the Workers Defense Committee (KOR), which helped catalyze the destabilization of Poland; Leszek Kolakowski; Oxford's logical-positivist Professor A. J. Ayer, who helped Kolakowski design courses for Poland's underground "flying universities"; and an array of leftist professors from Western Europe. The Canadian affiliate of Praxis became a focus of violent anarchists and promoters of drug use.

The Praxis people in Yugoslavia were on the outs since Tito suppressed them in 1974 and they were foiled in an attempt to revive themselves by starting a new magazine, *Javnost,* last year. But Praxis found patrons in the League of Communists, who permitted it to regroup in a newly established Institute for Social Research attached to the University of Belgrade.

According to sources close to Praxis, the institute will specialize in control and containment of nationalist groups in Yugoslavia! This will contribute as much to Yugoslavia's stability as having Prof. Jan Szczepanski—an affiliate of Britain's top center for social engineering and destabilization, the Tavistock Institute—in charge of sociology and worker relations programs helped Poland in the years leading to the crisis of 1980.

The oil multinationals launch economic warfare against Mexico

by Timothy Rush

The Socialist International's François Mitterrand, the great "friend of the Third World," declared economic warfare on Mexico this week.

On July 2, the French government-controlled oil company, Compagnie Française des Petroles, announced that it was suspending the entirety of its contracts with Mexico, 100,000 barrels per day. The pretext for the move was Mexico's attempt to reinstate $2 of a $4 price drop that had gone into effect a month before.

The French move was part of a flurry of oil-contract cancellations, the most prominent among them the Rockefeller family's Exxon Corporation, which totaled 550,000 barrels per day—fully 40 percent of all Mexican oil exports.

But Mexico took Mitterrand by surprise by declaring the *entirety* of the extensive French-Mexico oil-for-technology deals null and void by CFP's action. Deals in auto, nuclear, and subway construction worth $1 billion are involved. Faced with a highly embarrassing blowout of relations with a nation which has become the symbol of the 'South" in global negotiations, Mitterrand moved quickly to give the order for CFP to reinitiate negotiations with Pemex and accept Mexico's price framework.

But despite this success, Mexico faces a drastic cut in projected oil revenues over at least the next quarter and possibly for some time after that. If current cuts hold, $6 to 7 billion will be lost over the next year. The cuts imperil vital sections of Mexico's world pacesetting industrialization projects.

The contract cancellations—amounting to a boycott—have simultaneously served as the signal for heightened flight-capital operations out of Mexico and demands for the largest Mexican peso devaluation in history (see accompanying article).

The strategy of such firms as Exxon in leading the boycott is precisely the "shoot yourself in the foot" policy that earned former Energy Secretary James Schlesinger such opprobrium in the Carter administration. Schlesinger used the pretext of price to rip up already negotiated natural-gas contracts in late 1977 and derail U.S.-Mexican economic cooperation for over two years. His real policy, as stated privately, had nothing to do with price; it was to prevent the emergence of "a new Japan south of the border."

What will economic warfare by the Rockefeller-led multis mean for the United States this time around? It must be remembered that every dollar Mexico doesn't get for its oil is a dollar Mexico doesn't spend in acquiring capital goods and other imports abroad. U.S.-Mexico trade has been soaring in recent years, virtually the only bright spot in a bleak foreign trade panorama. Increases of up to 50 percent *per year* have raised total trade value to $22 billion in 1980 and Mexico to the rank of America's third largest trade partner anywhere.

Even more important, breaking Mexico's industrialization momentum is a prescription for creating conditions of social unrest along the lines of the "Iranization" scenarios peddled by enemies of industrial growth both in Mexico and the United States.

And the threat of this economic crisis could not come at a more delicate political moment. President López Portillo's successor will be chosen by the ruling PRI party sometime before the end of the year, and López Portillo will be attempting to steer the choice toward someone who will maintain his own commitment to rapid industrial growth. The economic warfare launched against Mexico constitutes nothing less than a "coup" attempt against the Mexican president.

In the words of George Ball, one of Rockefeller's top collaborators in the Trilateral Commission, last week, "undesirably rapid rates of industrial growth" in the Third World must be stopped.

How the showdown took shape

Mexico first gave indications it would seek to revalue its oil after Jorge Díaz Serrano fell from the directorship of the state oil company Pemex on June 6, 1981. Díaz Serrano had just put through a $4 a barrel cut, under multinational oil company pressure. Highly placed government sources have told *EIR* that Mexico sounded out its clients on a $2 per barrel increase in the last days of June, and received affirmative replies from all but a few. France was among those who agreed to the increase. The French nod was conveyed to Mexico by Industry Minister Pierre Dreyfus.

As July 1, the day for announcing the $2 per barrel boost approached, Mexico found itself swamped with international wires datelined Europe, Japan, and the United States, containing "unofficial" reports of massive contract cancellations.

On July 1 Pemex announced that it was officially renegotiating its contracts to incorporate the price increase. The next day, to resolve uncertainty, López Portillo met with the board of directors of Pemex, and a short statement was issued. The statement denounced an "information war launched through cables," in which Mexico "was officially informed [only] later" of its clients' decisions. Pemex stated that as of that time, four U.S. companies—Exxon (175,000 barrels per day, the largest individual contract), Ashland, Charter, and Clark Oil—and five country-to-country contracts had been canceled. Among the latter: Mitterrand's France.

On July 4, Mexico's Industry Ministry responded with a terse 87-word announcement stating that, due to the French action, Mexico was declaring French bidding off limits to major Mexican development projects.

EIR's sources state that France was singled out not just because it had so patently double-crossed Mexico at the last moment. The root issue was that Mexico's sales of oil to France were embedded in an oil-for-technology framework that had been negotiated state to state. One portion of the deal could not be canceled without the rest tumbling down as well. The original deal, negotiated by former French President Giscard with López Portillo in March 1979, was a model of North-South relations based on transfer of industrial technology.

The Mexican response carried an unmistakable overtone of the 1938 confrontation that occurred when Mexico nationalized its oil rather than submit to Rockefeller and British oil company dictates, and outlasted a four-year international boycott.

The vehemence of the Mexican move caught Mitterrand and his ministers off guard, according to reports in both France and Mexico. Despite Mitterrand's adherence to the Brandt Commission Report, which prescribes policies that would lead to widespread genocide in the Third World, Mitterrand has carefully cultivated an image of friendship for the developing nations. The Mexican action exposed this posturing in a highly embarrassing way.

Mitterrand's friends in Mexico, coordinated by Foreign Minister Jorge Castañada, immediately mobilized to let Mitterrand off the hook. The Foreign Ministry

The campaign for a sharp peso devaluation

The Wall Street, Rockefeller and Mitterrand "joint wrecking command" against the Mexican economy has an important "peso scare" component.

The in-house daily of the lower Manhattan financiers, the *Wall Street Journal*, published a call for a massive devaluation of the peso July 2 which sent shock waves through responsible business and government leaders both in Mexico and the U.S.

The position of the Mexican government, repeated by President López Portillo in mid-June, is that a peso devaluation is not appropriate and will in fact seriously impede Mexican efforts to combat inflation and develop the economy.

To artificially stampede a run on the peso, *Wall Street Journal* staff scribbler George Getschow prominently played up predictions from Chicago Prof. John Bilson and currency trader Lyle Pai that the Mexican peso was irremediably overvalued and that a devaluation was imminent. Getschow presented Bilson and Pai as impartial experts on the Mexican economy.

However in exclusive interviews with *EIR* this week, both Bilson and Pai indicated that they are personally committed to *forcing* through a peso devaluation, and seek to do this by manipulation of a media scare. The two are regarded by a knowledgeable insider as currency speculators who have based their reputations on "short" positions in peso futures contracts. Getschow had been in touch with them for months planning the story.

But the sordid affair goes even further. Bilson, currently a fellow at the Hoover Institution of Palo Alto, California, together with Hoover colleague Melvyn Krauss, are fervent supporters of a plan to wreck Mexico's industry-based economy and substitute one based on drugs, tourism, and sweatshops—what they call the Hong Kong model. The chief exponent of this model is, of course, Milton Friedman—a fellow traveler of Bilson's from Chicago to Hoover over the past year. No such concentrated process of economic dissolution would be tolerated in Mexico without imposition of some form of fascist regime, and both Friedman and Krauss are staunch defenders of the "success" of Pinochet's Chile as a model for the region.

In the words of these gentlemen, attempting to force a devaluation is above all an attempt to stop Mexico's industrialization.

released a statement saying that "no final action" had been taken. Several leading newspapers took up the theme, suggesting that Industry Minister José Andrés De Oteyza had been "precipitous" in his action—the word used by López Portillo in describing Díaz Serrano's decision to lower prices just before Díaz Serrano got the boot.

Mexico's leading environmentalist radical, Heberto Castillo, nervous that the oil-for-technology accord would be reinstated, praised the French action as the prerogative of a "private company."

It is known that Castañeda was particularly alarmed, because he is the co-conspirator with Mitterrand and West Germany's Willy Brandt to turn the North-South summit in Mexico, set for late October, into an attack on North-South industrial cooperation.

But the pressure was just too great. On July 7 French Foreign Minister Claude Cheysson, in a meeting with Mexican Ambassador Horacio Florense de la Peña in Paris, assured Mexico that France wanted to renegotiate the issue. At least three top-level French ministers are now scheduled to be traveling to Mexico over the next 10 days to further patch up the rift.

The reinstatement of the French contract would help Mexico out, but only lifts a fraction of the weight of the boycott and related economic warfare measures. Mexico has made it clear, however, that it is not going to take the Rockefeller-Trilateral offensive lying down. The events of the first week of July are only the curtain-raiser on a protracted battle.

'Government is helpless'

On July 2, Wall Street Journal *staff reporter George Getschow released a highly elaborated scare story on the Mexican economy. The basic message: a drastic peso devaluation of up to 100 percent is imminent. The article was reprinted throughout the Mexican press the next day, and caused shock and consternation in many business and government circles. Excerpts follow.*

Try as they might . . . Mexican officials have been unable to subdue speculation that the peso will be sharply devaluated. In fact, what President López Portillo calls a "devaluation psychosis" has already engulfed the country.

Consequently, some Mexican and foreign investors are already starting to hedge their bets; they're converting pesos to dollars, taking capital out of the country and buying U.S. real estate.

"I'm looking for a 50 percent devaluation before year's end," says Lyle Pai, a foreign-exchange specialist with Thomson McKinnon Securities, Inc. in Chicago.

"Taking inflation into account, I'd say the parity should be about 55 pesos to the dollar," says John Bilson, a University of Chicago economist.

Eugene Latham, international vice-president of Banca Metropolitania . . . fears that *"all it would take is a few bad articles or 'misstatements' by* politicians and suddenly you could end up with a lot of people at the bank trying to convert pesos to dollars" [emphasis added].

That's what happened during the peso devaluations of 1956 and 1976. . . .

The government is again insisting that a sharp peso devaluation isn't in the cards. . . .

But recalling previous government promises, many bankers and businessmen aren't convinced. . . .

In any event, people's perception of the peso poses a bigger problem, Mr. Bilson says. "If everyone is expecting a devaluation, you'll see a huge flight of capital. And then there's very little the government can do to head it off. It becomes a self-fulfilling prophecy."

'Force a run into dollars'

In exclusive comments to EIR, *Lyle Pai, one of the "experts" on the Mexican economy cited in the* Wall Street Journal *article, revealed how the article was put together.*

Pai: The Mexicans have two options: either they devalue or cut back on spending.

EIR: Which way do you think they will go?
Pai: They are going to devalue.

EIR: Is this like 1976?
Pai: No, it's going to be worse. We are betting on a devaluation of up to 55 pesos per dollar. That's more than 100 percent. The question is how long the government can support the peso.

The article is already having an effect. George [Getschow] has gotten some calls from Mexican bankers who say they are already changing pesos to dollars.

EIR: So the idea is to force flight capital, which in turn forces a devaluation?
Pai: That's correct. You see, if everybody starts doing it, then the central bank will run out of dollars, and then the government would be forced to do it. Look, the government has been spending too much.

EIR: How long have you been saying this?
Pai: John Bilson and I predicted this in an article in *Money Manager* in the February issue. We have been in touch with George [Getschow] for several months. Actually, George has gotten some calls from Mexican

officials who have been complaining that this could create panic [laugh]. Well, of course the government would not want to devalue. This would double the foreign debt. But the central bank is going to run out of dollars.

EIR: When will that be?
Pai: Hmm. Before September.

'The Hong Kong model'

One of the experts cited in the July 2 Wall Street Journal *article is University of Chicago professor John Bilson, who is also a fellow at the Hoover Institution. Bilson apparently specializes in talking the peso down in his conversations with journalists, as his* Journal, *and the following remarks to* EIR *make clear.*

Bilson: The supply of pesos is increasing at a very rapid rate—about 30 percent per year—while the supply of dollars is increasing at a low rate of about 5 percent per year. That's the main reason I have been arguing that the peso is overvalued relative to the dollar.

One way of saying that is in terms of inflation rates. The Mexican inflation rate is about 30 percent, relative to a U.S. inflation rate of, say, 10 percent. So you have a 20 percent inflation rate differential. And that has been continuing for about three years. . . .

The Mexican government is spending a lot of money. Mexico is spending, I believe, $1 billion on an oil refinery. At a time when the demand for oil in the world is declining, why waste money building an oil refinery? That's no way to run a country. . . .

People from Mexico have been calling me up and saying, "What we are doing is wrong; what should we be doing?" And I've been working a little on that. . . .

EIR: What about industry, or heavy industry?
Bilson: No, definitely not. I think that those areas are far better handled by the free market. . . . The models that I think of for Mexico are countries like Singapore, Hong Kong, South Korea. There the government tends to leave the private sector to be responsible for the creation of jobs and industrial development. And those have been the most successful countries in the world. . . . In other respects, the political system in Mexico is not that greatly different from the political systems in the countries I just mentioned—Hong Kong, Singapore, and Korea. . . .

The Mexican government, it appears to me, is taking a very deviant development strategy. . . .

We're seeing a lot of nervousness in the market, that the *Wall Street Journal* article was covering. The discount has gotten very great on the peso. As far as I can see, it [a devaluation] could happen any time. I don't think we'll make it to October. In fact, the current cancellation of the oil contracts could do it. I wait every day, particularly over the weekends. . . .

I think what we did is to make people go back and look at the statistics. Once they started looking at the statistics, they realized things were not as rosy in Mexico as they thought they were. And now the *Journal's* coming out made a lot more people nervous about Mexico.

'A case of personal profit'

The following is part of an interview by Executive Intelligence Review *with a senior currency analyst of a leading Chicago trading firm.*

EIR: Are you familiar with a *Wall Street Journal* article on July 2, talking about a possible peso devaluation?
A: Yes. The article was designed to create panic. John Bilson, one of the persons quoted in that article, has been pushing for the devaluation of the Mexican peso since January. Around that time, he wrote a major piece calling for the devaluation of the peso. Ever since, he has been saying that the devaluation is "imminent" and that it can happen any minute. The problem now is that he is getting much better press. Bilson works closely with Lyle Pai from Thomson McKinnon Securities. However, is no capital flight from Mexico as far as we know.

EIR: Does your firm agree with their analysis?
A: While it is true that the peso is overvalued, we do not think that a devaluation of as much as 50 percent is needed as Bilson says. The problem with both of them, especially with Bilson, is that they ignore the political situation in Mexico and do not know how Mexican politics work.

EIR: In your opinion when would it happen?
A: The devaluation of the peso will most likely not happen before December of this year. Furthermore, we think that the second half of 1982 is even more realistic. And a more realistic figure would be a 20 to 25 percent.

EIR: Then why is it that Bilson is calling for a 50 percent devaluation?
A: Both Bilson and Pai have taken up short positions. Both of them, but especially Bilson, have already sold a number of future contracts, so if the peso is not devalued by the time they are predicting, they will lose credibility and money. What concerns Bilson is being able to make personal profit out of this one.

Cardinal Casaroli charges a plot

Vivian Zoakos examines the circumstances of the Vatican's public and private counteroffensive against the P-2 assassination networks.

On June 28, Vatican Secretary of State Agostino Cardinal Casaroli issued the stunning statement that the May assassination attempt against Pope John Paul II may have been part of a plot rather than the work of a lone assassin. The Cardinal, who is the highest authority in the Catholic Church after the Pope himself, also linked John Paul's survival to the avoidance of a threatened global nuclear war.

Casaroli's warning was immediately echoed on the following day in a statement from Monsignor Jeronimo Prigrione, the Vatican's Apostolic Delegate (ambassador) to Mexico. This indicates that the Secretary of State had spoken not in his own behalf but as the result of a decision made at the highest levels of the Vatican Curia, the central ruling body of the Church.

Using diplomatic but nonetheless dramatic language, Cardinal Casaroli also acknowledged the existence of a plot against the Church as a whole. He stated that in the attempted murder of the Pontiff, old hatreds and "sacrileges" had been resurrected "within one heart [the assassin's] . . . or was it many hearts?" Further clarifying this allusion to organized conspiracy, Casaroli remarked again that while many people hope that the Pope will emerge healthy from his current illness—caused by post-operative complications—"others hope the contrary."

The Cardinal also alluded to the reasons behind the plot against the Pope when he linked the importance of the Pontiff's speedy recovery to his crucial role in standing against "the forces of evil" which are threatening the world with nuclear destruction.

On the following day, newspapers around the world carried headlines typified by that of *La Stampa*: "For the First Time In Public the Cardinal Speaks of a Plot."

The Vatican's Apostolic Delegate to Mexico June 29 warned there may exist "a special group of persons" who are determined to murder Pope John Paul and the leading "forces for peace" within the Church. In this he also referred to the attempted assassination of Cardinal Casaroli, which had occurred in St. Peter's Basilica on the same day that the Cardinal had issued his statement.

Echoing Casaroli, Monsignor Prigrione spoke of the Pope's unique role in "saving the world from self-extermination," and charged all Christians to take seriously Casaroli's warning of a plot against the Church. He said that "since Cardinal Casaroli has suggested the possibility of an international plot to assassinate John Paul II, all Christians ought to be conscious of this and assume an attitude of solidarity with the Pope."

What is the plot of which these prelates speak, who is behind it, and what is its purpose?

The Global 2000 apparatus

As *Executive Intelligence Review* reported in some detail in its July 7, 1981 issue, the currently breaking Masonic scandal in Italy has brought to the surface, as a unified entity, the elements of an international conspiratorial elite whose policy is the drastic depopulation of the world.

The Catholic Church, under the leadership of Pope John Paul II, has been identified by this elite as one of the most powerful institutional stumbling blocks to the successful imposition of this policy.

The Italian Freemasonic scandal involving the secret lodge Propaganda 2 has shown conclusively that there exists an international apparatus cutting across party lines and national borders, as well as involving powerful elements within the Catholic Church itself, all working for a common goal. The names involved include those of Secretary of State Alexander Haig, the Rockefeller banking empire, Club of Rome founder Aurelio Peccei, Kuhn Loeb investment banker George Ball, the Italian royal House of Savoy together with the entire stratum of Italian, German and other "black nobility," and many others including all known terrorist and drug-smuggling networks.

The program of this far-flung and powerful elite is to reverse the process of global industrialization and progress, as Peccei's Club of Rome advocates, and as the State Department intends to carry out in the name of the Global 2000 policy adopted under the Carter administration. It is a policy of a return to the Dark Ages, through deindustrialization and depopulation.

George Ball, the protégé of eugenicist William Draper Jr., was the individual responsible for the creation of the population control bureaucracy within the State Department that created the Global 2000 policy. Speaking of the specific case of Latin America, he said in a recent interview that its population was an "acid pollution" for the United States and added: "There is strong pressure from the Vatican not to do anything at all to encourage population control in Latin America. This is a real obstacle. . . . This Pope is too strong; it's too hard to do anything at all with him. He is absolutely dead set against any population policy, and he is very powerful."

Church threatened with schism

What may be identified as the "Augustinian" tradition within the Catholic Church, exemplified by such targeted individuals as the Pope and Cardinal Casaroli, are currently in the midst of a deadly battle with the Global 2000 proponents inside the Church. These latter are openly threatening the Vatican with a schism if the Pope and Curia refuse to go along with their Dark Ages program. This schismatic movement, although originating with certain prelates and Catholic intellectuals in Europe, such as the Jesuit Teilhard de Chardin, is institutionally particularly active within the North and Latin American Churches.

In the United States, circles within the Interreligious Peace Colloquium of Father Gremillion, S.J., exemplify some of the highest levels of the North American Global 2000 schismatic movement. As Gremillion has explained in interviews, and his collaborators have published, the centralized Catholic Church must be destroyed in favor of autonomous regional churches whose task will be to help populations accept economic backwardness ("appropriate technologies") and hence, accept the violent reduction of their numbers.

A cofounder of Gremillion's organization was Jimmy Carter's former Secretary of State Cyrus Vance, together with other leading Jesuits such as William Ryan, S.J., member of Peccei's Club of Rome and Jesuit Provincial Superior in Toronto, Canada, as well as leading member of the Muslim Brotherhood and B'nai B'rith. The Interreligious Peace Colloquium was founded in Bellagio, Italy, on the Rockefeller estate that similarly serves as the meeting place for the Siena Group of international bankers currently involved in the Italian Propaganda 2 scandal.

As Gremillion told an interviewer, his organization is not itself a mass movement but the *creator of mass movements*; and he boasted that the building of such a movement within the North and Latin American Churches was doing very well.

Indeed, the Jesuit father did not exaggerate.

In his pastoral message issued at the beginning of July, the president of the Brazilian National Bishops Conference, Ivo Lorscheiter, quoted at length from a book by Aurelio Peccei to motivate his thesis that science and industrialization "dehumanize" populations and should be abolished. One week later, speaking at the conference of the Frente Agraria Gaucha in Porto Alegre, Dom Lorscheiter supported Church involvement in armed terrorist "guerrilla" struggles "in extreme cases where it is the only solution." Such meat grinder "guerrilla" warfare has been named by the authors of Global 2000 as a means of lowering population growth in the Third World.

Typical of the faction represented by the Brazilian bishop is the situation in the Nicaraguan Church where three Jesuit priests holding ministerial posts in that government have flatly rejected orders from the Vatican to resign their government positions. The orders were conveyed by the Primate of Nicaragua immediately upon his return from an emergency trip to Rome.

The open split within the Nicaraguan Church was partly responsible for the convening of an extraordinary meeting in Rome on June 8-11 representing a test of strength between the schismatic and Curia-allied forces. The meeting involved all the bishops of Latin America, the heads of the five religious orders operating in the area, three Curial cardinals, and the president of the Latin American Conference of Bishops. The result was that the Curia was forced, at least temporarily, to back down or face an open revolt within the Central American church.

The Curia's thesis that priests must not become involved in the internal political affairs of any state was voted down, although it was a thesis repeatedly endorsed by Pope John Paul himself. Instead, the concluding conference document advocated the pluralist formula of "unity in diversity" requiring a "case-by-case analysis" of each national situation in Central America. Needless to say, this principle effectively destroys the centralizing force of the Pope in directing the Church, creating precisely the type of "regional Church" structures advocated by Father Gremillion.

Furthermore, the concluding document accepted the formulation of Jesuit General Arrupe allowing collaboration between the Church and terrorist "Marxist" groups, precisely as called for by the Brazilian bishop.

Arrupe's formulation, taken from a letter sent on Dec. 8 of last year to all the Jesuit Provincials, consists of two points. First, it is necessary to "recognize and seek to understand the reasons for which the Marxist analysis is so attractive," and second, to recognize the use of anticommunism "for the sole purpose of covering up injustices." In other words, a backhanded but unmistakable endorsement of Marxist guerrilla movements.

Global 2000's Mumford targets the Church

Five months ago, prior to the attempt on the life of Pope John Paul II, *Humanist* magazine published an article and series of correspondences by Dr. Steven Mumford, titled "Population, the Church and Global Security." Its thesis is that the single most important problem facing the world is the population crisis. Mumford, an overt supporter of the *Global 2000 Report,* calls for the creation of a multibillion-dollar population strike force to impose policies of population reduction. The greatest obstacle to such an effort is the Roman Catholic Church whose doctrine places premium value on human life and the perfectability of man.

Mumford states boldly that since the population crisis is a national security question, the U.S. government must throw its weight against the Church. He calls for the American Church to break with Rome, and specifically identifies Pope John Paul II as an obstacle to Global 2000.

Mumford, who works out of the International Fertility Research Program in North Carolina, was originally sponsored in his project by the Jesuit-run Georgetown Center for Strategic and International Studies (CSIS), where his work was coordinated with Henry Kissinger associate Georges Fauriol, the director of international population studies. The *Humanist,* whose editorial board includes such individuals as Sidney Hook and Paul Kurtz, is run by networks who earlier this year created the so-called Committee for the Free World, many of whose members support Global 2000.

EIR has obtained the following excerpted interview conducted with Mumford last month.

Q: What do you think the chances are that the Roman Catholic Church will support Global 2000?
A: I am convinced more than ever that we are not going to see any progress with respect to population control until we are willing to confront the Roman Catholic Church. The *Global 2000 Report* is not getting very much attention, and I am sure that the reason for that is that if we view the *Global 2000 Report* seriously, we cannot get away from the fact that there is going to have to be a lot of family planning, abortions, sterilizations, etc. The solution to the problem is an affront to the Roman Catholic Church. . . .

Q: Aren't you really talking about overturning the basic Judeo-Christian doctrine, the doctrine of the perfectability of man, the doctrine of Saint Augustine?
A: The problem that we are faced with is that the Church itself is committing suicide by continuing on its current course. The total social chaos that I see coming will destroy the Church. It will not survive. I haven't really seen it necessary to give [the doctrine question itself] that much thought. The reasons for that is that the vast majority of Roman Catholic theologians really believe that we must have population control on the scale that I am talking about. . . . The majority of these theologians believe that Catholic teachings are consistent with population control programs. . . .

Q: You indicate that if the American Church were to break away from Rome and support population control, many other churches would follow.
A: This is based on reactions from people in Latin America when I presented my views. Several different people on different occasions very quickly responded that all the Churches in Latin America would follow the American Church's lead. These are all Roman Catholic leaders. . . . But . . . the most important thing is what is done in the United States and the American Roman Catholic Church is most important. . . . I am absolutely confident that someone will emerge to lead the schism. There are a lot of people whose conscience is really tearing at them at this point and will have great difficulty continuing to support their Church superiors on this issue. . . .

Q: When do you see the moves toward schism occurring? Will it only occur after disaster strikes? When people go into the streets against the Church?
A: I am hopeful that the catastrophe will not be upon us before we see anything happen. I was very hopeful when I saw Father Breen's article [suggesting a schism over the population-control issue]. We will see many more this year. I really don't know what it is going to take. I am confident that somewhere within the Church a group will coalesce and begin this breakaway movement. I am just not sure which year, but I am sure it will be in the next few years. Absolutely within this decade. I am somewhat disappointed that [Church leaders] have not spoken out in regard to the *Global 2000 Report.* I think that the *Global 2000 Report* is really the final word, that no one would need any more to bring them to action and to their senses.

How Propaganda-2 operates within South America

by Mark Sonnenblick

For the past month, Italian Interpol officials have beseeched the cooperation of their Uruguayan and Paraguayan counterparts in capturing the grand master of the Propaganda 2 Masonic lodge, Licio Gelli. Gelli and his banker partner Umberto Ortolani are wanted in Italy for their leadership of a conspiracy to assassinate political leaders, spread terror, and organize a military coup to return Italy to the grip of the Savoy monarchy and its unreconstructed fascist allies.

For the very reason that Italian authorities were probably searching in the right place for these respectable managers of an underworld empire, their efforts have proved fruitless. The P-2 lodge and the ancient family fortunes that are the main beneficiaries of its activities have already seized power in the Southern Cone of Latin America.

"Umberto Ortolani owns Uruguay," boasts a P-2 spokesman, trying to show how respectable his rogue lodge really is. Ortolani runs a prominent Montevideo bank, Bafisud (Banco Financiero Sudamericano), which is jointly owned by the three Italian banks most implicated in the P-2 capital flight and dirty-money operations. Ortolani himself had the foresight to make himself the Order of the Knights of Malta ambassador to Uruguay, which gives him diplomatic immunity and control of the Uruguayan coastal estate which enjoys extraterritoriality as the Knights' "embassy."

Ortolani's family in Montevideo informs the press that he is in Paraguay, attending to his business affairs there; these include ownership of a sweep of the Chaco Borealis plains, where cases of Scotch on the smugglers' route to Brazil are more abundant than cows. The Paraguayan Chaco became notorious a decade ago when U.S. police uncovered the way the "French Connection" used it as a rendezvous and launching pad for sending Middle Eastern heroin into the United States. While the U.S. side of the "French Connection" was smashed, the Southern Cone apparatus was only dented. This is the safehouse of the P-2 "invisible government."

P-2 grand master Licio Gelli keeps his Italian wife and son in a $5 million Montevideo mansion, amidst a neighborhood of aristocratic properties that he owns. According to the local daily *El Dia*, Gelli fills a downtown Montevideo office building with the assorted dummy corporations through which he helps manage P-2 dirty-money flows.

'Alive and well in Argentina'

Gelli is no novice in this business. At the end of World War II, he worked with the Italian-Swiss banks to move the ill-begotten family fortunes of escaped Fascists and Nazis to their havens, "alive and well," in Argentina.

The Italian Fascists, their hoards, and their companies were welcomed by Argentina President Juan Domingo Perón. From military attaché to Mussolini's Italy (1937-39), Perón was catapulted into the Argentine presidency in 1943 by a military Masonic lodge, which exploited his wife Evita's demagogic appeals to the "shirtless" masses. Perón modeled his corporatist state on Mussolini's.

Perón helped Aurelio Peccei, later a cofounder of the Club of Rome, to set up Fiat in Argentina with Italian flight capital in 1953.

After Perón was overthrown two years later, Licio Gelli reportedly took care of spiriting away the corpse of Evita Perón, the whore-goddess of the Argentine masses. During Perón's 1955-73 exile in Madrid, the Argentine came under increasing domination by his bodyguard and personal secretary, astrologer José López Rega. López Rega, in turn, was run by fellow cultist Gelli, and inducted into P-2 leadership. Together they trained young Col. Muammar Qaddafi of Libya.

In 1969, the P-2 grabbed for power with Qaddafi's easy coup in Libya, an unsuccessful attempt in Italy, and the "Cordobazo" uprising in Argentina. Riots in the city of Cordoba—controlled by Aurelio Peccei's Fiat and the Socialist International/Peronist metal-

José López Rega, Peron's controller and a P-2 member, with Col. Muammar Qaddafi in Libya in 1974.

workers union—led to new heights of right-left terror. Corrupted by the P-2, newspapers, politicians, and military officers convinced a naturally reluctant military that only Perón could "reunite" the country.

As soon as Perón's return was accomplished in late 1973, P-2 reworked Argentine politics to serve its drug and dirty-money schemes. In January 1974, Licio Gelli organized triumphal visits by López Rega to P-2's "communist" Romanian and Libyan rulers.

The smile on the face of white-haired magician López Rega as he presented Colonel Qaddafi with a dagger sent by Perón betrayed the P-2 mob's modus operandi: simultaneous deployment of "left" and "right" Argentine terror. López Rega was almost publicly funding the Argentine Anticommunist Alliance (AAA) through P-2 fellow member J. M. Villone. The AAA had brought Argentina to the brink of civil war in its violent combat with "leftist" Peronist guerrillas, who were trained and supported by Qaddafi.

The P-2 integrated Argentina's diplomatic corps into their narcotics network. Gelli induced Perón to appoint P-2 member Alberto Vignes as foreign minister. Vignes promptly named Gelli honorary Argentine consul in Rome, thereby giving the P-2 supervisor worldwide diplomatic immunity for his criminal missions, until very recently. Half a dozen other top Argentine diplomats, including the present ambassador to Uruguay, are on the P-2 lists found by Italian police in Gelli's villa in Arezzo. (Argentine diplomatic pouches often split op[illegible] in Canada and elsewhere, spilling streams of white cocaine powder.)

After old Perón died in July 1974 and the presidency passed to his bubble-headed third wife Isabel, the visible power of her Svengali, López Rega, (and the invisible power of Gelli and P-2) became total. Gelli even reportedly is the executor of Perón's will and personal fortune.

When the Argentine military finally sought to clean out the López Rega infestation, army intelligence leaked that he and fellow P-2 member Raúl Lastiri were partners in a coca plantation and cocaine labs found near Argentina's Bolivian border. López Rega had protected the P-2 traffic by appointing his cronies as interveners in the provinces straddling the Paraguayan smuggling routes and as ambassadors to Paraguay. His AAA gained infamy for "road service" assassinations of leftists as well as many moderates, but their primary task may have been protecting the drug network.

Hong Kong of South America

Since its 1973 military coup, Uruguay has seen its productive economy brutally sacrificed to Montevideo's role as a regional drug-money banking center. Real wages have been cut by 40 percent, a third of the population has emigrated, and industrial production has plummeted, while hot money earns 20 to 25 percent above inflation.

"You can't name any place in the world less regulated than Montevideo," proclaimed one proud bank economist, soon to be employed by the World Bank. "Banks do not have to register capital entering or leaving; they pay no taxes; they face no inspections or audits; they have no reserve requirements," he explained. Other U.S. bankers told *EIR* that Montevideo is a good place to look for the \$1 to \$2 billion in Bolivian cocaine revenues that disappear from sight each year. Such is Licio Gelli's haven.

Right-left terror: a single network

by Vin Berg

An investigation that first led police to a fascist-terrorist "safehouse" on the Via Prenestina in Rome has now produced hard courtroom evidence that not only have "left" and "right" terrorists in Italy collaborated closely, but that both, in fact, represent a single, indivisible organization. This organization is proven to be a project of Italy's now-notorious Propaganda 2 (P-2) Freemasonic lodge, and the powerful and wealthy "black noble" families that created P-2.

Roman police, following a trail of evidence that took them from "fascist" organizations' hideouts to the "red terrorist" organizations' hideouts, discovered weapons used in common, and documents showing that logistics capabilities were shared, memberships overlapped, and operations were conducted jointly. The "Red Brigades" who killed Aldo Moro, and the "black" fascists who bombed train stations, are the same people.

Among those arrested as a result of over 50 warrants issued to date are individuals attached to the P-2 lodge, and individuals directly employed by such ranking households as that of **Junio Valerio Borghese**, Italy's Dracula-modeled "Black Prince," himself a member of P-2.

The character of the P-2 lodge itself is indicated by the statement of Masonic Grand Orator Ermenegildo Benedetti at a March 23-25, 1973 meeting of Italy's Grand Orient Masons. Benedetti cited P-2 leader Licio Gelli, who was once a torturer for Mussolini's secret police. "In the most delicate body of our communion," said Benedetti, "the Propaganda 2 Lodge, a brother has been put in charge, Licio Gelli, who not only has an unhappy Fascist past, but who still lives with a Fascist conception of the world, up to the point that he invited to be brothers members of the highest national hierarchies, to work in order to prepare a dictatorial form of government for Italy—the only form, in the opinion of Gelli, able to solve the serious problems of the fatherland."

The Roman police raid on the fascist Via Prenestina safehouse occurred only one day after the P-2 list's publication, suggesting that this action was part of the set of retaliatory measures by the Vatican which the London *Times* reports to have prompted the revelations triggering the P-2 scandal.

The combined result, according to police, is that they now know everyone responsible for every major terrorist act, both "black" and "red," in Italy over the past 10 years.

A fascist hideout. . . for 'leftists'

As far back as 1976, *EIR* began to publish materials demonstrating that "left" and "right" international terrorism has a common "mother"—the Italy-centered "black nobility" of Europe, and their royal Britannic appendage.

The leads provided by *EIR* and LaRouche at that time have now been borne out with a vengeance by the Roman police.

That investigation began when the Digos, Rome's police, discovered a hideout of a fascist organization headed by one **Egidio Giuliani**. The ramifications were immediately evident in the fact that Giuliani, a full-time terrorist operative, is on the payroll of the U.S.-based Honeywell Corporation. Giuliani confessed that an **ADP Advertising Agency** he heads is merely a front, whose only function is to supply weapons and false passports to both "red" and "black" terrorists, as well as to common criminals. The criminals had to pay; the terrorists received such items for free.

At Giuliani's Via Prenestina location, police found documents and weapons of all types. Among the documents were identity cards and false passports for not only leading fascist figures, but leading "red" personalities, too. These included **Roberto Martelli**, head of the "leftist" **Unità Combattenti** organization; and **Aurelio Gambini**, head of the leftist **Prima Linea**. Also discovered were communications between "red" **Oreste Scalzone** of the **Autonomi** organization and fascist Giuliani.

For example, police discovered a note from "leftist" Gambini to fascist Giuliani recommending an underground doctor who could be trusted to treat **Michele Viscardi** for bullet-wounds he suffered during an attempted kidnaping operation by Giuliani's organization. In fact, documents showed that the "red" and "black" gangs had jointly conducted bank robberies, kidnappings, and drug trafficking to gain funds for their operations.

Magistrates promptly shifted investigations to the cited "left" terrorist gangs, following leads to several of their hideouts. At these, police found weapons of two types: a cache purchased from Qaddafi's Libya by Oreste Scalzone, whose Autonomi organization is little more than the aboveground support network for the "Red Brigade" terrorists; and *a cache supplied by fascist Giuliani's ADP front*.

The circle, as police pointed out, was complete: Fascists and reds were using the same weapons. Some of these were purchased from Libya and on other international black markets by Giuliani; some were purchased by individuals like Scalzone, who was already wanted in connection with the murder of Aldo Moro, and whose trail led directly to Bettino Craxi's P-2-infested Italian Socialist Party, which funded and housed the **Metropoli** publication of Scalzone's Autonomi organizations.

Among other names released by police were **Antonio Ginestra** and **Michele Surdi,** both part of Scalzone's *Metropoli* group, the latter a professor of legal philosophy at the University of Rome; and **Valerio Morucci** and **Adriana Faranda,** among the original founders of the Red Brigades, both already in jail. Two weeks ago, Roberto Martelli was arrested in Lisbon, Portugal, where he was in touch with fascists there. Altogether, Prima Linea, the Red Brigades, and four other "red" terrorist organizations were named as essentially one entity with Giuliani's and other fascist organizations.

Moreover, the joint connection of the "red" and "black" terrorists to the P-2 lodge was firmly established. Seized along with Giuliani were two other members of his organization, **Loris Facchinetti** and **Orio Tacchi.** Facchinetti is the founder and leader of another fascist group, **Europa e Civiltà,** to which Tacchi also belongs.

In 1970, at a major ceremony of Italy's Grand Orient Lodge—subsuming the secret P-2 lodge—Grand Master Lino Salvini ushered Facchinetti and Tacchi's Europa e Civiltà organization into the Masonic movement. That same year, Facchinetti, who heads **Atanor,** the exclusive publishing house for all Italian Masonic lodges, and his Europa e Civiltà organization were deeply involved in the fascist coup attempt masterminded by one of P-2's ranking members, Black Prince Borghese.

UNITED STATES

Michael Ledeen and Italian terrorism

by Barbara Dreyfuss

Last week, fearing revelations that could bring a quick end to his career, Secretary of State Alexander Haig dispatched one of his special advisers to Italy. **Michael Ledeen** is assigned to "investigate" allegations pending against Haig that implicate him in one of the nastiest and most politically far-reaching scandals of this century—the affair involving Italy's Propaganda 2 (P-2) Freemasonic lodge.

In the course of the affair, a "Haig dossier" has turned up, revealing cooperation between the U.S. Secretary of State and the P-2 lodge's fugitive leader, Licio Gelli.

Michael Ledeen, Mr. Haig's special adviser on terrorism, was the founder and editor of the *Washington Quarterly* publication of Georgetown's Jesuit Center for Strategic and International Studies. He is deemed an "expert" on both terrorism and fascist movements. He obtained such "expertise" in the course of 10 years (1967-77) in Italy, where he worked closely with networks now implicated in plotting a new fascist government for Italy, and in running both "left" and "right" terrorism during that period.

Ledeen was trained by George Mosse, scion of an elite German-Jewish family connected to British intelligence by not later than 1933. Mosse took Ledeen under his wing at the University of Wisconsin in the 1960s. Mosse also trained scores of "left" and "right" Jesuits, Institute for Policy Studies hands, and "conservatives" like Ledeen's friend Bertran Pines. "Mosse is a great man, one of those inspirational figures," Ledeen said in a recent interview.

Mosse is considered a European historian; he specialized in the study of how fascist and terrorist movements can be developed. He passed this specialization on to Michael Ledeen, who became his research assistant.

Ledeen went to Italy in 1967 as a correspondent for *The New Republic.* That magazine was founded in 1914 by the British intelligence family of Willard and Michael Straight; Walter Lippmann, the U.S. representative of the Royal Institute for International Affairs, was its founding editor. *The New Republic* remains a channel for RIIA policy pronouncements.

"From 1973 to 1975, I was at the University of Rome," reports Ledeen. "It was a supercharged atmosphere, with a lot of terrorism." In 1975, he and "Venetian" historian Renzo de Felice wrote an article stating that "the appeal of fascism arises from its revolutionary aspects." The article won praise from the Italian Communist Party's Giorgio Amendola, who criticized his own party for not trying to recruit fascists! The late Amendola was accused of being an agent of Italy's "black nobility" on more than one occasion.

The article's linking of fascism, terrorism, and "revolution" also won praise from Bettino Craxi, chief of Italy's Socialist Party. "Craxi agreed with it. He liked it," says Ledeen. "He is a good fellow. One of my best friends."

Craxi and his Socialists have been revealed to be funding and deploying both "red" and "black" terrorism in Italy at the direction of the P-2 lodge and its leader Gelli, who once declared that he wanted Craxi to be Italy's "new Mussolini."

Chaos to prompt Soviet takeover?

by Judith Wyer

The bombing in Teheran that wiped out the most powerful members of Ayatollah Khomeini's government, including strongman Ayatollah Behehsti, could only have been the work of intelligence agencies from outside Iran.

The operation involved a degree of technical capability available only to the most powerful foreign agencies. It also required a level of accrued intelligence and penetration of Khomeini's ranks which only British intelligence, the CIA, Israeli intelligence, and the Soviet KGB possess.

The decision to eliminate Beheshti and other senior operatives of the ruling Islamic Republican Party (IRP) has invited a wave of unprecedented chaos for Iran, as the fragmented Iranian leadership battles for survival.

The bombing occurred during a secret meeting of the Islamic Republican Party intended to consolidate Iran under Beheshti's control. Beheshti and the IRP had just ousted President Abolhassan Bani-Sadr from office following months of brutal infighting. Had Beheshti lived and consolidated power, he would probably have brought a semblance of unity to Iran. Now, however, the disintegration of Iran has greatly accelerated. As one Iranian source observed "Beheshti was the brains of Khomeini's regime; now without him, Iran will go wild."

Should Iran slide into total chaos, the fragile stability of the strategic Persian Gulf region could be jeopardized. The U.S.S.R., which shares a 1,500-mile border with Iran, could not stand idle.

Enter Lord Carrington

Less than 72 hours after the Teheran bombing, Britain began negotiations through the British ambassador to Moscow with the Soviet foreign ministry over legitimating Soviet control of Afghanistan. A few days later, the British foreign secretary, Lord Carrington, arrived in Moscow for talks on Afghanistan.

Carrington's mission was part of a British strategy to draw the Kremlin into what has become known as a "new Yalta" agreement whereby sections of the world, most importantly the Balkans and the Middle East, would be newly carved up by the big powers. European sources report that London and its Haig-centered allies within the Reagan administration are prepared to hand over all or part of Iran to the Soviets as part of such a "Yalta" agreement.

By creating chaos in Iran, London aims to draw the U.S.S.R. into a crisis-management arrangement which could entail a Soviet takeover of the country.

Alexander Haig and his State Department underlings were the first to respond to the bombing in Iran. Haig warned of the likelihood that the Soviets would take advantage of growing chaos by intervening there, and other State Department sources predicted a Soviet military occupation of the northern Iranian province of Azerbaijan.

Chaos begins

Since the bombing incident, the fanatical mullahs and pro-Bani-Sadr leftists have battled for control of Iran with a wave of bloody executions and killings. The mullahs are attempting to scapegoat such leftist groups as the Mujaheddin-e-Khalq for the bombing, while Bani-Sadr—reportedly in hiding in the Kurdish section of Iran—makes a public call for the overthrow of the mullahs.

A Washington source warned July 8 that in every major city in Iran, powerful contingents of pro- and anti-Kohmeini forces are mobilized. These mobs could open the way for the complete disintegration of Iran, he said.

Editorial comments in American and European newspapers predict that the superpowers, "like it or not," will soon be drawn into Iran to manage the crisis there. Syndicated columnist Joseph Kraft wrote on July 2 that once the mullahs and the Mujaheddin destroy one another, the Iranian military and the Iran communist party (Tudeh) will be left to fight it out. Such a polarization could, in fact, invite a partition of Iran between the superpowers.

Twice before in the 20th century Iran has experienced a total breakdown of all centralized power. Both times, London successfully drew the Russians into a crisis-management agreement resembling the one Carrington is now pressing. In both instances, the country has been divided, and Iran's northern neighbor has occupied a part of the country. In both instances, the partitions were part of a world war configuration.

One Arab source observed recently that the Soviets "know the name of this Yalta game, and won't be easily drawn in." But he concluded that if the Iranian chaos should become a real strategic threat to the Soviet Union, Moscow will have no choice but to move into Iran, a move which he called "an invitation to global disaster."

Menachem Begin's gameplan

Israel is beginning to resemble the German Weimar Republic in more than one way.

At a closed-door meeting between Menachem Begin's Likud bloc and the National Religious Party immediately after Israel's June 30 election results were known, the prime minister declared that Israel would adopt extreme measures to accomplish "our objectives" within one year. Those objectives, according to U.S. intelligence sources, include the consolidation of Israeli power in the occupied West Bank and in southern Lebanon.

Begin is said to believe that he will either die or leave the political scene within 12 months.

But to succeed in that period, Begin and his supporters reportedly plan a campaign of terror and intimidation along Israel's northern and eastern frontier. Indeed, some Israeli strategists are talking in ominous terms of a "final solution" to the Palestinian problem.

On the West Bank, truckloads of weapons are reportedly being supplied to the fanatic militia of the Gush Emunim, the settlers movement there. And Begin—who is expected to name extremist Gen. Ariel Sharon as his defense minister—is also said to be planning a new assault on Lebanon's south.

As a result of the elections, and in the wake of the June 7 Israeli attack on Iraq's nuclear facilities in Baghdad, it is no longer considered fanciful that Israel might launch a strike aimed at destroying the oil fields of Saudi Arabia and the Gulf states. A prominent congressional expert on Middle East matters noted that Begin would feel immense pressure as the April 1982 deadline for the final withdrawal from the Egyptian Sinai peninsula approaches—and that he might consider ordering an attack on the Gulf, as part of a larger military conflict.

According to several sources, including intelligence experts versed in Israeli thinking, Begin might plan such an attack by September or October of this year.

That timing would coincide, the sources said, with a decision by certain Anglo-American circles, especially David Rockefeller's Trilateral Commission, to subvert democratic authority and to impose "rule by emergency decree" within the next 12 months.

The destruction of the Saudi oil fields, and the ensuing world energy chaos, would provide the necessary rationale for invoking existing emergency measures on energy and the U.S. economy, including the near-dictatorial power of the Federal Emergency Management Act.

That such scenarios could even be contemplated reflects the impact of Begin's re-election on the political life of Israel.

The June 30 results show that Begin's 1977 election was not a fluke, but something else: that a burgeoning, literally fascist mass movement is developing behind the Likud bloc. Spearheaded by the semi-official militia of the Gush Emunim, Begin supporters have become almost a replica of the pre-Nazi Hitler movement. The appeal of the demagogic Begin to Israel's uneducated poor, especially Jews from Arab countries, has created a monster.

The opposition Labour Party is dismayed, even gloomy. While Labour stalwarts often complain now about Shimon Peres's lackluster campaign, they have been sobered by Begin's re-election. "It could mean the end of Israel," said one. Labour loyalists have openly denounced Begin as a fascist, with full awareness of the heavy irony that the term carries.

Writing in the *New York Times*, columnist Flora Lewis cited a top Israeli analyst who wondered, "Is Israel becoming another Republic of Weimar?"

Reeling under its defeat, the Labour Party, resigned again to the opposition benches, is in deep trouble. General Yitzhak Rabin—who spent the last six months in almost open sabotage of the Peres effort—joined Peres at the last moment, and he is now trying to claim the credit for the Labour Party's gains over 1977! And Peres partisans, who realize Rabin's role in helping re-elect Begin, are nevertheless unhappy with Peres's performance and that of his campaign strategists.

In the weeks ahead, Israel's economy is likely to collapse all of a sudden, accelerating the descent into fascist rule. To win votes, Begin's finance minister had cut taxes and raised subsidies on goods in a pre-election ploy. That little game is now expected to explode in a round of inflation that will make Israel's current 150 percent seem innocuous.

Refugees seek asylum

Thousands of refugees, especially from Guatemala, are giving Mexico a "human rights" problem.

The fall in oil sales isn't the only thing that has been bothering the Mexican government lately. Authorities here are deeply concerned by what they characterize as the "massive and illegal entry" of Guatemalan citizens across the country's southern border.

It is perhaps ironic that Mexico, best known in the United States for sending hundreds of thousands of migrant laborers across the northern border into the U.S. every year, is itself the recipient of massive undocumented migration.

Mexico has been virtually inundated in recnt months by thousands of refugees from Guatemala, El Salvador, Nicaragua, and Bolivia. Increased delinquency, violence, and the aggravation of the country's already serious unemployment problem are some of the most pressing concerns brought to the surface by this immigration, according to authorities. In fact, immigration sources we consulted report that as many as *1 million* Latin American immigrants can be found in Mexico City—most of them from Central America.

A month ago, 500 Guatemalans entered the country by way of the southern state of Chiapas, reportedly fleeing from the Guatemalan security forces or right-wing paramilitary groups. Mexican leftists, working in coordination with their Guatemalan counterparts, immediately launched a "human rights" campaign to demand that the government here "open the borders" to the foreigners. The government, however, rapidly returned these individuals to their country, after establishing that they were not political refugees as they claimed.

But this was hardly the end of the story.

On June 25, over 2,000 people crossed the border at Chiapas—again claiming to be Guatemalan political refugees. A few days later Defense Secretary Félix Galván, Foreign Secretary Jorge Castañeda, Interior Secretary Enrique Olivares Santana, and Attorney General Oscar Flores Sánchez met to discuss the delicate situation.

Already Mexico's left had raised a hue and cry calling for the government to grant asylum. Yet security forces were greatly concerned lest terrorists—who might later target *both* the Mexican and Guatemalan governments for attack—be allowed to install themselves in the country. Also of weighty concern were the significant economic and other resources required to handle the thousands of homeless and impoverished foreigners.

After extensive discussion among the four high-ranking officials, they agreed to treat the refugees on a case-by-case basis, and *not* to grant political asylum to anyone who couldn't prove he was being persecuted for political reasons. Such individuals would be returned to their countries of origin. Security officials privately told *EIR* that they expected the vast majority of the Guatemalans to be returned in this manner.

The Mexican army was to handle all logistical matters—including food and housing—for the thousands of Guatemalans, while the Interior and Foreign Ministries sift through each case.

The four Mexican officials also decided to invite the United Nations Human Rights Commission to come to Mexico and witness the case-by-case evaluation, in order to establish publicly the fairness of Mexico's conduct from the outset. This was deemed the best way to defuse the expected leftist outcry—both in Mexico and abroad—once it became known that Mexico was refusing to grant the Guatemalans blanket political amnesty.

The "human rights" lobby will, in all likelihood, use this to accuse the Mexican government of violating human rights, and of turning over Guatemalan citizens to a "certain death" in their country. In fact, *EIR* has already received information that a collection of leftist parties will hold a joint protest meeting shortly at the Jesuit clearinghouse in Mexico City, CENCOS.

One Mexican security official confided his concern. "I'm uneasy about inviting in the U.N. to oversee Mexico's internal policies. It sets a bad precedent of supranational involvement in sovereign national affairs. But frankly, we feel sort of boxed in. The trap being set is obvious enough to us, but there's no good solution to this whole mess until we can stabilize all of Central America by getting economic growth going there."

The source admitted: "I guess you could say we're buying time."

International Intelligence

Mitterrand, Spadolini try to undercut Schmidt

French President François Mitterrand states in the latest issue of the German magazine *Stern* that the U.S.S.R. "upset" the balance of power by deploying SS-20 missiles and therefore before any arms talks take place, there should be "rearmament to restore the balance of power." At the same time, Italian Prime Minister Spadolini pledged his new government's support for the deployment of Euromissiles in Western Europe. Speaking to the Italian Senate, Spadolini added that the Soviet proposal for a moratorium on missile deployment is "unacceptable."

The French and Italian declarations are meant to corner Chancellor Helmut Schmidt between a Reagan administration stalling on negotiations, and a Willy Brandt-led domestic opposition to any deployment of the missiles. By opposing the arms negotiations Schmidt has called for, Mitterrand and Spadolini hope to help Brandt replace Schmidt.

A gameplan for the division of Europe

Highly placed French sources report that the international "postindustrial" faction of policymakers intends to divide Europe between an Anglo-German alliance in the north and a Franco-Italian alliance in the south. Italy, according to this plan, would be ruled by Socialist Bettino Craxi, and rumor has it that two Christian Democratic leaders, Senate President Amintore Fanfani and former Prime Minister Mariano Rumor, are working to push the new Spadolini government aside to make way for Craxi.

The prerequisite for a close alliance between Bonn and London would be the resignation of West German Chancellor Helmut Schmidt. A recent interview with Schmidt in the liberal *Frankfurter Rundschau* indicates the potential for Schmidt's resignation. Referring to the 1979 NATO resolution in which Germany agreed to station Euromissiles on its soil contingent on the start-up of arms limitations negotiations, Schmidt stated, "I have linked my future in government to this in a double way. I will resign if the first half of the resolution is given up. I cannot take responsibility for a government under those conditions. On the other hand, I also cannot take responsibility for a government if the second half is not fulfilled. You may ask if this is an impromptu statement. I have given this long thought. This decision is well-weighed and thought through. I cannot stay in power if either of the two will fail."

Meanwhile, the German-born director of the London School of Economics, Ralf Dahrendorf, has outlined a plan for West German political parties. Writing in the Bilderberg Society-linked weekly *Die Zeit*, he proposes to create a new "left"/"right" formation, consisting of a Thatcher/Chirac-style "free-enterprise" party and a left-oriented party like the new Dutch "D-66" group. Promoting alternative life-styles, deindustrialization, this "left" party could bring together the antilabor wings of the Free Democrats and Social Democrats, according to Dahrendorf, while the new "right party," whose ideal leader he identifies as Franz-Josef Strauss, could split the Christian Democrats and ally with the right wing of the Free Democrats.

Crisis building in West German finance

The chairman of West Germany's fourth largest bank, the Westdeutsche Landesbank, resigned July 9 because of the Ruhr-based bank's difficulties. Commerzbank, the second largest, had already halted dividend payments to shareholders. On July 8, another leading institution reported it has liquidated substantial gold holdings in an emergency move to cover nonperforming loans. The banks, which depend heavily on large corporate deposits, will also be hit by the rapid fall in German export orders.

U.S. financial circles, headed by Federal Reserve Chairman Volcker and Ambassador to Bonn Arthur Burns, are aggravating the potential for a panic by spreading the line that the problem is German banks' willingness to finance German government debt long term and at marginally lower rates than U.S. paper. The Federal Reserve, which along with the Bank for International Settlements controls Bundesbank chief Karl-Otto Poehl, also says that if Bonn does not make large-scale budget cuts, German banks will be in "technical bankruptcy" within a year.

"Germany has just begun to learn the lessons of David Stockman," one New York source claimed.

French prime minister dismantles state

French Prime Minister Pierre Mauroy has announced the abolition of both the State Security Court and the prefecture system. The court had been established by de Gaulle in the early 1960s to defend the French Republic against the Organisation Armée Secrète (OAS) and other terrorist plotters, and in recent years had succeeded in convicting many terrorists.

The abolition of the prefecture system established by Napoleon, under which the equivalent of American governors are appointed by the national executive to oversee judicial and security matters, testifies to Mitterrand's commitment to decentralize, and disintegrate, the nation. The abolition of the system is to occur, however, only after Mitterrand's own new appointees as prefects have used their extensive powers to purge police forces and related institutions.

Mauroy also announced that a dozen large banks and large industrial concerns will soon be nationalized, especially aerospace firms and high-technology chemical, communications, and electronic companies. While some of these corporations, including Matra and Dassault, have supported the Socialist Party's "technetronic" postindustrial programs, the nationalizations will hasten rationalization of industry, and has already contributed to currency and stock-market panic, so Mitterrand can justify "crisis management" measures and tighten his control of national disintegration.

'Development to avert riots,' says Börner

Holger Börner, Social Democratic governor of the West German state of Hesse and a close ally of Chancellor Helmut Schmidt, declared July 9 that if Bonn wants to avoid the kind of riots that have hit English cities, "We must do everything to create new jobs." In an interview with the *Westdeutsche Allgemeine Zeitung*, Börner stressed that the present policy of creating jobs in the public-service sector must be replaced by programs to educate skilled workers and engineers. West Germany has a shortage of skills, he said, and "short-sighted" emergency measures will not solve that crisis.

Börner also called for the crash development of nuclear energy to meet economic needs. If the Federal Republic cannot reduce mass unemployment, he said, it will soon face an upsurge in "fascist ideologies." Börner has previously termed the radical environmentalists a "fascist" danger to present institutions for their opposition to nuclear power.

Japan rebuffs Haig, Weinberger demands

Japan Defense Agency Chief Joji Omura gave a firm "no" to demands for a drastic Japanese defense buildup presented by Defense Secretary Caspar Weinberger during a 3-hour meeting in Washington June 29. Weinberger said that Japan's planned 7.5 percent increase in defense spending—much higher than other planned increases in Japan's austerity budget—was unsatisfactory. He demanded an 11-12 percent increase, according to Japanese press reports.

Moreover, Weinberger declared that Japan's multiyear buildup plan designed in 1976 to last through 1987 did not sufficiently take into account the new "Soviet threat," and must be scrapped. Japanese defense officials estimate Weinberger's demands would require a defense budget in 1982 of $24 billion, twice the planned budget, and require 24 percent annual increases thereafter.

Omura explained this was politically and economically impossible. In a separate meeting with Haig, Omura said that Weinberger's demands were so astounding that Tokyo presumed they were only the thinking of the Pentagon and not the administration. When Haig confirmed that he supported Weinberger's demands, the shocked Omura repeated the impossibility of fulfilling them.

NATO's links to P-2 lodge confirmed

Rear Admiral Vittorio Forgione, who was exposed as a member of the P-2 lodge when the original list was made public, has been arrested by the Italian military police after being suspended last month from his post as commander of the Center for the Military Application of Nuclear Energy. Top-secret documents on NATO that should never have been allowed to leave the center were found in Forgione's home.

According to the Venezuelan press, Italian investigators believe that the NATO-backed center fell under the control of P-2 through Forgione and also through its deputy director, a colonel, and three other officials responsible for "security," who are now under investigation because of their links to P-2 leader Licio Gelli. Top-secret NATO information may also have found its way to Argentina through these channels, according to the same sources. The center's ties to NATO were developed under the auspices of Alexander Haig, who has allegedly played a prominent role in promoting the P-2's coup plans.

Briefly

● **VALENTIN FALIN,** chief of information for the Soviet Central Committee, has cautioned in an interview with the West German weekly *Stern* that deployment of NATO's Pershing-2 "Euromissiles" in Europe next year would invite Soviet military countermoves. The Pershings, able to reach Soviet territory in five minutes, qualitatively shift NATO's strategic capability, Falin stressed. Asked if the U.S.S.R. would place missiles in Cuba in response, Falin said, "There are [other] technical possibilities to bring medium-range missiles into the vicinity of the U.S."

● **THE VATICAN'S** attacks against the Propaganda 2 Masonic lodge in Italy are intended to target the Anglican church, according to Italian press sources. The sources note that the Vatican's renewed attacks on the Masonry are likely to result in a major scandal in the Anglican church because of the historically close ties between the Anglicans and the Freemasons. These attacks are expected to result in an increasing number of leaks concerning the Anglican church's involvement in the assassination attempt against the Pope. The London *Times* of July 2 predicts a major "storm" inside the Anglican church as a result of the Vatican's attacks.

● **ENVER HOXHA,** Albanian chief of state, will be increasingly challenged by those members of the regime most enthusiastic about fusing with the Albanian ethnics in the Yugoslav province of Kosovo.

● **COLOMBIAN** sources in the president's office complain that so far the Reagan administration has done no more to eradicate Colombia's drug production than the Carter administration did. As a result, the cocaine and marijuana lobby stands a good chance, they say, of legalizing marijuana when the Colombian Congress reopens on July 20.

The Trilateral coup against the White House

by Gretchen Small

The astonishing appearance of David Rockefeller, Chase Manhattan overseer and head of the Trilateral Commission, as a "spokesman" for administration policy at a White House press briefing July 2 signals how close the totalitarians of the Trilateral Commission are to capturing complete control over the Reagan administration.

Rockefeller's appearance at the White House, just two days before the celebration of this country's 205th year of independence from the British Crown, was engineered by Secretary of State Alexander Haig in answer to the growing nationalist pressure for the ouster of the Trilaterals' leading representatives in the cabinet, Fed chief Paul Volcker and Haig himself.

The message delivered by Rockefeller was as clear as Haig's "I am in control here" in the first hours following the assassination attempt on President Reagan March 30.

Although Ronald Reagan has now placed himself so thoroughly at the disposal of the Trilateral Commission, the danger that he will be assassinated persists—a threat intelligence specialists fear will be activated at the Ottawa summit, where the Canadian government intends to deprive all heads of state of their own security protection. The Trilateral group's plans extend far beyond the Caribbean and Mexico: a financial-shakeout collapse is preplanned to erupt internationally some time in the next six months (see Economics). The ensuing social and economic devastation is intended as a prelude to a new array of regimes under supranational control, with social-democratic leaderships, as in France, and fascist economic policies. As *EIR* founder Lyndon H. LaRouche stated July 6, "Whatever his weakness, the President of all good American cowboys, Ronald Reagan, cannot stomach outright surrender of the sovereignty of the United States to a gang of the international kooks behind the Trilateral Commission." Along with Pope John Paul II, he is a "major institutional obstacle to the scenario."

"Without ridding themselves of Reagan," continued LaRouche, the forces controlling the Trilateral Commission "would face a major risk in attempting to put through the policies to which they are presently committed. . . . Since the scenario will not work without eliminating President Reagan, one must draw appropriate conclusions."

Reagan was elected on a wave of hatred for the Trilateral Commission that had run the Carter government. Yet Rockefeller, still the symbol of the group most Americans know has brought the country to near ruin, stood on the lawn of the White House, and endorsed drug economies like Jamaica's as ideal partners for U.S. trade and relations abroad.

Rockefeller was not arrested for his public promotion of marijuana economies. National Security Adviser Richard Allen announced instead that Rockefeller and the U.S. Business Committee for Jamaica, which he put together last November, will formulate an overall Caribbean economic policy for the Reagan administration. The depth of control by the Trilateral interests was further evidenced last week in a series of reversals of U.S. policy toward Mexico. The overall direction is that of the World Bank's Brandt Commission: a policy sponsored by social democrats and international investment bankers for Third World resource control through "private investment," depopulation through austerity, and subjugation of both advanced-sector and Third World governments' prerogatives.

The advocacy of drug economies, and the bringing of the Rockefeller apparatus into open prominence, represents a direct seizure of power by the circles of finance now being hunted internationally as the controllers of the fascist Propaganda-2 (P-2) lodge in Italy. Rockefeller, questioned at the press conference by *EIR* as to what he thought of the arrest of Trilateral Commission member Carlo Bonomi in the P-2 scandal, could only stutter back that the commission was "not responsible" for what any member may do. He denied, however, that he would initiate any action to get rid of the other commission members now implicated in the P-2 scandal.

An NBC reporter next asked Rockefeller if the Trilateral Commission was seeking another meeting with the President "such as that scheduled and not held on March 30th"—the day Reagan was shot. "The Commission had nothing to do with that, did they?" Bill Lynch asked. Rockefeller replied, "I certainly hope not."

The administration's turnaround on the Caribbean and Mexico is the most striking evidence of the Trilateral Commission coup over the White House; this has been the sole policy area over which the President himself has maintained control.

Reagan had not only rejected Trilateral Commission-scripted plans for a North American common market that would pave the way for the Rockefeller circle's intrusion into Mexican national development plans. Buttressed by a personal relationship with Mexican President José López Portillo that grew stronger at the two leaders' June summit meeting, Reagan made good on his pledge for mutually beneficial cooperation in economic development with the announcement of an eased immigration policy for Mexican workers.

But signs of the administration's abandonment of a Mexico strategy for the Jamaica drug model were abundant last week, leading with the administration's quiet tolerance of the frontal economic warfare unleashed against Mexico (see International). Immigration policy—a key for relations with Mexico—received a setback as well. Reagan's personal meeting with Rockefeller, Haig, and leading members of several international "Business Committees for Jamaica" before the White House press briefing was the clincher on the Jamaica versus Mexico strategy, however.

Marijuana is Jamaica's single largest export, bringing in more than $1 billion a year to the island. Cocaine transshipments from South America are joining marijuana trafficking as a leading export item of the country, the local press is now reporting. Edward Seaga, the prime minister held up by Rockefeller as the leading light of free enterprise in the region, legalized the laundering of marijuana dollars by the Jamaican central bank within a week of assuming office. Rockefeller immediately organized the U.S. Business Committee to provide lobbying protection for Seaga's action within the United States. New committees have now been announced from Britain, Canada, and Venezuela—constituting a virtual international lobby for Jamaica's marijuana exports.

Included on the board of the U.S. committee, besides its head, David Rockefeller, are the heads of:

• **United Brands,** cited frequently as one of the key shippers of cocaine into the U.S. from Central and South America;

• **Hilton Hotels,** an intelligence-linked outfit implicated in dirty-money dealings on several occasions;

• **Gulf & Western,** a Jesuit-linked company with Cyrus Vance as legal counsel, which owns the Dominican Republic and Paramount Pictures; and

• **Exxon Corporation,** Rockefeller/Canadian owned.

Speaking from the White House lawn, Rockefeller was open about the "marijuana industry" in Jamaica. Acknowledging that marijuana and Seaga's reluctance to do anything about it was a "subject mentioned during the course of discussions" with Reagan, the Chase Manhattan banker excused the whole matter as a result of the "period when all other industries have declined very rapidly . . . and I think that it probably will be awhile before it is completely eliminated."

Preparation for an upcoming foreign ministers' summit on Caribbean policy, set for July 10 and 11, was also on the agenda at the Rockefeller-Reagan meeting. Called at the initiative of Haig following the López Portillo-Reagan summit at the beginning of June, the Bahamas meeting brings together the foreign ministers of Mexico, Venezuela, Canada and the United States to discuss an economic and security package for the region.

Haig, basing his programs on the U.S. Business Committee suggestions, is planning to make private investment and security the paramount issues, posing the "free-enterprise" government of Seaga as the bulwark against a rising tide of Cuban-led communism in the Caribbean.

Mexico's Foreign Minister Jorge Castañeda, who has consistently tried to sabotage López Portillo's efforts to re-establish decent relations with the United States, has announced that he in turn wants to make defense of the Salvadoran people's right to use "violence" to achieve "structural change" as the lead item on the agenda. Mexico and the United States are to be divided—as a prelude to the Ottawa summit.

Documentation

George Ball spells out Trilateral policies

George Ball, one of the most prominent members of the Trilateral Commission, told an interviewer this week that the effort to eliminate Third World populations, the principal policy commitment of his circles, would require a "totalitarian regime" in the United States to accomplish. When the astonished West Coast interviewer pressed the Trilateral spokesman on this statement, Ball added that, "within 5 to 10 years," a regimentation of the American labor force, beginning with worker identification cards, could be instituted to prevent "excess population" of Third World nations like Mexico from spilling across into the United States.

By establishing police-state methods of labor regimentation in America, non-American immigrants could be forced back to their nation of origin, imposing "enforced unemployment" in those countries that would ensure general depopulation. Mr. Ball himself did not use the word genocide. He restricted himself to describing the policy in those terms.

"Control over our own population cannot be separated from control over immigrants," stated Ball. "The Mexican population growth problem is like acid rain pollution; it floats across borders and can't be dealt with just in Mexico. Overpopulation is a form of pollution and we can't have ourselves destroyed by this influx.

"We are going to have to establish a rigid worker identification card system for all Americans. It won't work any other way. Every American will have to carry an identification card for labor identification . . . required by federal law to be able to assure their employers they are legally qualified to work in the United States.

"This will mean what some people would call a totalitarian regime. Americans will have to accept new limitations on what they are used to regarding as their freedom."

Ball declared that this would reduce Mexican population, for example, because deported aliens would "flood the Mexican job market, and force the government to deal with the problem.

Ball linked his depopulation strategy to Paul Volcker's high interest-rate policy and the related posture of the U.S. government at the July 20 Ottawa summit meeting, a posture developed by Meyer Rashish, whom Ball, a former undersecretary of state, first brought into the State Department in the 1960s.

The Europeans may complain about Volcker's industry-wrecking strategy, he said, "but the U.S. policy is firm. The Reagan administration does not control interest rates, the Federal Reserve controls interest rates, and they intend to maintain a firm monetary policy." Rashish, accordingly, "is concentrating on a new international trade consensus, which must be the major accomplishment at Ottawa. He is committed to . . . a return to the 19th-century liberal free-trade principles."

This, said Ball, had direct implications for world population levels. For the Third World, "it means a slowing of their rate of growth and consumption. Many of these countries are using protectionism to maintain artificially high levels of consumption and growth. We must slow the unbridled growth of industry in the Third World, which is more than many of these countries can handle. . . . Overpopulation results, and overpopulation in the Third World is the single most important strategic issue facing the United States today."

Ball is not known for talking "off the cuff." He is not only a Trilateral Commission policy-maker, but a partner in Lehman Brothers Kuhn, Loeb investment bank, a former high-ranking U.S. government official in several departments, and an intimate of the financially powerful "old families" of continental Europe and Britain, whose policies carry relatively greater weight with persons like himself, Mr. Rashish and Mr. Volcker than those of any mere head of state.

Ball expressed concern about one powerful force standing against the policy he enunciated: "the opposition of the Catholic Church."

"The Catholic Church," he stated, "is encouraging Mexico and the rest of Latin America in precisely the wrong direction. There is strong pressure from the Vatican not to do anything at all to encourage population control in Latin America. This is a real obstacle."

Ball did not mention the recent, failed attempt to kill Pope John Paul II, or the impact of scandalous repercussions on certain of his financial associates. He stated only: "There are some younger liberals in the Vatican who want a new policy, but they will get nowhere under the present Pope. This Pope is too strong; it's too hard to do anything at all with him. He is absolutely dead set against any sort of population control policy, and he is very powerful. . . . The Italians who know better don't have any influence with him at all. He's a Polish Pope, and he's a very independent fellow, and can't be budged on this question. . . . The situation in the Vatican is very bad, and as long as that prevails, there will be no action by Latin American governments."

A budget catastrophe for fusion and NASA

by Marsha Freeman

Action is more or less complete on the fiscal 1982 budget, as Congress wraps up its revisions on President Reagan's budget request. Unfortunately, the manic, zero-hour passage of the overall budget by the House July 3 was symptomatic of the unthinking action taken on the nation's science programs.

Throughout the budget cycle exercise, there was never a rational discussion of the rôle that our advanced energy, space, and science programs play in ensuring economic recovery. The very programs that would stimulate high-technology industry, create new industries and jobs, and revitalize education and the cities were in fact, cut in the name of economic recovery.

Programs such as magnetohydrodynamics and the high-temperature gas-cooled nuclear reactor were considered medium-term technologies whose development would be paid for by industry if they were thought important enough to develop. The fact that both these advanced energy technologies will take at least a decade to bring to demonstration readiness or commercial use, and will not be underwritten by industry, did not discourage Office of Management and Budget Director David Stockman from excising them.

Programs that even more certainly would disappear without government funding, which include most importantly fusion energy and the NASA space program, did not fare well, either.

On fusion, the lack of policy direction from the new Secretary of Energy, James Edwards, allowed Carter holdovers and misinformed policy-makers to run roughshod over the near-unanimous mandate of both the House and Senate last year for the fiscal 1982 fusion budget to be increased by 25 percent. The $525 million level mandated in the Magnetic Fusion Energy Engineering Act of 1980 was reduced to $460 million by the upper echelons of the DOE, even against the OMB, which was willing to put more money into fusion.

This reduced level will mean that one or two important projects are unlikely to be started in this next budget cycle and, above all, the next-step device engineering design work will not go ahead on schedule.

The 1980 law specifies that a Fusion Engineering Device (FED) be on line by 1990, at the latest. To meet this deadline, design work must begin in earnest next year. The Office of Fusion Energy and the scientists in the program are trying to make the most of the money that will be appropriated by Congress to upgrade FED design work.

The cutbacks in funding have undermined the country's ability to go full steam ahead with the engineering program mandated in the fusion act. But even more potentially damaging has been the effect of the cuts on the morale of the scientists, congressman and public supporters of fusion, who worked for a year to get a bill passed that would commit the nation to an all-out fusion effort. Now they have seen this accomplishment nearly vanish in the vagaries of hysterical budget decisions.

Self-defeating NASA cuts

For NASA, the Reagan budget cuts are even more nonsensical and dangerous. The entire rationale for the cuts was the desire to help balance the budget to restore the nation to economic health. Yet the civilian space program has been the most significant engine for economic development in peacetime.

In the decade of the 1960s, which saw whole revolutions in technology, the creation of new industries and skilled jobs was accelerated by the relatively small investment made through NASA in our scientific, technical, and educational capabilities. The real measure of economic health, the rate of growth in productivity, which reflects the rate of introduction of new and more efficient technologies, was on the increase during the Apollo period.

Combined with some military investment, the civilian space program during this period represented a national commitment to scientific discovery, technological excellence, and the future of our next generations. Now the Reagan administration is proposing the near phase-out of this mainspring of technologically primed economic health.

Unlike other government agencies, most of NASA's programs are medium term, spanning 5 to 10 years from design to operation; therefore, the agency plans its activities on a five-year basis. OMB director Stockman's projections for NASA funding to 1986 would cut the agency by $800 million over the period, without considering inflation.

Some legislators and NASA supporters offer the excuse that the agency will have to suffer some cuts this year, like everyone, but will be supported once the economy gets back on the track. But, a five-year phase-out of NASA is the public goal of OMB director Stockman, and has been on the agenda of the Club of Rome and allied organizations since NASA's inception.

Weinberger killed nuclear rocketry

Nuclear-powered rockets could soon transport manned missions to the planets. Robert Zubrin shows how the capability was dismantled.

In late 1957, when the nation, in the aftermath of Sputnik, decided to embark upon a large-scale space program, leading scientists realized that development of a practical space capability would ultimately have to depend on nuclear power. Nuclear fuels contain one million times as much energy, pound for pound, as any theoretically possible chemical fuel, and so it was seen, that while chemical rockets would suffice for early space probes, if space travel, including manned interplanetary and ultimately interstellar travel, was to become cheap and practical, the power of the atom would have to be mobilized.

To meet this need, the new National Aeronautics and Space Administration (NASA) initiated in 1958 two major projects for the development of nuclear-propelled spacecraft. One, called Project Orion, involved the use of small atom bomb explosions to propel a spacecraft. The other, entitled Project Rover, developed the NERVA fission rocket engine which involved the pumping of hydrogen through an atomic pile, where it would be heated and shot out the rocket's rear exhaust nozzle, propelling the spacecraft in somewhat conventional style.

At first glance, the idea of propelling a spacecraft with small atom bomb explosions seems almost incredible. One might think that the craft would be instantly vaporized by the first detonation, thus ending the mission. However, it was discovered at Eniwetok that many steel structures positioned within a few feet of the atomic detonation had experienced only the most superficial damage. The heat of the bomb blast had been more than enough to vaporize them, but because it passed by them so quickly, they were only mildly scalded.

Orion is born

On the basis of this and similar observations, weapons design and effects expert Theodore Taylor picked up on a 1955 idea by Ulam and Everrett of Los Alamos Labs to propel a spacecraft using a succession of small atomic explosions. A crew of about 40 atomic scientists was assembled, including Dr. Friedwardt Winterberg, at the General Atomic Division of General Dynamics, secured a government contract, and Project Orion was born.

The design chosen was of the uncontained nuclear propulsion type. A tiny atom bomb of perhaps 0.01 to 0.1 kilotons would be dropped from the storage area down the central pipe to emerge 100 feet below the pusher plate, where it would be detonated. The bomb shock wave, perhaps reinforced by some additional material thrown in with the bomb such as water or hydrogen, would then impact and rebound off the pusher plate, propelling the rocket forward with an impact that could be suitably cushioned by an array of shock absorbers positioned between the pusher plate and the rest of the structure. Then perhaps one second later, another bomb would be dropped and detonated, furthering the acceleration.

While the explosion beneath Orion would be uncontained, the charge could be shaped so as to project most of the bombs' energies in the appropriate directions. This approach was found preferable to the contained nuclear pulse method, in which the bomb goes off within a thrust chamber, vaporizing some water on the thrust chamber walls and propelling it out as exhaust, since this latter design has very formidable structural demands in terms of the required strength of the thrust chamber. In the Orion design, on the other hand, it was discovered that, with proper shaping and structure, the pusher plate could even be made out of ironwood (which has the advantage of not conducting heat, and ablation of its surface could be substantially avoided by spraying grease on the plate's lower surface between blasts.

An Orion blast-off would of course create radioactive fallout, but it was calculated that the total contamination stemming from a mission would be 1 percent or less than that caused by the bomb dropped on Hiroshima. Since it could be launched from a remote desert site, the danger would be 100 times less than from a small test explosion. A modern Orion design could today make use of the much cleaner varieties of bombs developed since the 1960s, virtually eliminating fallout.

The Orion planners were quite ambitious. While Wernher von Braun projected a massive chemical rocket program to land a man on the moon by 1970, the Orion planners projected a much less costly program which would involve sending manned missions to Mars by 1968 and to the moons of Saturn by 1970. While the Apollo chemical rocket could deliver less than 1 percent of its initial weight as payload to the moon and back, Orion would have been able to deliver 45 percent of its initial weight as payload for a return lunar mission, and 25 percent on a roundtrip to Mars.

Orion's space explorers would not travel in a tiny capsule like Apollo, but in a craft the size of a 16-story skyscraper. As Taylor later explained: "We had an aversion to weight minimizing. We did not need to recycle urine, for example. We would have just thrown it over the side. We could have taken barber chairs, if we wanted them. Anything could be carried that might be necessary for a big-scale manned expedition anywhere in the solar system."

Enter Freeman Dyson

The most prominent scientist to sign on with the Orion Project was Freeman Dyson, a famous British mathematical physicist, a board member of the antinuclear space colonization group known as "L-5."

Dyson, who was close friends with the British intelligence "communists" Frank and E. P. Thompson, the latter of whom is currently attempting to lead a Europeanwide antinuclear "peace" movement, came over to the U.S.A. after the war, and was brought into the Princeton Institute for Advanced Studies as a protégé of the antinuclear Robert Oppenheimer. With these connections, Dyson's surprising emigration from his high post at Princeton to join Orion has something of the marks of an infiltration deployment.

But, on advice from Oppenheimer and antinuclear fanatic George Kennan, Dyson wrote an article for the Council on Foreign Relations' journal *Foreign Affairs* in 1960, in which he strongly argued against any nuclear test ban treaty, claiming that it would endanger U.S. national security. This had the intended effect of giving Dyson a reputation as a military hard-liner, which became key to his credibility when he was shortly thereafter assigned as one of the top scientific advisers to the newly formed Arms Control and Disarmament Agency (ACDA).

Dyson was uniquely situated to influence events when the crucial moment in the test ban treaty talks came in the summer of 1963. Averell Harriman was in Moscow negotiating the treaty and had come close to signing, except that an impasse had been created by the Soviet insistence that *all* tests be banned, which was contrary to the American position since this would eliminate Orion as well as Project Plowshare, a Livermore program for digging canals and other water projects using small-scale nuclear explosives.

Harriman cabled back to Kennedy, "I think we shall have a treaty if I give way on this one." Kennedy then picked up the phone and called ACDA, where the question on giving way was relayed to Dyson for advice. "Of course we should give way," he replied. This answer was relayed to Kennedy, who cabled it to Harriman and the treaty was signed.

The signing of the test ban treaty in this form effectively killed Orion, though the program was allowed to limp on a few more years under Air Force supervision. Dyson made double sure it also killed Plowshare, a program for peaceful use of nuclear explosions. (If continued, Plowshare would have greatly facilitated the then-contemplated Nawapa water development project for channeling massive amounts of unutilized northern Canadian river waters to irrigate the entire Mountain States region of the U.S.A., Canada, and Mexico, and many similar programs around the world.)

"I went with Wadman to extract from the director [of Plowshare] a written statement saying whether or not his program could continue within the terms of the

Why only nuclear rockets can master space

Rocket performance is ordinarily measured in terms of specific impulse, the length of time one pound of fuel can be made to deliver one pound of thrust. The higher the specific impulse, the greater the capabilities of the rocket. The following are key sample specific impulse values.

Best solid-fuel chemical rockets	Minuteman ICBM	280 seconds
Best liquid-fuel chemical rockets	Saturn booster	450 seconds
NERVA nuclear fission rocket engine	1970 model	850 seconds
Gas-core fission rocket		2,500 seconds
Orion small fission-bomb rocket	1960 design	4,000 seconds
Inertial fusion-propelled rocket	Winterberg design, 1980	100,000 seconds
Maximum possible performance Orion type H-bomb-propelled rocket		250,000 seconds

treaty as signed," Dyson relates. "The director was faced with a dismal choice. If he said yes, he was helping to ratify the treaty. If he said no, and the treaty was ratified in spite of him, his program would probably be closed down. Bureaucratic politics is a dirty game, even when the good guys are winning. We had him neatly skewered, and he knew it. He said yes, and we took his statement back in triumph to ACDA."

The treaty was ratified, and Plowshare, like Orion, did not survive.

NERVA moves along

But even while Orion was being sent to its grave, the other NASA nuclear program, the development of the NERVA fission rocket engine, not requiring atomic explosions, was making impressive progress. By 1965 it was clear, even to those who had pushed most heavily for a chemical rocket-centered program, that progress in space beyond Apollo would have to depend on nuclear power.

As Wernher von Braun told a 1966 symposium of the New York Academy of Sciences: "The technology now available will enable us to accomplish the manned lunar landing in Project Apollo. . . . For really serious manned exploration of the planets, however, to include manned landings, nuclear or electric propulsion will be required. And I would personally prefer a nuclear stage for a manned fly-by mission to Venus and Mars. And a manned Mars mission, which could be achieved by the mid-eighties, would very definitely require nuclear propulsion.

"The highly successful test firing program of the NERVA I engine lends confidence to the belief that a nuclear rocket stage can be designed."

The basic principle of the NERVA rocket engine, is quite simple. Supercooled hydrogen gas is pumped into the vicinity of a small solid-core nuclear reactor, which heats it to temperatures ranging from 4,000 to 5,000 degrees centigrade. The heated gas expands radically and is fired out the rear exhaust nozzle, with a specific impulse in the range of 800 seconds, about double that of the best possible chemical fuels. Since each pound of fuel creates twice the thrust of chemical fuels, for an equivalent mission, half the fuel weight could be eliminated and replaced with payload.

It was calculated that a NERVA-powered Mars roundtrip mission launched from Earth orbit would require an in-orbit starting weight of from one-half to one-quarter that of a chemically propelled mission, would make the trip in half the time, and would be fully reusable, after orbital refueling, for additional trips to anywhere in the solar system. And since the hydrogen gas used in such a system is only a working fluid (i.e., not a combustant) for an essentially permanently fueled nuclear reactor, it might ultimately be possible to create NERVA-like designs which could be "refueled" with gaseous substances readily available on Mars, the moons of the outer planets, or elsewhere in space.

Averell Harriman: geopolitician

Caspar Weinberger: cost accountant

Furthermore, the NERVA system was subject to considerable improvements. Beyond the solid-core NERVA rocket, whose temperature is limited by the melting point of uranium, lay the possibility of liquid-core or gaseous-core fission reactor rockets. The gas-core reactor, whose development was already absorbing 10 percent of the NERVA budget by 1970, would operate at temperatures of up to 25,000 degrees centigrade, its superheated uranium fuel contained as a plasma by magnetic fields. Such an engine could deliver specific impulses of up to 2,500 seconds and would be able to propel a 60-day roundtrip to Mars, as compared to 450 days for NERVA, or three years (approximately) for chemical rockets. Moreover, the development of gas-core fission reactors for use in space would also have made this tremendous energy source available on earth, with certain spinoff developments in the direction of the mastery of magnetic confinement techniques for controlled fusion and magnetohydrodynamic (MHD) coal processing.

The idea of NERVA had actually been conceived as early as 1955, and begun as a joint project by the Air Force and the Atomic Energy Commission, becoming a joint NASA-AEC project in 1958. Work on the engine was done by Aerojet-General, and the reactors were built by Westinghouse.

Between 1964 and 1970, twelve different models of the NERVA engine were built and tested. The last, the NERVA-XE, exceeded all expectations. The design specification called for producing a specific impulse to let 760 seconds; 850 was achieved, with 900 a possibility. To accomplish any one mission, one hour of total operation would be required; 14 hours were achieved, including 4 hours at full design power of 4,200 megawatts thermal. Work went ahead to build a NERVA engine with a thrust of 75,000 pounds ready to fly in space by 1978. The Mars mission was slated for 1982.

Enter Cap 'the Knife' Weinberger

America today would almost certainly be entering an age of nuclear-powered interplanetary space exploration and colonization if not for the hatchet job done on NERVA by Caspar Weinberger and George Shultz from 1971 to 1973. Despite the fact that $1.3 billion had already been spent on NERVA and only $750 million remained to be spent over a decade to complete the project, these two gentlemen, as the directors of the Office of Management and the Budget (OMB) initiated a series of budget cuts against the project that within three years wiped it out completely.

NERVA had been funded in 1970 with a budget of $88 million. To proceed as planned, the project needed a 1971 appropriation of $100 million. The OMB, with Shultz as director and Weinberger as deputy, proposed $30 million.

Senators and congressmen on the appropriate committees were outraged. The $80 million cut from NERVA would entail the laying off of two-thirds to three-quarters of the scientists involved in the program at Aerojet-General, Westinghouse, and Los Alamos, and entirely shut down the project test facility at Jackass Flats, Nevada. It would be impossible to ever assemble these teams again, a fact well known to NASA Administrator George Low, who nevertheless told the Senate Space Committee fatalistically that he thought the program would survive the cuts. "If I thought these economy measures meant the end of NERVA, I would of course never support them," Low said.

The Senators were amazed. Said Clinton Anderson, chairman of the Space Committee: "I know of no advanced technology program which has been more successful than the nuclear rocket propulsion program, and I do not understand the recommendation of the fiscal 1971 budget submission to reduce the level of the effort to a mere holding action. In fact, I would have difficulty understanding any reduction in this important program."

The Senate restored $30 million allowing NERVA to barely survive with a $60 million budget, but it was clear that unless there was a change in the wind soon, the program would not have long to live.

The OMB's budget-cutting policy was defended publicly to the aerospace community by Assistant Secretary of the Treasury for Economic Policy Murray Weidenbaum, a free-enterprise ideologue who later joined the antiprogress Heritage Foundation, and is now President Reagan's chairman of the Council of Economic Advisers.

Weidenbaum told *Astronautics and Aeronautics* magazine in March 1971, "I am amazed when scientists say that we must embark upon a major technological project on faith. . . . In technology, the prime consideration is the cost/benefit analysis of what technology is essential and important to the country at this particular time."

The next year, with Weinberger as OMB director, NERVA was cut down to a hopeless $19 million. The reason Weinberger gave: this would make NERVA "more manageable."

The following year Weinberger cut NERVA funds to zero. Outraged, Sen. Howard Cannon (D-Nev.) asked if this cut would make NERVA "still more manageable." "The ground rules have changed since then," NASA administrator Fletcher replied for the OMB. NERVA was finished.

Getting NASA back on track

Today, America finds itself confronted by the same sets of enemies who shut down Orion and NERVA. The liberal wing of the Democratic Party is striving to shut down nuclear power development altogether. Weinberger, now at the Defense Department, is putting a hold on the absolutely necessary development of a space-based laser or particle beam antiballistic missile system, while he tolerates the destruction of basic scientific capability. Meanwhile his junior replica at OMB, David Stockman, guts the budgets for NASA, for fusion research, for MHD, and for other high-technology areas. Stockman says there will be plenty of time to fund NASA and fusion adequately in later years; meanwhile, the program teams are being dismantled. He sounds eerily similar to Weinberger in 1972.

In 1966 the NASA budget amounted to 4.5 percent of the national budget. Had that percentage been maintained, NASA would have a $30 billion budget today, instead of its current $6 billion. In the middle to late 1960s people at NASA were analyzing designs for gas-core fission, and fusion-powered rockets. If NASA had been allowed to maintain its funding, and even 10 percent of its total budget deployed into these areas, we would today possess the ability to release unlimited energy through fusion and gas-core fission, for use both in space and on earth. Instead of staggering under the weight of $35 a barrel oil prices, energy would be virtually free. And millions now starving in the Third World because of high energy prices would be eating.

Congressional Closeup by Barbara Dreyfuss and Susan Kokinda

New Hoover commission proposed in Senate

Markup is complete in the Senate Governmental Affairs Committee on a proposal for a new "Hoover Commission." The original Hoover Commission examined federal policy-making and made major overhauls in the structure of the executive branch. The proposal was introduced in the Senate by Trilateral Commission member William Roth (R-Del.) and Sen. Tom Eagleton (D-Mo.). The major House sponsor is Rep. Richard Bolling (D-Mo.), whose many "reforms" of congressional structures have helped cripple constituency influence over Congress. Both House and Senate versions (H.R. 8 and S. 10) have bipartisan support; the House bill already has 101 cosponsors.

The commission would be composed of 18 members, six appointed by the President, six by the Speaker of the House, and six by the president pro-tem of the Senate. Senator Roth wants the commission to plan a far-ranging overhaul of federal-state-local government relations.

The person slated to oversee this plan for changing the constitutional system of U.S. goverment is former President Gerry Ford.

Last summer at the Republican national convention the Trilateral Commission attempted to make Gerry Ford a co-President through a Reagan-Ford ticket. One of the major responsibilities that co-President Ford was to have was the reorganization of the U.S. government. Unable then to get the Republican Party to accept such a blatant junking of the Constitution, the Trilateral Commission is now strongly pushing Trilateral member Roth's bill.

Roth is hoping that the proposal will actually pass the Senate before the August recess. House action is expected to follow soon after.

Lifting of state usury ceilings proposed

Senator Richard Lugar (R-Ind.) introduced the Credit Deregulation and Availability Act of 1981 on June 20 in an effort to eliminate state ceilings on interest rates charged to consumers. Joining Lugar as cosponsors were Senate Banking Committee Chairman Jake Garn (R-Utah), and Senators William Proxmire (R-Wisc.) and Alfonse D'Amato (R-N.Y.).

The bill, S. 1406, is actually an amendment to the Depository Institutions Deregulation and Monetary Control Act of 1980. Lugar's proposal would completely preempt all state usury ceilings on consumer credit and eliminate the federal ceiling that controls the rate of interest that can be charged by federal credit unions. States do have the right, if they act within three years of the bill, to reject the federal preemption.

In introducing the bill Lugar and Garn both claimed to be concerned about the lack of available credit for industry and agriculture and stated that their bill would make it profitable for banks to lend to consumers and make it easier for these banks to attract funds themselves. Instead of forcing the Federal Reserve to lower interest rates, thus freeing up capital for the savings banks, these senators are proposing sky-high interest rates as the answer to the credit crunch.

The bill has been referred to the Senate Banking Committee, and the Financial Institutions Subcommittee is holding hearings on the measure July 9 and 15.

Global 2000 advocate attacks Secretary Watt

The leading congressional supporter of the depopulation doctrine of the *Global 2000 Report*, Rep. Richard Ottinger (D-N.Y.), has vociferously joined the zero-growthers' campaign against Interior Secretary James Watt.

In a June 10 statement, Ottinger called on other members of Congress to join with him and the Friends of the Earth in signing a petition calling for the dismissal of Watt. In extraordinarily harsh language for the House floor, Ottinger declared, "He [Watt] has already done irreparable damage—he must be stopped. Secretary Watt has little regard for our precious environmental resources. He does not see the exploitation of our air, water, and land for monetary gain as an injustice."

Ottinger includes in his statement a Sierra Club indictment of Watt, which includes much handwringing for the fate of the caribou and other wildlife. The depopulation doctrines which Ottinger supports, if implemented, would mean the death of 2 billion human beings by the year 2000.

Hearing on Libya skirts major issue

Participants in a Senate Foreign Relations Committee hearing on Libya danced around the central issue involving Libya—Libya's role in deploying left and right terrorists on behalf of the Propaganda 2 Masonic lodge in Italy. The July 8 hearing was held jointly by the Subcommittee on Africa, and the Subcommittee on the Mideast, chaired respectively by Senators Nancy Kassebaum (R-Kans.) and Rudy Boschwitz (R-Minn.). Testifying for the administration was Assistant Secretary of State for Africa Chester Crocker. The hearing was called to review Libya's relations with the United States and its role in Africa, the Mideast and world affairs.

Crocker's statement focused on Libya's interventionist role in Africa and its support for international terrorism, singling out the Soviet Union as the major international supporter of Libya's activities. Crocker said, "Libya and the Soviet Union share many common goals in Africa in what might be called a 'marriage of conveniences.'"

But when Kassebaum asked Crocker which NATO countries supply arms to Libya, Crocker had a sudden lapse of memory and had to be reminded that Italy remained a supplier of arms to Colonel Qaddafi. However, that line of questioning went no further and ignored the Propaganda 2 (P-2) scandal which has brought down a government in Italy and has revealed P-2's role in deploying and funding both left- and right-wing terrorists, often through Libya. Both the P-2 lodge and Libya have been implicated in the recent attempted assassination of Pope John Paul II.

Crocker is a protégé of Henry Kissinger, one of the Americans accused of direct ties to P-2.

Senate group issues mixed Mideast report

A delegation of senators who visited the Middle East during April has issued a report on the trip with two rather divergent assessments of U.S.-Saudi relations, representing the views of the two delegations—one led by Senate Majority Leader Howard Baker (R-Tenn.) and including Senators Baucus (D-Mont.), Boren (D-Okla.), Pryor (D-Ark.), Garn (R-Utah), and Simpson (R-Wyo.) and one led by Sen. James McClure (R-Idaho) and including Sen. Mark Hatfield (R-Ore.). The two delegations met in Saudi Arabia and then went their separate ways.

The Saudi trips occurred only days after Secretary of State Haig left Saudi Arabia after an official visit. The Baker-dominated portion of the report appears to be a carefully written justification for Haig's assessment and policy goals, especially including a U.S. military presence. The Baker report states, "It was noted that Saudi Arabia 'does not object' to [base] agreements with other countries, and, said another, an American presence is welcome in the area." The report added the delegation's perception that the Haig visit "encouraged" the Saudis and that the Saudis may be softening on such things as relations with Egypt and the threat posed by Israel to the region.

That slant is not surprising since Baker and his delegation ended up in Saudi Arabia on orders from Haig, according to sources. Originally, McClure and Hatfield, who are both distingished by a rational approach to Arab realities and who have both been outspoken about Israeli adventurism, were scheduled to visit Saudi Arabia on their own. Haig apparently did not want McClure and Hatfield undercutting his just-completed Saudi trip and urged the Baker delegation to join McClure and Hatfield in Saudi Arabia.

Baker, as Senate Majority leader, was hence the leader of the joint delegation.

The McClure-Hatfield section of the report stressed that "they [the Saudis] are firmly committed, however, to protecting themselves from external and internal threats and, while believing that close ties with the United States are in their best interests presently, will be forced to reevaluate their foreign relations if their survival becomes in jeopardy. Resolution of the Palestinian problem is, in their opinion, a matter involving their survival."

Senator Boren of Oklahoma, a member of the Baker delegation, added his view that "I did not feel that the officials of the government of Saudi Arabia indicated any degree of positive reaction to the presence of American facilities anywhere within the region."

National News

Trilateralists push 'reorganization'

The Reagan White House has decided to form a new "Hoover Commission" to reorganize the U.S. government and will name former President Gerald Ford to head it.

The commission is the brainchild of planners associated with the Trilateral Commission, including its chairman David Rockefeller and was discussed last summer at the GOP's national convention. Though the plan to make Gerald Ford a "co-President" fell through at the convention, one of co-President Ford's major tasks was to make a sweeping reorganization of all the branches of the U.S. government.

The legislation creating the new commission has already been drafted and submitted by Trilateral Commission member William Roth, Republican senator from Delaware.

Block threatens farm bill veto

On July 6, as the 1981 Farm Bill was making its way to the Senate floor, Agriculture Secretary Block issued a warning that he would recommend a presidential veto of the four-year measures if administration wishes on the dairy price support program and several other issues were rejected. The administration insists that dairy price supports be dropped from their present level of 80 percent of parity to 70 percent of parity, and that the adjustment be made once instead of twice a year.

While the Senate Agriculture Committee has deferred to the administration's wishes on the dairy issue, it is certain that there will be a fight on the Senate floor. Senator Melcher (D-Mont.) almost succeeded in amending the April 1 price adjustment legislation to put a quota on casein imports, to offset the potentially devastating impact of reducing price support levels.

The administration is trying to head off the dairy blowup by proceeding with an investigation of casein imports promised in April, but many observers view this as a ruse that may well backfire.

The farm bill was due to be brought to the Senate floor after the July 4 holiday, while floor action on the House bill is not expected until at least late July and probably late August. The House bill is still way over David Stockman's budget ceiling, and differs substantially from the Senate version.

MX missile to be shelved?

A panel appointed by Secretary of Defense Caspar Weinberger to review the MX missile program has failed to reach a decision by the July 1 deadline set for it by the Pentagon.

Previous reports indicated that the panel, known as the Townes Commission after its head, nuclear physicist Charles Townes, would recommend the Carter administration plan for basing the proposed missiles in mobile, underground shelters. Instead, sources claimed, the group would suggest that the new ICBM be installed in hardened silos, including existing Minutemen silos, and be protected through a conventional, low-altitude antiballistic missile (ABM) system.

The fact that the panel—which briefed Weinberger on their findings at a meeting over the July 4 weekend—failed to come up with a final proposal on the Ms has sparked speculation that the administration may scrap the new missile entirely. The *Los Angeles Times* reported July 7 that the Townes Commission members were "fascinated" by proposals from some strategists for substituting thousands of small missiles—Midgetmen—for the massive MX. Several people associated with Boeing, developer of the Midgetman, sat on the Townes panel, including David Packard.

The Council on Economic Priorities has just released the preliminary results of a Rockefeller-funded study of the MX which calls for abandoning the missile program for the ineffective Cruise.

'Energy emergency' a prelude to controls?

The Department of Energy (DOE) has just formed a special assistant secretary post to coordinate emergency preparedness measures in the event of an energy crisis. The move was recommended by Sen. Charles Percy (R-Ill.), a prominent Council on Foreign Relations member, and former DOE official John Sawhill, architect of the Carter administration's synfuels policy and author of the Trilateral Commission's energy policy report. The new emergency division has been working with a Senate group led by Percy and with the National Petroleum Council (NPC) to draft a program for legislative approval by Sept. 30, when the current Emergency Allocation Act expires.

The NPC's special subcommittee, headed by Clifford Garvin of Exxon, has prepared a report recommending, in the event of a cutoff of up to 4.6 million barrels a day of oil, that the "free market" be allowed to drive up prices, while the government decides who receives oil supplies.

California minority leader calls for Brown to resign

Following a series of scandals, Republican William Campbell, minority leader of California's State Senate, has called for the immediate resignation of Gov. Jerry Brown.

At the beginning of this month, Brown appeared at a fundraiser held for him by pornography czar Milton Luros, who has been indicted five times and convicted once on pornography distribution charges. Three months earlier, Brown had appointed Luros's son to a municipal judgeship, as the Los Angeles

Daily News emphasized July 9.

At the same time, the state Fair Political Practices Commission has called for criminal investigation into evidence that Brown's aides perjured themselves, altered and destroyed documents, and withheld evidence to thwart a probe of improper political activities by Brown's state office.

Assassination danger mounts at Ottawa

President Reagan faces a threat of assassination should he attend the July 20-21 Ottawa summit meeting under security arrangements now sabotaged by the Canadian government, according to a press release issued by *EIR* founder Lyndon LaRouche. It was LaRouche's second warning in two weeks concerning a "live hit" operation against the President.

The Canadian government demands that all Secret Service weapons be turned in at the airport when Reagan arrives for the Ottawa summit. Only the Royal Canadian Mounted Police—who were notoriously lax during Reagan's visit to Canada in March—may be armed. "Reagan is going in there totally unprotected," one American security agent told the *New York Post* July 3.

In an earlier release, Mr. LaRouche warned that "financially powerful families" committed to a one-world neo-Malthusian order were planning such a crime, because, "whatever Mr. Reagan's shortcomings, Ronald Reagan cannot stomach outright surrender of the sovereignty of the United States to a gang of international kooks behind the Trilateral Commission."

In the news release, LaRouche emphasizes that, apart from essential on-the-ground security arrangements, "political flanking attacks" against the responsible forces to increase the penalty incurred by successful assassination are the key to the President's security at this point.

"The source of the danger is a collection of powerful 'families' centered on the second capital of Byzantium, Venice. These forces . . . are presently determined to establish a new world order, a one-world neo-Malthusian world-federalist order. . . . This is also the commitment of the British Royal Family, as Prince Charles reflected in his Washington, D.C. 'small is beautiful' remarks.

"These 'families' . . . 'neofeudalist' in outlook, proceed from a deep hatred of the institutions of the modern nation-state republic and technological progress. They are committed to a 'postindustrial society.' . . . Consequently, the optimal security for the President requires political measures that will cause Anglo-Venetian forces to be crushed."

LaRouche recommended both a political house-cleaning in Washington, and immediate economic measures featuring lowered interest rates, remonetization of gold, and tax, banking and credit reforms that would "collapse the relative monetary and political power of the Anglo-Venetian 'families.' "

"Don't merely sit waiting to fend off assassins," he concluded. "Get out of the foxholes and hit them on the flanks."

Will 'futurists' take over the GOP?

The Republican National Committee has prepared a report, sponsored by RNC deputy director Charles Bailey, recommending that the committee establish a "futurist desk" and transform the party into organizations of grass-roots volunteers to replace government programs. Additional proposals include an "information society" communications package using a "new language" to transmit "the New Beginning" to voters, and a mass-market magazine "not to present the party line, but rather to 'let a thousand flowers bloom' in the Republican ideas garden."

This combination of Aquarian and outright fascist proposals is the result of a series of profiling sessions of 75 predominantly county-level GOP leaders, conducted in February by Edward Mye of Princeton Targeting and Washington consultant Tony Payton.

Briefly

● **LYNDON H. LAROUCHE,** Jr., in an address July 12 at Princeton, Wisconsin, stated: "I now announce my availability to become a candidate for the 1984 presidential nomination of the Democratic Party." LaRouche, *EIR*'s founder, chairs the advisory board of the National Democratic Policy Committee. He stated that "after examining the situation in Washington at very close range, I made two decisions": to launch an educational campaign to expose the direct connection of Trilateral Commission members to the fascist P-2 lodge in Italy, and to "preempt national leadership of moderate Democrats" and their "traditionalist business, labor, farmer, and minority constituencies."

● **HENRY ROWEN,** named by Bill Casey to head a new National Intelligence Council at CIA, is one of the founders of the Delphi technique, Rand's "consensus manipulation" method. An Oxford-trained economist, Rowen served under Defense Secretary Robert McNamara when the DOD undercut U.S. military capabilities, and has shaped current proposals for energy emergency measures.

● **MAXWELL TAYLOR** argues in a June 30 *Washington Post* op-ed that the U.S.S.R. will never launch all-out war, and the U.S. should focus on "strengthening conventional forces."

● **WILLIAM O'NEILL,** governor of Connecticut, signed a law July 7 legalizing the consumption of marijuana in hospitals and homes on any pretext, so long as a doctor's approval is obtained.

● **ROGER STONE,** a founder of NCPAC, gave a July 4 weekend party in honor of Calvin Coolidge, a British-controlled President who helped pave the way for the Great Depression. An honored guest was Roy Cohn, attorney for the New York drug mafia.

Energy Insider by William Engdahl

The Northwest nuclear wars

The combination of insane interest rates and antinuclear solons could torpedo vital new energy construction.

Well-informed sources report that the Reagan administration is now drawing up plans to break the political stalemate that has all but destroyed one of our nation's most vital strategic resources—nuclear power plant construction. If, as has been rumored, the President plans to announce this new strategy at the July 20 Ottawa heads of state economic summit, it would be a big step toward reversing one of the most destructive aspects of the Carter legacy.

Recent events that occurred in Washington State and on Wall Street, however, confirm what we have said many times—until the present usurious interest-rate policy of the Federal Reserve is drastically reversed, the utilities aren't going to rush to commit themselves to new power plants.

Three weeks ago, Robert L. Ferguson, managing director of the nation's largest municipal power utility, the Washington Public Power Supply System (WPPSS), recommended a one-year construction moratorium on WPPSS nuclear units 4 and 5, declaring that the present borrowing on long-term bond markets "presents a very, very difficult problem in today's financial market." The WPPSS situation should be examined closely for its national implications.

In the early 1970s, a group of 23 smaller public consumer-owned utilities formed the joint operating agency WPPSS to operate five nuclear power plants in Washington State. The utilities estimated in 1977 that total cost of construction, with "pre-Volcker" interest rates and inflation, would be slightly less than $7 billion. Now, because of astronomical interest-rate costs on long-term bond borrowing, combined with absurd regulatory delays from the Nuclear Regulatory Commission and completion schedule delays, the final current cost estimate will now run closer to $17-24 billion by the 1988 estimated completion date for WPPSS-5.

Under a complicated net-billing arrangement, the Bonneville Power Administration—the Northwest's federal electricity marketing agency (see *EIR*, March 24, 1981) is committed to purchase all the power from units 1 and 2 and seventy percent of unit 3. But BPA can't commit itself for units 4 and 5, and spread the front-end cost among all the ratepayers in Washington, Oregon, Idaho, and Montana without congressional okay.

So, an antinuclear congressman from Eugene, Ore., counterculturalist Jim Weaver, is trying to revoke the existing net-billing arrangement. In a recent exchange between Weaver and Richard H. Bornemann, executive director of the 1,000-member Oregon Energy Council, a privately funded group seeking to ensure adequate energy supplies for Oregon, Bornemann pointed out that Weaver's strategy would have an economically crippling impact on the entire Northwest region. The politically ambitious Weaver, meanwhile, has announced he plans a lawsuit to declare the BPA net-billing arrangement illegal, and has gone to Wall Street to huddle with bond investment analysts to discourage potential buyers of WPPSS bonds.

Weaver's activity and the publicity his antinuclear antics have received has helped defer units 4 and 5. Now, Moody's has announced it has dropped its bond rating for WPPSS 4 and 5 down two grades from its A1 rating, a move that some Wall Street sources feel could make those plants impossible to finance in the future.

I did some probing into the impact permanent loss of WPPSS 4 and 5 would have on the region's economy. The Pacific Northwest Utilities Conference Committee (PNUCC), the regional body that makes electricity-demand forecasts for the area's utilities, has just released a revised demand projection. Their analysis shows that by 1988, if units 4 and 5 are not producing power, the industrial Northwest will have a potential power deficit of as much as 3,000 megawatts in a year of water shortage. That's the equivalent of total electricity needs for a city about the size of Chicago.

As the Oregon Energy Council's Mr. Bornemann pointed out in a letter to Weaver, "There is not a single public agency whose electricity-demand forecast shows the region to be free from alarming power-supply deficiences by the end of the 1980s if all five of these plants are removed from the resource base."

But that is exactly what Weaver is hell-bent on doing. Of course, if Weaver is successful, he can call the ensuing economic collapse "energy conservation."