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October 6, 1981

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Executive Intelligence Review
(ISSN 0273-6314) is published weekly
(50 issues) except for the second week
of July and first week of January by
New Solidarity International Press Service
304 W. 58th Street, New York, N.Y. 10019.
In Europe: Executive Intelligence Review,
Nachrichten Agentur GmbH,
Postfach 1966, D. 6200 Wiesbaden
Executive Directors: Anno Hellenbroich,
Michael Liebig
Circulation Manager: Peter Stalleicher
Copyright © 1981 New Solidarity
International Press Service
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in part without permission strictly prohibited.
Second-class postage paid at New York,
New York and at additional mailing offices.
Subscription by mail for the U.S.:
3 months—\$125, 6 months—\$225,
1 year—\$396, Single issue—\$10
Academic library rate: \$245 per year

EIR

From the Editor

We present this week two indispensable pieces of intelligence on South Asia. First is Asia Editor Daniel Sneider's exclusive interview with Mrs. Indira Gandhi in New Delhi, which relays the thinking of the Indian prime minister about India's economic present and future, and the state of North-South relations. Second is the exposé assembled by Uma Zykofsky and Marilyn James implicating Pakistani military ruler Ziaul Haq and his regime in the heroin traffic now flooding Europe and the United States.

India is the largest democracy in the world; a bolster against the expansion of Chinese communism; and a repository of scientific and technological development for the Third World and, indeed, the advanced sector—possessing the third largest total of scientific manpower in the world. Pakistan is a bloody fundamentalist dictatorship suppressing its intellectuals and promoting the "Islamic bomb." Yet U.S. Secretary of State Alexander Haig—in the tradition of Henry Kissinger, who murdered Pakistan's republican leader Z. A. Bhutto and imposed Zia on the nation—is promoting billions of dollars worth of aid to Zia's regime, while attempting to undercut India's nuclear-energy and economic development, and building up Peking's military capacity.

A very strange idea of U.S. self-interest; but at the same time, as David Goldman outlines in our Economics section, Donald Regan's Treasury Department is making every effort to butcher the potential markets in the Third World and the political stability of any leader who does not accede to the *Global 2000 Report*/Brandt Commission program of enforced backwardness, resource looting, and depopulation.

This policy track is not confined to the so-called Third World. Our Special Report by correspondent Umberto Pascali documents not only the intimate ties to terrorism and drugs maintained by the Italian Socialist Party and its leader, Bettino Craxi, but the extent to which the State Department is promoting Craxi as the next prime minister—just as Winston Churchill, U.S. social democrats like John Dewey, and the Jesuit-controlled elements in the U.S. Catholic Church supported Mussolini during and after his march to power.

The fact that the victim will be the economic and moral strength of a NATO ally has presumably escaped the attention of Congress and the White House.



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Note: *Middle East Report* author Robert Dreyfuss was on special assignment this week.

Correction: Italian Interior Minister Rognoni was incorrectly identified as a Socialist Party member in our Sept. 22 *International Intelligence*. He is a Christian Democrat. In our Sept. 29 issue, due to an editorial error, Henry Fowler was termed author of *Diplomacy in a Crowded World*, written in fact by his associate George Ball.

Regan's 'modest proposal' for the Third World

by David Goldman, Economics Editor

Treasury Secretary Donald Regan's Sept. 23 press conference in advance of this week's International Monetary Fund annual meeting in Washington would be called in military terms a *flight forward*, that is, a recognition that existing options have failed in the form of a suicidal lunge at the opposition. Nothing less is threatened by the administration's outburst than a 10 percent reduction of world trade over the next quarter or two.

Regan announced that "there is already too much liquidity sloshing around in the international markets," and too much lent to the developing countries in particular, and that his "answer is 'No!'" to the proposition of providing more funds to the International Monetary Fund itself. In particular, Regan announced that the United States would oppose the recently negotiated \$5.8 billion loan proposal for India as "extravagant," and attempt to force middle-income countries out of International Monetary Fund and World Bank lending programs altogether.

And, in response to a question from *EIR* correspondent Stanley Ezrol, the Treasury secretary said that the United States supported making reduction of population growth a condition for obtaining funds from the IMF, a policy outlined two months ago by IMF Managing Director Jacques de Larosière. Although American officials have expressed such support in private, Regan's

affirmative answer Sept. 23 is the first such on-record admission from the administration's chief economic policy spokesman, and a bombshell for the end-October World Development Summit meeting at the Mexican resort of Cancún.

Population club

In effect, Regan has announced a Swiftian proposal by which the developing nations would cover their estimated \$96 billion current account payments deficit for 1981 by eliminating large sections of their populations. Finally, the "link between monetary and population policy" described in an interview this publication released from former Treasury Secretary Henry Fowler is on the official agenda. For the rest of us, as well as for the developing sector, the results could be horrifying. The declaration is not surprising coming from Mr. Regan, whose main activity as an officer of the Charles A. Merrill Foundation for the past twenty years consisted of funding population control programs, but it jars with the objectives President Reagan stated upon taking office.

The monetary aspects of the problem were treated exhaustively in this publication's Aug. 11, 1981 cover story, "From Dollar Crisis to Economic Collapse," which examined the global flow of funds and concluded

that the \$96 billion deficit-financing requirement of the developing countries is unsustainable. Most of this represents debt service; on balance no more than \$30 billion this year consists of merchandise trade deficits, including oil imports. Every 1 percent rise in dollar interest rates has added roughly \$3 billion to the annual debt-service charges of the Third World; as Morgan Guaranty Trust points out, a 1 percent rise in interest costs is more deleterious to Third World country balance sheets than an identical rise in the oil price.

Even the \$96 billion figure admitted by the International Monetary Fund ignores perhaps \$30 billion in interest charges on these countries' short-term debt. In all, the impact of the "Volcker shock" to the international markets has forced a 35 percent p.a. rate of increase in total Third World indebtedness, about the same as the rate of increase of corporate indebtedness in the United States. The difference is that loans to U.S. corporations represent viable credits relative to high-interest debt-refinancing loans to the Third World, which have no hope of repayment.

Even to make such loans, the commercial banks are forced to create fictitious "book money" on the Euro-dollar market, whose absence of reserve requirements permits banks to multiply a given deposit base into a limitless amount of book loans. Particularly since the Arabs shifted perhaps \$60 billion of funds from U.S. banks abroad to their own and to European and Japanese banks following the November 1979 Iran assets freeze, American banks have had to stretch themselves thin on the interbank lending market to raise funds necessary to make such loans.

So, as Treasury officials reported in interviews, the banks and Treasury got together to demand that the developing countries take the difference out of their imports.

What this means is evident from statistical material summarized in the International Monetary Fund's July 19 "World Economic Outlook for 1981." Less than one-quarter, or \$24.1 billion, of the non-oil developing countries' current account payments deficit this year will appear on the account of merchandise trade; the rest is shipping, insurance, and, above all, debt service. For example, Latin America—the major target of the proposed lending cutoff—has a current account deficit for this year of \$39.9 billion, the IMF estimates, but a trade deficit of only \$9.2 billion.

From the standpoint of the industrial nations' trading interest, the relatively small trade deficit of the developing countries represents the results of seven years of *import austerity* due to high oil prices. As a percentage of total import costs to the Third World, fuels have risen from 9 percent in 1960 to 20 percent in 1969. In the case of Brazil, the single largest developing-country borrower and the victim par excellence of the

new Treasury policy, fuels account for 33 percent of imports.

There is little fat to cut from these countries' imports, even if all "luxury goods" (automobiles, consumer durables, and so forth) were eliminated. To cut any significant amount from the current account deficit, e.g., the 20 percent in real terms over the next year the Treasury is talking about, would mean the *political dissolution* of most Third World governments, and a sharp reduction of living standards in countries where much of the population now lives at the survival level. Whether or not the IMF put in place birth-control programs as a condition for lending, it would accomplish the reduction of population through the Apocalyptic Horsemen.

Since Brazil, Argentina, and other major debtors depend on a growing export volume to meet their debt service obligations, the shock to their economies would result in massive defaults within a year of this policy's introduction, even if all the import adjustments were to be made according to the bankers' specifications.

Superficially, the banks would appear to have the upper hand: After all, where would Brazil, Argentina, and Mexico go for credits if they failed to accept the conditions? The reality is different: The banks are acting out of their own desperate, underlying weakness.

The major international source of liquidity, the OPEC nations and Saudi Arabia in particular, have no interest in this program. The two largest exporting nations, Germany and Japan (who together account for almost 30 percent of world exports) have no interest in it. Neither, for that matter, does the Soviet Union. The major developing country importers, e.g., Brazil, Mexico, Argentina, India, Indonesia, the Philippines, and Nigeria, have some interesting negotiating partners.

Technically, all the above list of nations need do is monetize their gold reserves and issue long-term, low-interest gold-backed credits to maintain and enhance their export flows. Jerry-rigged political arrangements are already at work to this effect; for example, Japan's \$20 billion increase in exports this year has a great deal to do with the placement of Arab deposits in foreign branches of Japanese banks, whose external assets grew from \$60 billion 18 months ago to \$110 billion at the end of the first quarter of 1981.

Unless the rest of the world is prepared to tolerate the steepest drop in international trade since the Second World War, comparable to the worst trading years of the early 1930s, we will see arrangements of this kind proliferate around the boundaries of America's declining influence in world economic matters. Moreover, these decisions will be made rapidly: \$40 billion of the Third World deficit is still to be financed in the last quarter of this year, and the crisis of decision will emerge within weeks.

Treasury: 'take away the credit punchbowl'

From an interview with Charles Dallara, executive assistant to Marc Leland, assistant secretary of the Treasury for international affairs, provided to EIR by banking sources.

Q: Doesn't Treasury Secretary Regan's call for a cut in world liquidity tend to destabilize current delicate LDC debt negotiations, and might it not endanger U.S. bank creditors?

A: Certainly not. But the banks approve of what we say.

Q: But commercial bankers from David Rockefeller to Walter Wriston have warned all year that the private banks can no longer continue huge international lending, and have asked more, not less, government lending.

A: True, but not at all inconsistent with what we're saying. Your mistake is to assume that there is a fixed financial Third World requirement for credit. The fact is, they are going to have to bring down their demands for net credit. The secretary has discussed this with the banks, and he is saying, in concert with the banks, that what is needed overall is for the Third World to reduce its borrowing requirements. If we get an overall such reduction, the percentage of government finance, such as the IMF loans, may even increase in total, relative to private finance—but the amount will fall.

The banks understand this. They much prefer this, because they believe there is a worldwide problem of too much deficit spending. The U.S. and European governments are running up big deficits, and the Third World is running up too big a deficit. The deficits must be reduced to stabilize the system. So the Third World will have to make adjustments. They will have to import less. They will have to spend less.

We're using the muscle of the U.S. government to do what the banks would like to see anyway.

Q: I can't believe that you can succeed politically with the LDC governments. How can they reduce their world borrowing; they'll have riots in the streets.

A: We believe it can be done, because it must be done, and contrary to what you say, we already see a lot of cooperation from LDCs at the IMF. India will have to be more cooperative.

Q: You mean you can reduce the \$90 billion LDC borrowing figure for 1981 in absolute terms?

A: We think so.

Q: Many countries have not even borrowed most of their 1981 needs yet, they're waiting for interest rates to fall.

A: That's true enough.

Q: I've heard estimates that out of \$90 billion, maybe \$40 billion still remains to be borrowed in the fourth quarter alone—how can that sort of bunching up possibly be cut?

A: Turn that on its head. That's our leverage—now they're stuck trying to borrow all that at once. So turn it on its head—because they simply can't borrow all that at once. We're using this situation, we're using it to say that they will just have to borrow less, they'll have to cut that request by \$10 or \$20 billion, or whatever.

From an interview with Marshall Case, executive assistant to Meyer Rashish, undersecretary of state for economic affairs, provided to EIR by a journalist.

Q: Isn't Reagan going to cause problems for the banks?

A: We're just doing what the Fed did here at home: we're taking the punch bowl away before the party gets too merry. We're helping the banks to impose discipline. We're creating a situation where the banks can't lend—and they don't want to.

Our view first of all is that oil consumption, and so oil import bills, are going to be a lot smaller. The OPEC surplus is going to fall to \$50 billion or under next year [from over \$80 billion this year—ed.]. We're going to create a situation where we force countries simply not to undertake the debt. We already have test cases, like Turkey, where these countries are starting to cut their imports.

Our aim, for next year, is to actually reduce that LDC current-account deficit in absolute terms for the first time in history. We don't care if it falls [from \$90 billion] to only \$80 billion, the point is to break the pattern.

Q: And you hope to do this by import cuts?

A: Right. They'll have to undergo domestic adjustment.

Q: But I can't believe you can get those kinds of cuts out of Costa Rica, Bolivia, or whatever.

A: Right, nor out of Poland. Those are the basket cases, and they just serve us in their debt-rescheduling negotiations, as useful examples for others. The big dollars will have to be taken out of the big spenders—Brazil, Argentina, Mexico.

Q: What about that big loan the IMF gave India?

A: That's another good example. The IMF staff recommended it, but the U.S. hasn't had a chance to take it apart yet. We just can't have those levels of borrowing and spending going on.

Chile model ahead for Social Security?

by Leif Johnson

When Congress reconvened Sept. 9, the Senate Finance Committee sat looking at a welter of Social Security cuts and borrowing schemes amid a silly debate between the short-term "patch it up" advocates and the holders of the "long view" who are trying to jangle the public with the doom of the entire Social Security System some time after the year 2020.

Two significant cuts have already been made. In the Aug. 13 budget bill, Social Security benefits to students whose parents are deceased and the minimum \$122 a monthly benefit were eliminated. Beyond these specific actions—whose results can only be less schooling and more welfare cases—chaos reigns.

Health and Human Services Secretary Richard Schweiker's May 12 package of draconian cuts is still the Reagan administration's official program. House Ways and Means Social Security Subcommittee Chairman Jake Pickle (D-Tex.), advised by the American Enterprise Institute financial oligarchs, has offered a detailed cure for short- and long-term problems that means cuts now and more cuts in the future. Sen. Patrick Moynihan (D-N.Y.), an advocate of depopulation, is pretending to defend the elderly. House Majority Leader Dan Rostenkowski (D-Ill.), who seems genuinely confused, is waiting for House Speaker Tip O'Neill to pass along a program drafted by the Boston Brahmins who help O'Neill tie his shoes.

The confusion is quite intentional. As the press has been chiming for six months, the public is finally aware of the problem, and the taboo of tampering with the hard-won system of security for our retired workforce has been broken. The purpose of this deliberate confusion is therefore to soften the public for the shock of the bottom line: junking the Social Security System entirely and replacing it with a "private system" run by banks and insurance companies. The model is the private social-security system recently implemented by the military dictatorship in Chile (see box).

In the April/May 1980 issue of *Council Review*, the magazine of the American Council of Life Insurance, Stanford G. Ross, a former U.S. Social Security commissioner and chairman of the Advisory Council on Social Security to the Carter administration, raised the issue of "privatizing" Social Security:

"I would like to see reform take place in the entire context of income security for this country. We should

look at all the myriad government programs dealing with income security. We should compare what we are doing through the government with what we are fostering in the private sector through private plans and individual savings."

Ross advocated a double-decker system in which the employee would make payments both to the government system for a minimum benefit and also to a private system for supplemental income. "We need to put tighter boundaries around the federal program so the individual is encouraged to exercise personal responsibility for financial management of his or her affairs," Ross wrote. In other words, hand the contributions over to the insurance companies and banks and reduce the government system to a minimum. Like the private pension system, this would give the private companies a pool of several hundred billion dollars. This is called stimulating personal savings.

'Junk Social Security'

This proposal was made more explicit by Peter Ferrara of the elite New York City corporate law firm Cravath, Swaine and Moore. In a study he wrote for the Cato Institute, a think tank for the Aquarian Age Libertarian Party, he proposed that all workers under 40 place their social security in private plans while workers between 40 and 65 would pay into both private and government funds. Since the government plan could not meet payments, it would then take money from general tax revenues. Ferrara does not say so, but under this kind of "reform" workers would be paying twice, once to the private plan and once again through federal taxes.

In responding to one of the typical confusion stories, this one appearing in a *Wall Street Journal* editorial, David Boaz of the Cato Institute praised the *Journal* for the confusion: "In your April 3 editorial about Social Security you correctly pointed out that more and more working people are beginning to chafe at the system's rising taxes and to realize that the system is in grave financial trouble. . . . The Social Security is near bankruptcy. Its own trustees warn that it will run out of money in 1982 or 1983."

The *Journal*, David Boaz, and other doomsayers are willfully mistaken. Even under the worst-case assumptions of high unemployment and high inflation, the fund comes only a few percent short of matching income with payments. For example, the Social Security trustees projected that in 1981, assuming an 8.3-percent unemployment rate and a 12.8-percent inflation rate, the Social Security fund will receive \$140 billion and will pay out \$145 billion, a deficit of \$5 billion in a government budget of more than \$600 billion—less than 1 percent of the federal budget. Even by 1985 the trustees, who assume 9.7-percent inflation and 8.0-per-

cent unemployment rates in that year, project an income of \$228 billion and a payment of \$246 billion, which by that time will represent an even smaller percent of the federal budget.

The "bankruptcy" referred to by the panic mongers is that without a small additional funding the system's reserve will drop below the 12 or 13 percent margin, currently about \$25 billion, required to maintain pay-

ment flow under the current bookkeeping system of the Social Security system.

The "confusion over what to do with Social Security" is intended to cover a "private-enterprise" grab of the cash flows associated with the current system. If there is anything wrong with Social Security, it is that the same people who want to grab the Social Security cash flows are currently ruining the American economy.

How the Friedmanites rigged Chile's system

The Chilean system for social security, which went into effect May 1, 1981, is very simple. As of that date, the government no longer extends old age and health benefits to new labor force entrants and allows present workers to "opt out" of their government coverage into private insurance programs run by Pension Administration Companies (AFPs) set up by banks and insurance companies. Of the 13 such companies set up to solicit pension insurance, half have minority control by foreign companies, including Insurance Company of North America, Aetna Life Insurance, and Lazard Brothers Co., Ltd. of London. These companies solicit workers through a massive advertising campaign that misleadingly promises they will actually receive higher income from the private plans.

If a worker chooses a private insurance plan, he must pay his 17 percent pension and health tax to that company, which then invests the proceeds. The employee's former payments to the government system are given over to the private plan at the date the employee chooses to retire.

When the worker retires—and he is free to choose the year—he will then go to his private insurer and, using the accumulated savings in his accord, buy an annuity from the company. If the "market" accepts his bid for an annuity, he will receive it. If not he must either reduce his terms or continue working until he can get a better annuity or the "market" changes in his favor.

There are two immediate consequences of the new Chilean system. First, the government loses between \$1.5 and \$2 billion in revenue annually that is given over to insurance companies and banks. In the case of Chile that money will be used for speculation on raw materials and the government debt. Second, since about half of the work force, mostly younger workers,

went into the private system, the government is left with the obligation of paying pensions and health benefits to the older workers who are retiring relatively soon. Without the income from the other half of the work force, the government will immediately face an enormous cash crisis, which will force it to sell treasury bills to the private insurance funds. As owners of a great deal of government debt, the private insurance funds will then force the government to curtail social expenses, including the promised social security payments. In Chile, whose eight-year-old military dictatorship run by General Pinochet has murdered thousands in a nation of 11 million, budget cutting does not occasion organized resistance.

A banker affiliated with Empresas BHC, Chile's second largest economic group, and a sponsor of the Administradora San Cristobal AFP, claimed, "This new system has a great advantage. Some unions like the copper workers used to lobby Congress for pension benefits. Now they can't do that because the system is private and now they will only get back in proportion to what they put in."

The banker was asked if he sees any application to the United States. "Definitely I do," he said, "you are now learning that government can't afford all the social welfare benefits that it has promised and you will have to turn to private enterprise. That is what our economy is all about. Of course even the idea for this new system came from the United States."

"For 10 years the Católica University in Santiago had an exchange program with the University of Chicago, with the Milton Friedman people. Many of us were trained by the Chicago people, like Sergio De Castro, the present finance minister, Miguel Kast, the former planning minister who is now the labor minister, and Piñera, the former labor minister. These people are referred to as the 'Chicago boys' and they were responsible for the economic reforms including social security.

"We had these plans formulated back in 1973, but we had to get the old [Allende] government out of the way in order to implement them."

A new kind of extortion

Will debtor countries be forced into gold collateralization for loans, without benefit to themselves?

Mr. John Gutfreund, the managing partner of Salomon Brothers who last month became an indirect employee of Mr. Harry Oppenheimer of South Africa, told the London *Financial Times* Sept. 6 that gold-collateralized lending might be the wave of the future, adding that he hoped that the new combination of Phibro and Salomon Brothers would be an ideal firm to organize such arrangements.

It has not taken long to confirm that Mr. Gutfreund was right on the money. At least two countries, Portugal and Romania, have been backed to the wall by their bankers during the past two weeks with a demand that their gold reserves be put up as collateral for loans. Whether they will accede is not a settled question, but, in any event, the incidents show how great the pressure is for the mobilization of monetary gold. The great danger in the present events is that countries which should preserve their monetary gold for participation in a gold monetary system to come may be stripped of these reserves, to the detriment of their trading partners in the future.

Most unusual in the present situation is that the banks concerned have suspended already-in-place credit facilities in order to press home this demand, rather than merely delaying new credits. The Romania story broke on the front page of the London *Financial Times* Sept. 21, although it was well

known in financial circles that Romania had run up a \$60 million overdraft at one major New York bank two weeks earlier. In a departure from past practice, the banks forced Romania, whose trade deficit this year will exceed \$1.2 billion and which must pay \$2.4 billion in debt service in addition, to "clean up" its overdrafts, and proceeded to suspend other short-term credit facilities. Said one of the East Europe desk officers managing the New Yorkers' role in the affair, "We merely thought that since Romania is sitting on \$2 billion in gold reserves, there is no need for us to take additional credit risks."

Not yet in public view is the parallel situation of Portugal, NATO member and prospective member of the European Community, hardly a "Third World country." Mysteriously, short-term credit lines for Portuguese companies and banks on the Eurodollar market dried up in mid-September.

A number of sophisticated banking sources in Western Europe emphasized to me that this occurrence had little to do with Portugal's well-known economic problems, aggravated this year by a drought that reduced the country's agricultural exports and compelled it to buy electricity from France. Portugal "is still an infinitely better credit risk than many countries who are still obtaining credits on the markets," a German friend noted.

In addition, Portugal has a dis-

proportionately large gold reserve, relative to the size of the nation's economy, at \$9 billion. That gold accumulation dates from the opening of the Brazilian mines in the mid-17th century and the first major gold flows to Europe. Wisely, Portugal never parted with it. In 1975, along with Italy, Portugal obtained gold-collateralized credits from West Germany, all of which were since repaid.

What Portugal's bankers now demand is a different sort of gold collateral, one which would ultimately result in the pillage of the country's gold stock. Market rumors that the Portuguese have given in to the demand are not likely to be true, say bankers I have spoken with; Portugal has friends in Western Europe who would not gladly see it subjected to such ill treatment, and who also view its gold stockpile as a useful potential addition to a European pool.

These negotiations indicate not only how firmly the idea of remonetization of gold has implanted itself in the minds of the financial community, but how tortuous the road back to a gold standard could be. In the 19th century, as much as in the 16th century, control of gold by private interests enabled them to dictate terms to governments. Merely because central banks now control slightly over half the gold above the earth's surface does not mean they would for long, if gold were brought back as a principal means of international payments. Foolish central banks and their gold will be soon parted. To the extent that gold is merely mortgaged to secure debts that arise from unsound economic circumstances, its remonetization will do little good to the world economy.

How long will the dollar rally last?

The dollar's way down will be tortuous, but predictable: here are the reasons why.

The U.S. dollar stood at just under DM 2.28 in Frankfurt at deadline Sept. 23, or about 2 percent 2.23. Considering how fast the dollar had fallen—it stood at DM 2.58 on Aug. 10, one day before I warned of a “dollar crash”—the recovery is not surprising.

However, it is important to understand precisely what factors are at work in the temporary recovery, which could well run up another 10 pfennig or so before the dollar begins to fall again. So-called technical factors are irrelevant, and interest-rate questions are secondary. At the moment, the market is not yet dealing with movements of petrodollars, and secondary influences are determining the short-term events.

The dollar's fall occurred simply because long-term investors had long considered it overvalued, and looked for alternative assets; at a point when the Reagan budgetary problems surfaced, they took the opportunity to protect themselves against the foreign exchange risk of holding dollars, and the slide began. And on some of the worst days for the dollar, interest rates in the U.S. were rising.

The market “overshot” the DM rate considered appropriate by well-informed Frankfurt financial circles, or DM 2.20 to the dollar. Most of the institutions who had decided to limit dollar exposure had already done so, and the selling pressure evaporated.

What brought the dollar back sharply on Sept. 22, despite a fall in U.S. interest rates, was the weakness of the whole European Monetary System, brought on by the weakness of the French franc.

Before the French government announced its emergency currency defense package on the evening of Sept. 20, the French and German authorities had spent upwards of \$2 billion to prevent the collapse of the French franc rate in the European fixed-rate alliance. Much of the intervention represented sales of DM to purchase French francs on the part of the Bundesbank, i.e., a sudden massive infusion of German mark *supply* to the Eurocurrency market.

The rise in DM supply contributed to a fall in Euromark interest rates on the markets Sept. 21 and 22, but it would be incorrect to say that the subsequent weakness of the mark was due to the drop in interest rates as such (particularly because the American prime rate dropped half a percent at the same time).

As I have argued before in this column, the German mark's biggest problem was not American interest rates as such, but the fact that under EMS rules, the West German central bank must create its own currency *de novo* to support other European currencies which are substantially weaker than the mark itself—a point made with some bitter irony by Bundesbank President Karl-Otto Poehl.

The French and West German authorities are now attempting to negotiate on what terms the French franc shall be devalued inside the European currency “snake.” The French insist that the Germans revalue at the same time, which the Germans have no intention of doing. If the French are, indeed, forced to devalue on their own, the DM should resume its upward climb more quickly than otherwise.

Also important is the outcome of the budget debate in the German Bundestag. Although the CDU opposition came off weakly in the parliamentary sessions, well-informed German banking sources believe that Chancellor Schmidt's political position suffered as a result of the tricky compromise package of budget cuts he presented. Schmidt's ability to put through cuts much more limited than the Bundesbank would like, and still persuade the Bundesbank (whose central council is split on the issue) to lower interest rates enough to ease pressure on the German economy, is a swing factor in the situation.

Perceptions of Schmidt's political problems are exaggerated in the United States; through each successive crisis, the German chancellor has learned to be a better crisis manager. However, in the short run, Schmidt's budget problems may weigh on the DM rate.

These problems could well account for a significant drop in the mark during the next month or so. However, the myth of the strong dollar evaporated during the last several weeks, and a new selling wave will emerge on major signs of trouble in the President's economic program—probably before December.

Jimmy Carter returns to Washington

Treasury Secretary Donald Regan seeks to ram through the entire banking program of the disgraced Democrat.

Eight months ago I wrote in this space that with the Reagan administration, the American banking system could expect a new era of hope, in which the banking deregulation programs meant to turn the U.S. into a British-style bank cartel would be swept well away from Washington along with the Jimmy Carter presidency.

I would like to say now that I was wrong.

Jimmy Carter's ugly grin is back in Washington, planted firmly at the U.S. Treasury Building. Treasury Secretary Donald Regan last week announced a straight British banking reorganization of the United States which makes the infamous "Eizenstat Report" seem all-American.

As I also related in this space (*EIR*, Feb. 3, 1981), the Carter administration's Eizenstat Report on banking deregulation called for a severe weakening of the nation's protective banking regulations which currently prevent Citibank and other New York banking giants from going across state lines and buying up the rest of the nation's 21,000 banks and savings and loans.

The Carter report, issued in January, was titled "Report to the President: Geographical Restrictions on Commercial Banking in the United States," and called for congressional review and eventual "relaxation" of all the nation's protective banking regulations. It criti-

cized ceilings on interest rates, the Glass-Steagal Act, which keeps commercial banks out of the brokerage business and vice versa, and the McFadden Act and Douglas Amendment to the Bank Holding Company Act, which prevent all-state expansion by the New York and California superbanks.

Don Regan, in a major speech on banking deregulation to the Chicago Civic Federation Sept. 14, has gone far beyond such Carter-era niceties as presidential reports. Regan is calling not for review but for abolition of most of the nation's banking regulations. As I reported last week, he intends to "ram through" legislation to that effect this year.

Regan began: "When all the basic banking laws were passed, Charles Lindbergh was flying the Spirit of St. Louis. . . . The financial markets have changed radically. But the regulatory regimen imposed on those markets has changed little."

Out front, Regan is calling openly for the institution in the U.S. of British "national banking," in which Citibank, David Rockefeller's Chase Manhattan, and other giants would be allowed to cartelize the banking system into a mere few hundred superbanks. Regan denounced the McFadden Act, which prohibits interstate banking, for having "balkanized our financial system. Such artificial geographic constraints run counter to the na-

ture of a modern financial services industry," he stated. "It's clear to any observer that geographic restrictions reduce competition among financial institutions and impair the industry's efficiency."

Regan actually sanctioned the fact that this will cause "undue concentrations of financial power," saying the "question is moot" since giants like Merrill Lynch are moving interstate already.

The second change Regan wants made goes hand in glove with his firm personal support for the high interest-rate policy of Federal Reserve Chairman Paul Adolph Volcker.

Regan called for a removal of all remaining usury regulations holding ceilings on interest rates. Regan predicted a continuing, indefinite high interest-rate regime in the U.S., and said that under those conditions the nation's S&Ls must be fully deregulated, and "allowed" to pay 20 percent or greater interest rates. In order to stay alive, he added, the S&Ls of course will have to also be deregulated out of their main business, which is home-mortgage lending, because you can't make 20 percent-plus on all mortgages. S&Ls will make mortgages only for those who can afford them.

Not only should the Home Owners Loan Act of 1933 which created the S&Ls be removed, he said, but the Glass-Steagal Act of 1934 should be done away with. Glass-Steagal currently is supposed to keep Regan's shop, Merrill Lynch, out of banking, and keep Citibank out of the brokerage business while keeping both out of the savings and loans' mortgage business. This is "outmoded," Regan said.

Farm coalition fractured in Senate

The bottom line of tradeoffs among legislators, and between the Senate and White House, is ominous.

The Senate passed its version of a new four-year farm bill on Sept. 18 by a vote of 49 to 32. The bill guts some of the key commodity programs, at a time when farm producers are in the toughest economic bind since the 1930s.

The administration first demanded that the Agriculture Committee cut out all price supports, then demanded deep slashes, and succeeded in the end in securing a committee bill within \$100 million of the Stockman ceiling.

As of this writing, the House version of the bill, slightly more in line with producers' demands, has not yet been scheduled for consideration. Work on the farm legislation is proceeding against a deadline of Sept. 30, when existing legislation expires.

Underlying the fracas over the farm bill is a very basic policy dispute—pitting the advocates of a return to the proven policy of parity, only dimly reflected in existing farm programs, and the advocates of a pure “free-market” agriculture. Advocates of both views in the farm sector would prefer a one-year extension of existing legislation, so that this basic policy issue can be thrashed out during the election year of 1982. It may yet come to that in the House.

Senate debate focused on several key issues: the dairy program, which has been the primary scapegoat for budget austerity since the

Reagan administration took office; the target price program for the major grains; and the peanut, tobacco, and sugar programs, critical elements in the compromises the White House made with Southern legislators for their votes on the budget package.

Senator Roger Jepsen of Iowa took up the axe against the dairy program, clashing bitterly with fellow committeeman and Republican Rudy Boschwitz of Minnesota. Boschwitz fought to defend the committee's original dairy provisions, approved earlier by the administration, that would have supported dairy prices at 75 to 90 percent of parity depending on projections for “surplus” stocks.

Jepsen proposed an amendment that guts the dairy program altogether. Jepsen's plan, which was voted up after two efforts at compromise by Boschwitz were narrowly defeated, will freeze the dairy support price at the present level of \$13.10, or about 65 percent of parity, and put all authority for the future adjustments in the hands of the secretary of agriculture with the stipulation that program costs are not to exceed \$750 million.

Elimination of the target-price program, under which producers receive government checks for the difference between average market prices and a “target price” set by Congress, ostensibly in line with production costs, was one of the

administration's original demands. However, under pressure from producers and the imminence of financial disaster in the farm sector, Secretary Block abandoned that stance several weeks ago and shifted to an attempt to “lower the Treasury's exposure” by pushing target prices down as far as possible.

With Senator Lugar's (R-Ind.) amendment to eliminate the program as a foil, Senator Dole (R-Kan.) went on the offensive for the administration, seeking to reduce target-price levels for wheat to \$4.00 from \$4.20 and for corn to \$2.70 from \$2.80. Production costs for wheat *presently* stand at \$4.13, and that does not include land charges!

But the administration's plans threatened to go awry when Lugar, also a member of the Agriculture Committee, defied his own committee's consensus and proposed an amendment fundamentally altering the peanut program. Majority Leader Howard Baker proved unable to kill it, and for a time the door was wide open for sinking the entire bill.

A compromise measure on the peanut program by Senator Mattingly (R-Ga.) was approved only narrowly. But the Lugar move in defiance of Agriculture Committee chairman Jesse Helms had already opened the way for a similar attack on tobacco and sugar.

An angry Helms threatened at one point to pull the bill off the floor, but the administration's steamroller proved capable over the next two days of defeating attacks on both the sugar and tobacco programs. At the last minute on Sept. 18, the Republicans simply shut off further debate on the bill, and moved for an immediate vote.

World Trade

by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Financing	Comment
NEW DEALS				
\$1.1 bn.	Nigeria from U.S./Japan	Plant which will produce 700,000 tpy fertilizer from local natural gas and imported phosphoric acid and potash will be built in Nigeria. Consortium led by W. M. Kellogg and including Jacobs and Kawasaki will build the plant. First contract with this group had been hotly debated since signed two years ago. Foreign component financed by U.S. and Japanese Exim banks and World Bank.		Nigerian govt. seeks ten-fold fertilizer use increase in agro modernization drive.
\$6 mn.	Nigeria from U.S.A.	Nigeria bought tactical police armored cars from Federal Signal Corp. of Chicago.		
\$70 mn.	Egypt from Italy	Snamprogetti will build 40,000 tpy linear alcohol benzol plant for EGPC Egyptian oil company.		Will make detergents from kerosene.
\$25-\$40 mn.	South Korea from Japan	The Orient's highest, and Seoul's first, skyscraper will be built with help of Japan's Nippon Steel and Kanematsu-Gosho.		60-story building is for Daehan Insurance.
	France from Japan/U.S.A.	Elf Aquitaine will build carbon fiber plant in France in joint venture with Japan's Toray, the world's largest producer. Carbon fibers lighten military aircraft, and some of product will go to U.S.A. by way of junior partner, Union Carbide.		Toray's initial plans for European plant in Britain frustrated by obsolescence plant they bought into.
	Saudia Arabia from U.S.A.	McDermott has order for marine construction at Aramco's Berri desalination plant. Contract includes building and installing offshore platforms, undersea pipelines and electric cables.		
	Algeria/Japan	Algeria has offered to buy 15,000 Hondas in exchange for oil deliveries instead of cash payment. Japanese Nichimen trading company says Algeria asked \$40 per barrel price in barter deal, but will have to come down.		Barter is way of hiding real price of oil.
\$49mn.	Zaire from U.K.	GKN Contractors will re-equip tin and wolfram mines, which have fallen apart over last few years.		
UPDATE				
\$440 mn. more work	Iran from Italy	Iran signed new contract with Condotte d'Acqua, owned by Italian govt., for scaled-down completion of Bandar Abbas port, at Strait of Hormuz, far from Iraq. Port was 40% complete when Shah overthrown.		Iran govt. has acknowledged damage claims by Italian contractors and will free \$220 mn. blocked payments.
\$400 mn.	Brazil from U.S.A.	Ford is offering to invest \$400 mn. in added production capacity for Escort model, <i>if</i> Brazilian govt. agrees to renew generous export subsidies due to expire at end of 1982. Befiex export incentives not only exempt exports from sales and VAT taxes for companies meeting 3 export quotas, but allows same amount of taxes to be deducted from domestic market tax bill.		Auto production halved this year by tight credit; Brazil desperate for investments and for tax revenues.
\$100 mn.	Poland from U.S.A.	Armand Hammer, pres. of Occidental Petroleum, offered Poland joint-venture project for sulfur mine.		

Scientific payload for the Space Shuttle

by Marsha Freeman,
Science and Technology Editor

Launch preparations for the Space Shuttle Columbia, the world's first reusable space vehicle, are proceeding at launch pad 39A at the Kennedy Space Center in Florida for a mid-October takeoff.

A small spill of rocket propellant on Sept. 22, which damaged some of the vehicle's protective tiles, will postpone the Shuttle's second flight a number of days past the Oct. 9 launch date. By the next afternoon, NASA determined that the damage could be repaired on the launch pad, avoiding a longer delay. Otherwise, the preparations have been proceeding without a hitch.

The Columbia has successfully completed its Dry Countdown Demonstration with all systems in place. Astronauts Joe Engle and Richard Truly ran through the last two hours of the countdown, simulating the procedures they will follow in mid-October. The Tanking Test, which involved transferring the propellants into the main engine's fuel tanks, was performed successfully. The minor accident occurred as the hypergolic propellants, used in the small thrusters that maneuver the spacecraft while in orbit, were being loaded into their engines.

The main change on the second flight, little publicized by the press, is the addition of the Shuttle's first scientific payload in its cargo bay. Designated OSTA-1 (for NASA's Office of Space and Terrestrial Applications), the payload consists of five scientific experiments mounted on a pallet developed by the European Space Agency. The experiments will be exposed to the space atmosphere when the payload bay's doors are opened. The experiment package consists of new types of Earth remote-sensing technology for improved observations by Landsat and future satellite systems.

The largest piece of equipment on the pallet is the Shuttle Imaging Radar Experiment. This 30-foot long

antenna will send and receive radar signals that will be used to create images of the Earth's surface for use in geological exploration. The Shuttle Multispectral Infrared Radiometer (SMIRR) will also perform geological mapping from space. Ground-based data have indicated that the infrared range is preferentially absorbed by rocks containing different minerals, so the SMIRR could help determine the electromagnetic signature of various rock types and their mineral contents. FILE, or Feature Identification and Location Experiment, is an on-board data management technique that is designed to aid sensors identify and select out specific kinds of data.

An experiment for the Measurement of Air Pollution from Satellites will measure the unique radiation absorption lines that carbon monoxide forms as it travels through the Earth's atmosphere. Finally, the Ocean Color Experiment will attempt to provide a scientific map for finding schools of fish, locating by color the concentrations of green chlorophyll characteristic of algae.

In addition to the instrument pallet, the Shuttle will carry and test the Remote Manipulator Arm Systems (RMS) built in Canada. This 50-foot arm, with maneuverable elbow, shoulder, and hand joints, will be used on future flights to catch and grapple satellites for examination and repair by the Shuttle crews.

On July 27, the Columbia began its Orbiter Integrated Test at the Orbiter Processing Facility, where the connections between the Orbiter and its payload were checked out. Then on Aug. 10, the Shuttle was transferred to the huge Vehicle Assembly Building (VAB) for continued tests and the final mating to its External Tank and Solid Rocket Boosters. At the VAB, the Shuttle underwent a nine-day Shuttle Interface Test designed to check out the mechanical and electrical connections between the Orbiter, external tank, and the boosters, as well as the functioning of the on-board systems.

The first part of this test lasts 112 hours, as communications channels between the Orbiter and its other elements are verified, leak checks are made, and a complete review of the safety systems is performed. The Orbiter's main engine nozzles, elevons, rudder and speedbrake, and body flaps are moved, as they will be in flight; and the solid rocket boosters undergo exhaustive testing. For about 55 hours, backup crews for the flight participate in the flight simulation tests.

Whereas the initial Columbia flight was aimed at testing the Orbiter's main systems, the second flight is designed to submit the vehicle to potential problems that could arise and to enhance the capability of the system. For example, astronaut Engle, the commander of the flight, will test the automatic landing system, which Commander John Young did not use on the first flight. This computer-guided system will be used to land the Shuttle when the spacecraft begins operating on a routine basis.

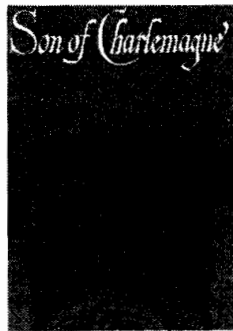
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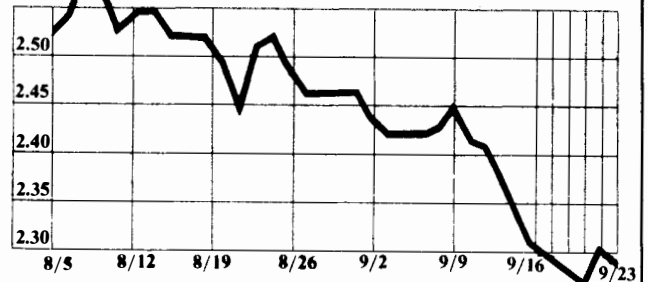
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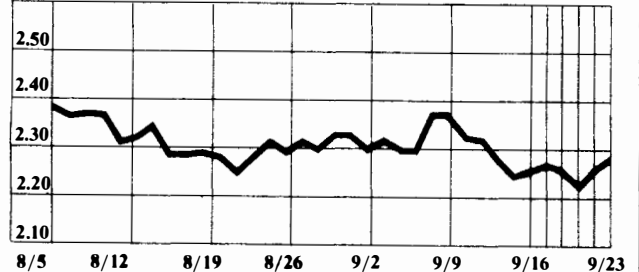
Currency Rates

The dollar in deutschemarks

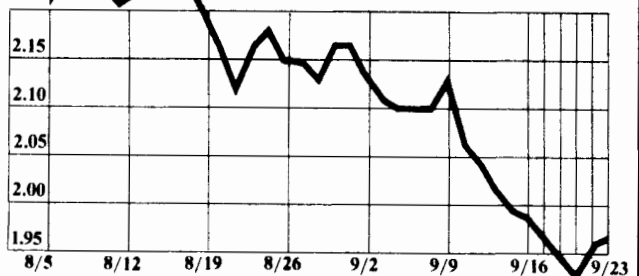


The dollar in yen

New York late afternoon fixing

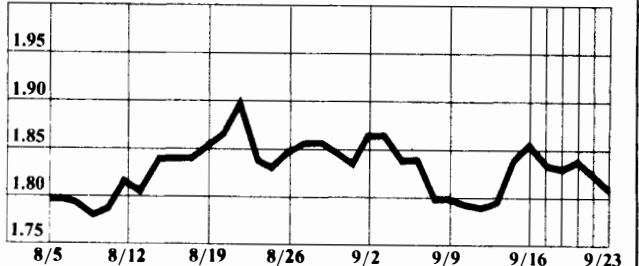


The dollar in Swiss francs



The British pound in dollars

New York late afternoon fixing



Business Briefs

Eurodollar Markets

Bank of England studies interbank dangers

The Bank of England has completed an internal study of the Eurodollar interbank market, a \$600 billion pool of funds exchanged among over 1,000 international banks. According to the London *Financial Times* Sept. 24, the Bank of England report attempts to evaluate the danger of a crisis of confidence leading to a chain-reaction of withdrawals of loans among leading banks.

Such a chain-reaction was narrowly prevented from bringing down the Eurodollar market after the July 1974 failure of Germany's Herstatt Bank. In the two months after the failure, interbank loans declined by one-third due to market nervousness.

European bankers have speculated that American banks' efforts to limit their interbank exposure, e.g. the introduction of same-day rather than overnight settlements of Eurodollar transactions through the New York Clearing House starting Oct. 1, might touch off a crisis.

However, the new Bank of England study argues that the danger of an unmanageable crisis is relatively small, the British newspaper reported.

Transportation

World's airlines take new losses

The world's airlines will suffer a \$2.1 billion after-interest operating loss on international flights this year, up from last year's already dismal \$1.8 billion. The pre-interest loss was the same, at \$900 million, but interest charges were up 33 percent to \$1.2 billion. The new figures are in contrast to predictions of an improvement in the international airlines' financial picture predicted earlier this year.

The figures, released by Raymond Cope, assistant director of general traffic, industry and finance for the International Air Transport Association (IATA), also indicate that despite a \$2.1 billion writeoff in depreciation, there will be zero cash flow, as that entire sum will be needed to cover the red ink in the operating budget. The IATA represents 100 of the Western world's major airlines. Last year the airlines squeaked by with \$100 million in cash flow.

The airlines now have to fund their entire projected \$4 billion budget for fleet and capital improvements from borrowings, leading the airlines to "go into 1982 with a great big debt overhang," according to Cope.

This will raise anticipated interest costs next year an additional 50 percent, to \$1.8 billion, and will undoubtedly cause the bulk of an almost certain operating deficit next year.

The dismal picture results directly from the stagnating economic situation in most Western countries, and from the high interest rates prevailing since late 1979, compounded by the soaring cost of jet fuel.

In the United States, as reported in this publication last month, the crisis in the airlines, exacerbated by the deregulation of the industry in 1978, is being used to deliberately reduce the entire industry by 25 percent or more, jack up the fares, and curtail service severely.

The IATA, however, is expected to study a "strategic plan" developed by the association's executive committee, to deal with the crisis, at its Cannes, France meeting next month.

Domestic Credit

Prime falls, but won't drop much

The expectation that interest rates are really coming down will be short-lived. The leading money center banks lowered the prime lending rate to 19.5 percent Sept. 22, and there is room for the prime to come down as far as 17.5 percent over

the next several weeks. But any appreciable drop in the prime beyond this point should be ruled out.

Currently, Certificates of Deposit of \$100,000 or more at large banks are at 16 percent. This means that the big money center banks could charge 1.5 percentage points above what they must pay to acquire CD deposits, and justify a prime rate of 17.5 percent.

Moreover, until its recent tightening Sept. 23, the Federal Reserve-determined federal funds (overnight interbank) rate stood at a shade under 15 percent, again meaning that based on the bank cost of funds, a lower prime rate is justified.

However, there is a general illiquidity in the U.S. economy. Even beyond the often-cited large U.S. Treasury borrowing needs, there are corporations with \$17 billion of bonds waiting to go to market, and a large pent-up need of funds at the state and municipal level. In Sept. 16 testimony before the Congress, Federal Reserve Board Chairman Paul Volcker stated that the Fed has no intention of accommodating this borrowing need, and this will mean higher interest rates even if there is a short hiatus in which rates drop. Only if there is a massive U.S. economic recession will interest rates drop below 15 percent early next year.

International Credit

Saudis ask French for gold collateral

Saudi Arabia made gold collateral a condition for further large loans to France during negotiations in Riyadh early in September, Paris banking sources report. A French government delegation in search of a multibillion-dollar loan returned empty-handed, they stated.

Official French sources said that the Saudis objected to the new Mitterrand government's bank nationalization program. At most, sources said, the Saudis were willing to lend France \$750 million, or less than a fifth of what the French

delegation had requested.

Apart from their political objections to the new pro-Israeli government, the conservative Saudis do not believe that Mitterrand is a good credit risk. European bankers believe that the high interest rates on the French money market introduced with the government's Sept. 20 emergency package cannot be sustained, particularly since the government is still compelling banks to lend at several percentage points less than their own cost of funds. A major dislocation inside the French credit system is expected sometime in the next several months.

Even more significant is the Saudis' insistence on gold collateral. Starting in 1979, the Saudis and other Arab countries began purchasing gold, to the extent of 10 to 15 percent of their new earnings. Apparently the Saudis are convinced that gold will increase in importance as an additional reserve asset.

Banking

Risky nationalizations proceed in France

The Socialist government of France decided on Sept. 22 to go ahead with the nationalization of 95 percent of the banking industry there. While all the important French banks were clearly understood to be on the firing line, a cabinet debate took place on whether the subsidiaries of foreign banks should be included in the nationalization bill.

The cabinet's decision to include banks with more than 1 billion francs of deposits in the list of those to be nationalized (which will be on the parliamentary agenda this month) particularly threatens numerous British banks which have built dominant positions on the French real-estate market in the last two decades. Midland and Barclays are reportedly among the banks to be nationalized.

Complex and possibly risky situations can develop with foreign partnership in French banks. The London-based S. G. Warburg owns 12.5 per-

cent of the giant Compagnie Financiere de Paris and des Pays-Bas (Paribas), and it reportedly will pull out of regular inter-bank market arrangements should its shareholding be threatened.

East-West Trade

A 'New Ruhr' in West Siberia?

Germany's Economics Minister Otto von Lambsdorff arrived in Moscow Sept. 24 with a large delegation of officials, industrialists, and bankers, in his capacity as cochairman of the German-Soviet Economic Commission. After a first session in Moscow, the commission moves to Novosibirsk, West Siberia, headquarters of the Siberian branch of the Soviet Academy of Sciences.

According to *Handelsblatt*, the Düsseldorf business daily, the Germans intend to discuss Soviet proposals, made over the years to vastly upgrade industrial cooperation between both countries in the energy field. Bonn, the German daily adds, looks upon U.S. proposals for "alternative" German-American energy cooperation, as immaterial, and not worthy of consideration.

The Soviet side, latest reports from Germany indicate, will present a gigantic project, worth a total of 120 billion Deutschmarks: the Soviets now want to exploit the huge surface coal deposits located in West Siberia, and propose that the Germans "build a new Ruhr" directly on the site. The target date for completing the proposed project is between 1990 and 1995.

Frankfurt banking sources, while stressing that such an immense project (which dwarfs the Siberian gas pipeline project signed this year) will take some time to negotiate, make no secret that it is considered vital for West Germany's national interests, and that pressure from the United States or elsewhere could not deter its implementation. Lambsdorff, asked about possible U.S. opposition, replied that he was "informed of no American objection."

Briefly

● **SIR GEOFFREY HOWE**, the U.K.'s finance minister, told his Commonwealth colleagues Sept. 22 that the U.S. must cut its budget to keep down interest rates. Howe's own budget deficit rose 50 percent after his monetarist program brought unemployment to higher levels than the 1930s.

● **INDIA'S** application for \$6 billion in IMF funds comes up for Executive Board approval next month; the Reagan administration "will be quite tough," according to a New York banking source with access to top levels in Treasury. He said he believes the view in Washington is that India could get all the money it wants in international lending markets, if it would only scrap its present restrictions on foreign investment.

● **MITSUBISHI Heavy Industries** announced it will bid for a \$2 billion nuclear plant project by Mexico's Comision Federal de Electricidad, either independently or with its licensor, Westinghouse. If successful, this would be the first Japanese export of a primary system for atomic power plants, as opposed to turbines used in such plants, according to the Sept. 22 *Nihon Keizai Shimbun*.

● **JAPANESE** corporate spending on R&D for the year ending March 1982 will reach a R&D-to-sales 1.4 percent, for the first time the same as that of U.S. corporations. This will be achieved by a 16 percent rise, which follows a 17 percent rise last year. Half the R&D investment is being made by the auto and electric machinery industries.

● **WALL STREET** investors were selling on Sept. 25 out of fear that continued high interest rates will wreck corporate profits. Yet pundits used the market drop to proclaim that Volcker must keep fighting deficit-induced inflation and maintain high rates.

Terrorism, drugs, and subversion: the Craxi dossier

by Umberto Pascali

Bettino Craxi, head of the Italian Socialist Party (PSI), is now preparing to visit Washington for meetings with President Ronald Reagan this fall. What can be the motive for an American President's granting an audience to a man described in Italy as the "new Mussolini"? Craxi has reached an agreement with the U.S. administration, says the Italian press. The upcoming visit will be the equivalent of an "investiture," in which the U.S. government will give its approval for Craxi to ascend to the "Presidency of the Council," i.e., become Italy's new prime minister. America's old allies, the conservative, pro-industrial layers of the Italian Christian Democratic Party, seem to have been tossed aside with little ceremony.

This dossier will explain that, for Mr. Reagan, Craxi is a political miscalculation which risks the total destabilization of Italy. The nickname given Craxi, "new Mussolini," is no exaggeration. Politically, socially, and economically, Craxi represents precisely what Mussolini represented at the end of the First World War.

Fascism then and now

Mussolini also came from the ranks of the Socialist Party, indeed, from its far "left" section. After precipitating a civil war in Italy, after destabilizing the country's leading institutions with every weapon at his disposal, from corruption to terrorism, Mussolini and his supporters presented themselves as the men of stability, the men of "governability." Thus was Fascism imposed on Italy.

To this must be added a noteworthy fact: Mussolini rose to power on the basis of the support, from the very beginning of his career, given to him by the British secret intelligence service and the Italian "black nobility."

There was another element in the history of Fascism worth reflecting on today: Mussolini received ample support from the United States. The *New York Times* and other news media gave him explicit and unconditional backing.



Giani Giansanti/Sigma

The *New York Times* today applauds Bettino Craxi and lies to the American public, calling him “the best friend” of the United States.

How many lives did the same lie cost in the 1920s? How many Americans paid with their blood during World War II for the earlier, successful campaign by the *New York Times* and those American financiers and politicians who sponsored Mussolini?

Today, Americans must know Craxi for what he is.

Bettino Craxi is currently presented as the only politician capable of replacing the Christian Democracy that has governed Italy for the last 30 years. The Christian Democracy, it is said, is too corrupt; it cannot defend Italy from the Communists; someone is needed who is not tainted by scandal, a credible politician—a man like Craxi.

In truth, no Italian has been implicated in more scandals than Bettino Craxi. His career was built, piece by piece, on the back of the drug mafia and organized crime.

What is Craxi?

In Italy, Craxi and his Socialist Party (PSI) are synonymous with terrorism. From the outset of Italy’s terrorist epidemic in 1968-69, through the assassination of Christian Democratic president Aldo Moro by the Red Brigades, the names of the PSI leaders have continually appeared in police and magistral investigative reports.

Moreover, the PSI has become known as the party

of Qaddafi. Craxi and his supporters have always maintained relations, albeit secret ones, with the Libyan dictator. During the most recent elections, well-informed sources in Rome discussed Qaddafi’s funding of Socialist electoral campaigns quite openly.

The PSI leadership, including Craxi, have been heavily implicated in the Propaganda-2 (P-2) Freemasonic Lodge scandal. The P-2 lodge was a conspiratorial organization exposed in late May. It is tied to the Trilateral Commission, Henry Kissinger and Alexander Haig, the former and current secretaries of state, and other prominent Americans. It was proven to be involved in drug running, arms smuggling, flight-capital operations, and sponsorship of both “left” and “right” terrorism. It tried many times to bring about coups d’état in Italy. It had corrupted and penetrated all parts of the economy and the government. The aim of the P-2 lodge was to destroy the institutions of the Italian republic and restore the Savoy dynasty, in exile since 1946 when a popular referendum decided against allowing the royal family to remain in the country. The royal family had consigned Italy to Fascism.

The PSI and Craxi are also the great supporters of the Global 2000 genocide recommendations formulated by the Carter administration. The economic policy of the PSI is consistent with this “depopulation” and “deindustrialization” report.

Recently, the Milan daily *Il Giornale Nuovo* published the fact of Craxi’s career, known by all well-informed persons in Italy for years, but which no one

has dared to publish before. *Il Giornale* reported that Craxi was the “guardian of Francis Turatello.” Turatello, known as “Angel Face,” was the Meyer Lansky of Italy, responsible for the expansion of trafficking and use of hard drugs “on an industrial scale.”

Craxi and the drug mafia

Turatello's plan for a drug empire succeeded in turning Italy from merely a crossroads of the traffic from the Middle and Far East to Northern Europe and United States, into one of the world's biggest heroin-refining centers and drug marketplaces. No social class of Italian youth is now spared drug addiction. An entire generation is near to destruction.

In addition, Italy has become the crucial center for the drug trade in the Mediterranean area. The recent discovery of “heroin factories” in northern Italy and Sicily is indicative of Italy's role as a source of heroin flowing into the United States—an “export industry” built by Turatello under Craxi's protection.

The young gangster Turatello began his rise in Milan during the 1960s, taking over clandestine gambling and prostitution. These areas served as the base for the drug market and the so-called kidnaping industry. In a short time, Turatello was expanding in an unstoppable way, thanks to Craxi's political patronage. Craxi personally frequented Turatello's clandestine gambling dens, where he was considered an habitu .

The city of Milan was, and is, controlled by the Socialist Party. Since the advent of Turatello, Milan, capital of Lombardy, has had a Socialist mayor—first Aldo Aniasi, and now, the recently elected Carlo Tognoli.

Under the Socialist administrations, what was once known as the most modern industrialized city in the country has become the city of organized crime. It has taken over and controls the police in many areas, and the city is now very similar to Marseilles, France—also dominated by the party of the Socialist International, and by drugs. The connections between the former mayor of Marseilles, Gaston Deferre, now the Socialist Interior Minister under Fran ois Mitterrand, and the “Marseilles Clan,” are well known. Turatello collaborated very closely with the Marseilles drug mafia, from the time of the first “French Connection” through the 1970s.

Among the many people in Marseilles who worked for Turatello was the famous drug-trafficking boss, Joe Adonis—who himself was very close to the Socialist Party of France.

The productive fabric of Milan was eroded, and then, at the beginning of the 1960s, there began the kidnaping of persons on a vast scale, with most victims from industrialist layers.

Once Turatello's underworld was firmly established

and politically hegemonic in major cities, there began the campaign in favor of legalized drug use.

A national figure

This was the decisive blow. And the champions of the “drug liberalization” propaganda campaign were the Socialist Party leaders, above all, Loris Fortuna, vice-president of the Italian Chamber of Deputies. With the full support of the party, including Craxi, Fortuna fought to change the drug laws, which were quite restrictive in the 1960s. The Socialist mass media promoted what would later be known as the “drug culture.” Decadent elements like LSD promotor Timothy Leary came to Milan to publicize his “spiritual food,” and underground newspapers flourished, explaining to adolescents that drugs “expand consciousness.”

This was accompanied by the introduction of rock music on a massive scale. The most important of the underground newspapers, *Re Nudo*, which pushed rock, drugs and pornography, was sponsored by Socialist leaders like Ripa di Meana. And out of the spreading degeneration of youth layers under the Socialists' “rock-drug counterculture” came the first Maoist and anarchist groupings that later became terrorists. This was the foundation for the “1968 Movement,” and its explosive destabilization of the schools and factories of Italy. In terrorism, too, the Socialist Party and Bettino Craxi led the way.

It was at this time that Bettino Craxi became a national political leader.

Following 1968, the drug market expanded massively, from Milan into Rome. Here, it was dominated by Loris Fortuna's intimate friend Pierluigi Torri. Torri, under threat of an arrest warrant, fled to London, where, under very high-level protection, he set up a network of “instant banks,” financial institutions such as Universal Banking, Inc. These were designed to recycle huge quantities of dirty money—from the kidnapings, robberies and especially drug trafficking in Italy. One of Torri's chief clients was the noted terrorist leader Pierluigi Concutelli, who funneled robbery and kidnaping proceeds into Torri's London banks on a large scale.

Torri was finally arrested in London after years of unheeded requests by Italy's Christian Democratic government for his extradition. Miraculously, he escaped. He was arrested again in New York in 1979. Interviewed by the magazine *Il Mondo* from his prison cell, he said that he was not worried, for he could count on the friendship of politically important people, like Socialist Loris Fortuna. Fortuna, in fact, periodically visited him in prison, and took a role in his legal defense.

At present, there is a vast restructuring of drug trafficking and refining operations under way throughout the Mediterranean region. Italy is central. Accord-

ing to *Il Giornale's* revelations, Turatello's death—inside a maximum security prison from which he continued to run his drug empire—came at the hands of a contract killer.

Turatello knew a great deal about Bettino Craxi. The restructuring of Mediterranean drug trafficking is unquestionably related to plans now afoot to place Craxi at the head of the Italian government. Turatello could have made matters very difficult for Craxi. On the occasion of his assassination, the Italian press reported various compromising details, such as that Turatello's arrest came when he was in the company of a Socialist Party city councilman from Sicily.

In Turatello's notebook, the police found the unlisted telephone numbers of Milan Mayor Aniasi and a Socialist city councilman from Milan, Pillitteri, Bettino Craxi's brother-in-law. Had Pillitteri been interrogated on his relations with Turatello, the investigations might have become too revealing. For example, what had Turatello to do with Socialist Aniasi, a former health minister and former mayor of Milan, who passed a decree favoring the liberalization of heroin laws!

Craxi and terrorism

One could write a book on such subjects. But here we limit ourselves to pointing out that the drug mafia has not been the only thing pushing Bettino Craxi toward supreme political power in Italy. The other important element has been the political use of terrorism. How could a small party, after all, hope to become the dominant party when it was even excluded from government coalitions? Only by destabilizing the Christian Democratic Party and its governments.

The Christian Democracy has been assailed at all levels. Periods of corruption have indeed weakened it; this was especially true, however, of the faction of Amintore Fanfani, who is a political ally of Craxi's within the Christian Democracy.

But the reason that the Socialist-infested Italian news media have sprung corruption scandals on the Christian Democrats is that the party still represents some form of defense of Italy's industrial and social development, and has ever since Alcide de Gasperi, Italy's prime minister during the postwar reconstruction period, was in office.

And who has charged more loudly that the Christian Democrats are more corrupt than the party of the drug mafia? Bettino Craxi's Socialists! They call the Christian Democracy's emphasis on the traditional values of family, work, and progress a "backward ideology." The other principal party in Italy, the Communist Party, which has frequently allied with the Christian Democracy to pursue national goals, was also targeted by the Socialists in a different way. PSI leaders sponsored the growth of anarchist groupings within the Communist

Party to undermine its influence.

One of the persons most responsible for the explosive 1968 destabilization which laid the ground for terrorism was Socialist "intellectual" Norberto Bobbio. In 1967, at the University of Turin, Bobbio gave a series of lectures, later widely distributed, calling the Christian Democracy the "new Fascist party of Italy," and calling upon students to therefore form a "new Resistance."

It was not by chance that the first terrorists were recruited from among Bobbio's students of that period.

It is a long story. By way of summary, we report on the greatest attack on the Christian Democracy and Italy's republican institutions, the kidnaping and murder of Christian Democratic president Aldo Moro in 1978. This launched the "Craxi option," by no lucky coincidence.

The parties responsible were the notorious Red Brigades, terrorists of the "left." The underground Brigades had an aboveground arm called the Autonomists, both parts directed by a leadership featuring Antonio Negri and Franco Piperno, "intellectuals" of the academic world who both now face charges in connection with the Aldo Moro murder.

When they were arrested, Socialist leaders came to their loud defense, including Bettino Craxi, who with others charged the Christian Democracy with "repression."

Is there a connection? In fact, the first cell of the Red Brigades was created within the faculty of the Sociology Department at the University of Trento between 1967 and 1968. The historic head of the Red Brigades, Renato Curcio, is known to have been personally, clinically brainwashed by the president of the sociology department's faculty, Francesco Alberoni, who subsequently became one of Italy's most prolific writers on behalf of the lie that terrorism is a "spontaneous sociological phenomenon."

Today, Prof. Francesco Alberoni is Bettino Craxi's speechwriter.

Let us consider these two examples.

The case of Antonio Negri

Negri, offshoot of a Fascist family, educated by Jesuits, is selected on account of his visceral hatred against society and development. In Padua, his native city, Negri is taken under the protection of the secretary of the Socialist Party. He climbs rapidly up the career ladder in the party to the point of being elected a city councilman.

It is in this period that Negri becomes a close friend of the leader of the PSI in the Veneto region, Gianni De Michelis, the present Minister of State Holdings. Professor Norberto Bobbio of Turin takes a personal interest in the young Negri; Bobbio will defend Negri even after his arrest on charges of having directed the

kidnaping and the murder of Aldo Moro.

Negri founds, together with Piperno and others, the first Italian anarcho-Maoist grouplet, *Potere Operaio* (the name means "worker power").

At the same time Negri participates in the creation of many anarchist and workerist periodicals, almost all of them financed and published by Socialist Party publishers, such as *Marsilio Editori*, which belongs to the De Michelis family, or *La Nuova Italia* of Socialist Party leader Tristano Codignola. It is these periodicals that will prepare the rites of passage of many young intellectuals from professional careers useful to society, to the various proto-terrorist sectlets that emerge after 1968. Already in the early 1960s, Negri is involved in the first clashes provoked by anarchists inside the trade unions, between Turin workers and the police. The newspapers and leaflets of Negri's grouplet were produced thanks to the Socialists' support—in some cases, even the printing house of the PSI's official paper, *Avanti*, was utilized.

Now that *Potere Operaio* had been created, Negri started his clandestine life. Having become a professor at the University of Padua thanks to a rigged competition for the post, and thanks to the direct support of Socialist Bobbio, Negri and his comrades began to officially propagandize for "armed struggle."

Even the Italian Communist Party distanced itself and started to denounce the activities of the Negri group. But not the PSI, which would continue to justify the activities of its protégé as a "rebellion against repressive society." In 1971, *Potere Operaio* officially dissolved itself. In reality, as has been confirmed by police investigations and by the Italian courts, Negri and his comrades decided to launch full-scale terrorism. One section of the leaders of *Potere Operaio* would be transformed into apparently "normal" citizens with covers, able to direct underground activities without arousing suspicion. Another section was to go underground for good. And thus Italy entered the epoch of continuous terrorism: kidnapings, bombings, assassinations.

From his professorship at the University of Padua, Negri, once again defended by the Socialists, pushes his students to rebel and unleash their hatred against society. Many terrorists were recruited precisely by this method.

The leitmotif of Negri's propaganda is that the enemy is the state, the Christian Democracy—Italy's predominant party—and American imperialism. Industrial leaders, Christian Democratic leaders, and trade-union leaders are hit; but only in one case out of hundreds of such episodes is the victim an individual linked to the PSI. It is Negri who together with Piperno and others organized the kidnaping and assassination of Aldo Moro. It is he who masterminded the assassi-

nation of Milan Prosecutor Emilio Alessandrini, a courageous magistrate who had the proof of Negri's terrorist activities in his hands. According to sources in Milan, Alessandrini had discovered that Italian terrorism was financed in large part by the director of the Banco Ambrosiano, Roberto Calvi, who channeled his funds through Canada.

Calvi was the banker of the Masonic lodge P-2, the lodge of Licio Gelli, which used right- and left-wing terrorist groups to destabilize the country. It seems that Alessandrini had discovered all this. According to the sources, Calvi may have ordered the physical elimination of Alessandrini by Negri. Negri is currently in prison, but there have been repeated attempts by judges linked to the Socialist Party to sandbag the investigations.

The case of Franco Piperno

The second leader in rank of importance in Italian terrorism is Franco Piperno. His career as an intellectual and a terrorist was launched by the former secretary of the PSI, Giacomo Mancini. Mancini continued to declare his full support and friendship for the terrorist even after Piperno was arrested in connection with the Moro murder and for a long list of other crimes. Recently, Piperno was arrested in Canada where he had

Depopulation already under way in Italy

Last spring Dr. Luigi De Marchi, president of the Italian Planned Parenthood Association and adviser to Italian Socialist Party Secretary Bettino Craxi, reaffirmed in an interview his public position that the population of Italy must be reduced from 60 million to 20 million by the year 2000 (*EIR*, June 2). Now, Italian government statistics reveal that for the first time in recent history, the Italian population grew at a negative rate in the first three months of 1981, falling by 12,320 people. For a Catholic country with a large peasant population, this development is all the more startling.

The cause of the population decline lies in the economic austerity policies supported by both Socialist Party leader Craxi and Christian Democrat Amintore Fanfani, president of the Italian Senate.

At the end of June, Italian unemployment exceeded 2 million, according to new official statistics. Another wave of layoffs is now under way, especially in

fled to avoid a new arrest warrant for arms trafficking. The ultimate destination of the Italian terrorist leader was the Massachusetts Institute of Technology in the Boston area, where a professorship awaited him. Piperno offered \$100,000 in bail to the Canadian authorities; the network protecting him is clearly extremely powerful.

Besides a large number of terrorist actions, Piperno's name is linked to the terrorist review *Metropoli*. This review was created—proof of the fact is now in the hands of the Italian courts—by Mancini's "number-two" man, Socialist Sen. Antonio Landolfi. Even though the publication of *Metropoli* has been halted several times by the magistrates because it was making an explicit apology for terrorism, the review was only a cover. Through it Piperno had put together a far-ranging operation with the goal of directly controlling all the terrorist groups. His instrument for doing this was a monopoly over the weapons being resupplied to the terrorists. Piperno and his group received arms from Qaddafi's Libya, arms which were then distributed to the various subversive formations. The arrest warrant issued by the Carabinieri (military police) of Milan for Piperno speaks clearly on this subject.

The Libyan dictator's purpose in supplying free weapons to Piperno's group was to promote a destabil-

the public sector, as a result of the "restructuring" policy of Socialist Party State Holdings Minister Gianni De Michelis. At mid-year, the deficit of public sector industry stood at 35,000 billion liras (\$30 billion), as De Michelis proposed to cut the budget and fire as many "useless workers" as possible. Social services are in a state of terminal collapse. The pension system, for example, will have a 41,000-billion lira deficit in two years, according to the system's own estimates. Recently, the Italian Supreme Court sentenced the sons of one pensioner to 20 days in jail for refusing to help their father financially. Like most pensioners, the father was receiving a 100,000-lira monthly pension (less than \$100), and the court ruled that this amount is much less than the minimum necessary to survive. There are at least 800,000 pensioners in the same situation.

The solution offered by Italy's Venice-centered financial oligarchy is simply to write off the public pension system. The president of Assicurazioni Generali di Venezia e Trieste said in an interview that his company is prepared to step in and replace the public system. A similar privatization scheme is being advanced for the health-care system, in which only those able to pay for private hospitals will get care.

ization all over Italy, but especially in the South, where catastrophic economic conditions provided a fertile hotbed for large-scale revolt. The Libyans also supplied large sums of money to finance radio stations that spewed out "The Thought of Qaddafi."

It is also worth noting that both Negri and Piperno have worked with the Mafia. In some cases Negri used elements of the criminal underworld to carry out terrorist operations. In particular, in the kidnaping of the student Campanile, he availed himself of men from the Turatello Mafia, with which he sustained a "working relationship." Piperno has often collaborated with men from the Calabrian Mafia: we limit ourselves to the example of the "Communist Combat Units" directed by Mancini's son-in-law Lanfranco Pace Lapponi, and remote-controlled by Piperno. The CCU acted in collaboration with the Calabrian underworld, and the proceeds of criminal activity were divided fifty-fifty between "political" terrorists and mafiosi.

The Aldo Moro murder

According to charges made by Paduan Judge Pietro Calogero, Antonio Negri and Franco Piperno were the brains behind the kidnaping and death of former Italian Prime Minister Aldo Moro in 1978.

What did that terrorist act—unprecedented in post-war history—mean politically?

At the time of his kidnaping, as president of the Christian Democratic Party, Moro was working on an effort sponsored by Pope Paul VI and favored by then-Prime Minister Giulio Andreotti, to stabilize the Italian political situation after nearly a decade of upheaval.

He proposed a relaunching of the Christian Democracy and a progressive democratization and de-Marxifying of the Italian Communist Party, the largest Communist Party in the West. It would have been a historical precedent of great importance, but at the same time, it would have meant the end of every illusion of taking power for a PSI that barely scraped through with 10 percent of the electorate. The only hope for Craxi was to provoke a ferocious counteropposition between these two forces, Catholic and Communist, so that they would wipe each other out. Meanwhile, Moro was apparently succeeding in his intentions.

On March 16, 1978, the new government of Giulio Andreotti, which Moro had done so much to prepare, was on its way to being sworn in before the President of the Republic. That morning the Red Brigades kidnaped Moro and killed all of his bodyguards.

Piperno wrote an editorial in *Metropoli* hailing the "geometric perfection" of the ambush. During the long months of Moro's captivity, Socialist Party leaders, and Craxi personally, were in constant contact with Piperno and the *Metropoli* group.

When this fact was discovered, Moro had already



Mussolini's 1920 March on Rome.

been killed. Craxi justified himself by asserting that he had tried to mediate with the terrorists for "humanitarian motives." In reality what had happened was one of the most brutal blackmail operations ever carried out against a sovereign state.

The Red Brigades demanded that the state surrender and immediately free arrested terrorists in exchange for Moro's release. Meanwhile, Craxi was setting up the "party of negotiations," accusing the Christian Democrats who opposed this blackmail of insensitivity.

A surrender by the state in that moment would have meant the end of the Christian Democracy. The party itself would have been totally discredited, and a signal would have been relayed internationally that "terrorism pays." Further kidnappings and acts of violence would have followed. Therefore, Pope Paul VI himself opposed any negotiations.

The most faithful ally of the PSI at that time was the minuscule Radical Party of Marco Pannella, a grab bag of homosexual rights activists and perverts who called the terrorists "Comrade Assassins." Until the last moment, Craxi and his cronies tried to induce the government to give in. After Moro's death, the Socialist-dominated mass media unleashed accusations of brutality and insensitivity against the political forces that had resisted the Red Brigades' ultimatum.

The tragic mummery of the "party of negotiations" was thenceforth repeated every time that the Red Bri-

gades perpetrated another kidnapping. The last case was that of Judge Giovanni D'Urso, captured in Rome last December. Having signed an accord with all the governing coalition parties to create a sweeping front against the Red Brigades' blackmail, Craxi then ordered *Avanti*, the Socialist Party press, to publish communiqués from the Brigades, thus breaking the press blackout that many believed to be the most efficacious weapon for opposing the terrorist escalations. Meanwhile Marco Pannella of the Radical Party was visiting maximum-security prisons, and, exploiting his position as a parliamentarian, held assemblies with imprisoned terrorists. In the ensuing chaos, revolts broke out in many prisons, led by terrorists like Negri and Lapponi, the son-in-law of Socialist leader Giacomo Mancini.

It was in this atmosphere that Craxi's right-hand man Claudio Martelli returned from the United States in early 1981. Martelli had attended the inauguration of Ronald Reagan and had had multiple contacts with the Kissinger-Haig group, perhaps even with Alexander Haig himself. In particular, the Craxi representative had received assurances from Michael Ledeen, an adviser on international terrorism to Secretary of State Haig, that the administration would support Craxi. Returning to Italy just at the moment when polemics around the PSI's behavior in the D'Urso case were at their peak, Martelli hastened to declare to all the press that "the PSI is Reagan's party in Italy."

But at that time President Reagan was evidently not yet a puppet of Kissinger and Haig, because Ledeen himself was forced to release a counter-interview emphasizing that what Martelli was saying was false, because President Reagan "is philosophically anti-socialist." It appears that Ronald Reagan has changed a great deal since then.

Craxi and P-2

It is incredible that Reagan should have decided to give his support to Craxi right after the Socialist strongman and his party were heavily implicated in the biggest scandal of postwar Italy, that of the Masonic lodge called Propaganda 2. P-2 was in reality an instrument of David Rockefeller's Trilateral Commission, as even the Grand Master of French Masonry, Roger Leray, declared. Its aim was to carry out a coup d'état against Italy's republican institutions and replace them with the deposed monarchical regime of the House of Savoy. The Grand Master of P-2, a former Fascist torturer suspected of having collaborated with East bloc secret services, Licio Gelli, said last December that his favorite politician in Italy was Bettino Craxi.

Gelli personally and regularly went to Craxi's residence in the Hotel Raphael in Rome to discuss his political projects. Many Socialist leaders showed up on the secret lists of the lodge's members: among others, Silvano Labriola, head of the Socialist parliamentary group, Vanni Nisticò, head of the party press office, Minister of Foreign Trade Enrico Manca, Socialist Party central committee member Fabrizio Cicchitto, and many others at the national and local level. Vanni Nisticò said shortly after the investigations opened that in reality he hardly ever saw Licio Gelli. The last time he had seen Gelli, the Grand Master had explained to him how easy it would be to kill the Pope.

As for Enrico Manca, it is noteworthy that he is one of the leaders of the so-called "Libyan Party," which, as we shall see, was very much present in the Masonic organization. One of the most important members of the lodge was the former head of the Italian Secret Service, Vito Miceli, once arrested for an attempted coup d'état and for involvement in terrorism. Vito Miceli today still boasts of his friendship with Qaddafi. In fact, Miceli was the one who blew an attempted coup against the Libyan dictator. And it was also Miceli who on various occasions returned to Libya terrorists who had committed criminal acts on Italian territory.

When the scandal exploded, Craxi did everything to try to cover it up, to the point of accusing the judges in charge of investigations—who were acting in a mine field of a thousand personal and political risks—of being corrupt and of having committed acts of brutality during the interrogation of the witnesses. As a political vendetta, Craxi got up in open parliament and demand-



Libya's Qaddafi with P-2 associates.

ed that the law guaranteeing the independence of magistrates from the political authorities be changed.

The motives for terrorism

The probes of Gelli's lodge, however, clarified important aspects of the terrorist destabilization that has gripped Italy.

It is a conspiracy of frightening dimensions. Among the 953 members of the lodge are members of the political, financial, military, and journalistic elite of Italy—3 ministers, 43 parliamentarians, 179 high officials of the armed forces, all the chiefs of the secret services. Gelli openly boasted of his friendship with former U.S. President Jimmy Carter. In fact, he was the only Italian invited personally to Carter's inauguration. Among the highly-placed friends of Gelli one also finds the Duke of Kent, cousin to Queen Elizabeth II and head of Scottish Rite Masonry.

Gelli himself was essentially a faithful servant of the House of Savoy. Among his seized papers were many personal letters addressed to the ex-King of Italy Umberto of Savoy. There were also letters of reply from the "king" and the crown prince Victor Emmanuel, which praise and appreciate the work of Gelli.

There is no Italian scandal, subversive operation, coup attempt, or episode of corruption in which Gelli and his cronies have not had their paws. But the destabilization operation of Gelli had a very precise



Craxi (lower left) with Socialists Lelio Lagorio, Enrico Manca, and Rino Formica, who as transport minister sabotaged a Saudi-Italian economic agreement last December.

goal: to convince Italians that it would be better to go back to the old monarchical regime. Evidently Craxi was considered the right man for Gelli's dreams of feudal and Fascist backwardness. Gelli hated the industry and development that had liberated peasants from the lands where they lived like slaves, reducing the power and social-control base of the oligarchy. Gelli longed for a forced return of youth to the countryside.

In 1969, Kissinger and Haig helped this old leftover of Mussolini's Fascism to set up his organization. Both were in favor of Gelli's ideas about destabilizing Italy. After Kissinger and Haig's meetings with Gelli, their entire NATO-Trilateral Commission network was integrated into P-2. The result was the bombs of Milan in December of 1969 when 16 people were killed, and a series of equally bloody episodes that Italy scarcely survived. Haig, the friend of Gelli, and Haig, the friend of Craxi, are two perfectly coherent aspects of a single strategy.

The chapter regarding relations between Haig and the P-2 was forcibly closed when a dossier on Haig found among Gelli's papers in his villa was suddenly classified under pressure from the U.S. State Department.

Meanwhile, information poured out in the press that P-2 men had directly financed Craxi. Gelli's banker, Roberto Calvi of the Banco Ambrosiano, has since confessed to Italian courts that he turned over several billions of lire to the PSI via Swiss banks. The PSI is still heavily indebted to the Banco Ambrosiano, a suspected center of recycling of the profits from illicit

activities through its Swiss correspondents.

Why did Gelli choose Craxi as his new Mussolini? Precisely because Craxi guaranteed the total disruption of society that Gelli was trying to achieve. Gelli wanted to induce mass psychosis in the Italian population, to force it to start screaming out of fear for a change in political regime, even for Fascism and the monarchy again.

The entire Italian population was subjected to a process of torture, so that it would renounce its own identity. Gelli favored criminality, immorality, terrorism, corruption—anything, as long as it led to a clamor for a man who could “guarantee governability.” And this was, in fact, Craxi's watchword—“governability”—security against the rampant chaos.

Craxi and Qaddafi

The idea that Craxi is a bulwark against communism is false; exactly the opposite is true. It is enough to consider that among the highest leaders of the PSI there are men like Riccardo Lombardi, a man linked to the Institute for Policy Studies in Washington, D.C. and suspected of being a KGB agent. Lombardi was one of the top leaders of the so-called “Partisans for Peace” together with the notorious KGB agent Italian Communist Party leader Secchia. For years, Lombardi had an office in Prague from which he directed vast subversive activities, on behalf of the most extremist, reckless faction of the Soviet Politburo, that of Mikhail Suslov and Boris Ponomarev.

But there is more. And it is not a simple question of

the close relations between Craxi and Romania's Ceausescu. Craxi is a great friend of Libya. As we have already seen, former Socialist Minister of Foreign Trade Manca is in effect an agent of the Libyan government. After Qaddafi strongly intimated last year that Italy should stop investigating Tripoli's ties to Italian terrorism, Manca returned from a trip to Libya and announced to the government in his official capacity that it would be better to let Qaddafi have his way, because otherwise Libya would cut off Italy's oil supplies.

Another frequent visitor to Libya (it seems that he goes to get his orders once a week) is the secretary of the Socialist trade union confederation, UIL, Giorgio Benvenuto. Benvenuto is Craxi's candidate to become Socialist Party secretary, once Craxi is elected prime minister.

But the most telling case of the ties between the PSI and Qaddafi was the famous Billygate scandal. Billy Carter's trip to Libya was organized by a lawyer from Catania, Sicily, PSI member Michele Papa. Papa, tied closely to the drug mafia, such as the Badalamenti clan, is actively propagating "Qaddafi Thought" in Sicily at this very moment. His declared purpose is to annex Sicily to Libya! Papa has offered several times to send terrorists trained by him to Libya to fight alongside the army of Qaddafi.

The entire Papa operation should be seen in the framework of the Mediterranean strategy of the Socialist International. Craxi is the swordpoint of this strategy, which consists of imposing zero growth and military adventurism on the countries of northern Africa and the Middle East. The Socialist International's targets are moderate countries like Saudi Arabia and Egypt.

Naturally, Qaddafi plays a key role in this mad design. And it is for this reason that even after Qaddafi threatened to bomb the nuclear weapons installations of the American army in Sicily, the PSI daily *Avanti* continues to insist on the need to have relations with Libya.

Craxi and Global 2000

Craxi is the biggest supporter in Italy of the *Global 2000 Report*, the genocidal project of the Carter administration that "predicts" the massive reduction of world population over the next two decades. *Global 2000's* chief Italian spokesman, Luigi De Marchi, publicly boasts that he is backed by Craxi and Craxi's economist, Francesco Forte. Professor De Marchi demands the reduction of Italy's population by two-thirds and maintains that "morality can be changed in individuals."

Craxi's economic policy ensures that the projections of the *Global 2000* project and the earlier genocidal forecasts of Aurelio Peccei's Club of Rome will in fact occur. When PSI leader Mancini was Minister for the



Piperno with Duchess Marina Lante della Rovere, a PSI member, celebrating his release from prison.

Mezzogiorno (southern Italy), he used the funds at his disposal to finance the Mafia, and this backward region did not make a single step forward toward progress. But if Craxi is elected prime minister, the situation will be much worse. Already, the handwriting is on the wall. Socialist Minister of State Holdings Gianni De Michelis, one of the godfathers of terrorist Toni Negri, has already succeeded in almost completely destroying the state sector. De Michelis's policy of laying off state sector employees is rapidly dismantling the industrial patrimony that the great Christian Democratic industrialist Enrico Mattei left to Italy.

The deindustrialization policy goes hand in glove with a frontal attack on the unions. Craxi intends to force the Italian labor movement to accept the abolition of its cost of living escalator, and, in effect, all social services, from the hospital system to the pension system, which is rapidly converging on bankruptcy. Unemployment has already reached—and these are just the official figures—2 million.

The part of the Italian economy still intact is the drug market and the "black economy."

It is on this base that Craxi is preparing to become prime minister, with President Reagan's benediction.

Craxi has ready his packet of "reforms of the Constitution" that will allow him to govern by decree. First, the end of parliament as a center of actual power; then the end of the independence of the magistracy; and finally a series of measures to create the conditions for a "strong" government. This is what Craxi, in Orwellian language, calls "The Great Reform."

India's industrial growth regains its momentum

by Daniel Sneider, Asia Editor

Indian Prime Minister Indira Gandhi, as a leader of both Third World nations and the Non-Aligned movement, will be one of the most important heads of state present at the Oct. 22 North-South summit at Cancún, Mexico. Along with Mexican President José López Portillo and such leaders from the developed world as President Reagan and West German Chancellor Helmut Schmidt, Mrs. Gandhi will bear the responsibility of making this session of the world's top leaders a fruitful step in reshaping international economic policies toward growth and industrialization.

As the prime minister gave me this interview on July 30 in New Delhi, the enemies of those policies took two dangerous steps. The first is the seemingly uncompromising decision by the Reagan administration to supply an unstable military dictatorship in Pakistan with a \$3 billion arms package, including sophisticated F-16 fighter aircraft. The danger of war—in the eyes of scenario-makers in London and Washington a “limited war” on the Indian subcontinent—is in the air here. People are quick to recall that current developments parallel the 1971 period, when the United States, China, and Pakistan carried out a joint strategy to throw the subcontinent into a bloody confrontation. With this analogy in mind, Mrs. Gandhi succinctly put the current regional situation in the following terms: “Our concern is not just our concern. We see the problem in the larger context of world confrontation.”

Equally disturbing has been the announcement by U.S. Treasury Secretary Donald Regan that the American administration still has “serious questions” about

the extension to India of a \$6 billion credit by the International Monetary Fund. With a threat of a U.S. obstruction of this loan, on the eve of the Cancún meeting, India is faced with hard choices.

There is no doubt, that despite all these odds, as the world's largest democracy and one which is committed to “independent” economic and political policies, India under Gandhi is something of an example for other developing countries. It is the country that on its own launched satellites into space; it has built its own nuclear plants; it has a growing cadre, the third largest in the world, of scientists and engineers. With a sizeable industrial capacity, with a large population, India has accomplished a goal many in the Third World aspire to: agricultural self-sufficiency, albeit at a lower level of consumption.

Getting over the ‘economic hump’

Not many countries in the Third World would voluntarily follow the “China model” of forced population control and ruralization. Quite a few, however, look at India's jagged but persistent victories against its economic problems as a model for their own nation-building efforts. From this standpoint, the remarkable improvement of industrial and infrastructural capacities in this country during the last year and a half heralds a period in which India could experience sustained economic growth, if international economic factors do not weigh to the contrary. From mid-1977 to 1980, India had in power what was known as the Janata Party-Lok Dal regime—a motley mixture of leftists, rightists, and



Information Service of India

Mrs. Gandhi meets Indian Muslims in Srinagar, the capital of Jammu and Kashmir.

outright World Bank agents, who presided over rising communal disorder and violence, and economic downturns in all key areas of production.

The Gandhi government can point to some significant success in the past 18 months of its return to government. The key sectors of coal, power, and transportation, which had reached a state of crisis during the previous regime, were tackled head on, with the prime minister taking a direct role in overseeing their production. Coal production, which had been stagnant during the previous three years, increased by 10 million tons (to 115 million tons) last year and will go up another 7 to 8 million tons this year. Total freight tonnage moved by the railways, the principal transport method, which had declined each year of the previous regime, has increased rapidly, up 16 percent in the first quarter of the current fiscal year.

Those improvements have contributed to solid improvement in electricity production, which in the first four months of this fiscal year rose 17 percent over the previous year. This is partly a result of improved capacity utilization and (less so) of added capacity. A foreign visitor finds this to be one of the most evident changes: last year, power cuts for hours on end were a daily phenomenon in almost all Indian cities, including the capital.

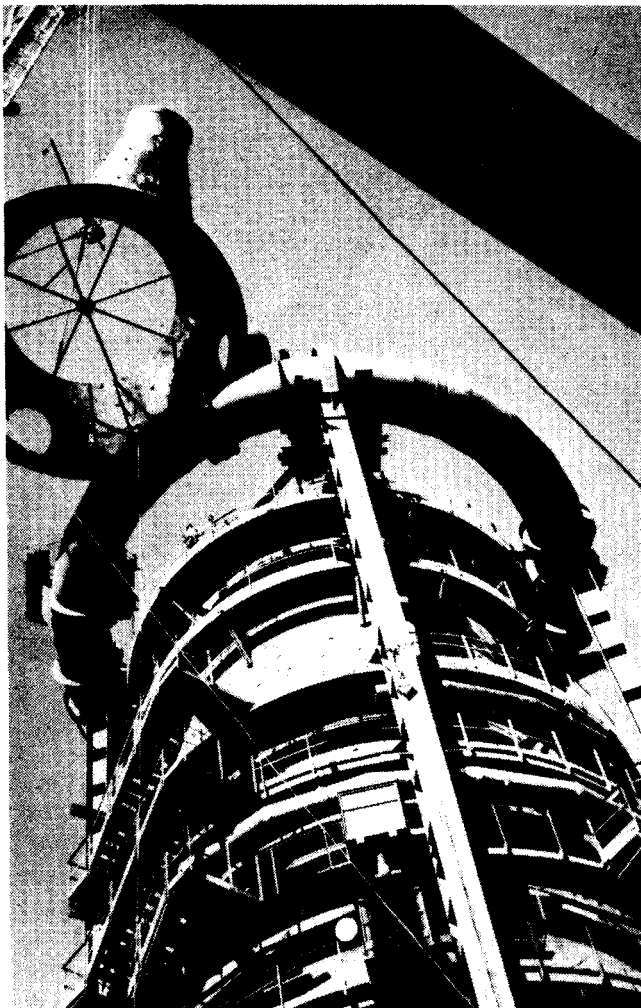
All this, particularly the availability of power, has contributed to an 8 to 10 percent increase in industrial production. In the first quarter of the fiscal year, steel production has increased by 26 percent; fertilizers by 46 percent; and cement by 20 percent.

On the agricultural front, performance has also been good, although it remains subject to weather conditions. Earlier estimates put the 1981-82 crop at a record level of about 135 million tons, but a drop in the monsoon rains midway through the rainy season in the Northwest breadbasket area could somewhat lower this figure. The Indian government's decision to purchase 1.5 million tons of wheat from the U.S. at a fairly cheap price to bolster grain reserve stocks now appears to have been a wise measure.

The state of agriculture will affect India's persistent inflation. Although part of that problem is externally generated, when the Gandhi government took office in January 1980, inflation was running at an annual rate of 23 percent. The government now says the current annual rate of wholesale price increases has been cut to 10 percent, although that does not seem to have shown up to much effect in the marketplace.

The Indian economy remains sensitive to global economic conditions which can act to slow down, if not abort, its progress. Indian exports have not grown sufficiently to match the pace of petroleum price hikes and rises in the cost of imported capital goods. Some 70 percent of total export earnings alone goes to pay for petroleum products; and the Indian trade deficit has more than doubled since 1979-80 to over \$5 billion.

This comes at a time when India has ventured out into the commercial capital markets for the first time, borrowing over \$800 million on the Eurodollar market last year at good rates. The U.S. high interest-rate policy "has really hurt us," one senior government



Blast furnace construction at the public-sector Bokaro steel plant.

economic official told me. This includes the impact of the artificially high dollar rate on the Indian trade picture.

This situation brought the Indian government to the International Monetary Fund this year to request a \$6 billion multiyear balance-of-payments credit. Indian government sources, responding to widespread criticism and fear of the infamous IMF "conditionalities" (particularly devaluation of the rupee), claim that the IMF is asking for no onerous conditionalities of any kind. In part, critics of the loan say, this is because the government has already moved to carry out certain measures aimed at reducing the budget deficit, anticipating IMF demands. Those critics point out that in the first year of a similar balance-of-payments credit to neighboring Sri Lanka, no "conditionalities" were explicitly attached, but last year the money was cut off midway when Sri Lanka turned down IMF "advice."

It is possible that the IMF is withholding harsh

demands, knowing full well the Gandhi government will not accept them at this time. I suspect that the IMF is willing to wait and then move in for the squeeze, as part of the regular review of the availability of the credit installments under IMF procedures. Such a circumstance, some Indians have concluded, would be part of a long-range effort to destabilize the Gandhi government.

Political stability for now

For it is under such circumstances that the political stability and widespread support which the Gandhi Congress Party government now enjoys could be undermined. At the moment, the Congress has an unchallenged two-thirds majority in the parliament and controls most of the state governments. Mrs. Gandhi is the key to this situation: she is respected and loved throughout the country, even when and where the Congress Party is not. But it can also be said that her own personal strength hides the weakness of the party machine, although the Congress remains, as the inheritor of the national independence struggle, the only all-India political party of any significance.

The opposition is split into a multiplying number of parties, many of them little more than shells for one political figure or another. What had conglomerated into the Janata Party to form the previous regime has predictably broken up into its constituent and usually squabbling parts. Within this mess are two parties which must be seen as present and future threats to the stability of the country.

On the right is the RSS, the extreme quasi-fascist Hindu chauvinist organization which has been exposed many times, including in a recent court inquiry into riots last year in Jamshedpur in eastern India, as responsible for sparking "communal" (Hindu versus Muslim) violence in the country. The RSS seeks cover under the Bharatiya Janata Party (BJP), formerly the Jan Sangh party, which had been the controlling element in the previous Janata regime.

The RSS's counterpart and open collaborator on the left, is the Communist Party of India-Marxist (CPM), a split from the pro-Soviet CPI in the early 1960s: essentially a mixture of Maoism and social democracy in its outlook, it heads two state governments in its traditional strongholds of West Bengal and Kerala. Neither the CPM nor the RSS has the national strength to hold power at the center. They remain a danger to Indian political stability.

The Gandhi government, however, is capable of meeting such challenges. The key remains the economic situation and ability of the government, even under internationally adverse conditions, to effectively mobilize the resources for the country and accomplish well-conceived national economic goals.

Indira Gandhi discusses domestic recovery and international tensions

Sneider: Your government has been in power for a little more than a year and a half. At this point how do you assess its achievements and what do you see as the major problems that must be dealt with in the immediate period ahead?

Gandhi: Our problems are more or less the same. They don't change in importance and they are largely economic. When we came back to power we found the economy in absolute shambles and it has not been easy to pick up the pieces. It was not just that things had stopped moving, but the most important part, that is, the infrastructure, had been damaged.

Now that we have been able to build up we've made good progress in power, steel, coal. Some things have not been so good, like cement, which is very short. Industry has also picked up. Our industrial production has increased by 11 percent in this last quarter, April to June. Of course, there were increases before that as well.

Generally also, among scientists, among the officials, the mood for work wasn't there. Firstly, the scientists felt that nobody was interested in them anymore. We have been able to revive their enthusiasm. I think the bureaucracy is also now functioning better although I would say much needs to be done.

Of course our economy is so largely dependent on rainfall. This year the monsoon rains started very hopefully but it has not rained in this month. And that is why, as a measure of what the lawyers call "abundant caution," we've decided to buy some wheat. Now we may not need it, but we thought it better to have it rather than be in a panic if something went wrong. We think that, as things are today, stocks are sufficient.

There is a lot left over from the previous regime which is partly due to their own ideas and partly due to the world situation. For instance, violence and crime have grown all over the world, especially in the United States and some other parts of the West. And that has an influence here—you read about it and so on. But apart from that, the government here previously—they believed the stories they themselves had invented. Therefore they announced that many people who were arrested for antisocial activities were "political prisoners." So they were released and dacoits [bandits] even had functions

arranged in their honor and what not. Immediately after that, of course, dacoity increased tremendously—I mean, in their [the Janata regime's] period.

I think that the overall law and order situation has improved somewhat. But the isolated cases—bank robbery—this is still very much there. We haven't got it under control. In smuggling activities, many of these people who had been curbed were let loose. We haven't been able to do as much as is necessary in order to reduce the burden on the ordinary people and improve the economy. There are certainly hopeful signs such as the fact that we have found more oil.

Sneider: On the political scene, the Congress Party has widespread support. You have a large majority in the parliament. In the opposition, however, it appears to me at least that there are only two forces that have any kind of coherence at all. That's on the right wing, the Rastriya Swayamsevak Sangh [RSS], or the Bharatiya Janata Party, and on the left wing, the Communist Party of India-Marxist [CPM]. Do you see a danger in the future, perhaps under conditions of economic stress, of a de facto convergence of left-wing and right-wing extremism that could pose a threat of destabilization?

Gandhi: Well they did combine in the three years I was out [of power]. The Marxists were fully supporting the Janata Party, of which the strongest component was the Jan Sangh. And within the Jan Sangh itself, the RSS is the most militant, and they were occupying most of the positions of power. So that is not just a danger in the future—we have faced it.

I was talking to a member of the CPM and I said, "Why are you sort of encouraging the rightists?" He said, "Well, I know they will disrupt and ruin the country, but they won't be able to touch us." It's that sort of attitude.

Sneider: There is a lot of talk in the press here, also in the West, about corruption. This cry is raised all the time. Do you see in this fury, this attention to the question of corruption, that this may be part of a wider type of effort to create conditions of instability in the country?

Gandhi: It is an effort to try and weaken the government.

There's no doubt about that. Corruption exists practically everywhere—all over the world.

In my previous regime we had managed to curb it to a significant extent. We hadn't eradicated it, but it was much less. But again, in the Janata Party regime it was so open that people got the feeling that this corruption is something that can be done. The newspapers didn't play up anything that they did. Occasionally, if something was against Charan Singh it came up, but not as a campaign, as it is against us. But people thought there was nothing wrong in it. You cannot suddenly stop corruption—I'm not just talking about the big people but all levels. But we are trying to curb it.

Personally, whenever I've found something wrong, I've always taken action. But a lot of things people shout about are not always what they say.

Sneider: You have already anticipated one of my questions on the economic side, which is on the grain import question. Some people have said that if more aggressive or tougher measures were undertaken to curb hoarding, the speculative activities of traders would have been sufficient to build up stocks rather than import grain. How do you respond to that?

Gandhi: Maybe we would have got a little bit more but we really bought it when we saw that the grain had already gone out [into the market].

We have found grain through raids but they usually spread it out in such a way that it is not found in one place. You cannot go and raid farmers and people like that. That's a question of the same people, when action has been taken, they have shouted and said, this should not be done, the same people!

Sneider: Another issue that has been quite controversial is the loan, the almost \$6 billion credit, you are seeking from the International Monetary Fund. Are you worried that the IMF might try to impose conditionalities on India, as they have in the past, and with other developing countries which . . .

Gandhi: Well they haven't in our discussions. We are not going to deviate from our nationally accepted, passed by parliament, policies. There's absolutely no room for doubt on that at all. No matter what.

Sneider: What is the logic of seeking such a large credit at this time?

Gandhi: We need money. This is the time when we can get on our feet. I think that all these institutions will tell you that we're one of the few countries which has used everything we've got to very good purpose. If we become much more self-reliant, we can be a help—I mean that we won't be a burden on others at all. Whereas, just a little bit now and then—that doesn't help you get over the hump.

When we came in [to power] we found this tremendous budgetary deficit left by the Janata Party and the Lok Dal government. Even for these basic infrastructural things we just don't have the money and everything is dependent on that.

Sneider: You've spoken often in recent months about the dangers of war on the horizon, of big power rivalries imposing themselves on this region. I think it is also fair to say, looking around the world these days, that these dangers are by no means confined to South Asia. What do you think is the source of this danger and how can India respond to it?

Gandhi: There is no one source. It is a general attitude of most people to pursue what they consider to be their immediate national interests, even if they are not in the long-term interests of the world, and therefore themselves.

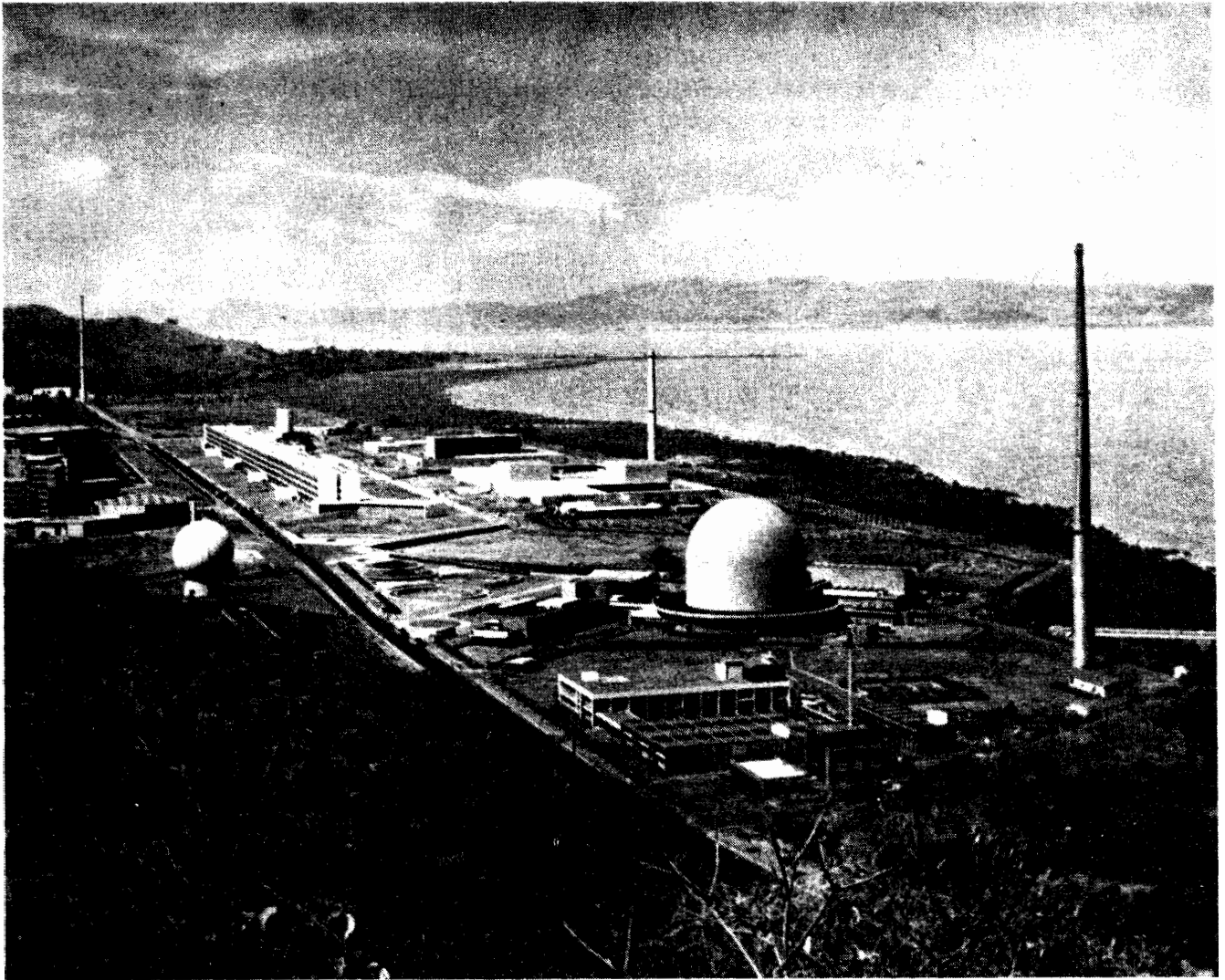
For instance, if the developed countries squeeze the developing countries as we are being [squeezed], where do they sell their goods? They can't have it both ways. We are the natural markets, but if our people don't have the purchasing power then obviously the West will be hit also. As they are—unemployment and so on. The U.S. seems to have solved this problem by giving dominance to the armaments industry.

That creates a different sort of problem because it affects us economically. It brings the arms race to us and it increases tension, confrontation. With everybody trying to go one higher, nobody knows where it will end.

Sneider: In the past few weeks there has been a flurry of diplomatic activity in the region—American envoys coming to Pakistan and India, Soviet Deputy Foreign Minister Firiyubin coming to both countries, the Afghan foreign minister was just here recently. A lot of this is focused around the Afghanistan situation. Do you see a serious possibility for real negotiations toward a political solution to the Afghanistan issue and related problems, or do you think the Zia regime in Pakistan, for example, is simply using diplomatic tactics to speed up the U.S. arms deliveries?

Gandhi: Firstly, obviously there can only be a political solution. Secondly, I think that Pakistan does not want a solution. They think that what is happening now is advantageous to them, and they have been, and are taking maximum advantage of it to get military, economic, and moral support. Certainly this is part of telling the U.S. that if you don't hurry up or you don't help us more, then we will go to somebody else. They've [Pakistan] always done that.

Sneider: What is your sense of the Soviet view? Are they growing impatient with the situation? Are they willing to keep making offers and wait?



The Bhabha Atomic Research Center in Bombay. In foreground: the Cirus research reactor.

Gandhi: I believe that they would like to take out their troops. It's not in their interest to remain. Why should their troops be engaged there? Therefore they are in favor of a solution.

Sneider: But if the Pakistanis won't move, then what happens?

Gandhi: Well, because of world opinion they [the Soviets] keep on trying, that's all—in their own interests, as well as world opinion.

Sneider: As you know, the U.S. Congress is going to be having hearings in a few days on this rather massive transfer of U.S. arms to Pakistan proposed by the administration. While there are a few voices of concern in the U.S. about the wisdom of supplying such sophisticated arms, like the F-16 aircraft, to what I think many people would agree is an unstable and unpopular military dic-

tatorship in Pakistan, there are not many people who understand clearly India's concerns.

Gandhi: Our concern is not just our own concern. We see the problem in the larger context of world confrontation and bringing Pakistan, which after maligning the non-aligned movement for many years, has decided to join it. Now we feel it is being dragged. . . .

Sneider: Back into an alliance?

Gandhi: Well, if not actually back, at least its attitude is a bit one-sided.

Sneider: The U.S. administration claims India is already engaged in an arms buildup, that it has massive superiority. . . .

Gandhi: Not at all. That's absolute nonsense. Obviously we have to keep up to date. Anybody who is responsible for a country's defense cannot ignore this question. Just

as before, when President Eisenhower gave the arms [to Pakistan], both countries were more or less at a level. Now suddenly, the U.S. military aid to Pakistan has brought them a decade ahead of us. Of course our defense people were frantic and we tried to catch up—and we did catch up.

Now exactly the same thing has happened now. Whereas we are still in the 1969-70 range, they have moved on to '79.

Sneider: I think people do not understand—they make these comparisons without ever mentioning that India's defense and security requirements must encompass, after all, not only potential aggression from Pakistan, but also from China. . . .

Gandhi: Not only that. We have a very long coastline. We had not given much thought to it, but now we feel that has to be protected just as much.

Sneider: If you look at the U.S. arms sales to Pakistan, and the potential arms sales to China, there is certainly a developing military relationship between the U.S. and China. In addition, developments in Bangladesh portend perhaps a turn to an Islamic military government that would be quite close to Pakistan. Do you think that this represents a potential for encirclement?

Gandhi: I don't like the word "encirclement," but it is true that people are trying to isolate India. We think that is just as dangerous as giving arms to anyone.

They are willing to give up all the things they've been shouting about for so long, about nuclear energy and so forth, so far as Pakistan is concerned. And they're not bothered that China has had so many nuclear explosions and presumably has large stockpiles as well—that doesn't bother them at all. But everybody still comes and tells me it was wrong of India to want to have a peaceful nuclear explosion.

Sneider: Mrs. Kirkpatrick, the U.S. ambassador to the United Nations, was recently here. She is the first high-level Reagan administration official to visit India. And you had an opportunity, along with other officials, to talk to her. Do you think that she came away with a better understanding of the Indian viewpoint; and what do you think are the prospects for Indo-U.S. relations in the current circumstances?

Gandhi: If I can answer the second part of your question first. We shall continue to try for better relations and deeper understanding. I think you'll have to ask her whether she has a better understanding or not.

Sneider: My sense is, as an American and someone who has been here a number of times, that there is an incredible gap in American understanding or ability to see what India. . . .

Gandhi: Because they have set ideas, they have very set ideas. Initially the word "socialism" put them off; why did we want to be socialists? Now we haven't moved terribly far in that direction, as everybody knows, and they know our difficulties. Many of the steps which were criticized at that time [the 1950s] have been followed in other parts [of the world], and by people who openly follow the capitalist system. I think that that sort of suspicion has lingered on. And of course their assessment of their global interests.

Sneider: Which does not include India?

Gandhi: On the contrary, they feel that India is an obstruction, they seem to feel that. Now when the Americans went into Vietnam, we had not only the Americans, but the Australians, Singapore, all these people, telling us that actually America was safeguarding our interests because China was our main enemy. I don't think the word enemy was used but something like that—that they're saving us from China.

We were being maligned and criticized because we said, well, China is hostile to us, it has committed aggression, but you cannot ignore a country of 700 million people, and therefore we are for China's entry into the United Nations. We don't get on with them; we didn't have diplomatic relations at that moment—that is we didn't have ambassadors—but that has to do with a realistic assessment of the situation.

We were criticized for this—called "communists" and all kinds of things. One fine day we find suddenly that the U.S. is friends with China. Not only do they want them in the United Nations, which of course we supported fully, but they are now the focal point of all their world strategy, or part of it. Perhaps they think it is essential to have this in order to keep the Soviet Union worried. That is the one reason why I think they would share Pakistan's attitude on Afghanistan.

Perhaps the present U.S. administration would like to see the Soviet Union kept involved in Afghanistan. I don't think they'd [U.S.] be very happy with their [the Soviets] moving out unless Afghanistan were completely in the Western camp. Short of that I don't think they want the Soviets out.

Sneider: In October you are going to be attending the North-South summit meeting in Mexico. I'd like to ask you a series of questions regarding that. First, what are your expectations regarding the meeting? What does India see as the main issues to be discussed there? Do you intend to stress, for example, the necessity of developing countries becoming modern industrial nations through science and technology—something which I think India stands for in the developing sector?

Gandhi: I can't say I have much hope for Cancún, except that when something has been so negative, any small step

forward is welcome. Our stress will be on trying to help developing countries to stand on their own feet. Now obviously, for that, science and technology is a must.

What science and technology and technological progress we have has to be seen in the context of each country's conditions; how much you can absorb, and what is best for you. In India, we are trying, not hard enough but certainly I would like to see us try, to see that this doesn't destroy any of the old things. We see in science today that they are accepting the validity of a lot of things which were earlier regarded as outmoded.

Take plowing, agriculture. They said, this Indian plow which has existed for centuries, it just scratches the top of the earth, and you should have this deep plowing with tractors. Now they say that deep plowing is what harms the soil. So you see you have long-term problems.

It doesn't mean you go to one or the other extreme, but you have to have a middle way, a mixture, which improves your soil, yet it improves your efficiency, reduces drudgery and wear and tear, and the burden on all, especially on women.

Sneider: Do you have any concrete specific proposals or issues that you are going to bring up at the Cancún summit?

Gandhi: We certainly have issues which we will raise there. The main thing is how the developing countries can be helped. Because, except for the Scandinavian countries, nobody has even kept the 0.7 percent [of Gross National Product for foreign aid] which was envisaged at one time. I think the U.S. has even less than the average—the average is about 0.37 percent.

Sneider: On the question of science and technology, I read your speech at the United Nations Energy Conference in Nairobi, and also your speech the other day in Bombay. There is a sort of fashionable current in the West these days, I would say an antiscience antitechnology wave, which says, among other things, that developing countries should not follow the path of the advanced countries to industrialization, that this is bad.

Now many people I have talked to here see this as just a disguised form of the old colonialism, keeping people in their place. What do think of this?

Gandhi: It has several aspects. One is what you are saying, which was vividly brought to our attention when we wanted to have our own steel [plants]. Now we had Tata steel but we wanted to have more steel. This was in my father's [Jawaharlal Nehru] time and he rightly felt that this should be in the public, that is, the state sector.

We went first to the United States to say would they help us set this up. They said, "Oh no, we won't help the government but if a private industrialist wants to take it up, we will help." We said, "We're very sorry, but we can't give any more steel plants to the private sector."

It was at a time when we drew our priorities and divided them into what was the core sector, and what would be left to the private sector, and what would be left to the small-scale sector, and so on. It was then that we went to the Soviet Union and they said they would help us and this is how the Bhilai and Bokaro steel mills came up. At that time no Western country was willing [to help].

The same thing happened with oil. We asked your companies if we had more oil apart from the little bit in Assam, because that was all we had. After what they said was a complete survey, they said, no there isn't any. Then we went to Romania. Romania brought in the Soviet Union—there was a joint effort—and we did find oil, onshore as well as offshore. And we are continuing to find it.

At that time we were talking about oil and steel and all these things, we were told by Western experts and others, the general public also, in newspapers, that what did a poor country like India want with steel? Why do they want to have steel? Why do they want to have big factories? That argument we absolutely reject. As I said earlier, we think science and industry have a great deal to contribute.

Any country, to guard its independence, has to be self-reliant to some extent. And if it's a big country like India, it has to be to a considerable extent. Therefore either way we're not going to use cars, typewriters, railways or whatever—if we are going to use them, it doesn't make sense that we buy them from the outside. We should try to make them even if they are not quite as elegant looking as the outside ones.

In some spheres of technology, my personal view is that we have to go all out to get the latest. Now this is a changing picture. It depends on our knowhow, our capacity.

On the other hand, our economic problems and the level of living of the majority of the people are such that we simply cannot say that we are going to have only this, because then you can't help the others. For the others you want something intermediate; you want something immediately, and that can only come about by what is known as "appropriate technology," that is the improvement of what they are using. It doesn't mean that they are bound to it for all time, but until they can get something better there is no reason for them to have the drudgery.

Take a bullock cart. If a bullock cart is fitted, as it is now in many parts of India, and there is one district where you can find every bullock cart fitted with tires. It makes an enormous difference—to the bullock cart driver, to the life of the cart itself, to the animals, and to the roads. Similarly, now more and more of these mills are coming up grinding grain. But where there aren't mills, the women are still using the hand-pounding machine. Of course from the health point of view the hand-pound-

Why Schmidt cites the new encyclical

by Rachel Douglas

During a three-day parliamentary debate of the national budget that concluded Sept. 18, West German Chancellor Helmut Schmidt invoked the just-published encyclical of Pope John Paul II, *On Human Work*, to defend technology-augmented human labor as “the Archimedes lever of life.” While Schmidt applied the Pope’s rejection of “primitive capitalism” against the would-be budget slashers from the German opposition parties, his remarks were of equal import for the United States and for international deliberations on economic policy.

Schmidt had told the press 10 days earlier that “national self-help cannot prevail over international developments.” Now his finance and economics ministers have suggested that West Germany, its currency stronger and trade balance improved, would presently be able to decouple itself from the devastating high interest rates imposed by the U.S. Federal Reserve.

As the Pope and leading political journalists in Mexico have delineated the opposition between human technology and no-growth, genocidal Malthusianism, so the Schmidt government throws the spotlight on the instrument of economic collapse, the high interest rates of Fed chief Paul Volcker. These interconnected matters, it now becomes certain, will be central at this month’s North-South summit meeting in Cancún, Mexico.

When he turned to military questions, Schmidt again rebuffed American intransigence. The chancellor succeeded both in relating security, including feasible levels of defense spending, to economic well-being and in arguing for good faith negotiations with the U.S.S.R.

The budget defended by Schmidt emerged from tumultuous debate within the government coalition of Schmidt’s Social Democratic Party (SPD) and the Free Democratic Party (FDP). The FDP fought for bigger spending cuts for the domestic economy, rivaling the austerity demanded by the opposition. But Schmidt, in parliament, said that there could be no further budget cuts without causing a disastrous, deflationary crisis. While the German economy was as healthy as could be expected under world recession conditions, Schmidt said, he certainly was not going to risk its demolition by the repetition of “foreign experiments”—meaning the tribulations of Britain and the U.S.

To refute the extreme Friedmanite doctrines of strict

ed grain is much better but it is very hard work for the women. If you can fit that with a ball bearing it lessens the physical energy one uses, as well as the time.

I’m giving only two obvious examples, but there are so many such things, small things, which if you can do immediately, you release that much energy. We have to have a bridge.

There are some things that we want for all time. For instance take our handicrafts. Now I don’t think that we should ever replace them by something else. Not only because they are beautiful, but because the people who work in those areas, they are much more complete people than those working with a conveyor belt.

You have to have a balance in all of this—you just can’t say I won’t have this and I won’t have that. That is why we are trying to keep a balanced picture between heavy industry, medium, small-scale, village.

Sneider: This brings me to my next question. Lately there’s been a lot of articles and reports, including the World Bank’s Annual Development Report, where again you see this big boom of the China “model,” that China is the economic model for the Third World . . .

Gandhi: I thought that mood was passed.

Sneider: There’s a revival. This time they say that because of the policies of the Chinese government, is scrapping heavy industry. . . .

Gandhi: I though they had scrapped it before when they had those backyard steel furnaces . . .

Sneider: Now they say they emphasize light industry, they are opening up these “special economic zones,” they are having a very coercive population control policy. . . .

Gandhi: That they have. But when we had population control, everybody was against it.

Sneider: The point is that all of these things are promoted as what China is a great “model” of. Again, also these comparisons are being made between China and India. I even saw that old canard recently in a column in the *Washington Post* that there are no beggars in the streets of China and you can find them in the streets of India. What do you think of such comparisons?

Gandhi: Well, I just read an article saying that there are beggars in China. Just last week, and I think it was in an American newspaper, but I’m not sure. They are having unemployment riots. They are having student troubles. Politically they are far from stable. And the moment they can, they are going to go in for heavy industry. If they are not going in, it is because their previous policies have failed completely and just now they cannot afford it from any point of view. I don’t know whether they have the skilled personnel but they certainly don’t have the other things necessary for it.

“free-market” economists, Schmidt turned to Pope John Paul, with whom he met a week earlier in Italy.

The chancellor instructed the opposition parties, the Christian Democrats and Christian Social Union, to study the papal encyclical as an antidote to the “ideological distortions” of “primitive capitalism.” Such problems as unemployment, Schmidt explained with reference to *On Human Work*, must not be left to the market to solve; the role of the state is crucial.

Schmidt praised the relatively “responsible” conduct of West German trade unions in the face of economic crisis in their industries, using the Pope’s definition of unions’ “responsibility” to defend workers’ interests without damaging the country in which they function.

The basis of Schmidt’s foreign policy, he underscored, is good relations with the United States, as well as with the Soviet Union and Eastern Europe. Soviet-American negotiations, Schmidt believes, “must go ahead.” The West German economics minister, Count Lambsdorff, predicts a future for Soviet-West German economic cooperation that would entail large industrial projects in metallurgy, chemicals, and energy after completion of a huge Siberian natural gas development deal. The periodical *Wirtschaftswoche*, which interviewed Lambsdorff before his Sept. 23 departure to tour the Siberian gas fields, reported that Germany could participate in construction of coal gasification plants in the huge new coal district of Kansk-Achinsk. The paper added that oil, too, would be a new area for Germany to invest in, perhaps in offshore exploration in the Caspian Sea. A 25-year economic cooperation treaty, signed by Schmidt and Brezhnev in 1978, provides the framework for many such projects, long beyond the Yamal natural gas pipeline.

‘Haig must cease efforts to topple Germany’s Schmidt’

by Lyndon H. LaRouche, Jr.

U.S. Secretary of State Alexander Haig, a shameless accomplice of Willy Brandt’s Socialist International, is conspicuously attempting to bring down the social-liberal (SPD-FDP) coalition government of Chancellor Schmidt in the Federal Republic of Germany.

What Haig is attempting to accomplish is a repeat of the process by which Nazi Adolf Hitler was brought to power in Weimar Germany. The first step in bringing Hitler to power in Weimar was the action of Hitler backer Hjalmar Schacht in leading the German Liberal Party out of the coalition government with Germany’s Social Democrats. This brought down the Müller government, and created the sequence of dictatorships lead-

ing through Brüning to Hitler.

The issue then and the issue today are identical. Then, Schacht demanded savage austerity. “Brüning style” austerity is the issue on which Haig’s backers have already attempted—unsuccessfully—to bring down the government during recent weeks. The “Brüning style” austerity is the issue around which Haig’s liberal and conservative admirers are being mobilized in efforts to bring down the government.

True, Schacht’s backing of Adolf Hitler succeeded only because there was a fascist rabble for Schacht to support. Is there an analogous fascist rabble with a minority mass basis today? There is. It no longer wears the color brown, but bears the green banner of “environmentalism.” The banner of the Baader-Meinhof terrorists, of the stormtroopers earlier, in city streets.

Like Hitler’s Nazis, today’s German “environmentalists” are not merely irrational philosophical anarchists. Like the Nazis they are mobilized about the mythos of the “triumph of the irrational will” over rationality generally and science and technology in particular.

Like Hitler’s Nazis, they must be crushed before they achieve political power, not afterwards.

If Haig succeeds in breaking the social-liberal coalition government in Germany, as Schacht did at the end of the ’20s, the new government will be unable to rule. Not only are the youth organizations of the Social Democracy and the Liberals dominated by rabidly irrationalist “environmentalists,” but the youth organization of the official opposition, the Junge Union, is also dominated by “environmentalist” voices.

A new government, without the popular Helmut Schmidt, would be at the present juncture a government of fits and starts, provoking bitter labor strikes at the same time the forces of the new fascist hooligans feast their strength on the desperation caused by austerity, as Hitler’s Nazis did during the 1929-1932 period.

If there is any difference between today’s German “environmentalists” and Hitler’s Nazis, today’s “green” fascists are far worse, far more degenerate morally than the Nazis, and capable of far greater crimes against humanity in behalf of their absurd doctrines. Like Hitler, today’s “green” fascists are rabid genocidalists, as evil as the genocidalists who early supported Hitler’s genocidal policies, like U.S. Gen. William Draper. They are supporters of the Club of Rome and Global 2000 which demands genocidal murder against many times more victims than Hitler succeeded in doing.

Let us not beat around the bush. Alexander Haig is supporting policies of genocide based on those proposed by President Carter’s *Global 2000 Report* and by the degenerate Gen. Maxwell Taylor of the Draper Fund, established for promoting the genocidal policies of Gen. William Draper. Haig is working to promote fascism in Germany, and is probably fit to be hung at Nuremberg himself. Get that bum out.

'You don't want someone like him steering policy'

"A decision must be made, as it is being discussed, to do something about the Schmidt problem," said a leading congressional defense expert with close ties into British-linked NATO circles.

"You don't want somebody like him steering policy, being the spokesman in Europe for NATO interests," he continued in a discussion late last month, because "accommodation with the Soviets is no answer. No real accommodation is possible except on Soviet terms. Certain people in Europe, in Britain, and here recognize this," he said.

"Schmidt can be toppled very easily," he emphasized. "Just put pressure on him to do things that make him look like an American lackey and let the left wing of the SPD [Schmidt's Social Democratic Party] take care of the rest. The left of the SPD is controlled by the U.S. State Department and similar places anyway," he said. "If the left wing of the SPD threatens to split, Schmidt would be forced to resign. He couldn't rule."

Schmidt's replacement, our informant is convinced, would be "Kohl from the CDU as a transitional leader" which would "make the alliance more manageable."

He noted that "the White House is not yet prepared to go ahead with this, though give it time. There are many people urging that it be done." He added that "Schmidt's playing hard ball on the NATO question may prompt some action along these lines."

"The questions about U.S. policy being raised by moderates like Schmidt are understandable," the defense expert admits, referring to his own recent trip to West Germany and other European countries where he had meetings with "strategic thinkers." "U.S. policy will destroy Europe both economically and militarily." He emphasized that it is the lack of "credible strategic leadership" in the United States that has made Schmidt "so dangerous in this period."

"The fact is that the other side has a strategic advantage, and the only real question is how we stop the Soviets from eventually deploying that advantage.

"Europe understands," he said, "that the U.S. cannot protect it from the Soviets, that the U.S. wants to make it a nuclear battlefield. . . . So Europe is shopping around for ways to protect itself. They are looking to develop their own relationship with the Soviets."

It is because of this overall climate, according to our source, that circles both in the United States and in Europe are actively plotting Schmidt's removal from office.

EIR seminar

North-South Relations and the Cancun Summit

Wednesday, October 14

Madison Hotel
Dolly Madison Room
15th Street and M Street Northwest
Washington, D.C.

**Panel 1: Keys to Development:
Education, Population and
Energy.
Why the Brandt Commission
Report Won't Work**

9:00 a.m.—12 noon

Speakers: Carol White
Editor, *Campaigner* magazine
Author, *Energy Potential*
The New Dark Ages Conspiracy
Jon Gilbertson
Director, Nuclear Engineering,
Fusion Energy Foundation
Ganesh Shukla
Editor and Publisher of the
Indian weekly *New Wave*

**Panel 2: Debate: Opposing Strategies
for Development**
2:00 p.m.—5:00 p.m.

Speakers: Dr. Ervin Laszlo,
Special Fellow, UNITAR
Criton Zoakos,
Editor-in-Chief, *EIR*

\$50.00

For more information, contact Laura Cohen,
202-223-8300

General Zia and his regime implicated in heroin traffic

by Uma Zykofsky

If the U.S. Congress approves the State Department proposal to give a \$3.2 billion package of military and economic aid to the Pakistani government of General Ziaul Haq, the United States may be on the verge of one of the biggest foreign policy scandals of recent years. Swept under the rug in Secretary of State Alexander Haig's and Undersecretary James Buckley's enthusiastic boosting of the mammoth arms deal is the fact that the U.S. government and international agencies are in possession of evidence implicating the Pakistani military junta in a major threat to American national security—the flood of “Golden Crescent” illegal narcotics into the United States and the nations of its NATO allies.

Zia's military rule has not merely coincided with Pakistan's becoming one of the biggest illegal heroin and opium exporters in the world, with a phenomenal increase in drug production and stockpiling over the past four years. Investigations conducted by *EIR* have turned up extensive evidence linking members of General Zia's inner military circle and his own family to the production and smuggling of Pakistani-grown narcotics.

The State Department's attitude toward these reports of Pakistani narcotics trafficking has been little short of bizarre. Mr. Buckley, responding to queries during the Sept. 15 hearings before the House Foreign Relations Committee, said that he was “concerned” about the reports. But not one official of the Drug Enforcement Administration has been called to testify before Congress on the aid package. Moreover, the State Department has been making an effort to show that the Pakistani situation is not comparable to the recent Bolivian drug scandal, where the Reagan administration set a policy precedent by cutting off aid to the former regime which had some of its top officials profiteering from the illegal cocaine trade.

The evidence shows, however, that the Bolivian comparison is right on target.

Over the past eight months, stories have periodically appeared in the press pointing out Pakistan's central

location in the “Golden Crescent” opium growing area (Iran, Pakistan, Afghanistan) that has come to compete with the Southeast Asian “Golden Triangle” for the most lucrative smuggling operations. Since 1977, when General Ziaul Haq came to power in a military coup d'état against the legally elected prime minister, the late Z. A. Bhutto, the junta has had top-down control over the police and administrative services. Thus, it is hardly credible to state that such an all-powerful regime has not been able to break the drug racket. Recently, a U.S. diplomat specializing in the problems of drug production in Pakistan corroborated this assessment when he told the *New York Times*, “Even if you concede that the Government can't do much in the tribal areas, there are still a lot of poppies being grown in places like Dir and Lower Swat, where the Government is in total control.”

The following recent accounts in the public domain implicate the junta- and military-run state organizations:

- Syndicated columnist Jack Anderson and investigators in his office reported that Pakistan International Airlines is a known carrier for illegal narcotics. Intelligence reports secured by Anderson revealed that “narcotics networks have become increasingly active with PIA.” He also reported that the State Department has known about this for several years—and has determined to look the other way. PIA is state-owned, and its chairman is retired General Rahim Khan.

- The Indian daily, *National Herald*, reported on April 26 that an International Narcotics Control Board official described the junta's enforcement practices as “too little and too remote.” The same article reported that in 1980 alone, “more than a dozen ships of the Pakistan Shipping Corporation were intercepted and found carrying drugs to the western countries.”

- As the accompanying article indicates, Pakistani diplomats have been put under heavy surveillance across Europe following repeated instances of army and air force people implicated in illegal-drug running.

In addition, *EIR* has uncovered three areas of investigation into Pakistani drug-running that have been

blacked out of other press and gagged by the supporters of General Zia. These include:

- General Zia's crackdown on the trade union of Pakistan International Airlines two months ago;
- General Ziaul Haq's links to the Canadian-based corporate front, Space Research (now known as Space Technologies), and the involvement of Bank of Credit and Commercial International founder, Agha Hassan Abedi, in this set-up;
- A smuggling scandal involving gifts Zia was to have carried with his delegation to the U.N. in 1980.

Pakistan International Airlines crackdown

Some eyebrows were raised when the PIA airplane hijacked from Pakistan to Kabul in April 1981 counted among its passengers three known international narcotics dealers. Not much media attention was given to this curious fact, since the spotlight was turned on implicating the late Z. A. Bhutto's sons with the hijackers.

Two months ago, PIA underwent a total reorganization under sudden orders from General Zia. Highly reliable sources in the Pakistani exile community report that thousands of PIA trade-union militants were rounded up because the union executive had resolved to expose the full scope of the drug running operations going on through PIA international flights, with the protection of high-ranking generals. The union had names of beneficiaries, ports of origin and destination, and documentation of the size of the operations. Press censorship of the roundup was so intense that the only story newspapers carried was Zia's version, which said that the purge was "to end union squabbling and stamp out corruption."

One law enforcement official who did not buy Zia's story pointed out certain changes in PIA which corroborate the union's findings. The PIA security branch, usually run by a police officer, was put under the authority of Brigadier Minto, a close associate of PIA chairman General Rahim Khan and of Zia himself. The job of director of administration—usually a civilian in the past—was handed to another brigadier, and army officers were stationed in every PIA office inside the country and abroad to identify troublemakers.

A writ on behalf of the PIA union has been filed with the International Labor Organization in Geneva.

"He who governs the Frontier Province, governs the drug trade," a knowledgeable insider in Pakistani affairs told *EIR*, and hypothesized that Gen. Rahim Khan was given the job as PIA chairman on the recommendation of Lt. Gen. Fazle Haq, the military governor and martial law administrator of the Northwest Frontier Province (NWFP). The NWFP and Baluchistan are the two opium and heroin producing areas in the country—and both have been under tough military rule.

Fazle Haq has particular significance in the drug

trade. One of his brothers, Fazle Hussein, has been wanted by Interpol in connection with several cases involving drug racketeering in Europe. According to Pakistani investigators, Hussein is a "history sheeter"—one with more than ten cases pending against him—which has led police to open a special investigation on his personal history. In Pakistani courts over the last few years, the following has been found:

- Fazle Hussein was involved in defrauding a German national and a Libyan ambassador when he purchased their homes in Pakistan. The police found substantial amounts of hashish in these houses after Hussein took possession.

- Several times in the 1976-80 period, Fazle Haq protected his brother and the family racket. The Karachi police compiled one case where Fazle Haq's cars were being used to transport hashish from the Baluchistan area to the port city of Karachi and in one instance, Hussein was stopped with the booty. Fazle Haq was believed to be in the accompanying car.

- The Kherpur district police department has information on how Fazle Haq secured international fake passports for Hussein's overseas operations.

One of the first moves by the military dictatorship after Ziaul Haq seized power in July 1977 was the quashing of an investigation underway in various police jurisdictions into Fazle Haq's brother's operations. Zia appointed Fazle Haq as both martial law administrator and then military governor to the drug producing NWFP state, *with the full knowledge that his family was involved in this illegal trade*. Fazle Haq subsequently hounded out of the country police officials involved in these investigations.

The friends of General Zia

Zia's personal involvement in illegal-drug operations has to be examined in the light of events preceding and during his 1980 visit to the United Nations as a spokesman for the Islamic nations. The London-based Pakistani newspaper, *Mussawat*, in its Sept. 14, 1981 issue, reported on its investigations into Zia and his family during that period. According to *Mussawat*, Zia had planned to carry several marble lamps with him as gifts for the Western heads of state he expected to meet.

Through a series of misunderstandings and mishaps in planning, the lamps remained behind in Islamabad airport as Zia's itinerary changed and he went through Iran and Iraq before arriving in New York. Pakistani officials of the Federal Investigation Agency took possession of the marble lamps and found them stuffed with heroin. Several arrests were made and a Captain Qamar, aide-de-camp to Zia and known as the General's "adopted son," was implicated in the case.

But after Zia returned from his overseas trip, the full weight of the martial law administrator's office was

used to keep Qamar's name out of the press and investigation, even though he was the person in charge of the purchase and delivery of the marble lamps. Many of those arrested were released, and big smugglers implicated in the case were allowed to flee the country. One of the smugglers was Rana Abdus Sattar, a relative of the late Pakistani ambassador to Great Britain, F. R. Khan. Sattar, according to London sources, has been involved in drug smuggling using the diplomatic pouch in Europe.

In October 1980, it also came to light for the first time that General Zia had a great deal of interest in the activities of a Canadian-based corporation named Space Research, which underwent a sudden reorganization following the conviction of some of its officials in illegal arms trafficking in a Vermont court earlier in 1980. The new head of what became Space Technologies, an Egyptian-Moroccan businessman and real estate dealer named Saad Gabr, is known to be a close friend of General Zia. Another key operative for Space Research-Space Technologies is Agha Hassan Abedi, a Pakistani banker based in London and the Gulf states who heads the Bank of Credit and Commerce International.

Gabr, the head of a firm that has been under investigation for funneling weapons to governments illegally, by-passing the U.S. Military Assistance Act, is a frequent visitor to Pakistan. Within Gabr's international operations is one Gen. Chisti, the former military governor of Punjab province in Pakistan, and reportedly Zia's intermediary to Gabr.

Agha Hassan Abedi, another Gabr associate, is known in Pakistan as the "unofficial" finance minister. He is the founder of the Persian Gulf-based Bank of Credit and Commerce International (BCCI), and was named by the late Z.A. Bhutto as one of the people instrumental in provoking the capital flight and currency destabilization that led to Bhutto's overthrow.

In the recent period Abedi has become the generals' banker. Zia's son Ijaz ul Haq was given a job by Abedi even though Ijaz has no qualifications in the banking field. Ijaz ul Haq is married to the daughter of General Rahimuddin, the military governor of the other big drug-growing province, Baluchistan.

Through this "inside" channel, BCCI was permitted to open several offices inside Pakistan and is securing various types of investments for the military. For instance, several generals are reported by informed sources to be involved in real estate purchases in Europe, particularly in Spain, and in the United States, mostly in California. Drug enforcement specialists report that any money from illegal drugs could not be deposited back into the generals' accounts inside Pakistan, where their earnings are limited by law. A common practice has been to use third persons to purchase land on their behalf.

Documentation

Zia's Pakistan: gateway to opium center

by Marilyn James

Since 1977, Pakistani President Ziaul Haq's pleas for U.S. aid have been accompanied by pledges to crack down on illegal drugs. Under the four years of Zia's rule, Pakistan has played a leading role in the re-emergence of Southwest Asia's Golden Crescent opium cultivation belt; is rapidly establishing itself as a morphine and heroin refining center; and is a major exporter of illegal drugs for the entire region.

The Golden Crescent consists of the opium-cultivation belt that stretches from Pakistan and Afghanistan through the northwestern section of Iran. It began a marked expansion in opium cultivation with its 1977 harvest and steadily increased its output until the record-breaking harvest of 1979, when an estimated 1,600 metric tons of opium were produced.

Western Europe has been the primary target of Golden Crescent heroin, in particular West Germany, France, and Italy. On April 8, Joseph Linnemann, acting assistant secretary of the State Department's Bureau of International Narcotics Matters (INM), testified before the House Subcommittee on Foreign Operations that the heroin from the Crescent "fueled an addiction epidemic of unprecedented proportions" in Western Europe and "has the potential for affecting our armed forces." Beginning in 1977, our European allies—noting the revival of the French Connection—warned that once their populations were saturated with Southwest Asian heroin, the traffickers would turn their full attention to the lucrative markets in the United States.

The Carter administration took no action other than to increase aid to Pakistan based on Zia's promises of a major drug crackdown. It is now clear that the United States is in the throes of yet another major heroin epidemic, a crisis brought about by the influx of heroin from the Crescent.

The 1979 bumper crop of poppies marked the high point in the region's opium cultivation. The U.S. Drug Enforcement Administration (DEA) estimated that Pakistan's contribution to that record-breaking opium harvest was 700 metric tons; since then cultivation in Paki-



Drug-running Afghan rebels: part of the Crescent.

stan has sharply declined. The DEA estimated that Pakistan's illicit opium harvest from 1980 yielded 125 metric tons, and 126 metric tons was expected from the 1981 harvest. State Department officials and intelligence sources have cited the political instabilities of the region as the primary factor in bringing down production, specifically the fall of the Shah in Iran, the Soviet invasion of Afghanistan, and the massive influx of Afghan refugees and rebels to Pakistan's Northwest Frontier Province. Reportedly the drop in the price of raw opium also was a contributing factor in the cutbacks.

But the decline in Pakistani opium cultivation is very deceptive.

Short of an act of God, it is difficult to explain how Pakistan's opium harvests could go from 700 metric tons to 125 in the space of one year, unless a deliberate decision were made at the highest levels in Pakistan and implemented through the powers of the military government. Planting decisions are not left to the tribal poppy farmers; they are made according to what the opium buyers think the market will bear.

In the absence of any reports of the government's having plowed under or burned any poppy fields, it is difficult to account for the sharp cultivation drop simply because of the influx of Afghan refugees into the country. With a harvest of 125 metric tons, Pakistan is still in business. At present consumption levels it takes approximately 150 metric tons of opium to supply the global addict population for one year. More importantly, Pakistan is not itself a major opium consumer; the bulk of its harvests are earmarked for export. What then became of the 1979 bumper crop?

Opium, as with good wine, becomes more potent with age. The DEA has for some time thought that a major portion of the 1979 harvest had been siphoned off as a strategic reserve and stockpiled in Pakistan's Northwest Frontier Province. Linnemann, in his April testimony, told the congressmen, "It has been estimated that if all the opium presently stored in Pakistan were to be converted into heroin, Pakistan alone could supply the United States market at present United States consumption rates for the next 10 years."

Pakistani opium is predominantly grown, stored, and traded in the Northwest Frontier Province (NWFP), an area that lies between the Khyber Pass (a wide plateau that cuts horizontally across both Pakistan and Afghanistan) and the Chinese border. This no-man's land is populated by autonomous, seminomadic tribes who recognize no central government's authority. It is into this area that the bulk of the Afghan rebels and refugees flocked, and this is where the guns-for-drugs trade flourishes.

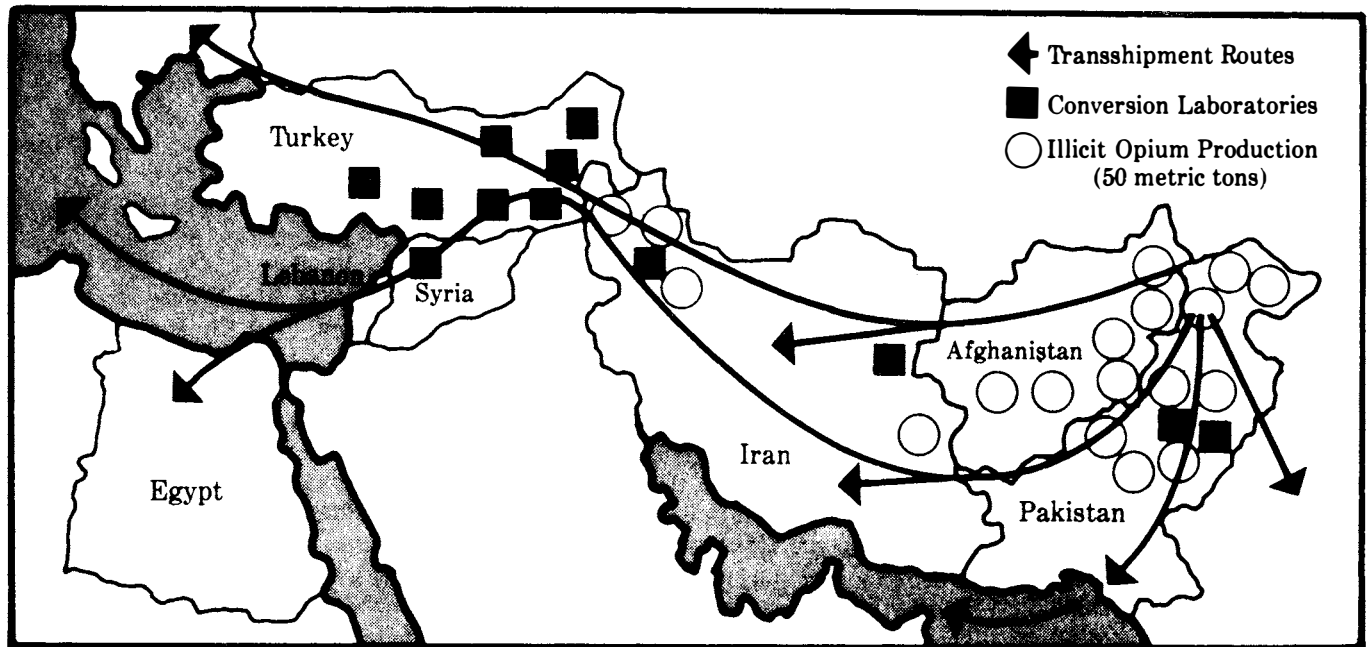
DEA and Pakistani law enforcement officials report that the NWFP is the site of a growing number of crude mobile refining labs. Twenty have been reported operating in the area at present, and they are capable of producing up to 50 pounds of morphine base and/or heroin per month. Some of the refiners have brought in European chemists, but the predominant indication is that the refiners are freelancers, emphasizing production of morphine base rather than the injectable, but relatively poorer quality—in terms of a Western market—No. 2 heroin. Morphine-base conversion facilitates transport of the drug, and because it is more manageable in this form, it also cuts delivery risks and eliminates the middleman, making it in every way more profitable.

Traffic patterns

Pakistani opium and hashish travel overland in caravans that cut westward across Iran, where the drugs are used to feed the mushrooming consumption levels in Teheran, with the rest continuing west until it reaches the eastern provinces of Turkey. The caravans or trucks and other forms of transportation may also travel south to the Pakistani port city of Karachi, where, according to the State Department's Bureau of International Narcotics Matters, "There is also clear evidence of movement out by sea and by air." Once the opium or morphine base has reached Turkey, it is conduited to what one DEA spokesman described as a "carbon copy of the old French Connection, with some new players on board."

The French Connection is the popular generic name for the collective heroin refining and distribution network that was responsible for supplying the U.S. heroin epidemic that grew in the 1960s and culminated in the early 1970s, when law enforcement intervened effectively on an international basis to crack the operation.

The Golden Crescent: Illicit Source of Opiates



The opium growing and heroin conversion areas of the "Golden Crescent" as mapped by the DEA.

Contrary to popular belief, there has traditionally been a close working relationship between the French Connection and the Sicilian-dominated organized-crime families in Europe and the United States.

Unlike the NWFP, the port city of Karachi is not a no-man's-land. A number of classified documents and CIA reports secured by associates of investigative columnist Jack Anderson were brought to public attention this summer. They show that the U.S. State Department had apparently been aware for at least seven years that the Pakistan International Airline (PIA) was being used as a major drug conduit. Anderson reported that one document stated, "Available information indicates that PIA is a major conduit for illicit narcotics from Pakistan to Western Europe, the Far East, Canada, and the United States," and the CIA report he obtained reasoned that "narcotics networks, organized by major international traffickers, have become increasingly active with PIA."

The sea route is also quite active. It is used to smuggle drugs to the southern provinces of Turkey or to the traditional transshipment points of Southeast Asia's Golden Triangle. From Turkey the drugs move directly overland to Europe, and from Southeast Asia they can be moved to Europe, Australia, Canada, and the U.S.A., where the more lucrative markets exist.

A former senior police official in Pakistan has reported that a well-known NWFP smuggler named Payakhan is now based in Hong Kong. According to this source Payakhan is a close associate of Fazle Haq and has organized a paramilitary force inside Hong

Kong to protect his drug operations. (Fazle Haq, the military governor of the NWFP, has multiple connections to the illegal-drug business.) Hong Kong and U.S. officials have long been aware of the traditional smuggling route between Hong Kong and Karachi, but until the revival of the Crescent, the route was predominantly used for consumer-goods contraband.

It is also reported that there has been a notable change in the NWFP Turra and Swat cultivation centers as well as in the Bara and now famous gun-drug bazaar, at Gerra-Adam-Khel, following the Soviet invasion of Afghanistan. These areas not only saw a sizable influx of Afghan refugees and "freedom fighters," but Chinese personnel as well. Prior to the Soviet invasion at the end of 1979, informed sources say the Chinese presence was quite minimal, but since then it has "become more and more evident; they are all over."

From all available indicators, the upsurge in Chinese activity in the NWFP area was facilitated by two factors: 1) the Chinese built a highway that cuts through the NWFP connecting Islamabad in central Pakistan to the Chinese border; and 2) the drug and gun trade flourished in the NWFP. It has long been the belief of intelligence experts that the China road, patrolled in some parts by the bellicose tribes, has also been used to transport weapons and other logistical aid and contraband to the rebels. It is also believed by some U.S. experts, who had experience in Southeast Asia's Golden Triangle during the Vietnam war, that the road is being used to transport the chemicals used in the refining process, particularly the critical one—acetic anhydride.

Mexican diplomatic offensive challenges Haig's 'body count' policy in El Salvador

by Timothy Rush

A new dynamic is emerging in the El Salvador civil war, thanks to a determined diplomatic offensive by Mexico to urge a negotiated settlement to that conflict. The contrary efforts of U.S. Secretary of State Alexander Haig to engineer a so-called military solution—merely another name for the Vietnamization of the region—have been sharply set back.

The turning point was the back-to-back visits of U.S. Vice-President Bush to Mexico Sept. 15-16, and Mexican President López Portillo's trip to Grand Rapids, Michigan Sept. 17 and 18 for direct talks with President Reagan. Bush, accorded an unprecedented welcome by the Mexicans in the course of Mexico's independence day celebrations, met with López Portillo privately for 80 minutes. Bush flew to Grand Rapids ahead of the Mexican party to brief Reagan on these talks. López Portillo then met with Reagan for 45 minutes the evening of Sept. 17, and for an additional hour, in the company of Canadian Prime Minister Trudeau, on Sept. 18.

Washington was buzzing over the next days that "something had happened" in the course of the visits. This became clear when Reagan met in Washington for a surprisingly short 20 minutes with Salvadoran President José Napoleón Duarte Sept. 21 and, according to administration officials, broached the subject of negotiations with him. After briefing Duarte on the Grand Rapids talks with López Portillo, Reagan specifically suggested that Duarte look at the possibility of Mexican mediation to find a negotiated settlement. A "senior administration official" quoted in the press the next day confirmed that "there was some discussion of the potential role of President López Portillo and others in the region . . . [in introducing] a mediated settlement."

This was quite a turnaround from Haig's unbending insistence that "elections," not negotiations, must be the first step in El Salvador—a sure-fire formula for exacerbated civil war. It remains to be seen how quickly and how publicly this shift gets translated into formal administration policy, but there is no question that Mexico has

successfully introduced some new thinking at the top.

This had been Mexico's intention in its recent round of diplomatic activity, kicked off by a joint communiqué with France issued Aug. 28. That communiqué had recognized the Salvadoran opposition as a "representative political force" which had to be brought into the negotiating process.

Though at first glance, the Mexican move threatened to rupture the good will that López Portillo and Reagan had established in their first two meetings this year, López Portillo carried through the diplomatic initiative deftly to actually further solidify that personal tie with Reagan, and re-establish Mexico as the key mediating force for American concerns in the region.

A series of energetic diplomatic moves along the way contributed to this result. On Sept. 13 López Portillo hosted Honduran President Policarpo Paz García to summit talks in Mexico City and showed how persuasive Mexican diplomacy can be. Though a more moderate military regime than neighboring governments such as Guatemala's, Honduras lined up with Venezuela's strong condemnation of the Mexican-French initiative, and maintains a series of military understandings with the armies of El Salvador and Guatemala which always have the potential of being activated into a single regional gendarme force.

López Portillo hailed the visiting general as a "respected military leader," extended a series of juicy economic packages Honduras's way, and extracted statements from Paz which emphasized a peaceful settlement of the region's conflicts. Most significantly, López Portillo arranged a meeting between Nicaraguan leader Jaime Wheelock and Policarpo Paz in Mexico City under his personal auspices, in which steps were taken to cool out the tense border situation between Nicaragua and Honduras.

Equally important was the swing through Mexico by Brazilian Foreign Minister Ramiro Saraiva Guerreiro, crowning Mexico's efforts to organize a middle bloc of

countries away from Venezuela's anti-Mexico crusade. Brazil, the companion "heavyweight" to Mexico on the continent, was crucial to this effort. Saraiva met with López Portillo hours before the Mexican president flew to Michigan, and then told the press that "Brazil may differ with the Mexican position on El Salvador, but we are not heading any campaign against the French-Mexican proposal for a political solution in El Salvador."

'Systematic genocide'

High-level Mexican officials told *EIR* that their concern in stopping Haig was to prevent an intensified wave of slaughter from sweeping Central America. Over 22,000 people have been killed in El Salvador since January 1980, and hundreds more are being butchered weekly—many in atrocious cult fashion by the country's right-wing death squads. Already over half a million of the country's 4.5 million people are homeless refugees either inside or outside the country. Should Haig succeed in his attempt to exacerbate the civil war, Cambodian levels of genocide will quickly result throughout the area.

Mexican officials are well aware of the fact that the man on the scene responsible for carrying out the Cambodian horror in the early 1970s, Mr. Thomas Enders, is today Haig's assistant secretary of state for inter-American affairs, with direct oversight and responsibility for Central America.

On Sept. 5, columnist Chao Ebergenyi of the Mexico City daily *El Sol* revealed that high Mexican officials—subsequently identified as military and interior ministry-linked individuals—were studying the Malthusian planning manual of the Carter administration, the *Global 2000 Report*, and had come to the conclusion that the implications of the document were willful murder of millions in the Third World.

On the eve of the López Portillo-Reagan meeting in Michigan, Mexican novelist and former ambassador to France Carlos Fuentes minced no words that mass murder was indeed the issue of El Salvador. "The present course of events in El Salvador will lead to large-scale extermination," he wrote in the *New York Times* Sept. 16. "The triumph of the extreme left would provoke an extreme reaction from the United States, thus inviting even more merciless repression; the triumph of the extreme right would perpetuate uncontrolled genocide. . . . Mexico has offered the U.S. a way out of the swamp."

Even more forthright was a column appearing in the Mexico City daily *El Universal*. "In its attempt to impose greater geopolitical control" over such areas as Central America, *El Universal* charged, the United States is engaging in "systematic genocide." Washington's "threatening policies" work as one package, "spanning economic pressures on the developing coun-

tries, increased interest-rate warfare, [and] the deployment of the neutron bomb."

With the shift in momentum after the López Portillo-Reagan meeting, Haig's surrogates in Latin America suddenly find themselves sinking in political quicksand.

Venezuelan President Luis Herrera Campins, who had taken the lead in following Haig's instructions and uniting other Latin American nations—most notably the Southern Cone military dictatorships—in condemnation of the Mexican-French initiative, had a hard time re-establishing credibility for Venezuela as a "Third World" leader in his Sept. 21 address to the United Nations. In desperation, he called for "independence for Puerto Rico" as Venezuela's new claim to "anti-imperialist" leadership. He was speaking as his government had yet to respond to insistent charges in Caracas that Venezuela already had troops stationed under a variety of guises in El Salvador.

Similarly scrambling was Salvadoran President Duarte, who had been brought up to Washington by Haig as a preliminary to increased U.S. aid and dispatch of outside troops to the region. After Reagan informed him that Mexico's good offices for a mediated settlement were now top on the agenda, Duarte sputtered that he would prefer "Panama, Costa Rica, or Guatemala" as the intermediaries.

The shift in direction has also given a cold bath to the Argentines who, according to Washington sources close to Haig, were preparing to increase their already significant sub rosa involvement in the Central American region.

Haig et al., however, are hardly ceding ground graciously. Two weeks after the French-Mexican communiqué, high-power bombs exploded at the Mexican consulates in Miami and New York, and the youth section of Herrera Campins's COPEI party marched through the grounds of the Mexican embassy in Caracas, defacing its walls. The Mexican embassies in Guatemala and Honduras were simultaneously attacked.

At the U.N. on Sept. 21, Herrera Campins kept up a stream of attacks on Mexico's role in Central America, and issued a barely disguised threat to unleash full-scale havoc throughout the area. The Mexicans, he argued "believing they are facilitating peace, may institutionalize war on Central American soil."

These are not idle threats, since they are fully endorsed by Haig himself. Mexican government officials fear that Haig, stymied in El Salvador, will now turn his attentions to blowing up Guatemala, which borders Mexico to the south. Conveniently at hand, should he choose to do this, is the British-orchestrated destabilization generated by the Sept. 21 independence granted to the tiny nation of Belize, whose territory is claimed by Guatemala.

EIR report forecasts crisis in Guatemala

Executive Intelligence Review has just issued a 100-page Special Report on "The Worsening Destabilization of Central America." Prepared under the direction of EIR Latin American Editor Dennis Small, the document reviews the role of the Socialist International, the Jesuits, and U.S. Secretary of State Haig in jointly destabilizing the region, and provides a detailed analysis of each of the six countries in the area—Guatemala, Honduras, Panama, Belize, El Salvador, and Costa Rica.

The EIR study singles out Guatemala as a particularly dangerous flashpoint, whose stability has been further undermined by the recent granting of independence to the former British colony of Belize. Given its timeliness, we reprint below excerpts taken from the Guatemala section of the EIR Special Report.

Guatemala is the center of gravity for Central America, and its destabilization would be enough to tip the balance throughout the entire region in the direction of chaos and depopulation.

First, it is the largest economy of the six nations by far, with a 1980 GNP of \$4.2 billion . . . Oil is playing an increasingly important role in the Guatemalan economy, with current output of 5,500 bpd expected to rise to 30,000 bpd by 1984. In April 1981 new finds in the Petén region have raised estimates of potential reserves to the 2.5 to 5 billion barrel range . . . Reliable Mexican sources report that it is generally believed that Guatemala's oil deposits form part of a larger formation that includes Mexico's prodigious Reforma and related fields.

Second, Guatemala occupies the central strategic position in the Central American chessboard because it borders on Mexico. . . .

Besides being the key nation in Central America, it is EIR's evaluation that Guatemala is also the most likely one to explode into uncontrolled violence in the immediate period ahead. . . . There are three principal paths which could lead to such an explosion:

1) On Sept. 21, 1981, Belize was granted independence by Great Britain over the protests of Guatemala, which maintains territorial claims on the former British colony. A revanchist right-wing coup in Guatemala is possible in response to this move, as are escalating border incidents between Guatemala and the newly independent

nation.

2) Guatemala is scheduled to hold presidential elections in March 1982. This could easily throw the already highly polarized country—it is often said that Guatemala has no political center whatsoever—into an unmanageable situation of factional warfare.

3) The widespread left-versus-right violence that already plagues the country could become sharply aggravated if the guerrilla forces decide to launch an offensive, or if a "preemptive" right-wing coup—currently under active consideration—prompts the left into such a move. . . .

The move [of granting Belize independence] has by no means settled the long-standing territorial dispute involving Guatemala's centuries-old claim to Belize; rather, the step has aggravated tensions. . . . and military preparations have stepped up on both sides. . . .

Under the implemented British plan [for independence], Britain will maintain its 1,600 man defense force and 4 Harrier jets in Belize for an unspecified period of time, to defend the fledgling nation against a possible Guatemalan invasion; and they will retain a large jungle training school in the tiny enclave. Over the past weeks, Britain has moved its military force to the border area, and Guatemala has done the same with its troops. Army Chief of Staff Benedicto Lucas García, the president's brother, told the press: "We are not going to attack; but if the British attack us, we will hit them back; we will answer them in the same way."

Thus, the stage is set for a simple "border incident" to blow up into a full confrontation—as per Britain's classic "decolonization" scenarios.

Also under consideration is direct American involvement in the defense of Belize. The London-based *Latin America Weekly Report* of July 31, 1981 notes: "Some U.S. military presence in Belize would reassure the Guatemalans (and Washington) that Belize would not become a haven for guerrillas, or get itself a left-wing government." The newsweekly went on to explain matter-of-factly that "these developments have not displeased Washington, which would like a better foothold in Belize in case Guatemala falls to the guerrillas."

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October 1981

\$495.00

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'Permanent warfare' threat in Zaire

by Douglas DeGroot, Africa Editor

Washington was host the week of Sept. 15 to Zaire's former prime minister, Nguza Karl-I-Bond, arriving from Belgium to drum up support for a campaign to bring down the government of Zairean President Mobutu.

Nguza pointedly compared Zaire to Iran in his testimony before the House Foreign Affairs Committee, and then again at a breakfast press conference sponsored by the Carnegie Institute's Foreign Policy Association, at a private meeting of the Georgetown Center for Strategic International Studies, as well as in private meetings with congressmen and others during his seven-day visit. He particularly advised the United States to stop supporting Mobutu or risk earning the enmity of the Zaire population. "The people of Zaire will make this equation: we are suffering because of Mobutu; Mobutu is there because of the West; So the West is against us," he said.

Judging from the array of people willing to listen to his arguments, Nguza already has gathered significant support for his campaign in the United States. But, admitted an associate of William F. Buckley, in a candid moment: "The invasions or rebellions, and their repulsion, are bankrolled by the same Belgian forces." The point is not to clean up the Zaire government but to perpetrate upon Zaire, and the surrounding nations of Central Africa, a permanent warfare that would drastically reduce population levels of the entire area—the ultimate goal of oligarchical financial forces in Belgium and Britain that dominate Africa.

Squeezing Zaire

Nguza advised Washington to forego giving aid to Mobutu, who faces an extreme crisis of foreign debt. Zaire reportedly has the largest per capita debt of any country of the Third World. A deal that was previously worked out with the Carter administration's Andrew Young between Nguza and Mobutu in 1978 brought the International Monetary Fund in to run Zaire's central bank and impose strict austerity conditionalities on the country—conditions that have undermined Mobutu's authority.

There is no question that Mobutu and his "kleptocracy," as his ruling clique is known, are corrupt and

incompetent. But Nguza himself is not totally sincere in his pleas on behalf of the Zairean people. Nguza represents other interests: the Belgian mining and banking oligarchy that ruled Zaire (the Congo) as its colony until 1960 and, along with the Anglo-American South African mining interests, retains significant power in the country. Trained at the Jesuit University of Louvain in Belgium, Nguza is an associate of the Katangan secessionist leader Moïse Tshombe, also backed by Belgian interest.

Nguza has been foreign minister of Zaire three times, and was prime minister until he suddenly resigned while in Belgium last April, and declared his war on Mobutu.

A tinderbox

"The region is a tinderbox," said one Washington source, referring to Zaire and the nine countries that border it. "People in the State Department know Zaire is a potential powderkeg," concurred Georgetown Prof. Stephen Cohen, former deputy assistant secretary for human rights. "Iran having happened, people are more sensitive to this," he added.

Now that Nguza has swept through Washington, congressional staffers predict that a military coup or regional uprising like the Shaba invasions of 1977 and 1978 will be repeated. These staffers are hoping that if the United States does not place all its support behind Mobutu, then a moderate alternative will emerge around Nguza and Mungul Diaka, who also operates out of Belgium. "Do you want to lose control of the situation completely or have people who don't like Mobutu but are more moderate?" was the way one staffer defined the State Department options.

But another Washington source familiar with African politics dismissed hopes of an orderly transition of power in Zaire as an "Alice in Wonderland fantasy." Zaire, he pointed out, is collapsing. Its road network and its agricultural production are broken down, and entire areas of the country are reduced to subsistence levels of life. "If there is an uprising, Mobutu will concentrate, as in the past on controlling Kinshasa [the capital] and Shaba, the mining district. This he will be able to hold on to, while he dramatizes his plight and tries to mobilize international support."

The Zaire army, he also noted, aside from the well-paid officer corps, is composed of roving bands of unpaid soldiers who scrounge the country for their sustenance.

If a revolt is touched off under these conditions, the resulting struggle between Mobutu and the anti-Mobutu forces, neither of which has the capacity to win, will destroy what is left of the already crumbled country and spread beyond its borders. The fate of nations like Uganda would tend to bear out that evaluation.

Sadat tries to halt Iranization of Egypt

by Judith Wyer

State Department officials who administer the Global 2000 population-reduction policy, say that if Egyptian President Anwar Sadat does not take immediate measures to reduce Egypt's population growth rate, that country will be destabilized and Sadat will likely be overthrown.

Sadat refuses to endorse population control, partly because he knows it would be read by many Egyptians as genocide. Sadat's major concern is staying in power, and at this point he will not give his opponents any further excuse to challenge him.

Officials of the State Department's Agency for International Development (AID) and Population Affairs Office, who declined to be identified, are bitterly condemning Sadat for his refusal to adopt the Global 2000 perspective. One such source stated: "If Sadat doesn't toughen up on the population issue, he will face severe chaos. . . . The infrastructure in Cairo can't handle many more people and Egypt will not be able to feed the growing mass of Egyptians that comprise what we call the Egyptian population bomb, which one of these days will go off."

Such a forecast constitutes a warning that the same British intelligence and financial elite which installed the butcher Khomeini is now preparing to give Egypt the same treatment for the same reason.

The Iran parallel

Like the late Shah, Sadat is beginning to defy such Malthusianism with an economic development plan aimed at improving Egypt's standard of living. The venom being thrown at Sadat to reduce Egypt's population is only a cover for a demand that Sadat break with an economic development program, which, like that of the Shah's, is based on a bold nuclear energy program. Like Pahlavi's Iran, Egypt is one of the most populous nations in the Mideast with a large skilled labor force of scientists and technicians that are essential to future industrialization.

Sadat also shares a critical flaw with the late Shah. Though Sadat proposes raising the living standards of

the majority of Egyptians who live in poverty, he has never developed a plan of action and education for solving this ancient problem. During Sadat's tenure, class and income differences widened as a middle class emerged. It is precisely the impoverished masses that have been whipped up to challenge Sadat by his opposition.

Sadat's need for an unprecedented purge of religious and secular opposition groups last month was the first signal that the most serious challenge in Sadat's 11-year-old rule was being mounted. Like the motley coalition of terrorists and fundamentalists that came to power with Khomeini, this menagerie of Egyptian radicals shares the common zero-growth ideology that material progress is the root of Egypt's problems.

According to a former official of the Ford administration who just returned from Egypt, the numerous sects of the Muslim Brotherhood are demanding a return to the Nasser era when the middle classes were minuscule, and organizing the lower classes with the slogan, "It is better that all of Egypt is poor."

The dramatic upturn in the rate of Egypt's population since 1973 is, in fact, attributable to the slow but steady improvement in Egypt's economy. With the return of the Sinai oilfields from Israel, and the widening of the Suez Canal to accommodate more toll-paying traffic, Egypt has begun to net a substantial increase in badly needed foreign exchange. As a result, Sadat is moving aggressively to transform that new income into an infrastructure for future development. In the last six months, Egypt has signed nuclear purchase agreements with the United States, France, Germany, and Britain to buy eight nuclear plants. Sadat envisions these plants to be used for desalination to support expanded agriculture to feed Egypt's growing numbers.

A State Department official with the Office of Population Affairs bemoaned agricultural plans. "Sadat has this fantasy where he thinks he can make the desert bloom and solve Egypt's food problem." He complained that last year the Futures Group's RAPID Project—one of the leading implementers of Global 2000—presented its gloom and doom scenarios to Sadat of the consequences of unchecked Egyptian population growth. Though Sadat and his wife Jihan reportedly agreed with RAPID's warnings, Sadat has not translated the meeting into action. "He has neither publicly supported population control nor mobilized his government to that end," complained the source.

Should Sadat's recent clampdown prove to have been effective in undermining his opposition, then there is another option for putting Sadat out of business which an official with the Pathfinder Fund, another supporter of Global 2000, recently revealed. "If Sadat doesn't do something about population," he warned, "then someone may just put a bullet in his head."

Hank's Grito

So near and yet so far: the unsavory Mexico City mayor's brush with presidential duties.

The country's independence celebrations, which occur every Sept. 15, acquired singular importance this year, among other reasons, because Mexico City's mayor, Carlos Hank González, was named to give the famous *Grito de Independencia* (Cry of Independence) from the balcony of the National Palace.

The *Grito* commemorates the call to arms issued by Father Miguel Hidalgo, parish priest of the town of Dolores, on Sept. 15, 1810. It is given each year exactly at midnight from every mayor's balcony across the country; and naturally the biggest event is in Mexico City's enormous central square.

Each fifth year of the six-year presidential term, the mayor of Mexico City is entrusted with giving the *Grito* from the National Palace, since the president leads the ceremonies directly from Dolores, a small town about 200 miles north-east of Mexico City.

Sources of mine who were at Hank's side on his big night in the National Palace tell me that his propagandistic and organizational apparatus went into high gear to give a presidential air to his appearance. One attentive observer described Hank's attitude as so "euphoric" it bordered on the megalomaniacal.

For days before the event, rumors were circulating in the back rooms that in fact the whole exercise was "psychological torture" for Hank: "so close and yet so far."

His hunger for the presidential chair is notorious—as is his inability under the constitution to assume the post because he is the son of a foreigner.

Beyond these ceremonial questions, other developments around Hank González should be mentioned. Insiders in both the public and private sectors are closely watching the chipping away of Hank's political power—and possibly his economic power—in the State of Mexico. This is the state which contains over 50 percent of the entire nation's manufacturing. It has been Hank's base of power since he served a stint as governor in the early 1970s.

The new governor there, Alfredo del Mazo, has begun a general cleanup of the state's security apparatus, which under Hank's control had often been termed an organized thug force. Public security was organized Capone-style; the police forces customarily sold protection to business firms established in the state. (Last week some sources informed me that several U.S. insurance companies with business in the State of Mexico were seeking an investigation of the former attorney general of the state, Carlos Kuri Assad. They reportedly suspect Assad of being involved in a series of arranged robberies of companies with Assad himself on the take.)

On top of this, Fidel Velásquez, the head of the Mexican Labor Confederation (CTM), publicly ac-

cused the state security forces of sowing terror among the state's workers, including a generalized practice of "kidnaping" workers in order to get a cut of their paychecks.

What is going on today in the State of Mexico is viewed as something that will shape the economic and political structure of Mexico for years to come.

The state has served as the launching point for a number of large and unexplained fortunes over the past four decades, some tied chiefly to real-estate speculation. It came to the point that some businessmen refer to a "structural" rivalry between some sectors of the Monterrey Group and the Mexico State Group.

On the evening of Sept. 14, violent disturbances suddenly broke out in the Netzahualcoyotl district of the State of Mexico, bordering on Mexico City, and one of the most populated, poorest parts of the country. The toll: 36 urban transport buses burned. The trigger: a sudden hike in fares by the private bus companies in the area, hours before del Mazo was to take his Sept. 15 oath of office. The result: del Mazo's inauguration was buried in the press, and the bus burnings grabbed the top headlines.

Everywhere it was openly rumored that Hank González was the man behind the riots, and that he'd put del Mazo on notice to expect more of the same if he continued to dismantle Hank's police apparatus.

If that was the message, del Mazo discounted it. His first act, announced in the inaugural speech itself, was the abolition of the cornerstone of that apparatus, Hank's special police cruise patrol unit.

International Intelligence

Japanese: Volcker spurs U.S. trade deficit

Japanese officials are telling their U.S. counterparts who complain about the expected \$15 billion U.S. trade deficit with Japan for 1981 that Federal Reserve Chairman Paul Volcker's credit policy is to blame, former Japanese Ambassador to the U.S. Nobuhiko Ushiba told *EIR* in a Sept. 17 interview. Ushiba emphasized that the high rates artificially raise the value of the dollar and lower the competitiveness of U.S. exports. Ushiba also said many Japanese believe "high interest rates aggravate rather than reduce inflation." In fact, congressional sources have informed *EIR* that a so far unreleased Commerce Department study predicts a global U.S. trade deficit in 1982 of \$60 billion.

Nonetheless, Ambassador to Japan Mike Mansfield continued pressure on Tokyo for export cuts by telling a Japanese audience Sept. 21 that the Japanese trade surplus "is bound to have serious repercussions within the U.S., and provide ammunition to those voices calling for protectionist measures."

A Tokyo mission to avert trade war

The Japanese government has adopted a policy of heading off potential trade war with the United States and Europe by stepping up its promotion of Japanese manufacturing investment in those countries. Tokyo is also circulating proposals for joint development projects in OPEC nations and other developing countries, according to Japanese business sources.

This policy is being taken to Europe by a high-ranking business/government mission this month, headed by the chief of the Keidanren industrialists' association, Y. Inayama. The delegates include senior executives from the most impor-

tant industrial combines as well as N. Ayama and T. Sagami, advisers respectively to the trade and industry ministry and the finance ministry.

The European delegation will pose industrial cooperation in high-technology manufacturing projects in Europe as well as construction and industrial projects in the Third World.

According to these business sources, Japanese leaders see such proposals as the context in which current frictions over Japan's automobile and television exports can be prevented from igniting a trade war.

Khomeini's slaughter targets children

Over the last two months, the number of executions in Iran has reached into the thousands. Last week Khomeini ruled that political detainees need not have a legal trial but can be executed upon arrest. Of the growing number of killings daily, there are more and more instances of young women being executed.

This emerging pattern of women and children being targeted for elimination follows the hideous blueprint of the State Department's "Office of Population Affairs," which sees the elimination of child-bearing females as key to "population control."

In a statement broadcast over Teheran radio, Khomeini warned Iranian parents not to allow their children to engage in political activity or engage in ideological discussions. He urged students to police one another and report students as young as seven years old for antigovernment activities. Last month Khomeini ruled that political arrests could be made of children as young as 12.

Education Minister Ali Akbar Pavaresh told a rally at Teheran University earlier last week that "intelligence departments" would be set up in the schools to search out nonfundamentalist students. All felt-tipped pens have been

banned by the Islamic dictatorship to prevent school children from writing anti-Khomeini graffiti on schools and other public buildings.

One in five Britons now unemployed

The latest figures published by the British government indicate that "the recession in the U.K. may not have bottomed out as early as it had originally estimated," complained the *Financial Times* Sept. 23. Even the London *Times* has now been forced to admit that the current collapse is "surpassing anything recorded during the Depression in the early 1930s."

The revised Exchequer estimates now indicate that the GNP of Britain fell 0.6 per cent in the second quarter, instead of the previous estimate of 0.4 percent, and that unemployment is hitting the 3 million mark with an increase by 58,000 to 2,998,789 in September. "Although the numbers out of work are growing at less than half the rate recorded last winter," says the *Financial Times*, "there are signs of a new acceleration in the rate of increase."

The new U.K. employment secretary, Norman Tebbit, responded to the news by stressing that "unemployment will go still higher unless employers maintain the pressure for low wage increases."

Canada caught aiding Red Brigades

The Canadian government released Italian Red Brigades terrorist leader Francesco Piperno from prison Sept. 17, and then, in response to international pressure, re-arrested him within 24 hours before he could leave for France.

Piperno, wanted in Italy in connec-

tion with the murder of former Christian Democratic Prime Minister Aldo Moro, was released by Associate Chief Justice James Hugessen of the Canadian Superior Court the day before his scheduled extradition hearing. The reason given was that the Italian arrest warrant did not charge Piperno with crimes that were extraditable under the Canadian-Italian extradition treaty. However, knowledgeable sources say this is false, and that the case implicates the Canadian government in protecting international terrorists.

Piperno was arrested in Canada earlier last month as he attempted to cross the border into the United States, where he had been promised a position at the Massachusetts Institute of Technology, according to the Italian newspaper *Paese Sera*.

United Nations renews Pol Pot sanction

On the first day of its 1981 General Assembly session Sept. 18, the United Nations voted by a margin of 77 to 37 to keep the seat of Kampuchea in the hands of the ousted Pol Pot regime, which murdered one-third or more of the country's population. Thirty-one countries abstained from voting, and nine absented themselves from the session on this decision.

All the countries which voted on the Pol Pot issue did so in full knowledge of two facts: one, that under Pol Pot's regime, with Chinese supervision, during the years 1975-79, some three out of the country's eight million people were killed in labor camps. Second, hand in hand with China, U.S. Secretary of State Alexander Haig and U.N. Ambassador Jeane Kirkpatrick strong-armed and blackmailed vacillating countries to cast their vote to keep Pol Pot recognized at the United Nations, rather than the current government of Heng Samrin.

The Vietnamese ambassador to the

U.N., Ha Van Lau, told the U.N. shortly before the vote: "It [seating Pol Pot] would be an encouragement to those who carried out the worst violations of human rights that have ever been committed and would moreover, constitute a new imposition on the Kampuchean people of a genocidal regime which has been unanimously condemned by all humanity and would thus represent a dangerous sanctioning of the expansionist policies of the Peking authorities in Southeast Asia."

Hussein warns of overthrow plot

Jordan's King Hussein has accused Israel's Begin government of "plotting" to overthrow him. In an interview with the Paris-based magazine *Mostakbal*, Hussein suggested that the United States is behind the plan. "In my opinion," said Hussein, the United States is "searching for a situation in which Israeli hegemony can be expanded to include Jordan."

Hussein's charges come in response to repeated statements by hardline Israeli Defense Minister Ariel Sharon that Jordan, not the West Bank or Gaza, should be the national homeland of the Palestinians. Sharon is rumored to have argued for Hussein's assassination should the latter obstruct his designs.

"The statements he [Sharon] has made have indicated a commitment on his part to destabilize Jordan, to make it a springboard for further expansion of Israeli power and influence in the area," stated King Hussein's brother Crown Prince Hassan. "Of course, we have to take his views seriously. We know Israel is just waiting for a chance to act against us, as it has acted against Iraq and Lebanon."

Hassan went on to implicate Sharon in reports that Palestinian guerrillas had infiltrated into Jordan from Syria to carry out terrorist attacks on Israel. Sharon, charged Hassan, "is preparing a pretext that he could use for a military option in Jordan."

Briefly

● **CHANG WENCHIN**, Chinese deputy foreign minister, has told Alexander Haig that Peking will not condescend to buy U.S. arms until Washington reneges on its legal obligation to sell jets to Taiwan, according to Chinese-language newspapers in New York. The Peking press has made a series of recent claims that the U.S. is "a declining superpower" and needs an alliance with Peking, not vice versa.

● **MENACHEM BEGIN** has declared that the crucial vote on the U.S. sale of AWACS planes to Saudi Arabia will take place Oct. 20, although no senator at that point was aware that a date had been scheduled.

● **ANWAR SADAT** has announced that he has invited Pope John Paul II to visit Egypt and participate in a celebration of the three great religions.

● **PRINCESS ASHRAF** Pahlavi, sister of the late Shah of Iran, questioned a U.S. reporter, "I would like to know where are the human rights lawyers who in my brother's time were making such a fuss. . . . Why do they remain silent? Where is Amnesty International now?" asked Ashraf in a Sept. 24 interview with the *Washington Post*.

● **WALTER L. GORDON** has proposed the establishment of a Royal Commission to re-examine Canadian defense policy, and study a proposal for Canada to leave NORAD and divert much of its NATO contribution from Europe to northern Canada. On Sept. 21, Canadian External Affairs Minister Mark MacGuigan speaking at the U.N., praised the goal of "nonalignment . . . from more powerful countries intent on subverting their assets to their own purposes," referring to the U.S.

The Manatt Democrats stage Reagan's tragedy

by Richard Cohen, Washington Bureau Chief

"If former actor Ronald Reagan ever nourished a secret passion to play a leading role in a great tragedy, that wish was fulfilled before a nationwide television audience last night. The President slit his own political wrists, with Democrats such as Tip O'Neill, Sen. Robert Byrd, and Democratic National Committee [DNC] Chairman Charles Manatt passing Reagan the razor blades."

That was *EIR* founder Lyndon H. LaRouche's initial comment Sept. 25 from Wiesbaden, West Germany, on the Reagan economic address. The Democratic National Policy Committee advisory board chairman continued: "From the beginning of his administration, President Reagan's policy has been an imitation of the Friedmanite austerity policy of Britain's Prime Minister Margaret Thatcher. Today, Britain has reached a condition of economic depression as bad as at any time during the 1930s, with no bottom yet in sight. Despite the failure of Thatcher's experiment in Britain, and the worsening failure of Reagan's own policies in the United States, the President announced last night that he intends to continue the experiment.

"Even under the best of circumstances, President Reagan's 'supply-side' economic dogma could not succeed. Although there are some features of federal spending which should have been eliminated entirely, the President's across-the-board budget cutting had the effect of lowering the federal tax-revenue base. Reagan set out to cut the federal budget deficit, and made the budget deficit greater. . . .

"The President is running out of the time available to correct his own potentially tragic mistakes. Forces reflected through the Federal Reserve Board of Governors, the officialdom of the International Monetary Fund, and

the Bank for International Settlements are moving rapidly toward collapsing large sections of the U.S. banking system. The collapse may be delayed beyond October of this year, but time is running out quickly, beginning October 1st.

"It is not entirely the President's fault, of course. He did not create the mess he inherited. He only worsened it, chiefly through his moral weakness in submitting to Wall Street blackmail. The biggest defenders of Paul Volcker are not limited to the Republican Party—Tip O'Neill and Sen. Robert Byrd have recently exposed themselves publicly as Volcker's agents in the Congress. Democratic National Committee Chairman Charles Manatt, a banker, has also exposed himself as a defender of Paul Volcker. These cynical Democrats are delighted to see the people of the United States suffer a new depression, hoping that the depression will strengthen the supporters of the Socialist International's Willy Brandt within the Democratic Party.

"Manatt, O'Neill, and Byrd are not tragic figures. A tragic figure is a good person who destroys himself through a fatal moral weakness. Manatt, O'Neill, and Byrd have never shown this writer any good side in their natures or political ambitions. President Reagan is personally a decent human being, which is why his conduct in this affair is truly classical tragedy. . . .

"The image of President Reagan is of a legendary Russian family fleeing wolves by sleigh in wintertime, and throwing babies overboard one by one, trying to make peace with the wolves. Reagan has so far surrendered, one baby after the other, each good thing he wished to accomplish for the United States, in efforts to pacify the wolves among Henry Kissinger's and Alex-



Tip O'Neill with the hapless House Minority Leader, Jim Wright, and House Ways and Means Chairman Dan Rostenkowski.

ander Haig's accomplices in Willy Brandt's Socialist International. . . . We do the President no good by condoning his tragic blunders, or by saying that Reagan is being morally strong when in fact his actions are being determined by moral weakness."

'Reagan's interest rates'

The background to Mr. LaRouche's comments includes the following. A day before Chairman Manatt's Sept. 17 orders to the DNC's executive board that the President, and not the Federal Reserve Board, be held responsible by the Democratic Party for high interest rates, House Speaker O'Neill boasted to a long-awaited full caucus of House Democrats: "The monkey is off the backs of Democrats. These are Reagan's deficits and Reagan's interest rates."

Sources close to the House leadership report that the moves by O'Neill and Manatt were synchronized with AFL-CIO President Lane Kirkland, with the aim of drawing partisan lines on the interest-rate issue. As a result, attempts by Democratic legislators to seek immediate relief through legislation requiring the President to confront Volcker are to be restrained and contained, regardless of the consequences for the national economy. The AFL-CIO "Solidarity Day" demonstration held here on Sept. 19 witnessed all Kirkland-selected speakers playing down the interest-rate question, despite the concern of the majority of the 260,000 participants.

It was this O'Neill-Manatt-Kirkland team which has kept a resolution drafted by Montana Democrat John Melcher off the Senate floor prior to the President's economic address. The Melcher legislation, Senate Joint

Resolution 104, would mandate a bipartisan, congressionally backed presidential confrontation with Fed Chairman Volcker in order to reduce interest rates substantially and immediately. The Senate Democratic leadership moved to kill the Melcher Resolution late Sept. 18. Melcher had intended to offer it as a rider to the Senate Agriculture Bill, but the leadership forced a fight over tobacco subsidies, knowing this would compel the Republicans to close off debate on the bill before Melcher could act.

The Melcher Resolution was to have been introduced in the House by Bill Alexander of Arkansas, also a Democrat, but efforts to obtain House Democratic backing for it were quashed Sept. 23 by O'Neill's protégé Richard Gephardt of Missouri at the House Democratic Steering and Policy Committee meeting. Gephardt argued against any official Democratic support for the bill on the grounds that Democratic attacks should focus on the President, not the Federal Reserve; he also claimed that reducing the budget deficit was the only way to lower interest rates!

The O'Neill group, which also includes Senate Minority Leader Robert Byrd of West Virginia and Senate Minority Whip Alan Cranston of California, are now going so far as to tell Democrats privately that if they support a Melcher-style bipartisan effort and the President is forced to act, Democratic electoral chances will diminish in 1982. But, the line goes, if they wait, continue to attack the President on his budget cuts, and blame Reagan instead of Volcker for the credit crunch, their chances in 1982 will "rise as the economy collapses." "The Speaker doesn't think we should imply that the Fed is responsible for high interest rates," declared his aide on Sept. 24. "He is opposed to Democrats offering the Melcher bill." "No bipartisan move on interest rates will be tolerated. We are not going to back anything that can get the President out of the box," said an aide to one top Democratic senator.

Another summary of strategy was relayed Sept. 23 by a spokesman for the Democratic Policy Exchange, a think tank whose sponsors include Carter Labor Secretary Ray Marshall, ultraliberal former Sen. Gaylord Nelson, investment banker Philip Klutznick, and Lane Kirkland: "It's Reagan's economy, and we should watch and see what he does when it fails. He will pay the consequences. That's the Democratic strategy. There is no political support for alternative policies. The strategy is to push him into the corner. If long-term rates do not come down in three months, there will be a coalescing of interests focusing on eliminating the second year of the tax cut. We'll see a bigger whack at defense."

In the House, after reminding everyone present that Volcker was not the high interest-rate culprit, O'Neill moved Sept. 16 to secure control over future House

Democratic strategy by arranging a series of hearings to be held under the auspices of the House Banking Committee both in Washington and around the country, aimed at cooling out the issue. Charles Manatt followed on Sept. 17, as I reported last week, by changing an anti-Volcker resolution passed by the party's Western state chairmen to conform to Manatt's declaration that "Volcker is not the problem, Reagan is."

However, according to Hill sources, some Democratic senators and congressmen admit privately that this heavy-handed tactic "smells too much like fronting for Volcker"; two nationally syndicated columnists have jokingly referred to the sympathy between "Wall Street" and the "friends of labor," the Democratic Party.

The turning point

Outside the controlled Democratic environment, the International Brotherhood of Teamsters leadership was endorsing the Melcher Resolution; the national construction laborers' union was passing a resolution demanding immediate action by the President, Congress, and the Federal Reserve to bring down interest rates; and the President's own political machine, the executive board of the powerful Republican Assembly of California, as the Reagan caucus in the state's GOP is known, on the weekend of Sept. 19 voted up the Melcher Resolution word for word, merely substituting "Republican Assembly" for "the Senate and the House of Representatives" in demanding that the President act to lower interest rates.

Nevertheless, on Sept. 24 Mr. Reagan reached the turning point of his presidency, and chose a tragic path for an administration entrusted less than 12 months ago by Americans with their greatest hopes in the past two decades.

Nor has Reagan even succeeded in his attempt to propitiate Wall Street. His proposed \$16 billion in further fiscal 1982 budget cuts and his capitulation to the demand for tax increases will not satisfy Paul Volcker; they will simply cut him off from remaining popular support and further narrow his bargaining leverage with Congress. He will probably lose the vote on the administration's proposed sale of AWACS equipment to Saudi Arabia, and his foreign policy will unravel along with everything else. Finally, he will have lost all standing with those Western leaders who recognize the folly of the Volcker policy. In a *Bild-Zeitung* interview preceding the President's national address, Chancellor Helmut Schmidt of West Germany declared that international monetary policy "will not be determined by moods and feelings from the United States," and that Mr. Reagan would "learn that it is very dangerous to try to do that."

Military Policy

The cruise missile and strategic doctrine

by Robert Gallagher

The U.S. Department of Defense's reported postponing of the first deployments of the land-attack cruise missile by at least a year from its original October 1982 date is an opportunity for Americans who support a strong national defense system to reopen the debate on the incompetent cruise.

The cruise missile is a slow-moving drone aircraft intended to penetrate up to 1,500 miles into Soviet territory and strike its target undetected by Soviet defenses. Its advocates assert that the cruise is a strategic weapon. That is not the case.

Furthermore, there is no variation of technological improvements that could turn the cruise into a strategic weapon. As this short report will show, the weapon already rests on a primitive foundation of technology, with many problems remaining unsolved. It is, at best, an inefficient piece of medium-range artillery (ship-to-ship cruise missiles, for example, were successfully used in the Arab-Israeli war by the Egyptians).

There is only one mission that the cruise missile could conceivably carry out: a first strike, sneak attack on Soviet military installations. And that is the intention of its designers. Yet, even for that mission, the cruise is inefficient and full of difficulties.

The 'Stealth' cruise missile

The cruise missile is analogous in conception with the Nazi V-1 buzz bomb, the child of that faction of the armed services—begun with Billy Mitchell and carried forward by the Strategic Bombing Survey and Rand Corporation—that has raised airpower to the status of the basic defense of the U.S.

The basic idea behind the cruise is that application of advanced electronics and computer systems will enable the missile to travel at essentially zero altitude so that ground-based, "look-up" radar will not detect it, and that it can reach its target undetected, killing it with an exact hit. In an effort to solve the problem of "look-down" radar from aircraft or otherwise, the DOD has designed the missile's airframe to provide the maximum possible scattering of downward incident radar waves by the cylindrical shape of the top of the vehicle. The craft's flat bottom provides aerodynamic stability and heat dissipation capabilities to avoid infrared detection.

But, as *Aviation Week* has reported, these “stealth” features will in no way protect the missile from detection by Soviet aircraft equipment with advanced “look-down” radar. Once the missile is so detected, its maximum 500 mile per hour speed makes it a sitting duck.

The primary problem in an unmanned, low-altitude aircraft is the avoidance of obstacles over a varying terrain and the consequent necessary course correction. This remains unsolved in the cruise. In its current model, an inertial guidance system controls flight throughout over 95 percent of the course. Another system that combines the 1958 terrain-contour matching technique known as Tercom with in-flight data from radar and barometric altimeters provides direction for course correction. Along its course, the missile is to encounter checkpoints. At such locations, the Tercom computer is to compare in-flight altimeter data with terrain elevation maps supplied by the Defense Mapping Agency from satellite terrain readings. The computer is to provide course corrections to the inertial guidance system on the basis of these comparisons.

In recent tests of the Tercom system, the majority of runs resulted in missiles crashing into the side of a mountain. Tercom requires that the missile’s course be over terrain that is sufficiently rough and unique. According to GAO reports, the system is easily confused by “monotonous expanses.” Yet “many of the targets,” says the GAO, “are in relatively smooth areas” of the Soviet Union. The system is also easily confused by snow on the ground, since this produces a variance between altimeter readings and the stored given map data, disguises landmarks, and changes infrared signatures.

A February 1980 GAO report stated that the Defense Mapping Agency “considers the following factors critical to the success of Tercom: map size, terrain roughness, terrain uniqueness, and what the radar altimeter sees compared to what DMA maps. . . . Important questions remain unanswered concerning the last three of the four critical areas.” Because of these problems, says the report, the Strategic Air Command has concluded that it will be unable to determine the validity of the cruise until 1986, when the present SAC requirements for terrain mapping are to be completed.

A February 1981 GAO report, “Some Land-Attack Cruise Missile Acquisition Programs Need to Be Slowed Down,” states that “if ground clearance altitudes are increased, missiles can more frequently crash into tall obstacles en route to their targets.” But if the cruise flies at a higher altitude, it is more open to detection.

The utopian advocates of the cruise are banking on solving these problems through the heavily funded “Advanced Cruise Missile” program of the Defense Advanced Research Projects Agency (Darpa).

The current cruise model includes largely off-the-

shelf technology. Darpa is looking to apply the results of research it has funded in artificial intelligence and computer systems to produce a cruise that will work:

- **Advance cruise missile engine.** This is to enable DOD to make the missiles smaller, so as to make a smaller radar signature, or to increase space for the payload.

- **Advanced cruise missile delivery.** This program includes development of a system to control the low-altitude flight of the cruise toward the target area—specifically, on-board sensors that look forward of the chosen path or that warn control systems of possible attack or detection. Flight optimization systems are to use sensor information for course correction. Also included is an improved terrain following system.

- **Cruise missile radar masking.** The aim is to develop a method to mask the missile’s radar signature, and thus allow the craft to blend in with the background clutter of the terrain, to make it “chirp like a bird.”

- **Autonomous terminal homing.** This terminal guidance system is to permit the missile to hit its target precisely. In the endgame kill, the system is to compare stored infrared images of the target area with images obtained via an on-board infrared sensor and control target homing.

An assessment

In short, the cruise missile requires extensive work and development before it can “fly,” and the technological potential to turn it into a strategic weapon is nil. Yet, its proponents argue that it is cheap, that it can be deployed without extensive infrastructural development (fuel, launch facilities, and so forth are all relatively simple for the cruise compared to the ICBMs), and it carries the aura of a miracle weapon.

Its essential attraction, however, for such policy-makers is otherwise: the cruise missile is a credible first strike weapon for use in a limited nuclear war—a war, however, that the Soviets have stated repeatedly is an impossibility.

The proposed deployment of the cruise is thus a reflection of the fascination held by people such as former Secretary of Defense Harold Brown and Secretary of State Alexander Haig with the possibility of a first strike against the Soviet Union. That war-fighting and war-winning are primarily a question of national economic strength has eluded these strategists; that the military arm of a nation-state depends most heavily on the civilian applications of new scientific development is forgotten; and that the Soviet Union, at least through its development of beam-weapon technologies, is pursuing a war-winning strategy based on a growing economy and intense scientific research seems irrelevant to them. At the level of fundamentals, this is what defines the insanity of the cruise missile deployment.

The Harrison Williams brief

Mary Jane Freeman reviews the legal arguments submitted in the senator's Abscam case by a distinguished jurist, E. N. Griswold.

Justice Department tactics in the Abscam sting operation of U.S. Sen. Harrison Williams come "very close to the police state," charges Erwin Nathaniel Griswold, former dean of Harvard Law School and a former U.S. Solicitor General. Griswold's accusation, made in a post-hearing memorandum in support of the senator's motion to dismiss the Abscam indictment against him, is one of the few such characterizations of the Abscam operation outside of *EIR*.

Senator Williams was convicted May 1 of "influence peddling" in a Justice Department initiated suit that involved FBI agents posing as Arab sheikhs offering him a bribe. The senator never accepted, as proven by FBI videotapes, and he says the entire operation is a frameup designed to eliminate prolabor Democrats from the Congress.

Williams, who has served as New Jersey's senator since 1958, could lose his seat if the full Senate backs up an Ethics Committee decision recommending expulsion. Professor Griswold, who served as dean of Harvard Law School for 20 years, described the Williams frameup this way in his post-hearing memorandum:

"Suppose it had not been a United States Senator. Suppose it had been you or me. If the action involved in this case is condoned by this court, and that action is upheld on appeal, then such conduct becomes standard practice. Is that the kind of country this country should be? It is surely very close to the police state, which we have always shunned."

The two key legal concepts Griswold raises in his brief are the entrapment defense and the right to due process of law.

No predisposition to crime

One of the primary ingredients necessary for an entrapment defense is predisposition. That is, if the prosecution can prove beyond a reasonable doubt that a defendant had a predisposition to commit a crime then there is no basis for the defendant to claim

entrapment. But in the Williams case the government lacked any such evidence against the senator.

In fact, as Griswold states in his brief, the FBI agent in charge of the overall Abscam investigations, John Good, testified at the due process hearing that with respect to Harrison Williams the FBI was "starting with a clean slate."

In the most common of entrapment cases, i.e. narcotics, a person is identified as actively involved in a criminal activity—smuggling, for instance. At that point, police or government agents set up the circumstances by which this known criminal can be apprehended.

The frameup nature of the Williams case is addressed by Griswold in the following way:

"They [the FBI] had no reason to proceed against him. This is not a case where government officers knew about an evil plan on the part of Senator Williams, and moved into *his* plan for the purpose of detecting it, preventing crime, and bringing about prosecution. On the contrary, this is a case where there is no evidence ... beyond a reasonable doubt that the Senator was predisposed [emphasis in original]."

Weinberg, the FBI con man

Griswold uses the FBI's own transcripts of audio and video tapes to show how the government agents, in particular Mel Weinberg, the lifelong con man hired by the FBI for Abscam, instigated the crime. In taped meetings, Weinberg "by hook or crook" attempted to take a legitimate business effort of the senator's friends—a titanium mine—and turn it into a criminal venture.

After citing many examples, Griswold writes: "It is clearly a case where the 'processes of detection and enforcement' were 'abused by the instigation by government officials of an act on the part of persons otherwise innocent in order to lure them to its commission and to punish them.'"

“What would be the consequence,” he asks, “of an approved system of executive infiltration, deception and spying on the legislative branch, without any probable cause or rational reason to suspect—or on the judicial branch?”

This same question could have been asked in Germany during the 1930s. It was through similar frameups of government officials who stood in the way of the Nazi “reforms” that the Nazis could finally gain their totalitarian control.

Police state methods

“What sort of a society will we have,” asks Griswold, “if citizens in high office, with long-continued fine records, can be tested to see if, by deception, fabulous lures, and pressures they can be pushed into doing things they would never dream of doing without extraordinary and intentionally venal government pressure?”

Professor Griswold answers his own question by returning to the Constitution: “Indeed, there are clearly questions of separation of powers involved, how far the executive branch can properly go in attacking the legislative branch of the Government. This relationship requires vigilance.”

The second critical issue raised by the former dean was due process, “written into the Fifth Amendment in 1791 and . . . the keystone of our basic law today.” The Harvard scholar describes the method of seizure of so-called evidence in the Williams case as “unique and unprecedented.” He gives the following circumstances as examples: “(1) hundreds of conversations recorded, (2) over an extended period of time, (3) by video and audio surveillance, (4) all without any specific predicate.”

Puccio’s bias

Another blatant judicial violation raised by Professor Griswold is the denial of Williams’s right to a “disinterested prosecutor.” He states; “The defendant in a criminal case is entitled to have a disinterested *prosecutor*, in the sense that the prosecutor’s own conduct is not in question.” He then cites a Supreme Court ruling, *Berger v. United States*, 295 U.S. 78, 88 (1935):

“The United States Attorney is the representative not of an ordinary party to the controversy, but of a sovereignty whose obligation to govern impartially is as compelling as its obligation to govern at all; and whose interest therefore, in a criminal prosecution is not that it shall win a case, but that justice will be done.”

In this case there was an obvious and “sensitive” issue as to whether the prosecution should be brought, and as to how that issue should be

handled at the trial, in questioning witnesses, in making disclosures to the defendant, and in arguments made to the court. On all such questions, due process required that the prosecuting officer be in a position to make his judgments on these crucial questions without personal involvement. But that was not the situation here. Mr. Puccio was deeply involved. He was the Chief Task Force officer in the Eastern District. He has even supplanted the United States Attorney in this case. He joined in planning the various extraordinary events which occurred, and supervised the conduct of the enterprise. If there was a serious error in prosecutorial conduct in this—and we contend that there was—Mr. Puccio joined in this error. He was obviously directly and personally interested in the question, and he was in no position to make his prosecutorial decisions independent of his own conduct.

Fomenting crime

“[T]he preservation of fairness in the administration of justice is the essence of due process,” Griswold comments. “More importantly, there was no evidence of prior crime by Senator Williams, and no reason to expect any particular criminal conduct to appear at the time his surveillances started. On the contrary, the meetings which were recorded were held for the purpose of fomenting crime, for the purpose of creating situations which it was hoped would then pressure Senator Williams into improper conduct.”

The actual improper conduct could have been tested if the FBI and the Justice Department’s Brooklyn strike force had been required to go before a magistrate to get a search warrant as it is normally done. In the Williams case the FBI would have been hard-pressed to show probable cause.

At issue here, are fundamental constitutional protections—the right to privacy, security and due process. He states:

The dragnet electronic surveillance in the present case should be placed within [a] special category. While the limited use of electronic surveillance in crime detection is well-established, the Government would be hard-pressed to justify the extensive use of such surveillance where no prior or ongoing criminal conduct exists. *In contrast, such extensive surveillance impinges seriously upon personal privacy and security, and this becomes more clear when it is recognized that sustaining what was done here will open the door to virtually unlimited surveillance of all citizens anywhere whenever a policeman or government officer, or, indeed, a private detective, chooses to do so* [emphasis added].

Battle continues after New York primary

by Joseph Brewda

Following the results of New York City's Sept. 22 primary election, in which incumbent Mayor Edward Koch won both the Democratic and Republican mayoral nominations, Democratic candidate Mel Klenetsky commented that he is the only Democratic spokesman the party has left—referring to the choice for voters in November between the Thatcher-style austerity of the Koch administration, and the Socialist International race-riot apparatus of State Assemblyman Frank Barbaro, who is bolting the Democratic Party to run on a left-wing "Unity Party" ticket. Klenetsky was backed by the National Democratic Policy Committee (NDPC), representing the "LaRouche wing" of the party.

The primary's unofficial results were 60 percent for Koch, 36 percent for Barbaro, and 4.4 percent for Klenetsky, who was credited with 25,467 votes, a higher total than the 22,987 won by John Esposito, Koch's challenger on the Republican side of the ballot.

Even allowing for the possible theft of a sizeable number of Klenetsky votes, the results for the NDPC newcomer were considered impressive by party regulars. In the Bronx, his vote averaged 6.2 percent; citywide, the range of Klenetsky votes, as reported preliminarily by the press, varied from 1.9 percent in ultraliberal Greenwich Village to 12.2 percent in the Morrisania section of the Bronx. Klenetsky's vote exceeded 9 percent in five assembly districts in the Bronx and two districts in the borough of Brooklyn, all heavily black and Hispanic areas.

"Politics will never be the same in New York," Klenetsky told an election-night gathering. He vowed to continue, he said, to give New Yorkers a sense of the possibility of restoring the city to greatness, bringing classical education into the schools, driving out illegal drugs, and rebuilding industrial and technological pre-eminence. During the primary debates, Koch had been reduced to muttering, "Enough of Hong Kong already"—referring to Klenetsky's characterization of the mayor's policies—while the name of Hitler's economics chief Hjalmar Schacht began to become a household word as the *New York Times* laboriously editorialized against Klenetsky's charges that Koch's austerity programs lead in the same direction of eliminating "useless eaters."

A major race in November will be for the Brooklyn attorney generalship. Former Rep. Elizabeth Holtzman won the Democratic nomination, defeating the pallid Norman Rosen, who is now running on the Republican line for the patronage-rich post.

Holtzman has characterized herself as a fearless crime-fighter, pointing to her role in Watergate and her highly publicized attacks against "waste and corruption." Yet over one-quarter of the primary campaign funding came from two individuals, both living in Los Angeles: Max Palevsky, former chairman of Xerox-Rank, an early financier of the National Organization for the Reform of Marijuana Laws and later a member of its board; and Joyce Ashley, the wife of the recently retired chairman of Warner Communications, the mass-media giant implicated in conduiting drug-tainted money into Jimmy Carter's 1976 campaign chest. Christie Hefner, daughter of *Playboy's* Hugh Hefner, is among Holtzman's other listed financial backers.

From the record

Elizabeth Holtzman launched her political career in the mid-1970s by hounding into bankruptcy the B'nai Torah Institute, a company that was a competitor with a firm for which her father Sidney acted as an attorney. Latin Belly Inc. a food-catering service, garnered a big chunk of the \$25 million in federal school-lunch contracts after Liz Holtzman leveled "kickback" charges against the B'nai Torah Institute, which had done much of the catering until then. Liz Holtzman's charges were proven false in court, but after drawn-out trials, B'nai Torah went bankrupt.

Sidney Holtzman's status as counsel for Latin Belly owner Ismael Betancourt—a status he admitted in an interview on Sept. 18—while his daughter was destroying Betancourt's competition raises the question of conspiracy, fraud, illegal use of federal money, and bribery against Holtzman.

The B'nai Torah Institute was associated with then-Mayor Abe Beame and other old-line East Coast Democrats. As for Ismael Betancourt, he had intended to run for Bronx borough president, but was removed from the ballot for petition irregularities. Holtzman, having received the endorsement of Brooklyn Democratic chief Meade Esposito, is now considered a shoo-in unless the scandal breaks open.

Burning issues

The following story was told to me on Sept. 18, while I was sitting in the Treasury Department waiting for Secretary Donald Regan to open the second meeting of President Reagan's Gold Commission:

"I walked into the comfortable anteroom of an administration official's office to discuss some pressing policy questions. I found the official involved with a number of aides, associates, and congressmen in a discussion of alternative strategies for exiting the office in the event of a fire. I listened impatiently for a few minutes and was about to offer a suggestion which I hoped would bring the discussion to a swift conclusion when I saw that an adjoining door was smoking. Knowing that the room might be consumed by a flash of fire at any moment, I shouted 'Everybody listen! Get out of here! The place is burning down!'

"The official slowly turned his head toward me and spoke coldly, 'If you weren't so obsessed with your own ideas, you would have paid some attention and realized that that is the very problem we have been discussing all morning. I assure you we are working as quickly as we can with the best experts available to arrive at a consensus on how to best deal with this fire. We have already concluded that exiting rather than attempting to extinguish the fire is the route we shall choose, and we are merely hammering out the details.' He then turned to an aide and asked, 'Now, how quickly can we get a request for written testimony into the Federal Register?'

Mr. Regan opened the Gold Commission meeting by saying the commission's purpose was to assemble a report for Congress on

how to use gold to facilitate the "tight monetary discipline" policy which he was already pursuing, thereby announcing that the commission was useless for those of us who know gold must be used to establish a workable means for credit expansion. I stayed to see if any disagreed with chairman Regan; none did.

The issue most heatedly and lengthily debated by the commission was the question of how far beyond the legally mandated Oct. 17 deadline the submission of a report to Congress could be delayed. The only solid majority agreement was that the deadline could not be met. After an hour, Regan determined to inform Congress that the commission was hopelessly deadlocked on when to complete work.

Regan moved to the central item on the agenda, the discussion of substantive proposals for gold monetary systems. This agenda item was allowed about six or seven minutes. Murray Weidenbaum, chairman of the President's Council of Economic Advisers, confessed he had no position on how gold might be used and looked forward to learning a lot from the more knowledgeable commission members. He did, however, assert that tight money was necessary because "human needs appear to be insatiable and, therefore, discipline is required." This reminded me eerily of a lecture I had been given in summer camp immediately before the beginning of the end-of-season barbecue. The head counselor who had developed the lecture was arrested the following season for embezzlement.

The meeting concluded with a report from the commission staff on how monetary systems function, for the benefit of the 16 distinguished Reagan economic advisers who know nothing about that.

Solidarity about what?

After seeing the Reagan economic decision-making process at work, I should not have been surprised the following day to see perhaps 300,000 American trade unionists assemble on the Capitol mall to protest Reagonomics. Neither was I surprised to find the leadership of this assemblage in disarray on the same economic policy questions.

One of the official 14 issues of the demonstration was opposition to Volcker's high interest-rate policy, but none of the demonstration leaders seemed to disagree with Volcker. Vernon Jordan of the Urban League, one of the demonstration speakers, has praised Paul Adolph Volcker as a "fine economist" and "good friend." Ken Blaylock, who led his American Federation of Government Employees into the march disco-dancing to the chant, "I'm all fired up. Can't take no more," and Rep. Stenny Hoyer (D-Md.) told me they agreed that the federal deficit had to be reduced to lower interest rates. They want to reverse the Reagan tax cuts and reverse the Regan budget cuts; in other words, leave the economy as is.

In keeping with its policy of lying that its membership supports environmentalism, the AFL-CIO invited genocidal environmentalist Barry Commoner to the rally as a "special guest." Mr. Commoner, dressed as a fruit salad, claimed that he and others like him were responsible for the success of the demonstration. Much to the surprise of the demonstrators, almost none of whom dressed like fruit salads, the AFL-CIO issued a press release describing the event as a resurgence of a coalition of trade unionists, minorities, women's groups and environmentalists.

Banking Committee punts on Volcker

Representative Fernand St. Germain (D-R.I.) has announced that the House Banking, Finance and Urban Affairs Committee, which he chairs, will conduct "grass-roots" hearings on interest rates during October, November, and December. Field hearings have been announced, however, for only the following times and places: Minneapolis-St. Paul, 9:00 a.m., Oct. 19; Seattle, Nov. 6; Tucson, Nov. 7; Chicago, Nov. 9; Atlanta, Nov. 13; and Providence, Nov. 23.

But most congressmen have already gotten the message that America is fed up with Paul Volcker and will be addressing the issue one way or the other before the Banking Committee gets around to holding its hearings. Sen. John Melcher (D-Mont.) intends to put onto the Senate floor on Sept. 28 his resolution to bring down interest rates as an amendment to the debt-ceiling bill.

House Speaker Tip O'Neill (D-Mass.), who's working with Robert Byrd on the Senate side to delay any such action, gave his formal endorsement to the Banking Committee's belated hearings at the Sept. 16 House Democratic Caucus meeting, more or less confirming that the hearings are a stalling tactic.

O'Neill told Congress when it reconvened after the August recess that legislation to force a lowering of interest rates is unnecessary. He claims his stalling game will help the Democratic cause by showing up the President's economic incompetence. If we all go into bankruptcy in the process, Tip figures it

will help the Democrats.

Not everyone on the Democratic side is sitting still. One aide close to the moderate Democratic leadership indicated that hearings on interest rates are being organized by other committees. And he added, "We don't want to hear about everyone who is destroyed. We already know that. We want to focus on what long-term solutions could be effective."

Federal marijuana farm proposed

Congressmen Stewart McKinney (R-Conn.) and Newt Gingrich (R-Ga.) on Sept. 16 introduced H.R. 4998, which would put the federal government into the business of cultivating marijuana.

The House bill would allow doctors to prescribe marijuana to cancer chemotherapy and radiation patients and to glaucoma sufferers.

It would also establish a government office in the Department of Health and Human Services to cultivate, manufacture, and distribute marijuana to doctors. McKinney's office estimates that about 1 million people would be eligible to receive marijuana under this law.

There are nine other co-sponsors of the bill, including Rep. Richard Ottinger (D-N.Y.), one of the staunchest advocates of the Carter administration's Global 2000 policy to decrease the world's population by 2 billion by the year 2000.

The bill was drafted in collaboration with the Alliance for Can-

nabis Therapeutics, a spin-off of NORML, the marijuana legalization lobby.

The Alliance is headed by Bob Randall, a board member of NORML. Although they claim that the McKinney bill is a "conservative" one, pertaining only to medical uses of marijuana, NORML spokesmen gloat that it is a beginning toward full legalization.

"It is a step in the right direction. It would allow people to become more familiar with marijuana and that will allow us to begin to realize full legalization."

Senators rap Volcker, offer no solution

Republicans and Democrats on the Senate Small Business Committee gave administration spokesman Jerry Jordan a difficult time on Sept. 23 when he tried to defend the administration's continuing support for the Federal Reserve's tight money policy. However, the Democrats in particular, failed to suggest any serious alternative.

"Small business is going belly up in an unprecedented way," the committee chairman, Lowell Weicker (R-Conn.), told Council of Economic Advisers member Jordan. "You may have a great policy for big companies and rich people, but who's going to be left standing in the small business community?"

Weicker was joined by fellow Republican Al D'Amato (R-N.Y.) who charged that the administration's support for these monetary policies "won't do the dead business community any good."

Democratic members of the committee, who include Sam Nunn (Ga.), Paul Tsongas (Mass.) and Max Baucus (Mont.), attacked the effects of high interest rates, but offered equally bad solutions, echoing the proposals of Federal Reserve Vice-Chairman Frederick Schultz, who told the committee that lowering tax cuts is the way to bring down interest rates.

The Fed maintains that budget deficits, and not Paul Volcker, are responsible for high interest rates. It seems that a number of Democrats have accepted the Fed's lie.

The final witness, Republican economic adviser Alan Greenspan, made a surprisingly sharp statement concerning the depth of the financial crisis. Greenspan said, "The probability that the financial system will crack is never large. Nonetheless, at the current level of interest rates, the risks of breakdown, though still small, are no longer insignificant." Greenspan's prediction was probably the most accurate heard all day.

Rep. Rangel: no aid for poppy growers

Representative Charles Rangel (D-N.Y.) introduced legislation in the House Sept. 22 that would prohibit U.S. assistance to nations that produce or export opium. Aides to the congressman said that the main country involved would be Pakistan, although Thailand and Burma also would be affected by passage of the bill.

"I just find it astounding that this administration would consider

a \$3 billion military and economic aid package to a country that's one of the largest suppliers of heroin to the United States," declared the congressman.

"I'm incredulous," he said in reference to the Reagan administration's proposed military sale to Pakistan.

"I can understand the reasons for the package, the administration's concern about the Soviets and communism. But given the administration's stated concern with drug abuse, the fact that they've done nothing to cover narcotics control at all borders is criminal neglect.

"We've done this successfully with Turkey and Mexico. It works. It's necessary. Why not Pakistan?" Rangel asked.

Rangel noted that deaths attributed to heroin in New York, his home city, climbed 117 percent over a one-year period. He revealed that while the influx of heroin from other countries holds steady, in 1981 Pakistan is expected to produce 100 metric tons of opium, which equals 10 tons of heroin.

Although sources close to the congressman say they do not expect quick action on the legislation, they hope that it will provoke much debate.

Bill would protect naval production

Congresswoman Claudine Schneider (D-R.I.) has introduced H.R. 3464, a permanent amendment to the United States Code to ensure that vessels of the United States

Navy are built in domestic shipyards.

Since 1968 such an amendment has always been added to appropriations bills, but Schneider declared that such an important issue should not be left to chance every year. What had specifically prompted her action, she said, were statements made over the past several months by Navy Secretary John Lehman that he would look to foreign shipyards to produce some U.S. ships if the problems at the domestic shipyards were not quickly corrected.

The House Armed Services Subcommittee on Seapower and Strategic and Critical Materials held hearings on the legislation Sept. 24. Written or verbal testimony came from both Rhode Island senators; the governor of Rhode Island; Frank Drozak, the president of the Seafarers International Union; Page Groton, assistant international president of the International Boilermakers; the assistant secretary of the Navy for shipbuilding, and others.

All the witnesses supported the bill, except the Navy representative, who called it overly restrictive and inadvisable as a permanent measure. He stated that the Navy has no current plans to use foreign shipyards, but that this may change in the future.

The subcommittee voted up the bill with an amendment that provides exemptions if it is deemed in the national security and if the President provides 30 days' notice of a decision to use a foreign shipyard. The full committee is expected to act this month. At present there is no comparable legislation in the Senate.

National News

Laborers Union attacks high interest rates

The Laborers International Union of North America (LIUNA) overwhelmingly passed a resolution condemning the high interest rates of Paul Volcker's Federal Reserve at their national convention in Hollywood, Florida, Sept. 18. The resolution reads in part:

"There is no doubt that one of the major obstacles to curing some of America's economic woes is the degree to which interest rates have soared over the last two years. The tight money policies of the Federal Reserve Board and the Reagan administration have seriously hampered the capacity of the economy to get back on its feet. . . . Housing has become unaffordable for most American families and the commercial institutional and industrial sectors of the construction industry are at a standstill. Unemployment in construction rose above 16 percent during the summer of 1981. . . .

"High interest rates have had a similar devastating effect on many other important sectors of the U.S. economy, including building materials, automobiles, agriculture, and thrift institutions. In addition, high interest rates have retarded the program of increased investment in new plant equipment widely recognized as necessary to restore the health of many basic industries. . . . Furthermore, high interest rates have been a major contributor to inflation, as the cost of borrowing was factored into prices of most goods and services produced in this country."

The resolution then calls on Congress, the President, and the Federal Reserve Board to lower interest rates, ensure adequate financing for new industrial capacity and housing, and reform the Fed to include representatives of industry, labor, and agriculture.

The LIUNA convention also passed resolutions supporting the maintenance of Social Security, attacking deregulation of trucking and other industries, attacking the proposed tax cuts as en-

couraging speculative ventures rather than productive investment, and supporting the Davis-Bacon Act, which is under attack in Congress.

Finally the Laborers convention also called for a public forum to investigate control of television networks, citing the media's "excessive influence and potential for abuse," which "carries immense power to mold public opinion, indoctrinate the young and distort human values."

Seminar brings 'war on drugs' to Congress

The first in a three-part Capitol Hill seminar series cosponsored by the National Anti-drug Coalition and *EIR's* biweekly newsletter on terrorism and law enforcement, *Investigative Leads*, was held Sept. 24 in Washington, D.C.

Aides attended from the offices of Senator DeConcini and Representatives McCollum, George Brown, Patman, Fautroy, Causen, and Minish, along with representatives from the National Rifle Association, Moral Majority, League of United Latin American Coalitions, Organization of American States, National League of Cities, American Legion, and the American Association of Retired Persons, Members of the International Association of Chiefs of Police, the metropolitan police of Washington, D.C., the Law Enforcement Officers Association, the National Association of Attorneys General, the Drug Enforcement Administration, and the federal Law Enforcement Assistance Administration were also at the seminar, along with representatives of the Justice and Treasury Departments, the Internal Revenue Service criminal investigations division, the Immigration and Naturalization Service, the Government Accounting Office, Interpol, the Senate Permanent Investigations Subcommittee, and the House Foreign Affairs Committee.

John T. Cusack, a former drug enforcement official known for his role in breaking up the "French Connection,"

outlined the history of drug enforcement with particular emphasis on the success in elimination of drug production and trafficking during periods of strenuous international cooperation among nations, "which I'm sure Schmidt, López Portillo, Gandhi and all other Third World leaders would back."

EIR Counterintelligence Editor Jeffrey Steinberg, co-author of the best seller *Dope, Inc.*, blasted the government for having no strategy to combat drugs, referring to the dismantling of the Drug Enforcement Administration in this regard.

A question from the audience on the proposed merger of the DEA and FBI was answered by Cusack, who gave an impassioned defense of the DEA's role and why it has recently been maligned. He said that with proper marching orders from the Reagan administration, proper financing, and proper support, the DEA could win the war against drugs.

New cuts slated for energy and space

The second round of fiscal year 1982 budget cuts forwarded to Congress last week promises to paralyze the Congressional budget process for the Department of Energy (DOE) and the National Aeronautics and Space Administration (NASA).

Congressional sources report that OMB Director David Stockman has demanded that \$1 billion be slashed from the fiscal 1982 DOE budget. Although DOE Secretary Edwards promised three weeks ago that no new cuts would come from the research programs, a cut that size leaves no choice. If Congress does not accede outright, no budget will be passed until another round of haggling in each committee is complete. Meanwhile, the DOE's fusion work will continue at the lower, fiscal 1981 levels, halting work planned for startup in the next few months.

The fiscal 1983 budget for fusion looks no better. The DOE requested \$532 million for fusion, but Stockman

now demands that \$2.5 billion be cut from the fiscal 1983 budget. Sources report that the Energy Department's Office of Fusion Energy is now undergoing "disaster exercises" and that scientists have been recalled from important international meetings to cope with a possible slash in the fusion budget to \$460 million.

Despite the spectacular success of Voyager and the Space Shuttle, Stockman is also demanding that additional cuts be made in the fiscal 1982 NASA budget, ensuring that America will have no space program in the future. Although it is not possible that these new cuts will be accepted by former astronaut Sen. Harrison Schmitt or the House, Reagan has stated that he will veto the fiscal 1982 NASA budget unless the additional cuts are made.

If the fiscal 1982 budget is tied up on the Hill in a dog fight with the administration, Stockman will get his cuts de facto.

Banker: Volcker trying to depopulate U.S.

At a Sept. 22 press conference held in Richmond, Virginia to demand the ouster of Federal Reserve Board Chairman Paul Volcker, the head of a large Virginia Savings & Loan Association charged that the Fed chairman is out to reduce the size of the American population.

William Patton's accusation startled the eight press representatives assembled outside the doors of the Federal Reserve Bank for the conference, jointly sponsored by A. L. Phillips of the Virginia American Agriculture Movement, Bruce Director of the National Democratic Policy Committee, and leading savings and loan bankers. All the participants demanded Volcker's resignation and an immediate lowering of U.S. interest rates to foster growth of productive economic activity.

NDPC leader Director began the conference by citing a Federal Reserve document describing a scenario for the controlled collapse of U.S. savings banks

and their buyup by the large commercial banks.

Senate urged to 'be serious' on Williams case

Senator Malcolm Wallop (R-Wyo.), the chairman of the Senate Select Committee on Ethics, told Congress last week that he was concerned that less than one-third of the Senate had viewed the FBI videotapes used to convict Sen. Harrison Williams (D-N.J.) of "influence peddling" in the Abscam trials. The Senate must vote on a recommendation by the Ethics Committee to expel Williams, pending the Oct. 7 decision by Judge Pratt on whether Williams's due process rights were violated.

"The public has a right to know that the Senate is taking the Williams matter seriously. . . . There is no more valuable time that a senator can spend than fulfilling the constitutional role that is required of us to judge the fitness of a member of this body," Wallop said.

He warned the senators "not to use the Ethics Committee's expressed recommendation as a 'crutch,'" but to make their own independent judgment based on all the materials, including the briefs and responses by Senator Williams.

"The public perception of every sitting senator will hang on the judgment the Senate makes, and the Senate will be asked to defend that judgment," Wallop noted that the Senate had not expelled one of its members except for treason, and that during the Civil War.

Wallop's comments followed increasing exposure of the Justice Department's misconduct in the Williams trial. On Sept. 24 syndicated columnist Jack Anderson reported that the foreman of the jury that convicted Williams in May said it would have been a hung jury if Justice Department memos showing FBI pursuit of Williams through 13 months of no wrongdoing had been allowed into evidence. The jurors were troubled by the entrapment issue, the foreman said, but were not allowed by Judge Pratt to consider it.

Briefly

● **REP. JACK KEMP'S** office reports that the Reagan administration is currently working on a draft of its own legislation to establish "free enterprise zones." They expect a bill to be introduced early next year. Kemp's office says that they will try to pass the legislation "over the bodies of organized labor."

● **JERRY BROWN**, governor of California, brought a court action Sept. 22 to block the NRC-approved startup of the Diablo Canyon nuclear plant.

● **DAVID ROCKEFELLER** defended high interest rates but disavowed his influence over U.S. government policy in a series of speaking engagements in Seattle last month. He said that "interest rates are likely to drift downward but the Federal Reserve's tight money policy in face of huge credit demands by the U.S. Treasury will not allow interest rates to drop quickly."

● **ALBERT SHANKER**, head of the United Federation of Teachers, says that Paul Volcker is a great defender of America's poor. "You can't legislate low interest rates," explained Shanker. "Laws against usury are designed because minorities and others who can't get normal credit must pay very high interest rates. Laws against usury are designed to prevent those minorities from getting any credit at all."

● **MEYER RASHISH** says that *Global 2000* is a very humanist study in its approach." The undersecretary of state for economic affairs was answering an *EIR* question at a New York seminar Sept. 23. "I understand [*Global 2000*] is a document that can hardly be characterized as genocidal. It is a well-thought-out study that looks to the future on environmental and population issues," he asserted.

That controversial Alaskan oil

Arco's Robert O. Anderson has enjoyed a near monopoly until now. The nation has been the loser.

The nation's seventh largest integrated oil company, Robert O. Anderson's Atlantic Richfield (Arco), has let it be known that it opposes the new five-year accelerated oil and gas leasing schedule announced by Interior Secretary Watt earlier this year. The focus of this controversy involves the opening up of vast untapped Alaskan federal lands, on and offshore, to exploration and development.

The Sept. 29 Outer Continental Shelf lease sale, OCS Sale #60, covers more than 850,000 acres in Alaska's Lower Cook Inlet and Shelikof Strait, some 3 to 23 miles offshore. It is the largest single offshore lease sale in the embattled history of Alaskan resource development.

Development of the frontier lands of Alaska had been the focus for one of the most heated battles of the Carter administration. Carter Interior czar Cecil Andrus managed to administratively lock up more than 100 million acres until the December 1980 passage of the misnamed Alaska National Interest Lands Conservation Act of 1979. That law, pushed by arch-environmentalist Moe Udall in Congress, more or less permanently locks up some 104 million acres as national parks, wilderness areas, and such.

The stakes here are high indeed in terms of future energy availability. While the U.S. Geological Survey estimates for possible oil and gas resources in the area covered by OCS #60 total millions of barrels of

oil, the untapped resource estimate for Alaska as a whole is truly enormous.

I talked with John Guy of the National Petroleum Council. That industry group, which acts in an advisory capacity to the government, is completing a comprehensive two-year resource assessment of Alaska. Their preliminary estimate is that we have probably about 44 billion barrels of oil or its natural gas equivalent *yet to be discovered*. This does not even take into account the estimated 10 billion barrels in the North Slope's Prudhoe Bay Field, where Robert O. Anderson, together with British Petroleum's Sohio, dominates the largest single U.S. oil discovery.

What is remarkable is how little access has been permitted to Alaskan areas since the "fortuitous" discovery back in 1968 by Arco at Prudhoe Bay. In 1980, Prudhoe Bay produced more than 1.5 million barrels a day, 16 percent of U.S. production.

I have done some extensive investigation into the bizarre Mr. Anderson in connection with a special report just released by the Parity Foundation of Detroit, Michigan ("Who's Running the Witch-Hunt of James Watt"). There is strong presumptive evidence that Anderson's meteoric rise into multinational oil big leagues got an assist from certain well-placed cronies in the Department of Justice Anti-Trust Division when they forced

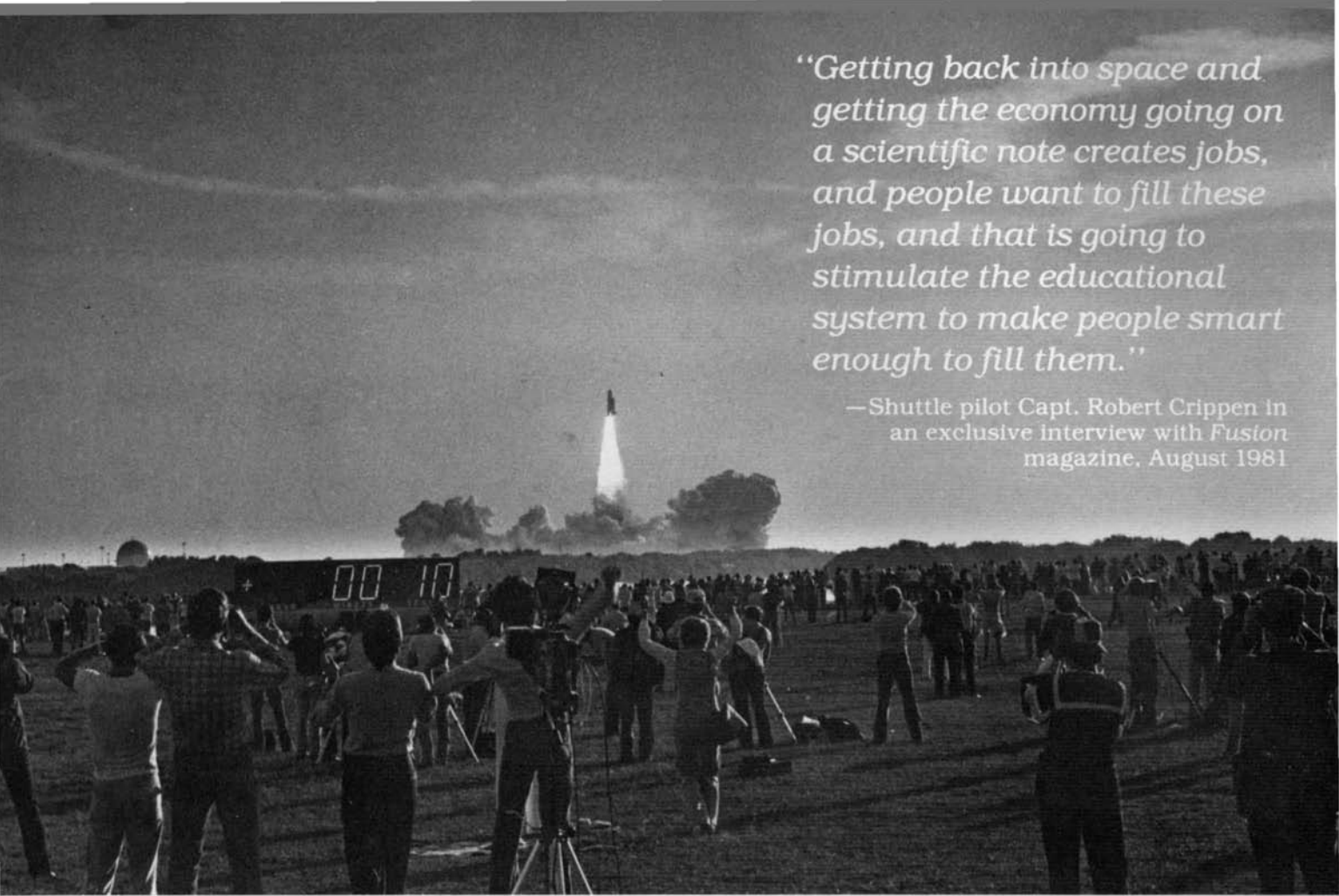
Sinclair Oil to divest its Richfield Oil stock into his waiting arms. This was the plum that gave him the choice Prudhoe Bay acreage.

That may be neither here nor there, but the "Republican independent oilman" Anderson also chairs one of the most viciously effective antigrowth centers for subversion of industry and growth: the Aspen Institute for Humanistic Studies. Robert O. Anderson personally financed the 1969 creation of Friends of the Earth and "Earth Day," which publicly launched the antigrowth movement that so vehemently opposes Watt's policies today.

His "think tankers" at Aspen have architected virtually every major piece of antigrowth legislation of the last 15 years. Aspen Institute Energy Commission head John Sawhill, who also sits on the Trilateral Commission, shaped the Carter Crude Oil Windfall Profits Tax. Atlantic Richfield, according to certain reports, played a central behind-the-scenes role in designing that tax. Arco's rich Alaskan production went largely unscathed because of an exempting amendment "in the national interest".

The president of Arco is on record stating that Arco has "never fought against" the windfall tax. Such an attitude is consistent. In 1974 Anderson called for elimination of the percentage depletion allowance, the heart of the mechanism by which independents in this country have been able to explore frontier and other areas and produce our energy needs.

And now Mr. Anderson is hollering that Secretary Watt will upset his pretty little Arco apple cart by opening up the Alaskan plum to all comers.



"Getting back into space and getting the economy going on a scientific note creates jobs, and people want to fill these jobs, and that is going to stimulate the educational system to make people smart enough to fill them."

—Shuttle pilot Capt. Robert Crippen in an exclusive interview with *Fusion* magazine, August 1981

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