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Executive Intelligence Review

October 20, 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  
**In Mexico:** EIR,  
Francisco Diaz Covarrubias 54 A-3  
Colonia San Rafael, Mexico DF. Tel: 592-0424.  
**Japan subscription sales:**  
O.T.O. Research Corporation  
Takeuchi Bldg.  
1-34-12 Takatanobaba  
Shinjuku-Ku, Tokyo 160  
Tel: (03) 208-7821

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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

To those of you who have followed *EIR's* intelligence on Egypt and Iran, the murder of Anwar Sadat will have come as a shock, but not a surprise. The mounting battle between Sadat and Egypt's fundamentalists was not a case of domestic political opposition, but a flank in the international effort to install Dark Ages regimes throughout the underdeveloped world, regimes bent on slashing their own populations and eliminating any vestige of the drive for progress.

Our Special Report, prepared by Middle East Editor Robert Dreyfuss, Nancy Coker, Judith Wyer, and Africa Editor Douglas DeGroot, identifies the special capabilities of British intelligence and its allies within the Soviet KGB and Israeli Mossad as the key in investigating the "who" of the Sadat assassination. The "why" is outlined with reference to those factions' shared opposition to industrial and scientific development in the Arab world—development to which Egyptian industry and science remain essential.

Our Economics intelligence this week leads with some good news, for a change: Third World leaders have moved to put technology transfer and capital-intensive growth on the North-South agenda at Cancún, Mexico this month, winning Japan as the mediator for that purpose; and Japan is already showing uncommon political aggressiveness on behalf of expanded trade and industrialization efforts.

In our International intelligence, you will find Asia Editor Daniel Sneider's exclusive interview with Nguyen Co Thach, the Vietnamese Foreign Minister distinguished by his reputation as one of the people Henry Kissinger most detests. The interview, conducted in Hanoi, follows Mr. Sneider's commentary on the delusions of those Washington strategists who portray Vietnam as simultaneously the Soviets' formidable Asian military aggressor and a nation internally weakened to the point of near-collapse.



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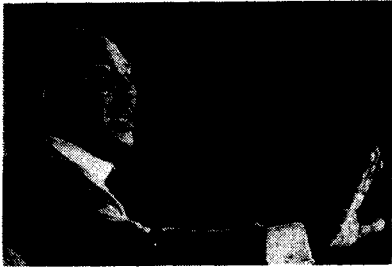
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**Correction:** Due to a typographical error in our Oct. 13 interview with Nobuhiko Ushiba, the latter's meaning was reversed when he responded to *EIR's* comments that "Secretary Haig seems to think the Soviet Union is the biggest problem in the Middle East." Ushiba actually said, "Well, *that* may be, but the majority of American participants at Shimoda felt internal regional problems were more important." The typographical error had Ushiba commenting, "Well, *they* may be."

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## Japan: 'The Third World must have development'

by Richard Freeman

If Japan succeeds in its program of trade and diplomatic missions over the next month, the world may have a fighting chance to avoid the worst effects of the present potential for a major crack in the world financial system.

Long noted as the premier country in applying high technology to capital goods production for rapid increase in overall output and productivity levels, Japan is giving indications that it plans to launch technology-sharing and industrial revitalization efforts with other advanced countries, and to promote the industrialization of developing countries. Japan is attempting to draw West Germany, another nation largely dependent on high-technology goods exports, into this arrangement. A Japanese delegation of over 100 will be in Bonn Oct. 13-15. Between the two nations, Japan and West Germany command 20 percent of the world trade and maintain a presence in the Eurodollar market that is in excess of that held by the United States.

The Japanese delegation comes to Bonn with strong credentials. On Oct. 5, Japanese Prime Minister Zenko Suzuki told the Japanese Diet (Parliament), "It is essential to international peace and stability that the industrialized countries help stabilize the peoples' lives in the developing countries to eliminate the causes of instability in their political situations by contributing to their economic development."

Suzuki made these statements in response to an extraordinary request that came from Brazil, Saudi Arabia, Nigeria, Bangladesh, Venezuela, the Ivory Coast, and Mexico that Japan be the mediator between North and South at the upcoming Cancún summit of heads of state

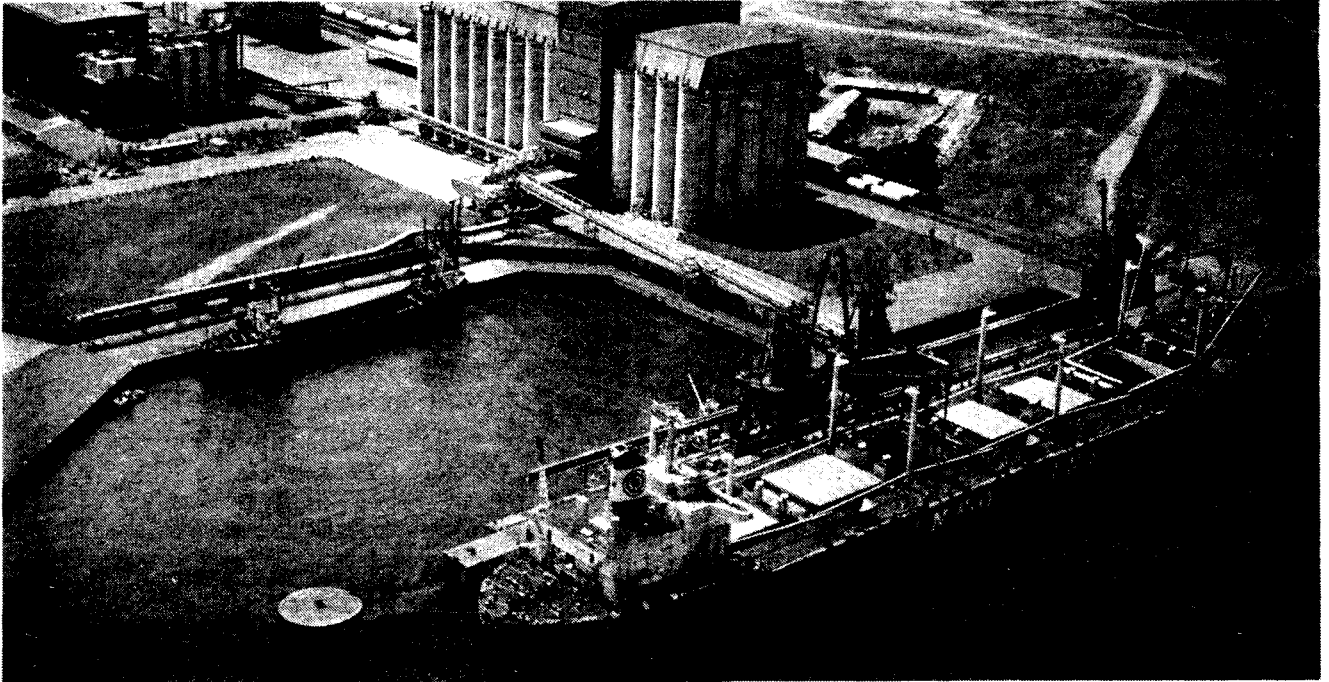
on Oct. 22-23. These nations, representing among them half the industrial powerhouses of the Third World, asked that Japan mediate with the U.S. to pressure the Reagan administration to soften its hard line against Third World lending, and to ensure that there be no confrontation between North and South at the summit. Suzuki accepted, and also accepted Mexico's invitation to attend some pre-meetings with the Third World.

The fact that Japan accepted, and will certainly make high-technology exports to the Third World the leading item on the Cancún agenda, means that the sponsors of the anti-development Brandt Commission report are dealt a major blow. The Brandt Commission had wanted either Canada's Trudeau, France's Socialist Mitterrand, or Britain's Foreign Secretary Carrington, to play the major role in discussions between North and South, establishing labor-intensive, deindustrialization schemes as well as radical population reduction as the priorities for deliberation. Now, Japan could make world economic development the major concern.

At the same time, Japan is making a major move to replace Germany and France as the number-two trading partners with Mexico, and plans to give the United States a hard run for its money to take the number-one spot.

Japanese Ambassador to Mexico Matsunaga told a delegation of Japanese and Mexican businessmen in Mexico City Oct. 5 that it was "the moral responsibility" of the advanced countries to transfer industrial technology to the Third World.

It is easy enough for the Japanese and Germans to put face up the trade tables and areas of the world where



Courtesy of Hitachi

Japan's Kashima Port: the Tokyo government has been asked to place high-technology development on the North-South agenda.

each have interests to see how to rationally uphold trade levels in those parts of the globe. Both the German and Japanese have successfully exploited the vast Soviet economy to line up several billions dollars worth of orders for the next several years with the Russians, an arrangement that will become increasingly attractive if the Volcker interest rates drive the West deeper into recession.

Between the Soviets, Germans, Japanese, Mexicans, Saudis, Brazilians, and others there is a large part of the world's trade already represented, a point that has certainly been reflected upon in Tokyo.

### A response to the IMF and BIS

The Japanese initiative comes in response to the lack of world leadership in economic affairs that was nowhere more graphically displayed than at the International Monetary Fund's annual meeting in Washington, D.C. Sept. 28-Oct. 2. While delegations sat shaking their heads over the destructive effects such policies would have on world trade levels, the IMF Interim Committee, the official steering committee of the IMF, passed its resolution, expressed in its final communiqué, calling for a curtailment of official institution lending to the Third World. This accompanies a call by Federal Reserve Board Governor Henry Wallich, at a Sept. 24-26 meeting of international bank supervisors, held at the Fed's Washington headquarters, to impose greater surveillance over private bank lending to the Third World, and to begin accounting rescheduled loans as non-performing assets on bank books. Wallich, speak-

ing in effect on behalf of the "Cooke Committee" of the Swiss Bank for International Settlements, communicated the message that now is the time for banks to draw in their horns on the international markets (see page 7).

It is one thing to be temporarily forced to cut back international liquidity; it is quite another to make such a proposition the basis of policy, as Wallich and the IMF have done and which the United States supports. Every sane banker must recognize that such curtailments of liquidity, during a period of the world's greatest illiquidity—the Third World's current account deficit is a record \$96 billion this year, and the IMF itself projects it will reach \$140 billion in 1985—is a surefire way to force one section of the world's markets to blow out. That would bring down trade and economic activity in the advanced sector. The discussion then falls back to what alternatives exist for the world economy. This is the position that Japan is developing.

In this venture, which is nothing less than challenging *politically* for the first time misguided Washington policies, Japan will have to shed its image of taking responsibility only for the Far East, and of being expert only in economics, not politics.

That Japan is beginning to move in these two areas is already evident. This has come as a rude shock to bureaucrats at the U.S. Treasury and State Department. When the Japanese delegation arrives in Bonn, after it has started its tour on Oct. 3 of Western European capitals, it will put on the table Japan's plan for top-down, integrated economic development of the Third World and the way it fosters South-South economic

ties. Representatives from the Germany's major business federations, the BDI and DIHT, as well as government officials, including Economics Minister Otto von Lambsdorff will meet their Japanese counterparts. An official at the Japanese Embassy in Bonn told *EIR* Oct. 2, "We realize that Japan's relations with Europe are not as close as they are to the U.S. and this needs adjustment. Our goal is to establish triangular relations between Europe, Japan, and the Third World. Mutual cooperation in technology transfer to the Third World, in the long run, is the only way to guarantee our economies will flourish in the future. And, he added, "if the West wants to prove to the Soviets that the West is strong, then we must build our economies again."

### **Petrodollar recycling**

The Japanese, however, have an additional benefit working for them. They are positioning themselves to become one of the world's largest recyclers of petrodollars. Japanese overseas bank holdings of Eurodollars increased to \$105 billion by June of this year, compared to \$140 billion each for Great Britain and the United States. But Japan's 65 percent growth in Eurodollar holdings between June 1980 and June 1981, if continued, would make Japan the largest holder of Eurodollars by mid-1982. A healthy chunk of these Eurodollar holdings are petrodollars. It is a well-documented fact that Saudi Arabia and other nations are pouring money into Japan's economy, conservatively estimated to be \$1 billion each month. It is the Arab component of Japanese holdings that gives Japan the ability to become a powerhouse in international lending.

Japan, for example, made \$3.4 billion in syndicated loans alone to Mexico in the July-September period this year. According to Prime Minister Suzuki, Japan plans to make an additional \$21 billion in official development aid available to the Third World between 1981 and 1985, double its rate during 1976-1980.

But Japan's financial activity would be futile were it not coupled to the Japanese industrial machine, the most developed in the world, using "American System" methods of applied high technology to industrial processes, a method that the U.S. abandoned at the end of the last century. Japan plans to build integrated industrial projects in the Third World, starting with a raw materials source, bringing in Japanese engineers and mining and earth-moving equipment, then following up with Japanese transport equipment, port development construction, heavy industrial plants, and nuclear power sources. Japan expects to ready floating nuclear power plants by the mid-1980s for export to the Third World to solve the energy problem.

On top of this, Japan is opening up an entire offensive of economic weaponry, to simultaneously develop the Third World and meet the specifications of

Prime Minister Suzuki's 1980 dictum that 20 percent of all the nation's exports should be plant and equipment. This is in keeping with Japan's commitment to a "knowledge-intensive" economy, in which the new frontiers of science define the next product mix to be produced and exported each new decade. Carrying out this export drive will be Japan's giant trading groups, which, if all the various subsidiary companies are counted, are much larger than previously accounted. Mitsubishi, Mitsui, and Sumitomo each have annual revenues of \$200 billion, when treated as consolidated companies, making each twice as large as Exxon.

According to one expert, Japan has set the following goals:

- to be the largest producer of heavy industrial goods in the world by the 1990s;
- to begin flooding the world with Japanese tractors and earth-moving equipment. One Japanese tractor company has brought out a diesel tractor intermediate in size (between the garden tractor and the small American farm tractor,) which is 30 percent less expensive than comparable American models;
- to take over as world leader in production of ceramics, which use rare earths to make resilient, heat-resistant, and highly malleable industrial products;
- to take leadership in world machine tool production. Japanese machine tools for aluminum-working are now so efficient that Boeing uses them for the assembly of airplane wings;
- to become, by 1987, the world's largest producer of 35-to-125-passenger airplanes.

It is clear that a country that has gone from no market share to over 45 percent in the world's 16-bit microchips market during the 1970s, is capable of achieving the above goals.

It is also clear that Germany may agree to go along with such a world development plan. The U.S. could go along with that plan, but that would require that the Reagan administration free itself from subservience to the interest-rate policy of Fed Chairman Volcker and the credit cutoff policy delivered to the U.S. President by the IMF and BIS. The Japanese leaders are convinced that without restoring a development-oriented policy in Washington, their efforts would ultimately prove futile. One Japanese banker told *EIR*, "Japan cannot do it alone. We haven't the funds. Besides, if many of the developing countries go bankrupt, our banks cannot avoid the disaster." Therefore, the highest objective of Prime Minister Suzuki's mediation efforts at the Cancun summit is to get the United States and the nations of the South to engage in productive dialogue around concrete proposals for development.

Whether the United States joins the plan or not, the Japanese are making the first real concrete offer to avoid a trade collapse that has been seen in a long time.



# Bank for International Settlements conference maps a clampdown on international lending

by Kathy Burdman

A "secret and confidential" summit of bank regulators from Basel's Bank for International Settlements convened in Washington at the Federal Reserve Board Sept. 24-26 to plot controls and credit cutbacks on the international Eurodollar markets, Fed sources have told *EIR*. No press or private bankers, or anyone but central bank regulators, was allowed in but *EIR* has obtained first-hand reports.

The meeting was the annual session of the International Conference of Banking Supervisors, a group of 80 central bank regulators from around the world. BIS, the "central banks for central banks," has, with increasing success, imposed the principle that economic growth is "inflationary" and credit restriction to industry imperative. The conference, which included Third World central bankers and others, considered "mickies," by the elite at the BIS, was called to spread the thinking of the bank's select Cooke Committee. The Cooke Committee, headed by Bank of England Director of Bank Regulation Peter Cooke, includes only the 11 top members of the BIS led by England, the U.S., and Switzerland. It was founded after the bankruptcy of Germany's Herstatt Bank and the New York's Franklin National Bank in 1974, to lay down all central bank laws for private bank lending.

Peter Cooke himself opened the meeting with a shocker. Mr. Cooke revealed that a recent study by the Bank of England had found that any new "crisis" in the \$1.2 trillion Eurodollar market could be blown out of control by the over \$900 billion in that market held in *interbank* deposits.

Mr. Cooke explained that, as the Euromarkets have grown, the size of the interbank market, or what banks deposit with each other, has grown "quite rapidly. The internationalization of the banking system," he stated, "has grown with the interbank market at an alarming rate, as banks of all nationalities become drawn together by a fine web of deposits amongst themselves which supercedes national boundaries."

The very existence of such a market poses a danger to the world banking system, he stated, because "they create such a web that if one participant should fail, it would be

very difficult, almost impossible, for other banks to withdraw."

Mr. Cooke noted that with the age of electronic funds, banks are also shifting deposits among themselves far more rapidly. "This is more efficient," he said, "but, paradoxically, it also presents more problems. If trouble occurs, it could work its way through the system instantaneously."

Mr. Cooke's alarming speech was buttressed by a 10-page study, "Eurobanks and the Interbank Market," issued in the Bank of England's latest *Quarterly Bulletin* in September. It concludes:

"The existence of the interbank market does not in itself increase the likelihood of a Euromarket crisis . . . The growth of the interbank market does, however, mean that if a crisis should occur, its results could be farreaching."

The very size of the interbank market, "has increased the volume of funds which would be involved in any Euromarket crisis," the bank writes. By so doing, it has also increased "the number of transactions with which the banks have to deal. Interbank activity has thus intensified the pressure for setting up more efficient clearing systems [such as electronic funds computer systems], and now their very efficiency could result in any ripple effects from a crisis of confidence being transmitted very rapidly through the Eurobanking system.

"A slightly more subtle concern arises from the impact of interbank transactions on the flexibility of the market," they continue. "If funds pass through chains of banks between deposits and final borrowers, this increases the number of parties which could be affected in the event of a bank facing liquidity difficulties." This was the same conference where U.S. Federal Reserve Governor Henry Wallich raised the spectre of world debt problems, and called for severe BIS restrictions on commercial bank lending to LDCs.

Focused on "lending risk," Wallich's speech was aimed at enforcing the policy enunciated by U.S. Treasury Secretary Regan at the IMF's annual meeting in Washington: that world credit to the developing sector must be drastically cut. Wallich tacitly invoked depopu-

lation policy: as a Washington spokesman for the Overseas Development Council told *EIR* recently, statements by the ODC and the Draper Fund that population is a "risk" for lenders has already caused many banks and corporations to halt investment in the Third World.

Wallich notes that under current circumstances banks are issuing new loans to cover rescheduling of principal and even interest, which he terms bad policy, although the alternative for many LDCs is starvation. He then proposed various extreme regulatory measures to halt rescheduling and slash net lending—and, in effect, world trade.

As Mr. Cooke told the gathering, "National bank regulators must deal with this on a supranational level. The interbank market shows that your banking problems are mine too." Cooke ended with a call for "new cooperation" on reducing international lending.

*Excerpts from Governor Wallich's Sept. 26 speech:*

There is a need to individually adapt our national laws and practices into an international framework. . . . For my part, I shall discuss some aspects of international lending risk. . . . In particular, I intend to address the questions of anticipating international lending problems, banks' rescheduling of country debt, and the degree to which banks are preparing themselves to meet such risks by charging appropriate spreads and by building up adequate capital positions.

Analysts of lending risk in the international sphere have focused, in recent years, on the assessment of country risk—especially the risk of lending to developing countries. The past few years' experience suggests that our ability to anticipate future problems in this sphere is modest. First, problems have sometimes cut across country lines, involving particular industries such as shipping, steel, and real estate. Second, some country problems do not involve developing countries, as the present debt situation of a certain Eastern European country exemplifies. Third, among developing countries themselves, difficulties have been experienced with countries of very good credit standing, as was the case of Iran. . . . It is sometimes thought that the usual rules of lending risk do not apply to sovereign borrowers. It has been said that lending to countries is less risky than lending to businesses or individuals because a country will always be around. . . . All that is needed is occasional rescheduling that gives the lender a breathing space and does not significantly affect the earnings or capital of the lending banks. In my judgment, this is too complacent an attitude. . . .

If short-term credits are regularly rescheduled, banks may be less willing to extend such credit generally—a development that could eventually be very damaging to the borrowing country. Moreover, from the standpoint

of the borrower, it needs to be noted that rescheduling may increase in a nonproductive way. . . .

One common way in which the international financial community seeks to ensure appropriate use of the rescheduling mechanism is to make debt restructuring contingent upon a standby agreement with the IMF . . . contingent upon an economic stabilization program. . . . The Fund's conditionality then serves the purpose of altering the policies of the borrower. . . . For this reason, our own governments should insist that the IMF adhere to a strict line on conditionality.

Should it bow to pressures to greatly expand its lending on relaxed conditions, the long-term viability of borrowing countries may be threatened, and the integrity of the rescheduling process could be undermined. These developments would jeopardize the availability of private credit to the developing world.

Situations where a country might begin to rely on rescheduling for the indefinite future should be guarded against. Rescheduling then could become a Ponzi game in which the banks would be lending the borrower the interest so as not to have to treat the ever-mounting loan as non-performing. When the unpaid interest on a loan is capitalized, i.e., treated as part of the principal whose repayment is deferred, a first step is being taken in that direction. . . . The extreme case of a country altogether repudiating its obligations may be unlikely. . . . But an intermediate case—suspension of payments or whatever the term might be—surely cannot be ruled out as a possibility. . . . To play our own roles in averting this possibility, we should pause to ask ourselves whether the present rate of growth of international bank lending is warranted by real needs and economic capacity on the part of the borrowers. . . . For two reasons, it may be argued that the world has reached the point where a slowing down in the rate of growth of debt is necessary. First, the higher proportion of rescheduled debt should make us uneasy. . . . Second, the high level of interest rates unfortunately also adds to the risk inherent in any given level of debt. . . .

In particular, the question arises at what point the banks should begin to set up reserves against such loans. A recent multi-country review of country practices by the BIS found that in no major country are delays in payment or interest on sovereign loans automatically classified as doubtful assets. . . . In the United States, only loans that are explicitly delinquent must be placed in a non-accrual status by the banks. Rescheduled loans seldom reach this state . . . loans to Poland and Turkey are not now considered in a non-accrual status by U.S. banks.

For all these reasons, it seems advisable to me that regulators begin to formulate ideas about the balance-sheet and income-statement treatment of rescheduled loans. . . . We will first have to address a number of questions such as: should reserves apply only to country

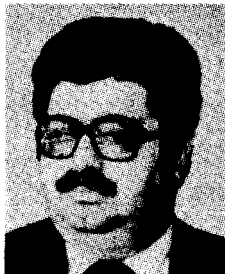
loans or should they be maintained on rescheduled commercial loans as well? How do regulators discern the difference between a refinancing and a rescheduling? Should all rescheduled loans be accorded the same treatment, or should supervisors have discretion? If reserves are to be set aside, how big should they be in relation to the loan, and how long should they be maintained? . . .

It is evident that an explicit set of policies will not be developed in the near future. Meanwhile it is up to us to make sure that banks have, or are on their way to achieving, adequate means to protect themselves against sovereign risks. We should ask questions such as: are they pricing this risk properly, building earnings that will offset any eventual losses? Are they adjusting their capital to serve as a buffer against potential international lending losses?

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## Interview

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# Turgut Ozal on the IMF and Turkey

Turkish Finance Minister Turgut Ozal held the following discussion with *EIR* Economics Editor David Goldman during the Sept. 28-Oct. 2 meeting of the International Monetary Fund in Washington. Ozal's brother Kurkut is a leader of the National Salvation Party, a Muslim Brotherhood front; his brother Yusuf is at the World Bank; and his son Ahmet works for the IMF. Cited by *Euromoney* magazine as Economy Minister of the Year, Ozal has taken charge of an economy that 20 months ago had become the most cited example of a developing sector economy in real trouble. Since then the country's economy—at least from the standpoint of its creditors—has turned around, although at the cost of a fundamental postponement of Turkey's industrialization goals.

During the first eight months of 1981, Turkish exports rose 58 percent compared to the similar period in 1980, a result comparable to that achieved by South Korea or Brazil.

However, unlike the South Korean case, Turkey did not break into markets for industrial goods previously dominated by industrial nations, but concentrated on consumer items aimed at relatively familiar markets,

particularly the Mideast and North Africa.

Ozal wrenched the Turkish growth pattern out of production for a domestic market, including substantial state-backed investment in heavy industry, toward a light-industry export program aimed at taking advantage of the nearby Mideast market. The minister provides a philosophical explanation for the change in the following interview, but the new government's program was the only option left by the country's creditors. In contrast to the Philippines, which threatened to walk out of the International Monetary Fund if IMF loan conditions were toughened, Turkey is relatively uncritical of the Fund. The difference may be found in the fact that while the Philippines have Japan to back them up, Turkey is at the mercy of its creditors.

**Goldman:** President Reagan in his address to the IMF meeting stressed the role of private enterprise as the solution to world development problems, speaking to an audience of countries whose economies are for the most part heavily based on state-sector enterprises. What is your reaction to this?

**Ozal:** I would prefer to talk about my own country—I cannot speak for others. Even a country like Turkey has more and less developed regions, so it is very difficult to generalize. But generally what President Reagan has said is true. I don't deny the role of the state, building up of infrastructure from which everyone can benefit. This cannot be done by the private sector. Then this infrastructure is used by the private sector.

**Goldman:** The developing countries objected strenuously to the argument of the Interim Committee that their deficits had to be reduced by cutting back imports. What is your view of these differences?

**Ozal:** My remarks will be limited to the case of Turkey. Private companies and individuals could play a more important role than before, in bringing about less inflation and a higher growth rate. I believe that private individuals have a better chance to do this than state enterprises. We have tested this in our own economy. In Turkey we have a mixed economy. Largely it is true that the state cannot produce as efficiently as the private sector. There is also a state role in the economy, but not for micro-level intervention. In my country we have had strict price controls, but they have never worked.

**Goldman:** The Managing Director of the IMF, Mr. de Larosière, was explicit that the developing nations would have to make even more sacrifices to reduce their balance of payments deficits, by which he meant reducing imports. Turkey has already gone through a difficult period of austerity. Do you think this is possible?

**Ozal:** That implies, in one sense, reducing balance of payments deficits through a limited growth rate. It de-

pendes from one country to another. I have no intention of asking for too much aid. I prefer slower but surer development. There is no substitute for our own efforts. If our own efforts bring results, the outside will be much more helpful, they will see that we are creditworthy. The banking sector is closer to Turkey than two years ago. They see our efforts and say, "This man is capable of doing such-and-such, he will repay a loan." This is the right way of doing it. Of course, I am not against aid.

**Goldman:** But no one has yet been willing to provide medium-term commercial development credits to Turkey yet.

**Ozal:** I believe this could happen as early as next year. Arab banks, European banks, American banks, are all following the developments in Turkey.

**Goldman:** Have the present high interest rates affected Turkey's debt position?

**Ozal:** The Turkish debt structure is not much related to the interest-rate problem. Only 25 percent of debt is interest variable, so there is not much effect in our case.

**Goldman:** Are you satisfied with the outcome of this year's IMF meeting?

**Ozal:** I am talking, again, only for my country. The program we are following today is very similar to what President Reagan pointed out. We started 20 months ago on that basis, that there is no substitute for our own efforts. Politically it has been extremely difficult. But inflation had risen to 130 percent—that is politically even more harmful than the measures we have to take.

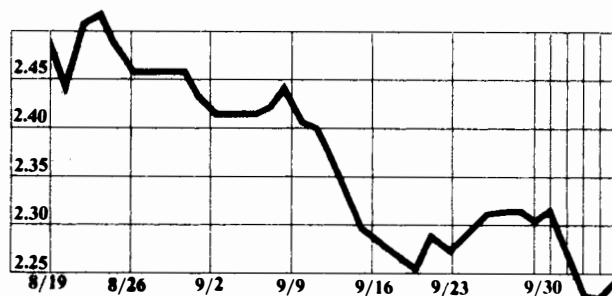
**Goldman:** What consequences do you see for your country's long-term objective to become an industrial nation?

**Ozal:** Industrialization follows a classic pattern. One starts with consumer products, and goes from that to capital goods. Even though Turkey was going into some heavy industry, we started with our own consumer market. I am not going to say that our industrial base was founded in the wrong way. But the capital goods market is much more competitive than the consumer goods market. Poland made the same mistake, to concentrate too much on capital goods—Turkey did not, but was on the way toward doing so. If you are going to industrialize in 15 to 20 years, there are two paths. One is to concentrate on capital goods, like the socialist countries, the second is the traditional pattern. I think by this route you will end up with better capital goods industry, and faster.

There is no other way but to follow the normal pattern of development. The Turkish population is now 50 million. I believe it will be 65 million 10 years from now, bigger than Italy or France. We have the natural resources, we have the nearby Mideast market—why should we not industrialize?

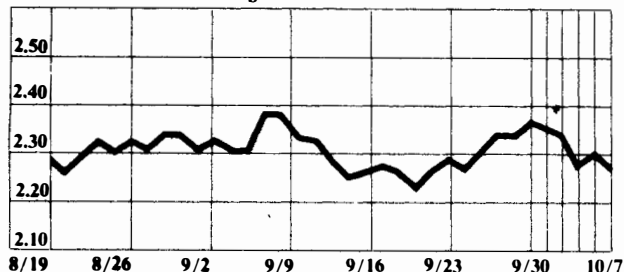
## Currency Rates

The dollar in deutschemarks

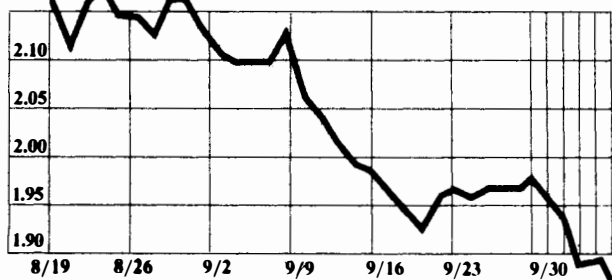


The dollar in yen

New York late afternoon fixing

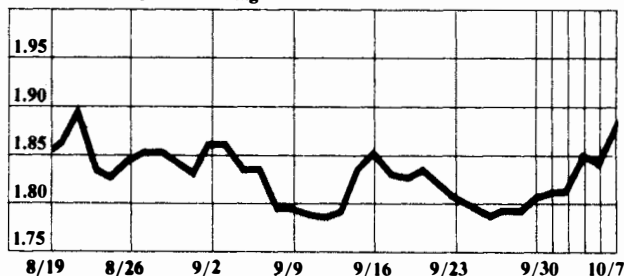


The dollar in Swiss francs



The British pound in dollars

New York late afternoon fixing



## India holds the cards on IMF loan

*U.S. officials who want to block it should consider how creditworthy New Delhi's strong economy remains.*

If the U.S. administration hopes that it can force India to make major "free enterprise" concessions by blackmailing New Delhi over its request for a \$5.8 billion loan from the International Monetary Fund, it will find that the blackmail won't work. India is considered one of the best credit risks among all the LDCs (Less-Developed Countries) and will find no trouble getting all the credits it needs if the IMF loan doesn't come through.

India wants the Fund loan because it carries a somewhat lower interest charge than commercial borrowings, but there is no doubt that India will pay the latter cost before caving in to patently political demands of the sort laid out by President Reagan at the just-concluded IMF annual conference.

Instead, the U.S. may find it has merely isolated itself further from the entire developing sector. This has an economic bottom line: barring a total blowout of world finance, a growing number of LDCs are important customers for the capital goods exports of developing countries. To the extent the administration tells these nations the United States has no concern to help them, they are likely to give their business to nations like Germany and Japan.

The Indian loan, being considered under the Fund's "Special Fund Facility," is presently in the hands of Fund Executive Director Jacques de Larosière, having been

favorably reported to him by the Fund's staff. The final step is for de Larosière to submit the \$5.8 billion proposal to the executive board on which the U.S. may command a virtual veto should it so decide. U.S. officials have said they are not pleased about either the size of the loan or its allegedly "soft" conditionalities, and "will take a hard look" at the loan.

According to both the Fund itself and private bankers, India is considered an excellent credit risk. It has a very low ratio of debt service payments to its exports, and most of its debts are medium- and long-term debts to the World Bank or to other governments. It sought and received \$680 million last December on the commercial markets at a low spread over the LIBOR for an aluminum plant in Orissa state, and an additional \$200 million for development of the Bombay High oil deposit. Because it has almost no commercial debt, the banks have nearly full lending "quotas" available.

The country is nevertheless eligible for the Special Fund Facility, because a bad drought two years ago and the oil price shock of 1980 forced India from a payments surplus into a sizable current-account deficit. The Fund loan would provide much of the capital needed to eliminate the deficit, which is the stated purpose of the Facility's loans.

As for the conditionalities, a

distinction is universally recognized, both by the Fund and by the private banks the Reagan administration claims to represent, between external causes of balance of payments gaps, such as afflict India, and deficits caused by domestic monetary and fiscal policy. Administration sources have made clear that they seek to force India to take measures normally reserved for the latter.

\* This is ironic in relation to India, a country notorious for its conservative fiscal/monetary policies. India's inflation, at under 20 percent, is moderate by Third World standards, and falling, and it finances its deficit on capital account from domestic credit markets. According to the World Bank, India has a very high savings ratio, over 20 percent, which means that there are substantial and untapped sources of investment capital in the country.

The country has also made serious efforts to limit imports to commodities useful for domestic industry or for the exporting sector.

As for the longer term, major projects in power, oil development, fertilizers, petrochemicals, cement, and coal promise to enhance India's overall economic growth while specifically allowing import substitution of oil, fertilizers, and cement by the middle of the decade. In particular, it is believed India can be self-sufficient in petroleum by 1986—petroleum import payments currently eat up more than 75 percent of India's export revenues and account for almost 50 percent of its import bill—while natural gas deposits and two major fertilizer complexes now under construction will permit total fertilizer self-sufficiency by the same date.

## Patchwork in the EMS

*François Mitterrand's economic rampage means the present rate structure cannot hold for long.*

The Oct. 4 revaluation of parities in the European Monetary System (DM up 5.5 percent, French franc and lira down 3 percent) does not do much more than to demonstrate the willingness of postwar Germans to stall in face of major decisions. Treasury Undersecretary Beryl Sprinkel's public warning Oct. 4 that this will not be the last revaluation is unfortunately accurate; the French franc is temporarily strong only due to fierce exchange and credit controls, but should tumble by early in 1982.

Chancellor Schmidt gave a major concession to François Mitterrand, by letting the DM take the brunt of the shift. For obvious political reasons, Mitterrand did not want to combine a major franc devaluation with the Oct. 2 announcement of a budget that adds 65,000 makework jobs to the French government payroll. All economic logic pointed to a devaluation of the franc, which would have collapsed but for about \$5 billion in Banque de France intervention since Mitterrand's May victory. However, Schmidt "took French internal political factors into account," and gave Mitterrand the formulation he wanted.

One Deutsche Bank economist had predicted the result a week earlier, explaining that while the prevailing view in Germany was that the French economy would collapse under the Mitterrand economic program, the Germans

nonetheless figured cynically that they could get another year's worth of exports out of France before it went under. Even so, the VDMA, the German machine-builders' association, and other groups note that the currency shift will certainly prejudice German exports within the EMS area, Germany's major market.

At present, the decline of the German economy has been stabilized (but not really corrected) by a 5 percent drop in import volume and a 3 percent growth in export volume this year—a combination of austerity and an export drive. The conditions under which this occurred were adverse; world trade will probably come in at 4 percent lower this year than last. In other words, Germany, taking advantage of the cheaper DM, pushed more of the trade decline onto other countries, e.g. the U.S., the big loser in world export markets—which was no more than the U.S. had provoked by driving the dollar up to a five-year high through record short- and long-term interest rates.

However, senior German officials came away from the Sept. 28-Oct. 2 IMF meeting with the grim conviction that the financing of world trade as a byproduct of the Eurodollar lending bubble would not outlast the year. The thrust of the IMF's demands was to reduce the import volume of the Third World in order to spare the international banks further "exposure" to

debtor countries who will never pay them back, i.e., to pay debt service through import reductions.

German banks are already withdrawing from dollar lending to borrowing countries, and concentrating on financing suppliers' credits from German companies exporting to the Third World. The shift to export financing of this type, away from Eurodollar syndications, implies—if it extends to Germany's Third World exports—much greater mark reserve.

A shift to dependence on the country's own currency implies a basic disagreement with at least the Saudis, the Japanese, and others who have some say in the disposition of reserves, otherwise the German banks will only succeed in overextending their own nation's currency, with equally dangerous effects. The coordination of foreign exchange market intervention with Japan has been an active topic of discussion since the German and Japanese finance ministers met privately during the Ottawa conference, although both sides are keeping close wraps over the talks.

In short, the Germans, for all their temporary export success, face not only the certainty of a rising mark, but the need to evolve entirely new approaches to trade financing. One German banker pouted, "we are worrying more about exports to Denmark than to Latin America."

The Oct. 4 revaluation is a symptom of this sort of mood. The Oct. 22 North-South deliberations at Cancún should provide some insight into the Germans' ability to strike a deal with the Japanese and others. Not much later, new devaluation pressures against the French franc will become evident.

## Mr. Zijlstra's proposal

*A Bank for International Settlements plan to restore gold exchanges in the words of its president.*

Ignored by the international media was "the only intelligent thing anyone has said" during the just-concluded annual meeting of the International Monetary Fund, in the estimation of Deutsche Bank Chairman Wilfrid Guth. Referring to the Per Jacobsson Memorial Lecture of Bank for International Settlements President Jelle Zijlstra, former Federal Reserve Chairman William McChesney Martin said to a European journalist, "It is a turning point in world financial history."

Mr. Zijlstra, the Dutch central banker who leaves the BIS this year, merely had the temerity to say first that the Federal Reserve's methods of monetary control had no hope of success; second, that central banks must manage the gold price; and third, that they must manage the parities of their respective currencies.

Presented on the Sunday before the IMF meeting took place, the Dutchman presented the one open statement of crisis, at least for those without SDRs in their ears. His recommendations were as brutal as their source would suggest, i.e. the BIS wants not sham monetary controls, but direct lending controls as well as brutal budgetary reduction in the United States.

It is not to endorse Mr. Zijlstra's specific recommendations, but to put on record the historical fact that the financial elite has no doubts that gold must return to the monetary system, that I cite these ex-

cerpts from his address, particularly because no other journalist has seen fit to do so:

"It is my firm conviction that a devaluation of the dollar combined with a substantial increase in the price of gold [during the 1960s] would have meant a real improvement of the situation. . . . It would not have been necessary to conclude, too early, that the Bretton Woods system could not be maintained, as was done in 1973 on the eve of the great oil crisis. . . . The resulting chaos would have been significantly less. . . .

"We need sufficient management of floating rates to avoid movements of currencies that are erratic or completely unrelated to fundamentals; and we also need, within the European Monetary System, sufficient flexibility to maintain a realistic structure of rates between participating countries. . . .

"At present the principal gold-holding central banks refuse to give more than a moment's thought to parting with their gold reserves and thus effecting a de facto demonetization, either by selling gold in the market against foreign exchange or by placing it in a (not yet existing) substitution account within the IMF against the receipt of SDRs. . . .

"Step by step, not always painlessly, the freedom of central banks to effect transactions in gold, whether among themselves or in the

free market, has been restored. How times have changed may be illustrated by the example of the monetary mobilization of part of the gold holdings of the central banks participating in the European Monetary System. . . .

"It is most frustrating that, sale against foreign exchange apart, there is no systematic manner in which this reserve component can be used. I feel that it is necessary for us, within the Group of Ten and Switzerland, to consider ways to regulate the price of gold, admittedly within fairly broad limits, so as to create conditions permitting gold sales and purchases between central banks as an instrument for a more rational management and employment of their reserves. . . .

"The monetary policy now being pursued in the United States aims at controlling the money supply by regulating the liquidity of the banking system. Let me just say that it is based on an assumed stability of the relationships between the various components of the money supply and their respective required reserves. This cannot but lead, as it has proved to do in practice, to wide fluctuations in short-term interest rates and at times to very large differences between short-term and long-term rates.

"Recently, this monetary policy has been subject to severe criticism. To a certain extent, this is understandable. A monetary policy which gives rise to prime rates of 20 percent at a rate of inflation of around 10 percent, which pushes up the exchange rate to a level far out of line with the underlying balance of payments position, and which thus has serious dislocating effects internationally, simply asks to be called into question."

## False appearances

*The Fed's liquidity injections have brought down interest rates; a large, long drop is unlikely.*

**R**ecent discussion about a new surge of cash the Federal Reserve is providing for the banking system, is in effect, one of the most poorly constructed press campaigns about Federal Reserve "easing" of monetary and interest-rate targets of the recent period. Short-term rates—for federal funds and commercial paper—have fallen significantly over the last two months, but that fall is temporary, and will probably be reversed within a matter of months. Recent statements by Fed Chairman Paul Volcker about his need to hold the line against new "surges of inflation" and his pronouncements of little economic growth next year, give a better indication of what Volcker's monetary policy will be for the next 12 months.

It is undeniable that the rate on federal funds—excess reserves that banks trade overnight with each other and the Federal Reserve—has been steadily dropping. Fed funds were 18 percent on Aug. 21, and six months later, on Oct. 7, they dropped temporarily to 12.25 percent, a fall of nearly 600 basis points in six weeks.

The Fed is indeed injecting funds into the banking system through the federal funds market, which operates on a supply-demand basis; the more funds there are, the lower the federal funds rate falls. There are two special reasons that the Fed of late has been trying to make the banking system liquid.

First, on Oct. 1, the large money center banks with international accounts went on same-day settlements for those accounts. Since the banks had previously been able to get an added 12 to 24 hours of extra liquidity through the float, in the form of uncollected checks, the Fed moved in during a two-week period to supply the extra liquidity that would otherwise be drained. This brought the fed funds down to 12.25 percent Oct. 7, but I think the market will soon bounce back up to the 15 percent range.

However, the second reason that federal funds fell has to do with the Federal Reserve's worries about "overkill"—a repeat of March 1980, when Volcker imposed credit controls on top of a weakening economy. U.S. corporations and the household sector are so illiquid that the Fed is pumping money into the banking system to prevent a crisis. The Fed does this by buying Treasury securities, or putting "non-borrowed reserves" into the system; banks can use the reserves to create new checking accounts. The Fed is well aware that M1-B, checking accounts and currency in circulation, has grown by only 1.7 percent annualized rate since the start of the year.

Yet the reserves that the Fed lends through the discount window, sometimes called "borrowed reserves," have been falling as steadily as "non-borrowed reserves" have been growing. Since

Aug. 2, when total reserves—both borrowed and non-borrowed—stood at \$47.2 billion, that total has actually fallen slightly to less than \$47 billion today.

Therefore, the Fed's attempt to liquefy the system short term, however tepid, is not working, and M1-B is still stagnating.

Moreover, there is evidence that Volcker is planning to harden his stance, not soften it. David Jones, chief economist at Aubrey Lanston investment bank, told *EIR* Oct. 7, "Volcker has to show he's determined about fighting inflation. The credibility of the Fed went way down two years ago, and now Volcker is slowly painfully building it back up. If he loses, or gives in to pressure from Reagan to lower interest rates, he loses his credibility."

Jones continued, "Volcker knows that it will take pain and suffering in the economy and that there will be little if any economic growth. He said this last week in congressional testimony. But this is the price of crushing inflation." Jones himself is predicting that Volcker's policy will mean four or five consecutive quarters of negative GNP growth. He also predicts that long-term rates will be almost as high in mid-1982 as they are now.

Note as well the trend for Euro-dollar rates vis-à-vis federal funds rates—both representing interbank borrowings, and both usually within a few basis points of one another. On Oct. 7, the day fed funds temporarily hit 12.25 percent, three-month Eurodollars were selling at 16.5 percent, meaning that three months hence, the market participants expect Eurodollars, and fed funds, to move back up to the 16 percent range.



# World Trade by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
<b>NEW DEALS</b>			
\$2 bn.	Indonesia from U.S.A./Japan	Exxon has won contract for Indonesia's North Sumatra oleofins complex, which it will build as a joint venture with the Indonesian govt. Exxon will construct a 350,000 tpy ethylene plant, costing about \$1 bn. It will supervise the other half of the complex, downstream plants making chemicals which will serve as basis of Indonesian plastics industry. <i>Far Eastern Economic Review</i> expects Japanese will build most of those plants. Exxon beat out Lummis and CDF Chimie for contracts.	Arun gas fields will provide feedstock for biggest of oil and gas complexes Indonesia is now building.
\$500 mn.	Holland from U.S.A.	Exxon has chosen Rotterdam as the site for another attempt to build a commercially viable coal gasification plant. This pilot plant, gasifying 90 tons of Illinois coal per day, was designed by Exxon to prepare for plants that would turn 20,000 tons into 250 mn. cubic feet of gas per day. Exxon uses a potassium catalyst to yield methane at 1 ton per day plant in Baytown, Texas.	Exxon officials at Baytown calculate replacing 15 mn. bpd of oil with synfuels in 2010 would require \$3 trillion investment.
\$1.1 bn.	Italy from U.S.S.R. U.S.S.R. from Italy	Soviets have awarded contract for 19 of 41 compressor stations on the Siberia-Western European pipeline to a subsidiary of the Italian state's ENI. Contract was linked to September Italian decision to participate in project, despite expected difficulties in financing its \$2.5-\$3 bn. share.	Debt-strapped Italy is only promising \$500 mn. financing.
\$1 bn.	Saudi Arabia from U.S.A., Japan, France	State-run Petromin contracted 250,000 bpd refinery at Al-Jubail. Refinery includes hydro-cracking and benzene-making facilities. Awarded on full turnkey basis to Ralph M. Parsons, Chiyoda Chemical Engineering, and Technip of France, who will apparently divide it evenly. Saudis will pay in cash on piecemeal basis.	Saudis building refiner in joint venture with Royal Dutch Shell production will be exported.
\$213,000	Thailand from Holland	Estel Technical Services won a \$213,000 general feasibility study for a 1.6 mn. tpy integrated steel mill which will cost \$1.6 bn.	Will use imported iron ore and coke.
\$85 mn.	Canada from West Germany	Volkswagen is building a plant in Ontario to make front axles and engine mounts for VW's assembly plants in Pennsylvania and Michigan. VW chose Canadian site to win Canadian govt. promises that it will exempt VW imports from the U.S. and Germany from tariffs.	Ontario is giving \$10 mn. development aid.
	U.S.A. from Norway/Japan	Nissan Motor's new Nashville pickup truck plant will be furnished with 210 industrial robots for welding and painting. 36 robots are from Norway's Trafflfa Nils Underhaug. Hitachi (Japan) won order for 15 press machines for the 15,000 truck/yr. plant.	
\$55 mn.	Colombia from U.S.A.	Contracts for modernizing 300-year-old Canal del Dique between port of Cartagena and Magdalena River awarded to Layne Dredging Co. (U.S.A.) and Colombia's Sanzy Cía. Cobe Ltda.	114 km. canal is vital for port's non-narcotic cargoes.
<b>UPDATE</b>			
\$14 bn.	Nigeria from U.S.A./others	Nigeria's ambitious liquefied natural gas project is in trouble, following withdrawal of Phillips Petroleum (U.S.) as technical leader and 7.5% owner. Plan was to use Phillips process to liquefy 2 bn. cu. ft./day. Shell, BP, Agip, and Elf may take over Phillips role in 60% Nigerian govt. project.	Questions about financing amidst current world slump and high interest rates.

# Business Briefs

## World Trade

### Japan refuses OECD export rate agreement

Despite strong threats, Japan has refused to accede to demands by the Organization for Economic Cooperation and Development (OECD) that Tokyo impose a 2 percent increase in interest rates charged for export credits.

The OECD, whose policies are dictated by the wealthy European nobility and which is the parent body of NATO, had held sessions for six months to force Japan to accept a lending rate of between 10 and 11.25 percent, depending on the relative wealth of the importing country.

The Japanese, whose long-term export lending rate is currently 8.5 percent, argued that to accept the OECD's terms would be to put a premium on export credits.

The U.S. negotiator, Assistant Treasury Secretary Marc Leland, reported, "We are hopeful of reaching an agreement even though the proposals don't meet everyone's desires." He wants the next export-rate minimum to go into effect Nov. 16. The U.S. threatened to combat the low Japanese interest rates with longer loan maturities which would hurt European and Japanese export financing.

Leland claimed, "We would be surprised if Japan doesn't agree to make a small move, perhaps to 9 percent." That Japanese delegation is waiting for instructions from Tokyo.

## Chinese Strategy

### Deng's industry plan under attack

The "light industry" readjustment policies of Deng Xiaoping, having caused a precipitous 8 percent decline in heavy industrial output, are now under factional attack in the official media of Red China for jeopardizing the country's

modernization efforts.

*Shijie Jingji Daobao*, a Shanghai-based economics journal, wrote recently, "The proportion of heavy industry should not fall any more. . . . Without giving priority to the development of heavy industry, we will not be able to realize modernization."

*Dazhong Ribao*, a Shangdong Province daily, editorialized Aug. 29, "The big fall in heavy industry has directly affected the province's entire plan for increasing output and revenue in industry this year."

Opponents of the readjustment have expressed alarm that the suffering heavy industrial base may not even be able to supply light industry with modern machinery, much less provide the means to exploit China's vast natural resources. The nation's leaders are also concerned about the mass layoffs and plant closings that have resulted from Deng's readjustment.

## Stock Markets

### The Economist predicts further bumps

The great shakeout of world stock exchanges of one week ago is repeatable, according to the Oct. 3 London *Economist*, because most of the world stock exchanges are wired into the U.S. exchange, and the U.S. exchange is in turn being undercut by the incompetent economic policies of the Reagan administration.

The *Economist* states, "The rumbling memory remains that the crash of 1929 was preceded by three or four such false downstarts, and that the volume of volatile, because internationally telecommunicable, money is far greater. After last Monday the world's financial markets stand more revealed than ever as an American-dominated wired village."

The *Economist* recommends a series of proposals that would bring greater austerity to the United States. After rejecting lowered interest rates as inflationary, the weekly recommends that Reagan

announce "\$50 billion a year bigger budget cuts in government civil expenditures, such as in America's over-indexed middle-class pensions."

The magazine also places high on its list of suggestions that the U.S. increase its taxes by imposing a \$50 billion import tax on imported oil. *The Economist* warns that if the White House doesn't adopt a plan such as these, someone could arrange a stock market fall that "could make 1929's little local stock market difficulties look like a controlled parachute drop." The title of the article predicting this outcome is "Things That Go Bump In the Morning."

## Agriculture

### U.S. offers 23 million tons of grain to U.S.S.R.

During two days of scheduled consultation on the sixth year of the extended U.S.-Soviet grain supply agreement, U.S. Undersecretary of Agriculture Seeley Lodwick said that, in light of the American supply situation and the Soviet import situation, the U.S. would make an additional 15 million tons of wheat and corn available, for Soviet purchase above the 8 million tons provided for in the agreement.

The Soviets, for their part, made no commitment to purchase the additional grain and, as a result, the badly sagging U.S. grain markets dropped further last week. Prices are now a dollar or more below last year's levels.

The Soviets reportedly sought assurances that there would not be a repeat of the grain embargo, imposed by Jimmy Carter in 1980 when the Soviets had contracted to purchase 25 million tons of U.S. grain.

U.S. negotiators refused to comment on the "no-embargo" issue, but it is widely believed that Undersecretary Lodwick's subsequent disappointing assessment that the Soviets might purchase only 10 million tons of grain from the U.S. is an indication that the U.S. denied any guarantee.

## Briefly

Ever since President Reagan forcefully overruled Secretary of State Alexander Haig, the Agriculture Department has been at war with State for control of farm trade policy. Haig insists on keeping the "food weapon" in his foreign policy arsenal. So far, he has evidently managed to do so.

The Soviets confirmed that they have purchased 3.5 million tons of wheat and 4.1 million tons of corn under the new agreement. They face another year of serious domestic crop shortfalls, and it is estimated that they will have to import as much as 40 million tons of grain this year.

But since the experience of the Carter embargo, the Soviets have made it a point to diversify their suppliers and have already sewn up long-term agreements with Canada, Argentina, Brazil, and Australia.

### Domestic Credit

#### We say Ture said it

*EIR* has received the following letter from the Undersecretary of the Treasury for Tax and Economic Affairs, Norman Ture.

"Thank you for the copy of *Executive Intelligence Review* including your interview with me. It is well done, and I hope it will be useful to your readers.

"I am puzzled by your assertion in the introduction to the interview that I had proposed to the National Governors Conference, 'a policy of steering tax benefits, and thus capital, away from older plants located in the steel, auto, and rubber sectors.' Indeed, I did nothing of the sort then or on any other occasion. I have always held to the view, frequently expressed by the President, the Secretary of the Treasury, and others in the administration, that the tax program should not be targeted toward particular industries. On the other hand, we have frequently pointed out, as I did at that conference, that the tax program would be of substantial benefit to the industries in the

Northeast and Midwest."

*EIR's* report of Dr. Ture's remarks at the National Governor's Conference to the effect that "supply-side" tax cuts would steer investment toward "sunrise" industries and away from "sunset" industries was filed by our reporter on the scene, Laura Chasen. Her report cited a face-to-face argument between Dr. Ture and Ohio Gov. James Rhodes, who took exception to Dr. Ture's statements to this effect.

Indeed, our understanding is that the original discussions around "supply-side economics" conducted by Robert Mundell and others at the International Monetary Fund in the early 1960s centered on the precise issue of shifting such investment flows. Furthermore, our published computer-based analysis of the total impact of the administration program indicates that such a shift would ensue.

### Public Policy

#### German interest rates reduced

West Germany's central bank cut its Special Lombard Rate from 12 to 11 percent on Oct. 7, while market rates declined to their lowest levels since March. In a Paris speech Oct. 7, German Chancellor Helmut Schmidt predicted that rates would fall "in stages" over the next nine months.

Significantly, the West German mark strengthened on international markets despite the fall in interest rates, reaching DM 2.22 on Oct. 7. The strong behavior of the German unit, despite the market destabilization following the Oct. 5 assassination of Egyptian President Sadat and the fall of German rates, indicates that the Bundesbank has substantial room to maneuver.

In a related development, the central bank published figures indicating a total liquidity injection of almost DM 13 billion during the month of September, or roughly double the previous month's provision of liquidity to the banking system.

● **BRAZIL** is still able to raise whatever funds it wants on international markets, bankers reports, despite some predictions that banks would start with Brazil in their crackdown on lending to the Third World. Brazilian officials say they will cut back borrowing "in several years."

● **EDWARD MEESE**, the President's adviser, ran into a barrage of criticism on high interest rates at the California business elite's Host Breakfast Oct. 4.

● **INTERNATIONAL Harvester**, even if it avoids rumored bankruptcy proceedings, does not have the resources for the investment necessary to compete with growing Japanese farm machinery exporters, analysts say.

● **THE GOLD** Commission authorized by President Reagan might throw up its hands and recommend large sales of U.S. gold stocks, an Oct. 7 *Journal of Commerce* editorial argues.

● **KUWAIT's** purchase of Santa Fe International oil-drilling company, the largest single Arab investment in the United States, has led to speculation that Kuwait may be planning to develop its own multinational oil company.

● **A MEMBER** of President Reagan's Council of Economic Advisers (CEA) was phoned to invite his attendance at *EIR's* Sept. 30 military conference. "*EIR!*" the CEA man roared, "You're Lyndon LaRouche's boys. You're the people with that quack economic model!" "Well, you may observe that we successfully predicted the failure of your economic program," our *EIR* spokesman replied. "Oh, that's nothing," the President's economic adviser said, "a lot of people predicted that."

## Why London's Muslim Brotherhood killed President Sadat

by Robert Dreyfuss, Middle East Editor

Under the direction of the British Secret Intelligence Service, the Muslim Brotherhood secret society assassinated Egyptian President Anwar Sadat Oct. 6. In a swift surgical assassination operation, the British and their allied intelligence factions removed one of the chief obstacles to the spread of Islamic Dark Ages fundamentalism through the Mideast and the Arab world.

The destabilization of Egypt, the keystone nation where Asia and Africa meet, is, in the minds of Sadat's assassins, to lead to regional chaos throughout North Africa and the Persian Gulf into Asia and other parts of Africa. Whether or not those assassins succeed will depend upon the actions taken by world leaders in the coming days and weeks. Within Egypt itself, the survival of Vice-President Hosni Mubarak, Sadat's intended successor, and Defense Minister Abdel Halim Abu Ghazala, opens the potential for weathering the crisis. But the perpetrators of Sadat's murder have already announced their determination to destroy the Mubarak government and its allies in Sudan and Saudi Arabia. Mubarak's ability to rule is contingent on whether the terrorist networks of the Muslim Brotherhood inside—and especially outside—the Sudan and Egypt are quickly eliminated.

### The parallel with Iran

The Sadat assassination was carried out by the same institutions and political forces that brought down the Shah of Iran in 1979 and installed the nihilist fundamentalist regime of Ayatollah Khomeini. Khomeini and the entire leadership of his fascist Islamic Republican Party were members of the Freemasonic-modeled Fedayeen-e Islam, the Iranian arm of the Muslim Brotherhood. The destabilization of Iran was launched as early as 1977 by the British SIS and the Socialist International, with the collusion of the Jimmy Carter administration in the United States and sections of Israeli intelligence. The Club of Rome and the human-rights lobby, including supporters in the U.S. State Department and Ramsey Clark, together with the Anglican Church and liberal networks of the World Council of



Henri Bureau/Sygnma

Anwar Sadat in December 1980, during the visit of an American delegation.

Churches, combined to bring about the “Iranian revolution.”

This is the international support apparatus for the opponents of Sadat in Egypt whom Sadat had arrested in early September.

“There will be no Khomeini here,” Sadat told his nation when he began the crackdown. Sadat was preparing the second phase of his security clampdown, which would have involved government shakeups and a military purge, when he was assassinated, report highly placed sources. Sadat—himself a former member of the Brotherhood—was extremely well informed about its method of operation and its intelligence network.

For the British, the motivations behind the Sadat assassination were twofold. Both reasons derive from the policy commitment of the British elite and the financial circles in the City of London, Switzerland, Venice, and Lower Manhattan to impose a worldwide program of austerity and deindustrialization in order to carry out the program of large-scale population reduction throughout the Third World, which formed the basis for the State Department’s 1980 *Global 2000 Report*.

The first motive for London’s murder of Sadat is the destabilization of the Middle East, thus blocking the Arab world’s industrialization. Egypt is the cultural and scientific center for the entire Arab world: and it provides the skilled manpower, engineers, and managers for the region from Morocco to Iraq. Egypt is also the central nation for the security of the moderate Arab nations of Sudan, Saudi Arabia, and the Arabian

Gulf states and Jordan. The murder of Sadat therefore proceeds from the same perspective as did the Israeli bombing of Iraq’s nuclear research facilities: the destruction of the potential for Arab development.

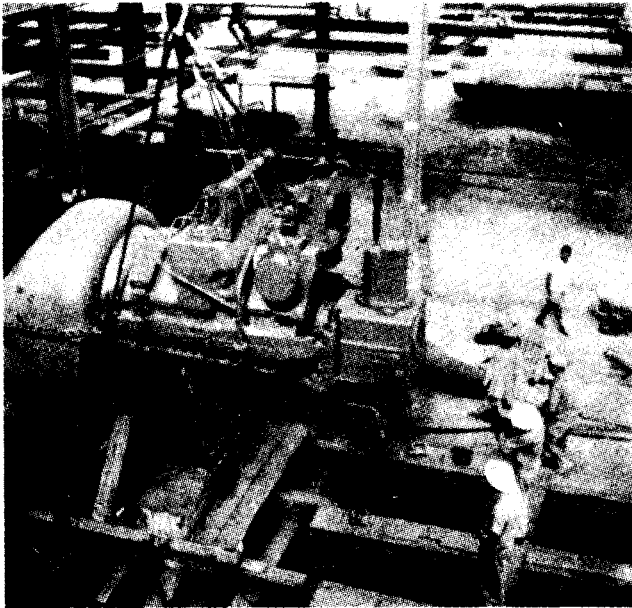
The second motivation stems from London’s perception of the dangers in a challenge coming from West Germany and Japan to the Anglo-Swiss-IMF policy of high interest rates and tight credit. In the Middle East, the allies of this combination are Egypt and Saudi Arabia, the two nations targeted by London to fall to Islamic fundamentalism.

### Who killed Sadat?

It is not known who carried out the assassination at the ground level, but it can be established that the assassination was a conspiracy that reached into the high levels of the Egyptian elite, and that this *capability* inside Egypt is controlled from outside the country by a troika of British, Israeli, and Soviet intelligence.

The assassination was professional. With perfect timing, at least six assassins leaped out of a stalled army artillery van, first throwing concussion grenades and smoke bombs to confuse and paralyze the security around Sadat. Several assassins then rushed the reviewing stand to fire into Sadat with automatic weapons at point-blank range, covered by fire to their left and right.

The assassins are believed to come from the terrorist *Tafkir Wa-Hijra* organization (“Repentance and Retreat”), which has existed in Egypt for at least eight years. It was described by the *New York Times* in the following way: “Numbering 2,000 to 3,000 members,



Setting a turbine in an Egyptian power plant.

the group advocates an austere life in moveable desert camps with a daily regimen of rigorous prayer, abstinence, and weapons training." Such a roving band of terrorists could not continue to exist without the protection of Egyptian factions at a higher level.

Inside Egypt, as the following reports will show in outline form, the terrorist network associated with the Muslim Brotherhood is a *joint* project of the Muslim extremists and the extremists of the Egyptian Coptic Church, who, as Sadat stated, had been trying to foment sectarian warfare in Egypt. In turn, that apparatus is controlled by intelligence agencies associated with the Anglican Church of England and its old alliance with the Eastern Orthodox churches, of which the Copts and the Russian Orthodox Church—the latter now run by the Soviet KGB—are subsidiaries.

Finally, the Muslim Brotherhood is controlled by exile Egyptians in London, Geneva, Munich, and Syria and Saudi Arabia, linked together in such umbrella organizations as the Islamic Council of Europe and its Islamic Institute for Defense Technology (IIDT). The putative chairman of the opposition to Sadat, General Saad el-Shazli, now in exile in Syria, is a board member of the IIDT. The IIDT itself is a British-run military institution close to NATO intelligence, with important participation from Libya, Pakistan, and Kuwait.

Mediating between the exile Muslim Brotherhood network and the terrorists inside the country are a corps of liberal lawyers, journalists, and academics, typified by Ramsey Clark, the ex-U.S. Attorney General, and bolstered by outlets like the London *Times*, which has persistently called for the new Egyptian government to release the prisoners jailed by Sadat. Some of these were

arrested or expelled by Sadat in his crackdown last month, such as *Le Monde's* Jean-Pierre Peroncel-Hugoz.

### The Israeli connection

The Mossad of Israel, now controlled by radical Zionist extremists like Defense Minister Ariel Sharon and Foreign Minister Yitzhak Shamir, is known to be deeply enmeshed in Egypt's security apparatus. Intelligence officials believe that the primary logistical and technical assistance to Sadat's assassins would have come from the Israeli faction.

Sharon—who made a secret trip to Switzerland recently—is the spokesman for a policy to consolidate Israel's hold over the West Bank and Gaza, along with southern Lebanon and the Golan Heights, and possibly reoccupy the Sinai as well. The approach to the Arab world is based on long-range conceptions: first, that Israel's security will depend ultimately on preventing the economic development of the Arab world, and, second, that Israel must act forcefully to prevent the emergence of close ties between the United States and the Arabs, particularly Egypt and Saudi Arabia.

Sharon typifies an Israeli clique with connections to the European, and especially British, aristocracy. And it is noteworthy that he recently appointed the Aspen Institute's Col. Menachem Milson as governor of the occupied West Bank. The Aspen Institute is one of the leading Western sponsors of Khomeini, working to impose backwardness in the Third World as a whole, and it has top-level connections into the British oligarchy.

Now, in the wake of the Sadat assassination, the Israeli government is threatening not to complete its withdrawal from the Sinai in April 1982 and to ignore the Palestinian autonomy talks scheduled to resume later this year. According to Israeli sources, Sharon and Shamir—the latter a veteran of the Mossad for 20 years and a trained assassin who worked with Menachem Begin's underground Irgun in the 1940s—have struck a deal with the ultra-rightist Tehiya or Renaissance Party of Yuval Neeman. Neeman, once described as the "coordinator" of the Israeli secret services, and the Tehiya Party are now mobilizing Israelis to demand the abrogation of the Camp David accords.

They are also orchestrating with the British much of the U.S. opposition to the sale of AWACS radar planes to Saudi Arabia.

It is not difficult to see how the British, seeking to replace U.S. influence in Saudi Arabia, and the U.S.S.R., with its own strategy for the Middle East, would favor this Israeli action. And this was, among other things, reportedly discussed at the unusual meeting between Shamir and Soviet Foreign Minister Andrei Gromyko at the end of September in New York

# On the murder of Anwar Sadat

by Lyndon H. LaRouche, Jr.

*Democratic Party leader and NDPC Advisory Council Chairman Lyndon H. LaRouche, Jr., EIR's founder and one of its Contributing Editors, issued this statement to the press and world governments on the death of President Sadat Oct. 7:*

Every one of the world's political leaders who is not a complete idiot heard the shots of Sarajevo echoing yesterday in the streets of Cairo.

If Egypt and Sudan are destabilized to the effect the killers of President Sadat intend, a chain-reaction of escalating strategic instabilities will be unleashed which no existing major power's government presently has the moral and intellectual resources to understand or control. The stability of Egypt is at this moment the keystone on which the avoidance of future nuclear war depends.

Although the murders were perpetrated by a criminal cult created by British intelligence's Arab Bureau, the Muslim Brotherhood, the killing of Sadat by this instrument was ordered by the exact-same complex of forces which orchestrated the establishment of the "Pol Pot" regime of the Muslim Brotherhood in Iran. Ramsey Clark, Amnesty International, and the rest of that gang of jackals and hyenas who murdered Iran are now gloating over what they hope will become the corpse of Egypt today and of Saudi Arabia tomorrow.

The full powers and resources of the United States must now be mobilized immediately to two specific purposes: a total military and economic commitment to Egypt, Saudi Arabia, and Jordan, and a ruthless commitment both to destroy the Muslim Brotherhood internationally and to root out of the United States' own

political community every accomplice of Henry Kissinger's "Bernard Lewis Plan," otherwise known as that grinning idiot Jimmy Carter's "Islamic fundamentalism card."

The American people should treat any congressman who opposes the delivery of the AWACS to Saudi Arabia now as a virtual traitor to the most vital interests of the United States and of world peace.

As far as Israel is concerned, it is sufficient for the government of the United States to communicate to Israel the United States' unshakeable commitment to the absolute stability of Egypt, Saudi Arabia, and Jordan. If we make our determination to enforce such a policy by all means available to us, responsible forces in Israel will assist us—even if that requires changes in Israel's composition of government.

The United States must place its military power in aid of the forces which the late President Anwar Sadat represented.

The United States must junk the policies of the International Monetary Fund, World Bank, and Bank for International Settlements in respect to Egypt: Egypt must be politically stabilized with aid of large infusions of low-cost, long-term credits for technologically progressive agricultural and industrial development. Egypt must become the "new Japan" of the eastern Mediterranean—otherwise, neither it nor the Arab world as a whole can survive.

The United States must declare the Muslim Brotherhood, together with its Khomeinac expression, a criminal association guilty of Nuremberg Code Crimes Against Humanity. Membership or support of the Mus-

lim Brotherhood and of the British intelligence-sponsored "Islam in the West" association must be treated as an indictable, imprisonable offense under the principles of the Nuremberg code.

### **The general political danger**

The United States must recognize and act upon the fact that the world is threatened with a new fascist order even worse than that earlier represented by the British-sponsored Austrian hippie, Adolf Hitler.

Now, as then, the conditions for fascism are being created throughout the world by monetarist policies modeled upon those of Nazi Economic Minister Hjalmar Schacht. These are the austerity policies identified with the leader of the British Fabian Society, Friedrich von Hayek, by the drug-lobbyist Professor Milton Friedman, and by the fascist Federal Reserve Chairman Paul A. Volcker. The destruction of the economy of Great Britain by the evil and lunatic "Friedmanite" cult-dogmas of Prime Minister Margaret Thatcher, is a policy by which the IMF, World Bank, and Bank for International Settlements are creating the genocide of war, famine and epidemic—with aid of Colonel Muammar Qaddafi—in the developing sector. Just as Schacht's policies led directly to the austerity of the slave-labor and death camp system of Albert Speer under the Nazis, so the policies of Milton Friedman are leading to genocide on a far greater scale today.

Now, as then, a force of irrationalist terrorists and allied hooligans, called "environmentalists" today, is deployed as a "green fascist" stormtrooper force against the institutions of sovereign industrial nation-states. The doctrines of Maoism and the Club of Rome are the Mein Kampf of this "green fascist" insurgency worldwide. The Muslim Brotherhood, created by British SIS's Arab Bureau during the 1920s, is only a variant of the same fascist nightmare otherwise represented by the "green fascists" of Europe and the Western Hemisphere.

Now, as then, the same political-philosophical currents of Theosophist-influenced cultists who prevented the Weimar Republic from crushing Hitler's gangs are presently mobilized to prevent law-enforcement action from being taken against the crimes of the "green fascists."

It is as if we had learned nothing from the lessons of the 1919-1945 period. We have not learned that Schachtian and Friedmanite fascist economics from the "right" and fascist terrorists and irrational hooligans from the "left," are ultimately one and the same threat to civilization as a whole.

Let us therefore move quickly to crush the Muslim Brotherhood and its sympathizers worldwide, and continue to rid ourselves of the Malthusian "green fascist" plague now destroying civilization from the inside.

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## **THE BACKGROUND**

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# **Countdown toward the assassination**

Since the election of Menachem Begin June 30 to head the Israeli government, Anwar Sadat experienced increasing diplomatic isolation, a campaign that was led by his Camp David treaty partner, Israel. The Israeli willingness to flout the Camp David treaty—which Sadat had signed over the protest of his Arab allies—was displayed with the July Israeli surprise bombing of Iraq's nuclear facility, and the later aerial bombardment of Beirut that killed 300 people. Those actions signaled that the Begin regime had decided that Sadat was "dispensable," said a leading intelligence source.

Sadat was also seriously weakened by the mysterious helicopter crash in the Western Desert in early summer that killed the Egyptian Defense Minister and about 15 leading generals, which crippled the Egyptian military establishment. But Sadat began building bridges to Washington and other capitals—including secret contacts with Iraq, Saudi Arabia, and other Arab states—in order to survive. He sought allies in every direction, using Sudan's President Numeiry to open doors to the Arabs.

Sadat placed enormous importance on his meeting in Washington with President Reagan in August 1981. He called the meeting crucial, and Numeiry said that "Sadat and Reagan must stand together against Israeli activities." At that meeting, although Reagan and Secretary of State Haig publicly rejected Sadat's repeated plea to recognize the Palestine Liberation Organization, Reagan aide Edwin Meese III dropped hints that Washington's refusal to talk to the PLO might be negotiable. And Reagan did halt the delivery of F-16 and F-15 aircraft to Israel.

Israeli officials condemned Sadat and declared that Sadat's influence in Washington posed a threat to Israel's role as America's chief ally in the region.

### **First warnings**

The first overt threat to Sadat's life emerged on his return trip to Cairo from Washington. A planned stopover in Austria was canceled when a conspiracy to



assassinate him was uncovered by Austrian security. Chancellor Bruno Kreisky expelled the PLO envoy, who was later revealed to be in the employ of the Syrian intelligence service. The ringleader of the operation was revealed to be Palestinian terrorist Abu Daoud who was shot mysteriously in Warsaw, Poland, on Aug. 5 on his way to Austria.

U.S. and Arab intelligence sources reported that Israel's Mossad and Syrian intelligence—through Malta, Cyprus, Sicily, and southern France—had agreed to cooperate in a project to kill Sadat and to radicalize the PLO by replacing chairman Yasser Arafat with terrorist Abu Nidal, who is based in Damascus.

It was this network that took responsibility for the first attack on Sadat. As Prime Minister Begin slyly admonished Sadat concerning Israeli penetration of PLO terrorist circles: "Many times in the past we have discovered plots against the life of Sadat by Palestinians, and we have each time informed Sadat so that he could take precautions."

This time Begin did not inform Sadat.

Inside Egypt, troubles began to mount as bombs and sporadic sectarian violence threatened to trigger Coptic-Muslim warfare. Sadat blamed the World Council of Churches, the Soviet KGB, the British and American secret services, the Libyans, and especially French Socialist President Mitterrand for backing his enemies. Citing French support for Libya, the Egyptian Foreign Minister noted that Mitterrand's policy "raises questions about the direction of French policy in Africa."

"I would have preferred that President Mitterrand not compromise himself in this affair," said Sadat after Mitterrand's party criticized Sadat's Sept. 3 security crackdown. "I want to ask Mr. Mitterrand a question: what would be his attitude if one of the ministers of Louis XVI came back to life and started to plot to come back to power?"

Sadat also shocked the political scene by his dismissal of Coptic Pope Shenouda, a powerful demagogue who has connections to both the KGB and British SIS. Compounding his actions, Sadat had invited Pope John Paul II to visit Egypt, causing great ire in London.

Sadat's Sept. 3 arrest of 1,500 people was only Phase I of a projected cleaning up of Egypt. Caught in the net was a disparate group of dissidents and extremists linked by their loyalty to the radical assets of Anglo-Soviet intelligence. Coptic priests, Muslim Brotherhood adherents, communists, and leftists were picked up by Sadat's police. In London, the *Times* complained that Sadat was "exaggerating" the threat to his regime and was "paranoid." Israeli Chief of Staff Rafael Eytan declared that the arrests showed that Egypt was "unstable." Egypt's Minister of Defense canceled a visit to Israel in protest over Eytan's remarks.

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## THE ANGLO-SOVIET CONNECTION

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# General Shazli and Ramsey Clark's leftwing agents

Within hours of the shooting of President Sadat, Gen. Saad el-Shazli and his synthetic Egyptian Liberation Army, based in Syria and Algeria and financed by Libya, claimed responsibility for the assassination and called on the Egyptian military to revolt against President Mubarak and "overthrow the entire regime."

The profile of General Shazli and his supporters places Shazli at the center of the Anglo-Soviet alliance in the Middle East between the Communists and the Muslim Brotherhood.

The Communist-Muslim Brotherhood alliance extends throughout the Middle East. In every Arab country, the left and the Muslim right cooperate closely. In Iran, this combination brought down the Shah and installed Khomeini. In Iraq, the Iraqi Communist Party and the Shiite religious branch of the Ikhwan al-Muslimun have worked together against President Saddam Hussein. In Sudan, which may be the next Brotherhood target, the pattern of this unholy alliance was detailed in the book *Islam, Nationalism and Communism in a Traditional Society: The Case of Sudan* by Prof. Gabriel Warburg of Israeli intelligence.

Such unusual collaboration reflects the unusual relations in the Middle East between British and Soviet intelligence.

### Profile: Saad el-Shazli

Case in point: Saad el-Shazli. Now living inside Syria, backed by the Soviet-allied Syrian government of President Hafez Assad and with the support of the Egyptian Communist Party, Shazli appears to be nothing more than an asset of the U.S.S.R. Certainly Shazli has KGB support—but also much more.

First of all, he is a member of the board of the Islamic Institute for Defense Technology (IIDT) in London, a subsidiary of the Islamic Council of Europe, the umbrella organization for the Muslim Brotherhood internationally. The IIDT is run by NATO; its financial support comes from Saudi Arabia and leading British and Swiss corporations.

In the United States, Shazli's trail leads to the circles around George Shultz's Bechtel Corporation. In San Francisco, where Shazli visits frequently, his daughter Shahdan Shazli is part of a "consulting company" that deals primarily in military procurement, called American Middle East Research (AMER). AMER, in turn, published Shazli's self-serving book on the 1973 war, *Crossing of the Suez*, recounting his days as Egypt's chief of staff.

Also in San Francisco, Shazli's associates are aided by the local office of the Arab League, whose New York chieftain Clovis Maksoud, a corrupt and venal opportunist, operates on behalf of British intelligence.

### **The Ramsey Clark connection**

In 1980, Shazli traveled to the United States for a conference of the Association of Arab-American University Graduates (AAUG), another asset of British intelligence. Appearing as featured speakers with Shazli were Ramsey Clark and Edward Said, two leading lights of the British-run "human rights" lobby. The president of the AAUG, Khalil Nakhleh, recently wrote a letter to the *New York Times* arguing that U.S. military aid to Egypt be suspended: a demand Shazli's supporters in the Egyptian armed forces might not support, if they knew!

Also on the AAUG podium was Ahmed Nabil al-Hilali of the Egyptian Bar Association. Hilali is a former Egyptian communist active in Ramsey Clark's Amnesty International and International Commission of Jurists network, in the forefront of the opposition to Sadat this year.

Among Hilali's fellow communists and supporters of Shazli's bid to be the Khomeini (or Bani-Sadr) of Egypt are two prominent individuals: Lutfi el-Kholy and Mohammed Sid-Ahmed. Lutfi and Mohammed recently met in Europe, both having fled Sadat's September crackdown.

For 20 years Kholy, a communist, has been a member of the Bertrand Russell Peace Foundation. Kholy is a product of the London School of Economics (LSE), which over the years has turned out thousands of Arab communists, including most leaders of the South Yemen revolutionary movement in the 1960s!

The key to Shazli and the Egyptian Communist Party is the old movement of Henri Curiel, the founder of the Egyptian Communist Party in the decades before World War II.

Curiel, who was shot to death in Paris in 1978, was an Egyptian Jew who worked with the British secret service and the leftist movement of the Society of Jesus, or Jesuits. *EIR* is preparing a dossier for publication on the "Curiel network" that will demonstrate the interface between British, Soviet, and Israeli operations in the Middle East.

## **British intelligence, the Mossad, and the KGB**

*The following is an Oct. 6 interview with a former American intelligence officer with a strong background in European and Middle East affairs.*

What happened to Sadat could not have occurred without at least a minimal degree of cooperation among three intelligence agencies: the British, the Israeli, and the Soviet. In reality, the cooperation among these services is much deeper than naive persons suspect. For instance, Israel secretly maintains links to the Soviet KGB almost as strong as its links with the CIA!

In Egypt, the place to look is the convergence between the Muslim Brotherhood and the elements of the Coptic Church. On both sides of this alliance, the leaders have ties to these three intelligence agencies. The fulcrum of the alliance is Ethiopia, an almost entirely Coptic country which recently established a formal military alliance with Libya. All Copts in Egypt identify with Ethiopia, which has long been a playground for the world's intelligence services. In particular, since Ethiopia's 1970s revolution Ethiopia has maintained close ties to the KGB and to Libya—but it also has had longstanding intimate ties with Israel, dating back to the 1940s.

The British, which have been on top of the Muslim Brotherhood movement in Egypt since its foundation in 1929, are also closely involved in Egypt's Coptic-Muslim alliance, the network Sadat cracked down on in early September.

All of these forces have an interest in undermining American influence in the Middle East. With the death of Sadat, the anti-American forces will accelerate their activities, and the situation is not stable. The next target is likely to be Sudan, erupting into a series of local wars and regional instability, the result being the dismemberment of Sudan and the establishment of a geographical connecting link between Ethiopia and the pro-Qaddafi forces in Libya and Chad. That will speed the penetration of these radical forces down into central Africa.

Reagan must take immediate steps to prevent this from getting out of hand, since in the region now many people will no longer have faith in the ability of the United States to defend its allies. Specifically, Reagan must pass the AWACS deal fast, and then follow it up with a deliberate show of full support to Hosni Mubarak in Egypt, possibly coupled with U.S. military sales to Cairo. And, especially, Reagan must deliver a body blow to the Zionist lobby in the United States.

## Israel's Ariel Sharon promotes Arab fundamentalism

Israeli Defense Minister Ariel Sharon wanted to eliminate Sadat "as soon as possible," according to a prominent American Jewish leader close to and claiming to represent the thinking of the Sharon circles. Sharon, the strongman of the Israeli government who is expected to replace Begin as leader of the Likud Party and eventually of the government, represents the most extremist wing of the Israeli intelligence service Mossad. It is this section of the Israeli leadership that has given aid and comfort to the Khomeini regime in Iran.

The source on Sharon's desire to eliminate Sadat is a self-described anarchist close to the Socialist International who does not represent the mainstream of the American Jewish community. In an interview last month, three weeks before the assassination of the Egyptian President, he explained:

"What is happening in Egypt [sectarian unrest and Sadat's subsequent crackdown] is very, very serious. Sadat is finished. The Israelis know that come April, when Sinai is to be returned, Sadat will thumb his nose at us and return to the Arab fold. Therefore, it's now or never to dump him. Sharon would like to hurry the process along by putting a bullet in Anwar's brain, which is probably what is going to happen. Sharon really wants to get rid of Sadat fast. If Sadat goes before April, there is a very good chance that Sinai will never be returned. This is exactly what the hardliners in Israel and in the Arab world want, including Sharon. An Egypt turned upside down will justify the actions of both sides. Basically, the hardliners in Israel and the hardliners in the Arab world are in love with each other.

"Sadat knows he is finished. That's why he is fighting back so hard. No matter what he does, he's a goner. Prince Fahd of Saudi Arabia will also go; that's a foregone conclusion. That will take a little more time. The collapse of Egypt will be the death-knell for the Saudis.

"What will happen after Sadat's death is that the fundamentalists will take over in Egypt, making it impossible for Israel to deal with Egypt. For the operation to work, Mubarak too will have to be bumped off, probably before Sadat. Egypt will then break up, some-

thing like Iran, but not quite the same. The idea I am getting at is that things work better in the Middle East when they are in small pieces; a divided Middle East is the answer. Iran eventually will be divided up. For all intents and purposes, it already is.

"The other aspect of this scenario is the assassination of Jordan's King Hussein, another of Sharon's pet projects. Arafat is being commissioned to do the dirty work on this one. This will be followed immediately by Arafat's turning on all the lunatics around him. He'll carry out his own Black September against the crazies and hopefully will kill them all. Then, we'll be able to deal with Arafat. We can't do that until Arafat shoots it out with the lunatics.

"The Soviets," the source asserted, "will not come to Sadat's aid."

### Dealing with the Soviets

According to the source, Sharon, in association with the Labour Party's Mordechai Gur, is working to form a government of national unity in Israel. Under Sharon's directorship, a number of Israeli political figures along with sections of the American Jewish community, including the World Jewish Congress, are carrying on a back-room dialogue with the Soviet Union. The goal of the dialogue is to secure Soviet acquiescence to the idea of a radicalized, fragmented Arab world in exchange for a "neutralized" Israel.

The gameplan, according to the source, is as follows:

"Begin's usefulness is up as of April, when Sinai is scheduled to be returned, though there is a damn good chance that Sinai will never be given back if Sadat gets blown away. As soon as the Camp David game is up, Begin too will have to go.

"What you're going to see in Israel is a national unity government come together. The back-room planning is already under way, and the leading players are to be Sharon and Gur. Watch Gur. Gur is the one who is going to rise to the leadership of the Labour Party.

"The game that a national unity government will play will be to work out some kind of deal with the Soviets. You've probably been picking up all those funny little signals coming out of Israel these days beamed toward Moscow, indicating Israel just might be ready to open the door a little. This what I'm involved in setting up. It's time to neutralize Israel. With a few appropriate changes in the rest of the Arab world—the removal of Sadat, the dividing up of the Arabs along sectarian lines—Israel can afford to be neutral. Sharon wants it. He's ready to deal with the Soviets. That may surprise you, given Sharon's public profile. Forget profiles: Sharon is ready for a deal with Moscow. Begin, of course, is totally opposed to anything to do with the Russians. That's one of the many reasons Begin's days are over as of April. After that, it's a new era."

## The Anglican-Orthodox network in the Mideast

The truth about Soviet involvement in projects for Mideast disorder, such as the one to which Anwar Sadat fell victim, is to be found in the history and present phase of relations between the Anglican and Russian Orthodox Churches.

There was, of course, a note of *Schadenfreude*, or malicious glee, in official Soviet commentaries on the demise of the Egyptian President, who only weeks before had given the Russian ambassador and all his staff one-way tickets out of the country, accusing them of complicity in unrest.

But amid Moscow's cheerleading for Sadat's opposition, the alert eye could discern a clue to what more basic forces were at work behind these diplomatic skirmishes: it came from Igor Belyayev, a Beirut-based Soviet Orientologist with intelligence connections, who writes for the weekly *Literaturnaya Gazeta*. On Sept. 23, in a review of Egyptian developments, Belyayev noted that Sadat had ordered the arrest of several dozen Muslim leaders and Copts. The Copts, he added in a casual aside, adhere to a religion "close to Orthodoxy."

The uses of the Orthodox Church and the Copts for certain KGB purposes have achieved some popular notoriety of late, thanks to the memoir of Soviet defector V. N. Sakharov, published under the title of *High Treason*. Among other reports on Soviet intelligence endeavors in Egypt a decade ago, Sakharov asserts that the priest in charge of the Russian Orthodox Church in Alexandria, Egypt, was a lieutenant colonel in the KGB, who maintained steady contact with Coptic leaders in Egypt and in Ethiopia. Any investigation of religious fundamentalist fanatics, and assassins, will cross paths with such cassocked agents and friends of the KGB. This is as true in Egypt as it has been in Iran.

### The Queen's household

Pursuing the lines of control behind these soldiers in the field, one lands in the Queen of England's household and the inner councils of the Anglican Church. The relevant Russian power center is a faction in the Soviet party and intelligence services that is the fruit of two centuries of British investment in creating a capability inside Russia, in order to wield Russian might on behalf of British imperial policy.

It may efficiently be called the "Philby" faction, after the British intelligence officer H. A. R. "Kim" Philby, who ran to Moscow in 1963 as a "double-agent," while remaining British to the core, and who specializes in Near East affairs. The more shadowy figure who shepherded young men of Philby's 1930s Cambridge set into place for such double service was Anthony Blunt, knight in charge of the Queen's picture collection until his Russian connection was exposed during a feud in the British elite in 1979.

The Anglican Church liaison with the extensively KGB-interpenetrated Russian Orthodox Church is in the hands of officials equally intimate with the royal household and head of the Anglicans, the Archbishop of Canterbury. It is a little-known group called The Archbishop of Canterbury's Counsellors on Foreign Relations that conceives and executes Anglican policies through the World Council of Churches. The late Canon Herbert Waddams, godfather of the Counsellors' predecessor organization, the Church of England Council on Foreign Relations, and a man who proclaimed "progress for mankind" obsolete, took charge of reactivating Anglican diplomacy with the wing of the Russian Orthodox Church functioning inside the Soviet Union, during the late 1940s and 1950s.

### Gibraltar: gateway to the Mideast

The Anglican-Orthodox nexus proceeds from well before the Soviet period, as Waddams was fond of boasting. In the last quarter of the 19th century, the Archbishop of Canterbury's agent W. J. Birkbeck engaged in copious correspondence with members of the Russian court faction opposed to the nationalist industrializers led by Count Sergei Witte. Among Birkbeck's contacts was the Procurator of the Holy Synod of the Russian Orthodox Church, with whom he plotted for union of the Russian and Anglican Churches and for factionalizing of the Vatican—another precedent most instructive for understanding today's threat of schisms in the Roman Catholic Church:

These 19th-century self-styled ecumenicists, with their allies like Bishop Nathan Soederblom of Sweden, whom Waddams revered, set the machinery in motion for the eventual formation of the World Council of Churches in this country.

The Middle East is prime terrain for the Anglicans and the Orthodox, as it is for Kim Philby and was for his father St.-John Philby, the British intelligence Arabist who midwifed the birth of the Muslim Brotherhood. Waddams, in a 1957 lecture in praise of two centuries of Anglican foreign policy, identified the Bishopric of Gibraltar, the British rock at the mouth of the Mediterranean Sea, as the bridgehead for Anglican collaboration with the Orthodox churches—in the 1850s and also today.

# Conspirators to meet in Texas at the Rothko Chapel

The international leaders of the secret Muslim Brotherhood society will meet Oct. 21-25 at the Rothko Chapel in Houston, Texas, to plot the next phase of Islamic fundamentalist terrorism and political destabilizations, both in the Middle East and in the West. Participating in the meeting, which is titled "Islam: Spiritual Message and Quest for Justice," will be 23 top-level Brotherhood strategists from all over the Islamic world. Among them are:

- **Prince Mohammed al-Faisal al-Saud**, Chairman of the Islamic Investment Fund in Saudi Arabia. Faisal al-Saud sits at the top of a Libyan-Kuwaiti banking nexus and is a funder of the Muslim Brotherhood. Faisal al-Saud has endorsed the Khomeini revolution as "the wave of the future," lauding the Ayatollah as "the perfection of Islam." He opposes Saudi Crown Prince Fahd's pro-American, pro-development perspectives.

- **Hamid Algar**, University of California, Berkeley. Algar is a British Orientalist who converted to Islam and adopted a Muslim name. A pro-Khomeini ideologue, he operates as a Muslim "guru," recruiting students into the Brotherhood. Algar works with the Muslim Students Association (MSA), the U.S. branch of the Muslim Brotherhood, and heads up an MSA front called the Concerned Muslims of Berkeley, which is preparing or backing Islamic insurrection in the Philippines, Egypt, Afghanistan, Syria, Saudi Arabia, Iraq, and Turkey.

- **Khurshid Ahmad**, Director of the Institute of Policy Studies in Pakistan, formerly head of the Islamic Foundation in Leicester, England. Coordinator of the Brotherhood in Pakistan, Ahmad worked with the Qadiani sect in Pakistan to overthrow and execute Prime Minister Zulfikar Ali Bhutto. He is an adviser to Pakistani dictator Gen. Ziaul Haq.

- **Salem Azzam**, Secretary General of the Islamic Council of Europe in London. Azzam directs the Muslim Brotherhood from Morocco to Pakistan. His Islamic Council runs hundreds of Islamic centers across Western Europe and, through them, thousands of fundamentalist students and clergy in both the Middle East and Western Europe.

There is an extensive background to the Rothko Chapel's role in bringing the Brotherhood leadership to Houston. The Chapel was founded in 1971 by Jean and

Countess Dominique Schlumberger de Menil, who emigrated from France to Houston in 1945 to establish and direct the North and South American operations of Schlumberger Limited, the largest oil drilling and equipment company in the world.

## What is the Rothko Chapel?

Jean de Menil, who died in 1973 and whose son George is now director of Schlumberger Limited, was involved in the 1963 assassination of President Kennedy, according to the results of investigations carried out by French and U.S. intelligence agencies. Not only was de Menil a board member of Permindex, the international assassination bureau responsible for more than a dozen attempts on French President Charles de Gaulle's life and named in New Orleans District Attorney Jim Garrison's investigation of the Kennedy assassination. De Menil was present at a spring 1963 secret meeting at the Tryall Compound in Montego Bay, Jamaica, to plot the Kennedy murder.

De Menil was also a board member of the Tolstoy Foundation, a New York center for Eastern European and White Russian activities. Of White Russian descent, the de Menil family had fled from Russia years ago and adopted a French name, and Jean de Menil married into the powerful Schlumberger family of the Neuflyz, Schlumberger, Mallet banking empire.

Schlumberger Limited, operating out of Houston, is known to be involved in international gun-running.

The Schlumberger family and corporate empire is politically extremely close to Mitterrand and the Socialist Party. Schlumberger Limited's current Chairman is Jean Riboud, whose family is overtly supportive of the Mitterrand "experiment." Jean Riboud's brother, Antoine, has given extensive financial backing to *L'Express* magazine, founded for the purpose of bringing a Socialist to power.

Headed up now by Countess Dominique de Menil, the Rothko Chapel and the Rothko Chapel Fund have become ardent sponsors of "human rights" destabilization operations against numerous governments around the world, all in the name of "religious ecumenicism." In June of this year, the Rothko Fund distributed \$10,000 awards to 12 human rights activists around the world, including Chief Tom Porter, the anti-nuclear terrorist-environmentalist Mohawk Indian in New York State; Jose Zalaquett of Amnesty International, one of the key organizations responsible for the overthrow of the Shah of Iran; and terrorist organizations in El Salvador and Argentina.

The Rothko Chapel coordinates closely with the United Nations one-world Human Rights Commission, which is committed to fomenting Khomeini-style popular insurrections in the Third World.

## What Mubarak and the generals face

The assassins who took Egyptian President Anwar Sadat's life intended to eliminate all those Egyptian leaders currently or potentially opposed to the Muslim Brotherhood. In particular, Vice-President Hosni Mubarak, Sadat's appointed heir, who escaped injury, was a prime target.

Whether Mubarak survives the coming months rests with the Egyptian military. At present there is a question whether there may be solid support for Mubarak within the ranks of the generals. Mubarak was Sadat's designated liaison between the military—the bedrock of Egyptian stability—and the Presidential Palace.

Just how forceful Mubarak will be in enforcing stability in Egypt is not yet known. He has already announced that he will uphold the policies of Sadat and has imposed martial law for one year, putting a ban on all demonstrations. This is the first indication that Mubarak may be equally or more ruthless in putting down the extremists in the Muslim Brotherhood and its allies in the Egyptian left than his predecessor.

Less than 24 hours after Sadat's death, the People's Assembly voted Mubarak as Egypt's next President, and unanimously agreed to hold a national referendum on Oct. 13, to accelerate the constitutional timetable that specifies elections within 60 days after the departure of a President from office. Shortly before the Assembly voted to hold early elections, the Egyptian General Staff issued a statement of unanimous support for Mubarak, himself a former Commander of the Egyptian Air Force, who has long been considered a representative of the armed forces command in the government.

### The question of the military

One principal threat to Mubarak is the dissident exiled Egyptian Gen. Saad Shazli, a hero of the 1973 Mideast war, who had broken with Sadat over Egypt's treaty with Israel. The well-informed French journalist Paul Marie de la Gorce reports in *Le Figaro*, Oct. 6, that Shazli is the leader of a cell of the Egyptian army of militants who support the Libyan dictator, Muammar Qaddafi, and are either members of or sympathetic

to the Muslim Brotherhood. It is out of this network that Sadat's assassins emerged.

Both Shazli and the influential Egyptian journalist Mohammed Heikal, who is now under house arrest, are principal threats in polarizing the Egyptian military and opening the door to chaos. The top brass, however, have shown no indication that they will break with Mubarak, though Heikal is known to have cultivated ties with certain influential soldiers.

Heikal and other prominent critics of Sadat are reported to be engaged in intense, closed-door talks with Mubarak to return their freedom and give them greater say in Egyptian politics. Egyptian elites such as Heikal are known to have the ability to foment street violence both through the Muslim Brotherhood and Egyptian trade unions.

And Ramsey Clark, the former Attorney General who had marched in Teheran's streets in 1978 in support of Khomeini, and to this day defends the Ayatollah's regime, is, according to a New York source, gearing up his left-wing networks to challenge Mubarak. Clark is working with French President François Mitterrand, French Justice Minister Robert Badinter, and the British Labour Party's Michael Foot and Anthony Wedgwood Benn, along with the Jesuit-linked World Council of Churches.

Father John B. Taylor of the World Council of Churches told a European reporter that the murder of Sadat was only the "first phase" in the collapse of the Egyptian "house of cards." He predicted mounting civil unrest which will destroy the "remaining institutions and the entire state apparatus" created by Gamal Abdul Nasser.

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## Sudan: next target of insurgency?

Egypt's ally Sudan is the next immediate target of the Muslim Brotherhood, which operates within the country through fundamentalist networks, in turn tied to the Qaddafi regime of neighboring Libya. The security of the strategically located Sudan, the biggest country in Africa (roughly the size of Europe) which shares borders with seven countries, has always been a major point of concern of both Egypt and the Saudis.

Iran Foreign Minister Hossain Musavi has explicitly relayed a message from the international Muslim Brotherhood networks which installed the Khomeini regime.

In an Oct. 8 interview with CBS, Musavi lauded the assassination of Sadat, saying it reflected the growing strength of the "Islamic Revolution." He stressed the role of Islam in fighting Westernization, and threatened Morocco, Jordan, and Saudi Arabia in addition to Egypt. And Khomeini's ally Qaddafi, calling for the overthrow of Sudanese President Gaafar al-Numeiry, has been using his petrodollar accounts to train Sudan exiles for a "Salvation Army for the Liberation of Sudan." Qaddafi has reportedly been expelling 3,000 to 4,000 Sudanese a day who refuse to join his anti-Numeiry effort, for a reported total of 250,000, many of whom are suspected of being undercover anti-Numeiry operatives.

Qaddafi was behind an anti-Numeiry coup attempt in September 1976, in which he attempted to install Sadiq al-Mahdi, the head of the Islamic Ansar fundamentalist tribal sect. At that time over 1,000 rebels were infiltrated into Sudan from Libya while Numeiry was out of the country, and it took the armed forces three days of fighting in the capital, Khartoum, during which about 700 of the insurgents were killed, to crush the operation.

Numeiry has ruled Sudan by attempting to balance the numerous regional and ethnic differences in the country. The extensive Muslim Brotherhood organization in Sudan, headed by Hassan Turabi, is formally in the government as the result of a deal made with Numeiry, who reconciled himself with the Mahdi after the coup attempt, and returned to Sudan in 1977. The Mahdi's Ansar movement is the largest group that could pose an alternative to the Numeiry government.

The combination of Libyan operations and economic problems leading to food shortages, price increases, electricity and water cutoffs, etc., make the Sudan extremely vulnerable. It was Sadat's concern over this conjuncture that prompted him to send Vice-President Hosni Mubarak to Washington a week before he was assassinated, to urge more U.S. aid to Sudan. The Libyan and Muslim Brotherhood operations in Sudan could bring Numeiry's consensus politics to an end, reducing the country to chaos—which would reverberate throughout the region.

### A call for help

Ever since Sudan canceled several development projects in 1979 in response to IMF dictates, Numeiry's balancing act has been unraveling. Tensions between the country's north and south of Sudan are mounting. In 1972, Numeiry had ended a 17-year civil war the south had been waging against the north by granting autonomy to the former. During the civil war, southern rebels were supported from Ethiopia, then under the regime of Haile Selassie, by an alliance of Coptic and Israeli intelligence networks. This Oct. 5, Numeiry dissolved the parliaments of both north and south, as part of a plan to subdivide the two areas into more regions in order to calm unrest.

Last month Numeiry initiated a crackdown on the large refugee population in and around Khartoum, shortly after Sadat launched his crackdown in Egypt. Over 17,000 were arrested, and 6,000 to 8,000 are still being held, according to press accounts. Over 2,200 rifles and other weapons were confiscated.

About 500,000 refugees from Ethiopia, Chad, and Uganda are in Sudan, adding to the economic burden and creating openings for political operations.

And tensions are growing on Sudan's border with Chad, which has been occupied by Libyan troops since December 1980. Anti-Libyan Chadian forces have been fighting, both the Libyans and forces of the pro-Libyan government installed by Qaddafi from Sudan, drawing Libyan air attacks into Sudan.

Egypt has troops and air force units stationed near Khartoum and around the country in strategic locations, backing Numeiry's never-too-firm consensus. Numeiry has survived three major coup attempts since he took power in a coup in 1969, as well as numerous plots. The Saudis, however, have stupidly undermined their interests in Sudan security by abiding by the International Monetary Fund dictates and refusing to bail out Sudan financially.

The Mahdi, with one faction of his Ansar movement in Khartoum, benefiting from Numeiry's national reconciliation efforts, and another faction operating from Libya, is reportedly biding his time, waiting for the situation to deteriorate.

## Haiti and El Salvador: depopulation laboratories

by Linda de Hoyos

President Reagan reported on Sept. 29 that he had signed a “memorandum of understanding” with the government of Haiti that would bar refugees from that country to the United States. The agreement is of questionable legality, given that it authorizes the U.S. Coast Guard to interdict refugee boats even before they enter U.S. territorial waters, and to “escort” them back to Haiti.

For the most part, those who are leaving Haiti are not exiles seeking political asylum. Haitians are fleeing an island whose economic level is now so low, that many Haitians would face imminent death by starvation if they were to remain in the country. More than 80 percent of the country’s pre-school children are suffering from malnutrition, according to a 1978 study. The portion now would be even higher. More than 80 percent of the population live at, or below, the economic level needed for subsistence. Given the current policies of the U.S. State Department, the International Monetary Fund, and the World Bank, the economic deprivation in Haiti promises to become worse, as its population of 6 million becomes increasingly desperate.

These facts are not unknown to the U.S. State Department. Behind the harsh reversal of American “open door” immigration policy formulated by the agreement with the Haiti government stands the Global 2000 policy of population reduction that staffers at the State Department, including the Secretary of State, have espoused.

Depopulation is State Department policy throughout Latin America. In a sense, the Reagan administration—under the advisement of the State Department and its unofficial advisers like William Paddock and Thomas

McMahon of the Environmental Fund—is carrying out a policy of “Vietnamization” in Central America, as some critics claim. That is the accurate term *if* the Vietnam War is not viewed simply as a humiliation for the United States, but as a policy of devastation and depopulation in Southeast Asia that led inevitably to the Kissinger agreement to turn the nation of Kampuchea over to Pol Pot and his Chinese advisers. The result was the murder of more than one-third of the Kampuchean population.

Today, “Vietnamization” is being implemented in the Caribbean and Central America along three definite tracks:

1. The fostering of political polarization between “left” and “right” leading to civil wars that bring with them the potential for American military involvement. Case in point: El Salvador.

2. The reliance on the conditionalities policies of the International Monetary Fund and the World Bank to reduce nations to bankruptcy and economic chaos. Cases in point: Guyana, Nicaragua, and Costa Rica.

3. A refugee policy that—as in the Somalia starvation camps—has reduced the targeted population to a slow death. Cases in point: Haiti, El Salvador.

### A deadly refugee policy

Among those who are advising the State Department on the methods of population reduction, the Reagan administration’s agreement with Haiti is seen as a precedent to be applied to other nations as rapidly as possible. “This is exactly what we should be doing





*A peasant village on Haiti's northern coast.*

with the Salvadorans," commented Roger Connor of the Federation for American Immigration Reform (FAIR). "El Salvador is referred to as the first demographic war. They have tremendous land problems."

Thomas McMahon, the executive director of the Environmental Fund, concurs. "We've lost control of our border," McMahon told an interviewer. "This [the Haitian agreement] is just one feeble attempt to control one particular stream of immigration into this country."

In El Salvador, the refugee situation has reached crisis proportions. Although hundreds are dying weekly through the war-fighting, the El Salvador economy is in such shambles that the government is now shipping "unemployed workers" out to countries like Bolivia. Out of a total population of 4.8 million, it is estimated that there are now 600,000 Salvadoran refugees, either inside or outside of the country. That is over 12 percent of the population. Of these, 300,000 are thought to have fled across the borders into Central American countries and Mexico; another 100,000 have found their way into the United States; and over 200,000 refugees remain inside the country.

For population specialists like William Paddock and Thomas McMahon, this holocaust is simply a necessary result of "overpopulation."

"You have to remember that the violence in El Salvador is not new," says McMahon. "They had the highest murder rate in the hemisphere for years . . . and that is due to overpopulation. The country is definitely overpopulated. Anybody who thinks they are going to be able to make agrarian reform work there is very

## William Paddock's plantation economics

*William Paddock, the director of the Environmental Fund, is one of the founders of the genocide lobby in the United States. In 1973, he wrote a book, We Don't Know How, which put forward a scenario for the events now unfolding in Central America. Paddock gave the keynote speech in a seminar on "demographic and national security implications of the El Salvador revolution" organized by Henry Kissinger's networks in the Washington-based Georgetown's Center for Strategic and International Studies, Feb. 26. In that speech, he called for an "endless cycle" of warfare to reduce population in Central America. The 1973 book is based on Paddock's involvement in the region as an agronomist with the Agency for International Development (AID) under the State Department. Excerpts follow:*

El Salvador has been described as a demographic nightmare. . . . The Salvadorean soils normally resist erosion, but they have been so abused by excess population, the original potential of the land has been seriously reduced. Some nineteen species of local mammals . . . have become extinct. . . . And now the overwhelming population pressures have indeed reached the crisis point. . . . The consequences of an agricultural breakthrough without an accompanying breakthrough in population control are ominous. Agriculturalists (and I am one) too glibly damn modern medicine for trying to reduce mortality while striving to do exactly the same thing through improved agricultural technology. More food will certainly mean that more people will live, but this will accelerate the population explosion still more. . . .

In spite of all that is written today criticizing the plantation system, there remains a major reason why this is the most economically feasible unit (and generally speaking the only unit) for cultivating the coastal tropics of Honduras . . . the United Fruit Company's . . . sales of bananas bring in 35 percent of all Honduras foreign exchange. . . . Honduras is a poor country. Think how much poorer it would be without El Pulpo ["the octopus," name given by Latin Americans to United Fruit].

Science and technology cannot compensate for the paucity of resources of a hungry nation. . . . As the benefits of technology are strewn throughout the undeveloped world, the crop that rises is not the beautiful flowers of progress but a host of evil soldiers more threatening than any previous problem.

naive. . . . You get a point where there probably is no answer.”

### **Prolonging the war**

It is certainly the case that the U.S. State Department is not looking for a solution to the El Salvador conflict. Secretary of State Haig has done everything within his power to prolong the war, spurning the offers of mediation presented.

Over recent months, Haig has increasingly brought in U.S. nonconventional “special forces,” such as the Green Berets, to advise and participate in military operations in both El Salvador and Honduras.

On Oct. 5, the Salvadoran military announced the launching of a “final offensive.” The elite Atlacatl brigade, armed with American-made weapons and trained by Green Berets, is employing the “hammer and anvil” tactics used in Vietnam to seal off jungle areas controlled by guerrillas on the border with Honduras while other troops sweep the area. The U.S. and Honduran navies are simultaneously carrying out maneuvers in the Caribbean.

The United States is participating in the maneuvers, despite assurances to Mexican President José López Portillo from President Reagan, during the Grand Rapids meeting Sept. 17, that the United States would send no more advisers or troops to El Salvador. At this meeting, López Portillo had urged Reagan to seek a mediated and negotiated solution to the crisis.

Panamanian President Aristides Royo, in a speech before the United Nations General Assembly Sept. 30, offered to be a mediator. The offer was favorably received by spokesmen for El Salvador’s Revolutionary Democratic Front (FDR) and the Farabundo Marti National Liberation Front (FMLN), who reported that they “accepted the mediation proposed by Aristides Royo,” and were prepared to “sit down and talk with the Duarte government.” Junta president Duarte—undoubtedly with approval from Haig—rejected the offer.

What is the next step for the U.S. State Department?

“You know what I would do if I were in power?” says Thomas McMahon. “I would just say this is not our problem. Let the Latin Americans handle it. We’ve got the OAS, let the Mexicans, Venezuelans, Colombians, Panamanians handle it.”

That is precisely what the State Department is doing, albeit without lessening U.S. involvement in the conflagration. In a press conference in Tegucigalpa, Honduras, Oct. 7, Col. Samuel Dickenson, director of the Interamerican Defense Board, boldly declared that the United States wants the Honduran military to intervene in El Salvador. “I don’t know how there can be peace in Honduras when it proclaims neutrality with aggressive neighbors like the Nicaraguans and with a guerrilla war like the one in El Salvador.”

## **How the IMF is wrecking Costa Rica**

by Dennis Small

The Central American nation of Costa Rica is quickly becoming a textbook case in how the International Monetary Fund can reduce a national economy to rubble and create terrorism and political chaos.

Since 1948, Costa Rica’s stability has earned it the widespread nickname of the Switzerland of Central America. The only one of the six nations of the isthmus which is a functioning parliamentary democracy, Costa Rica has no armed forces, and was almost free of domestic terrorism until the most recent period. With chaos and civil war surrounding it, Costa Rica has managed to remain remarkably free from violent polarization.

All that is now about to end.

Domestic terrorism is beginning to surface in the country. Reagan administration officials like U.N. Ambassador Jeane Kirkpatrick are encouraging the strengthening of the National Guard and other security forces to answer this challenge with stepped-up repression. Most importantly, the International Monetary Fund and the major commercial banks are refusing to roll over Costa Rica’s \$2.6 billion foreign debt, unless that country imposes draconian austerity measures—measures sure to produce widespread social unrest.

Already the government of President Rodrigo Carazo is a casualty of these developments. It will limp into the February 1982 presidential elections with the barest minimum of authority to govern the country. The probable victor in these elections will be social democrat Luis Alberto Monge; but he, too, will face the same underlying crisis that has politically shattered his predecessor.

### **IMF ‘terrorism’**

Costa Rica’s problem is very simply: it is bankrupt. This fact emerged into full public review in July, when the Carazo government telexed its principal creditors that it could not meet its payments on its foreign debt. Since then, Costa Rica has defaulted on \$120 million in debt service payments, and is expected to fall short by \$230 million more by the end of this year. Over the past 12 to 18 months, Costa Rica’s balance of payments has been shattered by a combination of: a) slumping international prices for its major crop, coffee; b) soaring

prices for imported oil; and c) exorbitant international interest rates, which are the result of the policies of U.S. Federal Reserve Chairman Paul Volcker.

In December 1980, the Carazo government decided to let the local currency, the colón, float downward from its rate at the time of 8.6 to the dollar. Within six months, a two-thirds devaluation of the currency had occurred on the free market, with the colón selling at up to 29 to the dollar. Throughout this period, an extreme shortage of dollars developed with local manufacturing interests and foreign investors raising a hue and cry about their inability to obtain foreign exchange. When Carazo attempted to make a few concessions on this front, his Finance Minister Hernán Saenz, a Friedmanite monetarist with excellent relations with the IMF, resigned in protest.

Since then, the IMF has made Carazo pay for his stubbornness. The government has not received a single commercial bank credit in all of 1981. After suffering declining growth rates since 1977, Costa Rica's GNP is expected to drop by 2 percent this year. Nineteen eighty-one inflation is expected to come in at 50 to 60 percent. And bankruptcies and unemployment are sharply increasing, with the latter expected to reach 16 percent by year end. These circumstances are leading to serious internal panic, including capital flight, according to reliable Costa Rican sources.

Last week the government of Costa Rica was forced to default on *internal* debt obligations as well, to the tune of \$70 million, which had been owed to domestic importers in the form of government bonds. Since most of the cash-strapped importers had themselves collateralized these government bonds to obtain liquidity, the government decision will drive a large portion of the importers into bankruptcy.

Manuel Naranjo, the head of Costa Rica's central bank, explained in a press conference this week that these latest measures were the direct result of IMF coercion. According to the Oct. 5 *Wall Street Journal*, Naranjo said: "Foreign creditor banks were insisting that Costa Rica comply with IMF spending limits as a condition for renegotiating the foreign debt. To comply, the central bank was forced to suspend payments due this month on certificates of deposit held by importers."

The prospects for 1982 are even worse: \$920 million are owed in debt service, an astounding 60 percent of the country's expected total export earnings of \$1.5 billion, and, as of this writing, there are no prospects for new loans anytime before the February 1982 elections. In fact, Finance Minister Emilio Garnier in late September reached an agreement with Costa Rica's creditors whereby a full renegotiation of the debt will be postponed until *after* the elections. In the meantime, Costa Rica will have its day-to-day finances run by a steering committee of creditor banks—and will starve.

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## Interview

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### 'Why is Washington doing this to us?'

*On September 25, 1981, EIR held a confidential conversation with a powerful Costa Rican political figure who is on intimate personal terms with President Rodrigo Carazo. Due to the sensitivity of his remarks, the person in question has requested anonymity.*

**EIR:** What is your view of Costa Rica's current financial problems?

**A:** The international financial community has criticized Costa Rica for the excessive role of the state sector in the economy.

To meet our crisis, we have cut back on the role of government. But the International Monetary Fund, the U.S. commercial banks, and the U.S. government are still refusing to lend us money, and they are creating such crisis conditions that we are frankly frightened about the outcome. We have always been a bastion against communism. We have always been a good ally of the United States, the best in the area. But what the U.S. is doing now is hurting Costa Rica. They are making a very big mistake in the area, when they flood El Salvador with weapons, and at the same time refuse Costa Rica economic aid.

We Costa Ricans aren't dumb, you know. About 35 percent of our budget goes to education. We're not a backward people, that way. We ask ourselves, why is the United States doing this to us?

**EIR:** And what kind of situation will the next President confront?

**A:** The economic prospects will be bleak, no matter who the next President is. Because there are a series of related factors that have intersected to create a very unstable situation. One of these is the price we receive for our coffee exports. Another is the exorbitant cost of imported petroleum. This leaves us with no money to pay for other things.

On top of this, if you add on the high interest rates, you'll see what kind of bind we're in. Saint Peter himself could drop in on us and become President, and *he* would fail. It's not a matter of individuals or factions. It's a matter of a whole people, and a whole economy. We

need disinterested help, unconditioned help, from countries like the United States, Japan, France, West Germany, or England, who seek to cooperate with Costa Rica in order to make this a base of stability. Instead they offer us military aid, as Mrs. Kirkpatrick did, rather than economic aid. We don't need weapons, we need economic aid.

We have always been unconditional allies of the United States. We can be classified as one of America's few true friends. And not just today: I am talking about our whole history. If they are prepared to let Costa Rica go down the drain, you can be absolutely sure that they will no longer have a friend here, and the domino effect will be felt with a monstrous force—not only in this area, but in all of Latin America. Mexico, Argentina, and ultimately the U.S. itself will feel it.

**EIR:** If Costa Rica follows the IMF's recommendations of drastically reducing the government budget, devaluing your currency, and so on, what will the results be?

**A:** If this is done, we will basically have a worsening of what we have already been suffering since August: a sharp braking of the economy, a drop in production, a rise in unemployment. You see, the problem is that the IMF recommends policies which are absolutely unreal, not thought-out. They are the policies of the bureaucrat, who sits behind a desk and sees only numbers, and not reality. Such policies would be very negative. We would not be able to create jobs, to increase production, to build more infrastructure, to educate our people.

It's true that for many years we have overspent, have distributed wealth that we did not have. But the solution is not to slam on the brakes; I am absolutely convinced of this.

The way I figure it, if a country like Costa Rica has to make the painful decision to not pay our debt—not because we don't want to, but because we can't—many, many other countries will follow suit, who are in situations as critical or worse than ours. And this would bring about the total shattering of the U.S. economy itself.

Just take a look at how much money U.S. banks have lent out to countries like ours. All you need is for one country, just one single country, to say, "I can't pay." And we will all go back to the Great Depression of 1930.

If you take a serious look at this, you will realize that things are very critical indeed. And it is decidedly *not* due to problems of overpopulation. Quite the contrary: Costa Rica has a great shortage of labor and manpower. Every year we lose a portion of our crops because there is a shortage of labor. And for that reason we have always been opposed to the *Global 2000 Report*, and not only through public statements. For example, we totally shut down that infamous attempt to hand out contraceptives across our entire country. We have been totally opposed to the idea of reducing the size of the population.

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## Colombia

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# Electoral setup for destabilization

by Cynthia Rush

The nomination Sept. 19 of hated former President Alfonso López Michelsen as the presidential candidate of Colombia's Liberal Party means a 1982 election campaign that will probably pit against each other two advocates of drug decriminalization—López and his Conservative opponent Alvaro Gómez Hurtado. At best, the choice of López will further destabilize Colombia's already shaky democracy. At worst, it could mean civil war.

Who is López Michelsen? In 1974, he was elected to head up the first administration after the National Front, the 16-year pact set up in 1957 that alternated Liberal and Conservative Presidents every four years. Son of the popular Alfonso López Pumarejo, who had served twice as Colombia's President (1934-37 and 1942-45), López was elected by a heavy majority and seen as the man who would restore both economic prosperity and Liberal Party hegemony in the nation.

Social democrat López betrayed these expectations. In alliance with Conservative forces linked to "opponent" Alvaro Gómez, he dismantled the nation's productive apparatus and facilitated the growth of the drug economy. By the time he left office, López was one of the most hated men in Colombia. A columnist writing in the Bogotá daily *El Tiempo* a month ago warned, "It's no secret that at least half the nation, and one-fourth the body politic, would rise up from the moment that a López candidacy were proclaimed, to prevent him from getting to the presidential elections."

During his first term in office López Michelsen supervised Colombia's conversion to a full-fledged drug economy. He authorized the creation of the *ventanilla siniestra*—the "sinister window"—at the central bank, a mechanism for laundering revenues from the illicit drug trade through the banking system. At the same time he applied the Friedmanite policies used in Chile, whose "economic miracle" he publicly lauds, to eliminate what remained of productive investment or industry.

The 1974 tax reform, designed with the aid of Brandt Commission member and Finance Minister Rodrigo Botero, encouraged investment in monetary and real estate speculation and labor-intensive activity, while killing heavy industry. Under López's "anti-inflationary"

austerity program, Colombia's steel-making and textile industries began their rapid decline.

Two facts readily indicate how a new López administration will approach the country's drug problem: López has contracted Ernesto Samper Pizano, Colombia's most prominent advocate of marijuana legalization and executive board member of the International Cannabis Alliance for Reform (ICAR), as the top adviser to his presidential campaign. The candidate is also generously financed by his cousin Banco de Colombia President Jaime Michelsen Uribe. Since the April 1978 election of current President Turbay Ayala, López has spent most of his time strengthening his ties to the Socialist International, acting as a spokesman for the zero-growth perspective expressed in the Brandt Commission report, and recommending that Colombia resolve its domestic subversion problem by negotiating with the avowedly social democratic terrorist group M-19. Associated during the early part of his political career with the M-19's top leader Jaime Bateman Cayón, López recently announced that he favors the declaration of a "broad amnesty" that would bring the M-19 into the political system as a legitimate party.

### What are the options?

Whether López can get close enough to the presidency to implement these policies is another question. It is likely that his candidacy will decisively split the Liberal Party, repeating events of 1946 that handed the election to the Conservatives and plunged the nation into a fratricidal, 10-year civil war known as "La Violencia." Although López's chief Liberal opponent Sen. Virgilio Barco has dropped his bid for the presidency, former President Carlos Lleras Restrepo is organizing his Liberal constituency to oppose López's candidacy, and vote either for Sen. Luis Carlos Galán or perhaps for conservative "national unity" candidate Belisario Betancur. Either way, the Conservatives have the advantage.

The person who stands to gain most from this is Conservative Party leader Alvaro Gómez Hurtado, who is also a proponent of marijuana legalization. Son of the pro-Nazi dictator Laureano Gómez, who unleashed the first "Violencia," and an intimate of some of Europe's leading oligarchs, Gómez has been trying to become President for years. He has always been repudiated, however, by a population that vividly recalls the atrocities committed by his father and the 300,000 or more people massacred during the Violencia. Now Gómez may actually have a chance to attain his goal, either personally or through a surrogate like Bentacur. Given the degree of hatred for Gómez, and the potential for an upsurge of armed guerrilla activity resulting from increased military repression, a victory could plunge the country into an El Salvador-style civil war.

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## Documentation

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### Colombian churchmen speak out on drugs

*The Colombian Church has taken an unprecedented lead in denouncing Liberal Party presidential candidate Alfonso López Michelsen's pro-drug and pro-divorce positions, while carefully refraining from naming him publicly.*

*Excerpts from the Aug. 28 document of the Colombian Bishops Episcopal Conference: We cannot believe in the sincerity of those who self-righteously speak of morality and of the good of Colombia, while offering as alternatives to the process of moral decomposition the legalization of marijuana, who would "remedy" the crime of abortion by legitimizing it, who would "protect" the family by dissolving it through divorce. . . . These are the increasingly audacious proposals which have found an echo in the decadence of a permissive or complicit ruling class.*

*Statement of Bishop Darío Castrillón, Pereira, Sept. 1: Legalize drugs? Permit abortion? It is evident that societies are deteriorating, are becoming corrupt. I'm sure that through simplistic analysis, many people think of the foreign exchange which can come in from sales of marijuana. But if any of these people . . . were to see the human wrecks of the drug addicts, the suffering of their mothers. . . . The Church cannot permit such degradation of morals. It cannot permit such overwhelming irresponsibility, it cannot co-exist with the barbarity certain politicians . . . are offering on the eve of elections. Evidently they want to attract the youth with these proposals of civil matrimony, of divorce, abortion, and legalization of drugs. They want to commit the youth to their sins. They want to harm them irremediably.*

*Statement of the President of the Latin American Episcopal Conference (CELAM), Bishop López Trujillo, Medellín, Sept. 28: The political candidates must not only be honest, but also must be attuned to the people. . . . Part of this being in tune with the people is respect for their Christian souls. Some of our politicians seem to be living in Sweden, and have not taken into account how our people think and react. . . . These politicians greatly lack a true humanist perspective and an integral Christian conscience.*

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# A journey to Vietnam: its true strengths and weaknesses

by Daniel Sneider, Asia Editor

*"Khong Co Gi Quy Hon Doc Lap Tu Do"*—in English this means, "Nothing is more precious than independence and freedom." This most famous slogan of the late Vietnamese President and nationalist leader Ho Chi Minh can be found on walls, on signboards, and on giant billboard paintings from the smallest village of Vietnam to its largest cities.

The average official in Washington will quickly sneer and dismiss such an exhortation as mere "propaganda." Such reactions reveal far more about the extent to which Washington, in all its aspects, remains a prisoner of the same myths and illusions that were so dramatically shattered by reality during the Vietnam war.

During almost two weeks of this writer's tour of Vietnam, a tour which took me from a point in the north on Vietnam's border with China, to the capital of Hanoi and south to Ho Chi Minh City (formerly Saigon), I had a chance to talk with tens of Vietnamese officials, including lengthy informal and private discussions of a wide-ranging nature, as well as an hour-and-a-half exclusive interview (printed below) with Vietnam's respected Foreign Minister Nguyen Co Thach.

Talking one August afternoon in Hanoi with a senior political leader of Vietnam, I was told some "war stories" which in a very particular way illustrate the gap between Washington's illusion and reality. The Vietnamese leader told me with unconcealed ironic humor about "how we defeated the B-52," illustrating for me how it was that a "small country can defeat a big country."

"The Americans," he recounted, "had sown electronic devices to detect our troop movements. Our soldiers, they had great imagination. They took an empty barrel of oil and they dragged it around the device. The device gave signals that there is a big convoy, so the B-52s came in, and bombed and bombed."

"One soldier told us, 'I can defeat the B-52 with a box of matches and a loaf of bread.' The U.S. aircraft were looking in the jungle for our troop concentrations. So

here was a unit of our army. The one soldier takes with him the bread and the matches and goes very far away from the unit. Very deep in the jungle, he lit a fire—smoke; lit another fire—smoke; and so on. Then he runs very far away and waits there. To wait, he must eat—there is the bread, only bread not like the GIs. Soon the B-52 comes—a big concentration of troops they think, and they bomb and bomb."

With this last note, the official laughed at the illusions which no doubt recorded such bombings as many "kills" on McNamara's Pentagon computers.

The computers and their operators are still there. So are the myths used to satisfy the U.S. policy of support for the Pol Pot butchers of Cambodia, the clients of our "ally," the Peking regime. Vietnam is portrayed as an armed machine, bent only on conquest, ready to gobble up Thailand after Cambodia; as a country acting as mere puppets of the Soviet Union; and, in apparent contradiction to all this, as a country in severe economic and social crisis, which can be damaged, if not toppled, by a policy of imposing isolation through political, economic, and military pressure.

Like the light that passes through a door left slightly ajar, there is a sliver of truth in such myths but only enough to distort, not to illuminate reality.

## **Vietnam: poverty with determination**

The image of "power" associated with Vietnam, a power of some "dark," ruthless kind, is jarred from the very first moment of a visitor's arrival in Hanoi. International flights arrive at an airfield outside Hanoi that consists of one airstrip and a "terminal" little more than a shed. As you drive out, bomb craters left from the American bombing can still be seen pockmarking the area around the field. Road traffic backs up as you approach Hanoi, choked up at the only bridge over the Red River, a bridge partially destroyed by American bombing and patched up to allow one lane of traffic to

pass slowly into the city.

Hanoi itself is an old city, in many parts a faded but preserved French colonial center in its appearance, a city still recovering from 30 years of war. The sound of the city is the quiet swish of the tens and hundreds of bicycles, which are the main occupants of the city's streets.

The overall impression is one of striking austerity of life, a combination of the poverty common to all developing countries with the austerity and discipline of a population that has endured conditions of war and semi-blockade since the founding of the Vietnamese republic by Ho Chi Minh in late 1945. Particularly in the north, one is struck by both the simplicity of life and the apparent determination of the population, out of sheer patriotism, to endure it.

It is difficult to imagine that a country as poor as Vietnam fought and won the wars against the French and the Americans—and even more difficult to see this as the capital of a Southeast Asian juggernaut ready to roll over countries at will. Vietnamese officials, including the Foreign Minister, are frank in admitting the tremendous economic difficulties that Vietnam is grappling with. The basic infrastructure of the economy—transport, power, and industrial inputs—is very slowly emerging from the damage of war, and Vietnamese expectations are extremely modest in this area. Total electricity production, for example, is only 5,000 megawatts for this country of 56 million, and Vietnamese officials plan to add only 1,000 megawatts over the next five-year-plan period. With outside aid, vital for the capital-goods sector, coming almost entirely from only the socialist bloc, these plans are a product of necessity rather than desire.

The main aim for the period ahead is to solve food shortages, largely a result of several years of bad weather combined with a lack of infrastructure and inputs, such as chemical fertilizers and machinery. While this year's harvest promises to be good, restoring production to the post-war high of 1976 levels, Vietnam is a country that has no chemical fertilizer plants at all: its only source of such inputs is phosphate mines located in the northwest and destroyed by the Chinese during the 1979 invasion.

Any idea, however, that such difficulties are beyond the reach of the Vietnamese leadership to solve, or that they will bring about serious political problems in the country, is sheer wishful thinking. I discussed this with an Asian diplomat resident in Hanoi. "The most impressive thing here," he told me, "is the determination for independence." "Yes," he said, "there are hardships and some discontent, but there is no opposition to the leadership, who are Vietnamese first and Vietnamese last."

The Asian diplomat told me there is a question of

succession to the next generation of leaders, but he finds no evidence to contradict the impression that the current leadership is very strong. "Their difficulties will not be overcome in a few years," he told me, "but the most important thing is that the leadership acknowledges the difficulties exist and knows what they are. The big problem in the economy is the lack of managerial and technical skills—they know what to do but they cannot always carry it out.

"How is it," he asked then, "the U.S. has such vast means for collecting information but you always misunderstand reality here?"

### **Southeast Asian realities**

The same question is equally relevant when it comes to Vietnamese foreign policy and the situation in Southeast Asia. The shadow of the Chinese, and the danger of a second large-scale Chinese invasion of Vietnam, is without a doubt the single most important factor today in shaping Vietnamese foreign policy. The current confrontation between the Indochinese countries—Laos, Vietnam, Kampuchea—and the ASEAN countries—Thailand, Malaysia, Indochina, Singapore, and the Philippines—is understood in Hanoi as a product of Chinese efforts to keep these two groups of Southeast Asian states apart. Even American hostility towards Vietnam is viewed as a product of Chinese manipulation and the subordination of U.S. policy to that of Peking.

The singular importance of China, contrary to the views of both Peking and Washington, has not produced fear in Vietnam. The Vietnamese are strikingly confident that they will defeat Chinese efforts to destroy them and that, in good time, they will reach a *modus vivendi* with the rest of the Southeast Asian countries, based on a common understanding of the long-term Chinese threat to the region.

The Vietnamese, when talking of China, think and talk in terms of centuries, even millennia, of Vietnam's struggle against Chinese domination and control. I listened to a tour guide in the Vietnamese war museum in Hanoi tell a group of ordinary Vietnamese about the exploits of Vietnamese heroes a thousand years ago in battles against the Chinese.

A senior Vietnamese foreign ministry official, who had participated in the post-'79 border negotiations with the Chinese, told me that the Chinese have contempt for Vietnam. "They are Great Han chauvinists," he told me, "and they view us as a 'little country.'" The official told me there are three options in the region: things will stay the same; ASEAN will agree to talk with Vietnam and its allies; or the Chinese will attack again. In the last case, he said, "we will defeat them—without any direct help by the Soviet Union."

Privately, I was told that Vietnamese officials believe that the ASEAN countries will inevitably come around

and enter into direct negotiations with the Indochinese countries, negotiations that will establish a regional understanding which will include ASEAN acceptance of the political status quo in Indochina, and the Vietnam-backed government in Kampuchea. The Vietnamese confidence is based on two crucial facts—one that the key countries in ASEAN, particularly Indonesia and Malaysia, and to a lesser extent the Philippines, agree that China, not Vietnam, is the threat to stability in the region.

The Vietnamese thinking on ASEAN views is confirmed by recent reports of the dispatch of semi-secret envoys from Malaysia, Indonesia, and the Philippines to Hanoi in the past month to keep open channels of talks between the various countries. According to Vietnamese sources, the Malaysian envoy told the Vietnamese to ignore its diplomatic posture regarding Kampuchea as a current necessity and assured the Vietnamese that they agreed with them completely on the “Chinese threat.”

The second crucial fact flows from this first reality—that the obstacle within ASEAN to movement toward serious talks, namely the position of the Thai government, will be worn down in time. It is well known that as long as the Thais continue to support a policy of confrontation with Indochina, manifested in the use of Thai territory as a base for Pol Pot’s Khmer Rouge and as a conduit for Chinese arms to the Pol Pot and allied forces, ASEAN’s public posture will not change. However it is equally true that the Thais are therefore under great pressure from within ASEAN on one side, and from the Vietnamese on the other, to soften, if not shift, their stance.

The Vietnamese view, communicated to me in private and stated by the Foreign Minister in his interview with me, boils down to the belief that Vietnamese determination not to yield to what they see as Chinese-U.S. pressure will outlast the will of an unstable Thai regime. A Vietnamese foreign ministry official specializing in this region asked me insistently why the U.S. doesn’t comprehend the failure of its policy as manifested in the recent attempted Thai military coup and the ensuing political turmoil in the country. It was rather difficult for me to explain to him there are few people in Washington able to recognize that such realities even exist.

### **Russia and America**

Perhaps the final, and for me most important, irony in the gap between American illusion and the Vietnamese reality, is on the question of U.S.-Vietnamese relations. After 20 years of war, when there are few people in official and unofficial American circles willing even to contemplate the most basic step of establishing normal diplomatic relations between the two countries,

I found the Vietnamese open, even eager, to establish relations with the United States.

In every conversation I had with officials from a wide range of ministries and responsibilities, I was questioned about U.S. policy toward Vietnam and about the attitude of the new U.S. administration. Almost without exception, I found my own views far more pessimistic about such prospects in comparison to those of the Vietnamese, who, even at this point, are far more willing to give the new administration the benefit of the doubt. The consensual view, though I was given to understand not the only view, is that U.S. policies toward Vietnam and the region are still not fully formed and that the source of problems lies in Peking much more than in Washington.

Such openness toward the United States—reflected in the friendly treatment I myself received—should not, however, be seen as weakness on Vietnam’s part. As the Foreign Minister emphasized, they are willing to wait, “a thousand years” if necessary.

The same reality can be seen in relation to the issue of the Vietnamese relationship with the Soviet Union. While there are numerous stories reported of anti-Soviet views being widespread in Vietnam, I did not myself encounter this. There is naturally a feeling in Vietnam that the Soviets stood by them during the war and, equally important, that they share with the Soviet Union a common enemy in China.

Openness toward the United States, then, does not translate into anti-Sovietism. Rather the Vietnamese clearly have no desire to be dependent on *any* power—as the Foreign Minister told me, the Vietnamese did not fight for 35 years for their independence “to sell it for food or something.” Clearly as well, the Vietnamese economy suffers from the U.S. embargo, particularly in the south where spare parts for American-made equipment are not available. But again they have no intention to sell themselves to the U.S.—or the Soviets—for spare parts.

In the end, it is now clear to me, the U.S. will end up the real loser in Southeast Asia. We have staked ourselves entirely on the Peking regime, on lending American prestige and power to Chinese ends. In the process we have blinded ourselves to the fact, which any fool can see, that the future vector of development in the region is going against the Chinese, not with them.

Ironically enough, we once justified our war against Vietnam as a war against “Chinese communism.” Today we justify our war against Vietnam as support for that same Chinese communism. Ultimately the most devastating thing is what we are *not* doing, the opportunities that are being lost—again—for the establishment of a real American national interest in this region, an interest in a stable and economically developing Southeast Asia.



## Vietnam's Foreign Minister Thach on China, ASEAN, and the U.S.



Stuart Lewis/NSIPS, New York, 1980

*The following interview with the Minister for Foreign Affairs of the Socialist Republic of Vietnam, Nguyen Co Thach, was conducted by EIR's Asia Editor, Daniel Snider in Hanoi, Vietnam, on Aug. 12. Both the questions and answers were given in English.*

*Nguyen Co Thach is a veteran Vietnamese diplomat and member of the Central Committee of the Vietnamese Communist Party. Thach was deputy to Le Duc Tho, the chief of the Vietnamese negotiating team at the Paris peace negotiations and is considered an expert on the United States. He became Foreign Minister about two years ago.*

**Sneider:** The first thing I want to ask you is for your assessment of the results of the United Nations conference on Kampuchea.

**Thach:** If you take only the conference, that is not a complete picture. You must see a complex of many things, including the conference. Since March 1981, they [the opponents of the present Cambodian government] would like to set up a united front so that in the international conference they could have not Pol Pot, but Pol Pot and a mask.

Secondly, from May, they have prepared to escalate the military hostility in Kampuchea. They have given a big supply of arms to Pol Pot from May.

So their intention was that on July 13, the conference is there, there is a united front, and an escalation of hostilities. They could have a big impact.

But on July 13 there is no united front, there is no escalation of military hostilities—so the conference is alone. Now, secondly, the conference. The number of participants is 79 [member-states of the U.N.] and 14 observers. But take the 79—if we compare it with the countries who had voted for the conference, it was 97. And now only 79. So at least [a difference of] 20, because in the 79 there are two countries who had not voted for the conference, Finland and Sierra Leone. So 20 countries who had voted for the conference did not come to the conference.

The number 79 is a big number, but in June it was the last day to register for the conference. On June 15 there were only 40 countries, participants, so they must delay

the date for participants to register. So now there is no deadline for registration. They said that every country could participate even in the last session of the conference. So from June 15 to the end of the conference, there were 39 additions. You can look—40 and 39—half were the hard core of the conference. The 39, they must come under pressure: Saudi Arabia, for example. Saudi Arabia had given a reply to the Secretary General that they would not participate. But after, under American pressure, they must come. Burundi's President, he had declared that Burundi will not participate. In the end, Burundi must participate. Very interesting.

The 40 countries were only the Western countries and Asian countries, about 11 Asian countries—that means China, Japan, ASEAN, and South Asian countries, excluding India. So mostly they are all imperialist countries, or colonialist countries, and China, and their allies. And 39 countries in addition, they are mostly from Africa and Latin American, the Arab countries, so most of them are non-aligned countries and under pressure. The non-participants are the socialist countries and 56 non-aligned countries, compared to 39 non-aligned participants.

**Sneider:** You have studied these numbers very carefully.

**Thach:** Yes. It is very, very important. You know among the non-participants is India—it is very important. So the participants were mostly the countries who had committed aggression against other countries, and who are against the independence movement, and who are in military blocs. But the non-participant countries are mostly the countries who are fighting for peace and independence.

There are two sides—two sides very clearly. And two sides on the matter of Kampuchea. It is very interesting that the number is big, but it doesn't mean that they have covered all opinions on the Kampuchean problem. Only one side. So it is one hand clapping [laughs].

Secondly, on the resolution [of the conference]. The resolution differs from the United Nations resolutions of 1979 and '80. In 1979 they asked for immediate withdrawal of Vietnamese forces. In 1980 they ask for phased

withdrawal. But in this conference the withdrawal is a matter of negotiation. It is different.

Especially if you see their contradictions. They are united on the withdrawal of Vietnamese forces but they have divergence on who will control Kampuchea after the withdrawal. Only China would like to have Pol Pot come back. The others, they would like not to accept the return of Pol Pot. But in the last minute, all the participants, ASEAN, America, and so on, they must accept the position of China. And China was supported only by Pakistan and Chile. But ASEAN, they are against [the Chinese position]; the Americans, they are against.

Why can the Chinese, supported by only two others, win, can impose their position? Because China didn't care about whether the conference succeeded or not. But others, they are afraid the conference will be a failure. They must accept the position of China—that means China can dictate their will.

That is very important. That means, who is the main author of the struggle in Southeast Asia? It is China. Now the Chinese appear to be the author of these problems. They have exposed themselves. ASEAN, they are exposed as only having to accept or to support the Chinese position.

**Sneider:** Do you have some signs that the ASEAN position is gradually shifting in a more positive way, if you look at the Manila meeting of ASEAN. . . .

**Thach:** I will tell you. Let me finish on the conference. Thirdly, on this conference, they would like to put the emphasis on the withdrawal of Vietnamese forces. On the contrary, the emphasis is on the condemnation of Pol Pot. Because Haig or others, they come there to support the representation of Pol Pot, but at the same time they must defend themselves against the criticism at home. At the same time, they vote for Pol Pot, they support Pol Pot, but they condemn, violently condemn, Pol Pot. And not the Vietnamese. The Vietnamese were condemned, but not as strongly as Pol Pot.

One thing is very important. Everybody sees, with the resolution, that means Pol Pot will come back. Why? Because the Chinese opposed the disarming of Pol Pot and others would like to disarm Pol Pot, disarm all Kampucheans. All Kampucheans means especially Pol Pot, because they are the strongest [external] forces, but the Chinese say no disarming of Kampuchean forces; that means they would like to have Pol Pot come back. They have refused to have U.N. troops in Kampuchea after a Vietnamese withdrawal and they are against the setting up of a coalition government [in the resolution—D.S.]. That means they would like to maintain the Pol Pot government and not a coalition government.

The military forces of Pol Pot are stronger. Secondly, the legal government [in the U.N.—D.S.] is Pol Pot. That means the return of Pol Pot. It is very interesting.

That means everybody can see the scheme of China—that means that China must dictate. We can see that ASEAN, the Americans, they support only China. Supporting China, that means the return of Pol Pot.

**Sneider:** Normally the Chinese are very clever. They like to disguise their activities. But this time they were not so clever, it seems to me. Why do you think they acted in this way?

**Thach:** Normally they are very clever. In one thing they are not very clever—they stick to their ambitions. This is one thing that is not clever.

For instance, the invasion of Vietnam. I think it was not wise. Very stupid, very stupid to invade Vietnam. But they must do that, because to have this collusion with the United States, they must create some crisis so that the interests of the United States and China could be combined.

**Sneider:** That's a very interesting idea. In other words, what you are saying is that the Chinese must create the circumstances to force the United States to do what they want them to do?

**Thach:** Right. In the case of the aggression against Vietnam, you must consider the Cambodian problem first. After the liberation of Phnom Penh in 1979, the Chinese have helped Pol Pot and stopped helping us. In 1976—Heng Samrin or Hun Sen [Foreign Minister of Cambodia] had told me the other day when I was in Phnom Penh—they [the Chinese] advised Pol Pot to build up bases in the jungle so that in the war with Vietnam, if they must retreat, they have the bases in the jungle.

**Sneider:** In 1976?

**Thach:** Yes. I don't know if you have read it or not—I have read also the memoirs of Enver Hoxha of Albania. Enver Hoxha had written that in 1969 he was advised by the Chinese how to fight against the Soviet Union. They must also prepare bases in the mountains. Aha! The same thing in Albania and the same thing in Cambodia. I think they would like to encourage [a renewed Pol Pot attack on Vietnam]—because the Pol Potists had illusions that they liberated Phnom Penh before the Vietnamese [liberated the south], so they are much stronger than the Vietnamese.

If you had read the Sihanouk memoirs, it is very important. What was the thinking Pol Pot had? They had great illusions to rebuild the Angkor empire: to recuperate the territory of southern Vietnam, in Thailand, in Laos, and so on, to have a very big empire.

So the Chinese have encouraged them. They had built some bases near Phnom Penh, even air bases, for retreat if they were beaten. They encouraged them to attack Vietnam, and if this war between Vietnam and Cambodia

in the time of Pol Pot is a big war, then they would have a polarization of the forces in Southeast Asia.

**Sneider:** You are saying that the original intention of China was to have a very big war between Vietnam and Cambodia. Now that intention was disrupted. . . .

**Thach:** That's right. But not only in Cambodia, but also on the frontier between Vietnam and China, they began to have border incidents from 1974. In 1974 they invaded the Paracel Islands. They combined in the north and the south to put pressure on us.

If you go back to history, from the 10th century to the 18th century, the Chinese, when they invaded Vietnam 10 times or 11 times, it was always by two directions—one from the north, and one from the south. If you remember, in 1978, the Chinese had proposed an alliance between China and ASEAN. Li Hsien Nien [then Peking's Vice-Premier], when he was in the Philippines, had proposed this kind of alliance—the united front. Indonesia and Malaysia particularly had rejected it.

In 1978 Deng Xiaoping had proposed to be NATO in the East. But these things could not come to reality. They think a big crisis in southeast Asia will oppose ASEAN and Vietnam, a crisis to create the opposition of ASEAN and Vietnam. For instance, in Europe they would like to oppose NATO and the Warsaw Pact. In the world, they would like to oppose the United States and the Soviet Union. And here they would like to oppose ASEAN and Vietnam. Because, from 1976-78, we had many efforts to have cooperation between Vietnam, Laos, and ASEAN. My Prime Minister was touring Southeast Asia. So they would like to defeat these initiatives and to create opposition. If this cooperation between ASEAN and Indochina could be realized, it is very bad for China.

**Sneider:** Look at the situation now. All right, this U.N. conference is a failure. The ASEAN countries, even if they did give in to China at the conference, nonetheless, at least what I perceive, is that there is a gradual movement of ASEAN toward the necessity of negotiations with the Indochinese countries. And if nothing disrupts that movement, then eventually it will reach a certain point.

**Thach:** I agree with you that there are many eventualities. We think that the first eventuality is that the present situation goes on, that means more or less the same as from 1979 up till now. The second eventuality is that if they see, they realize, that the two years of confrontation from 1979 up to now has not been beneficial for them and not beneficial for Vietnam, but more beneficial to China. But even between Vietnam, or Indochina, and ASEAN, who has paid much more? It is ASEAN, not Indochina.

Because you see the situation in Cambodia is improv-

ing. The situation in Vietnam, we have many difficulties, but it is improving, and consolidating. They have many coups d'état there in Thailand. If they see that they are paying much more than the Indochinese; secondly, if they see that the international conference—the commission for negotiation—will not work, our proposal for a regional conference or regional consultations could have some more strength. At least, if they could not accept it for the time being, I think, year by year, this idea of regional negotiations will take force.

**Sneider:** Do you see now a narrowing of the differences between the Indochina position and the ASEAN position? What would you describe as the major points of disagreement between the two?

**Thach:** For Indochina there is no question of negotiation on the withdrawal of Vietnamese forces with ASEAN, because [the presence of] Vietnamese forces [in Cambodia is] linked to the Chinese threat. So there is no negotiation with them. But we can withdraw partially if they stop their help to Pol Pot and the Chinese on the border [with Thailand—D.S.], withdraw partially. I think the main disagreement is on the total withdrawal, but on the partial withdrawal we can talk.

**Sneider:** You mean on the conditions under which that withdrawal would take place?

**Thach:** Yes. And you know I think another problem, which is much more important for both sides, is peace and stability in Southeast Asia. I think in the confrontation now, we paid, they paid, but they paid much more than the Indochinese. It is in the common interest to have peace and stability. That means there is some kind of peaceful co-existence between the two groups of countries in Southeast Asia. But if they don't accept this, we don't mind, because this situation could drag on, and we don't mind whether they accept it or not, whether they accept this kind of solidarity between the three Indochinese states or not, because we exist and they cannot do *anything* to change this situation. That is the main problem—they cannot do anything to change this state of affairs.

**Sneider:** What do you think the Chinese are thinking right now, given that they are watching this process? They can also see into the future, the eventualities that are there. What is their immediate objective?

**Thach:** Their immediate objective is to maintain the confrontation between the two groups of countries.

**Sneider:** How do they do that?

**Thach:** At least if they can gain Thailand, and maintain the supply of arms through Thailand to Pol Pot on the border. At the same time they will put military pressure on the border between Vietnam and China and between



Daniel Snieder/NSIPS

*One of the Friendship Pass military outposts, a few kilometers from the Chinese border.*

Laos and China. And they give them [Thailand, et al.] some illusion that Vietnam cannot endure many years, that within three or five years, Vietnam will collapse.

**Snieder:** I was going to ask you about this question because is not only the Chinese. . . .

**Thach:** But others.

**Snieder:** Specifically Secretary Haig, because he and other officials have said that the U.S. will maintain economic, political, diplomatic, military pressure; Vietnam will be isolated and will have a crisis. What is your response to that view?

**Thach:** You must draw the lessons from these two and a half years, 1979 up to now. What happened? We have difficulties in the economic field; but now the situation has changed a little, in the positive sense. I think it is the opinion of all foreigners here.

Secondly, who has suffered this state of affairs here?

It is not the Vietnamese; not the Cambodians. The Cambodians now are strong enough, and Pol Pot—they say that Pol Pot has about 40,000 soldiers and Pol Pot

can do something very, very noisy during the international conference. But—nothing! During the general elections in Cambodia, they would like to sabotage the elections, but nothing happened. Why is this? These 40,000 soldiers, they could not do anything, because there is no support from the people. Very important.

We are very poor. You can see this in the street. But nobody can say that Vietnam is the most vulnerable country in Southeast Asia. And nobody can say that Thailand is the most stable country in Southeast Asia [laughs]. And thirdly, the difficulties are very big for us, but those difficulties are not the biggest during these 35 years. How can we collapse if it is not the biggest difficulties? We can overcome [them]; it is not the biggest.

I tell you, there was a French journalist who came here and asked me a question: "Your people have suffered 35 years of sacrifice. How long can you force your people to endure more sacrifice?" It is a very intelligent question. I have told him. I personally, if I accept all this sacrifice, I will refuse to have sacrifice only. But sacrifice to gain something—I can accept more sacrifice.

I told him of my visit to my native village, 80 kilometers from Hanoi. My village was very poor during the French domination. The people of my village were well known, because they were the best labor force for the rubber plantations, or for mines etc., because they were very poor. In all the village we had only one brick house; it was the chief of the village. In all the village we had only one bicycle, of the chief of the village.

Now I come back. I see that all houses are of brick. Every family has two or three bicycles. They are people who could not ride bicycles, but they buy the bicycle as furniture in their house. In my country, the bicycle is some criterion for—it is like cars for your country. So I have asked my countrymen in this village, if the Chinese come here, will you fight against them? “Why not? If we don’t fight they will take all these bicycles and destroy all these houses.” These are the fruits of our labor, our fortune.

\* The standard of living in the city is coming down, for the intellectuals; for the people who were working in the former administration, it is coming down. But for myself, I am very lucky, because all my life before, I was only in jail or in the jungle. I am here.

**Sneider:** The question that the French journalist asked you. I must admit that, not in the same sense, this also is in my mind. I am looking around and I can see that life here is hard. . . .

**Thach:** Very hard, in comparison with other countries. In comparison with the past, it is not as hard as in the past; much better than before.

**Sneider:** But, in the recent period in terms of the discussions in your National Assembly and in some talks I’ve had with people here, people admit that there is a problem of motivation of the workers and the peasants.

**Thach:** Right now there is more motivation, before only patriotism and so on, but now we combine the three interests: the interest of the motherland; the interest of the collectivity; the individual interest. There are new measures, for instance, for economic development in the countryside: the piecework system.

Take agricultural cultivation. You have eight main types of work; five are cooperative labor, but three are distributed for personal responsibility. And they will gain more or less if they do good work in these three areas. For instance, irrigation is for the collective, not for the individual; the seeds; the fertilizer; the plowing; pesticides, these five things must be in the care of the collectivity because the individual cannot do it alone. But for the individual—the planting [transplanting]; secondly, the everyday care; thirdly the harvest—these three types of work must be looked after by individuals. The harvest is the last work and the most important. So if the peasants are looking after this work, they put more care,

and they will gain more or less if they put less or more attention. This is the motivation.

Or in the factory, we are now thinking about the same thing. Before we had only the interests of the motherland and the interests of the collectivity. We didn’t care about the work of the individual; now we must look after the work and the interests of the individual too.

**Sneider:** I don’t think that General Haig’s illusions will become reality.

**Thach:** No, never. Illusions are illusions.

**Sneider:** But I can see, in terms of the economic development of Vietnam, that you need some important assistance from outside, particularly large-scale capital goods imports, not the things that you can do yourself, but the technology and so on that you need from the outside. In that sense I can see that the efforts to isolate Vietnam may slow down your progress somewhat.

**Thach:** If you look from one aspect, you can say that it could slow down or delay our development. From the other aspect, it is not right. Because—the blockade of the Soviet Union from 1917 to 1933—it could be used to motivate the population. We say that America, they would like to blockade us, strangle us, so we must make much effort.

Here we can accept a very simple life. For instance, somebody asked me last year: how about the food situation? I had told them we need 18 million tons of rice, but this year we have only 15 million tons (that is last year, this year is a very good harvest). They ask me, how to bridge the gap? I told them, it is very easy. For them it is very difficult, for us it is very easy. Why? We can get 1 million [tons] from the Soviet Union. It left 2 million [tons]. One million, we grow shorter-growing plants, vegetables, potatoes, and so on. It left 1 million. It is very difficult? Tighten the belt.

During the past we were hungry many times. Two and a half million died of starvation during the French time. We have difficulties, but not as during the French time. And this year, we have a good harvest, very fortunate.

**Sneider:** I must ask you another question. Haig and the Chinese (they both speak the same language), they say that Vietnam is acting as an instrument of the Soviet Union; Vietnam only survives because of Soviet aid, and therefore the reason we have to oppose Vietnam is because this is opposition to the Soviet Union. I think recently the Singapore Deputy Prime Minister said the same thing. How do you respond to this?

**Thach:** [Laughs.] Yes, very interesting. We have co-existed with China for at least 4,000 years. And the Chinese have invaded Vietnam 12 times and subjugated Vietnam for 1,000 years before the birth of the Soviet Union

[laughs again].

So it is only a pretext. When the Ming, the Ching dynasties invaded Vietnam—because we have the Soviet Union? No. Secondly, Enver Hoxha of Albania is very critical against the Soviet Union. Why have the Chinese stopped their aid [to Albania]?

This is not the reason. Somebody put another question: “If you are relying on the Soviet Union, be careful. One day they will withdraw their aid, and it will be very difficult.” They don’t know. Because all these 35 years, if there is no Soviet Union, we could not defend our independence vis-à-vis China, the French, the Americans. The Soviet Union has always had trouble with the United States, and now they have trouble with China. And we have the same trouble; we have common interests.

**Sneider:** Isn’t there the danger that Vietnam may become too dependent on the Soviet Union as the only supplier of economic assistance?

**Thach:** If you read the memoirs of Nixon and Kissinger, you will see that when Kissinger and Nixon visited China, China had supported the schemes of Nixon against Vietnam. But when they visited the Soviet Union, they met very hard conditions of Soviet Union supporting Vietnam. It is very clear.

Secondly, who has the biggest concern for, or who has the biggest criticism of, Vietnam having support from the Soviet Union? It is the United States. It is China. It is ASEAN countries, Singapore. And who are these countries? They are always against the independence of Vietnam, and now they are the most concerned about the independence of Vietnam [laughs]!

When the French had invaded Vietnam, they said the French war is to deal with the expansion of communism from China and the Soviet Union because Vietnam is the ally of China and the Soviet Union. American war—the same pretext. Now China: it is very interesting that China uses the same pretext. The thieves crying thief!

When my President, Ho Chi Minh—in September 1954, after the Geneva agreement—when he came to Hanoi, there was some foreign journalist who put a question: “How do you comment on the opinion that Vietnam is a satellite of the Soviet Union and China?” It was in 1954. He declared that it is a silly question. You see this is a point of honor for Vietnam, because we have been fighting for 35 years for our independence. It is not to sell our independence for food or something.

**Sneider:** There is an argument being made now by some journalists who are saying that Haig is wrong, because the result of these policies. . . .

**Thach:** Is to throw Vietnam into the arms of the Soviet Union. This is not true. Before I received you this afternoon, I had received a French journalist. He asked me,

“There are some people in France who don’t believe in your overtures to the West, because you are cooperating in all fields with the Soviet Union. It is only to deceive the West.”

I told them, even the Soviet Union would like to have overtures to the West, even the Soviet Union [laughs].

**Sneider:** I don’t know what expectations you had regarding the Reagan administration. What are your reactions so far?

**Thach:** This question also has been asked to me by many journalists. I would like to tell you: I think he is not as much a hawk as Nixon. Perhaps the most hawkish was Nixon, and Nixon had signed the Paris agreement with Vietnam.

For us, always for the Vietnamese, we always foresee two eventualities. We must prepare for the worst, but hope for the better, and prepare for the worst so we never are caught by surprise.

Some people have asked me about normalization [of relations] with the United States. I have told them that we would like to have normalization, because it is in the interest of Vietnam, in the interest of America, and in the interest of Southeast Asia. But we are prepared to have no normalization, because we have existed 4,000 years without normalization and we can exist some more [laughs], or some thousand years more. Somebody put some further question about Reagan. I have told them we have experience with seven American Presidents, the dovish and the hawkish Presidents. But we hope that President Reagan will not do worse than Johnson and Nixon. I think that they could not do worse than Johnson and Nixon.

**Sneider:** Let’s say relations are normalized between the U.S. and Vietnam. Could you visualize what kind of relations we would have? For example, could you visualize large-scale economic relations between Vietnam and the United States?

**Thach:** I am not very optimistic, because now we think that if the United States would like to develop relations, we are ready, but I think that the United States, they have illusions that we could not exist without their aid or their economic cooperation. That is the problem. So we think that they will use it as leverage against us.

Now, for instance, between Vietnam and France, we have good relations. We have had much more problems in the past with France than with the United States—for 100 years, and with the United States 20 years only.

**Sneider:** I’d like to ask you a historical question which I have been discussing. Why do you think the Chinese did what they did in Cambodia; why do you think 3 million people were killed in Cambodia?

**Thach:** I don’t know if it is really the policy of China to

kill 3 millions of people. But there is one thing which is similar to Cambodia, that is the Great Cultural Revolution [of China]. There were 2 million people killed in China.

**Sneider:** I've heard much higher figures than that.

**Thach:** I've heard 2 million and hundreds of millions. I think the same policy was carried out in Cambodia. But the pupil did worse than the teacher—they are too zealous to show that they are the best pupils.

I think there are things not found in the case of China which are in the case of Cambodia. In Mao Tse-tung's China, he did enjoy great prestige, but in Pol Pot's Cambodia, even before the liberation and after the liberation, they must have the political etiquette of Sihanouk. So they have no political support in Cambodia and their policy is to repress the opposition. They are afraid of their own people. They must evacuate the people from the cities. Why? Because they have no base in the cities. They are afraid that these bases are "CIA," that these bases are "French," or Sihanouk, or Lon Nol.

After evacuation from the cities, they have opposition from within their own ranks, because many of their members or cadre have family in the cities. So, repression, repression. And they had no confidence in the intellectuals. There are no schools, because if there are schools, there is a place for the intellectuals. There are no hospitals, because they have no confidence in the intelligentsia. No pagodas, because they have no confidence in the monks. There is no money, because they are afraid that if there is currency, the CIA could use the currency to buy the people. They changed the address [the locations] of the people, because they are afraid that there is a network of relations, of intelligence, of CIA. So they are afraid of everything. They must disrupt the society, because they are too weak, politically and militarily.

Before, even to liberate Cambodia, they must ask the Vietnamese to come in. We were four times in Cambodia, from 1970-75. The first time was the coup d'état of Lon Nol, the second time was Operation Chelna I of Lon Nol against Pol Pot, in 1970. Nineteen seventy-one was Chelna II. After Chelna II, the Lon Nol forces were concentrated only in the cities but to liberate Phnom Penh in April 1975, they had no heavy artillery. They asked the Chinese to help them. The Chinese refused, because there was an understanding between Mao Tse-tung and Nixon. So they asked the Vietnamese to come in, to bring heavy artillery, so as to help them liberate Phnom Penh.

**Sneider:** You mean they asked the Chinese for help in 1975 and they refused but nonetheless after that? . . .

**Thach:** After that because these people, the Pol Potists, they were afraid, they were weak. They were afraid of the impact of the revolution in Vietnam and Laos within their ranks. They were evacuating the cities, but in

Vietnam we did not have evacuation of the cities. They have repressed the intelligentsia, but in Vietnam, the intelligentsia is there. They disbanded the market, but in Vietnam and Laos we have markets. In Cambodia they had destroyed all the pagodas, but here and in Laos they are permitted. They had destroyed the currency, but here, there [Laos], there is currency.

Pol Pot wanted to create tension on the border, to create chauvinist hate to unite their people. The Chinese tried to use this chauvinism, these weaknesses of Pol Pot, against us.

**Sneider:** In Southeast Asia now, you've referenced the instability of the Thai situation, and there is also a new government in Malaysia. I'd like to ask you about both those situations. In Thailand, there seems to be some tension around the question of whether they will continue their policy of alliance with the Chinese and Pol Pot. I don't know for sure, but I suspect that former Premier General Kriangsak's candidacy is involved in some way in this question. Do you see a possibility of a change in the Thai situation, in the Thai attitude?

**Thach:** There are some rumors, some information that Kriangsak has some hope to take power. I think that if Prem is in place, this policy of confronting Vietnam and Indochina—if they succeed they will go on, but if it is too costly for them, they must change. And you know Kriangsak, when he was in power, he helped Pol Pot in the beginning. I think now he realizes that if this policy is not working, and if it is not working but the two countries continue this, then there will be problems.

For the Vietnamese, if this situation drags on, we can continue. And if the situation is improving, it is very good. But if the situation is worsening, for example a "second lesson" from China, we are prepared. Now we are better prepared than before, than the "first lesson," when we were not well prepared, but we could still defeat the Chinese [laughs].

**Sneider:** On the Malaysian situation, there a new government, and the people who are in the new government like the Prime Minister, the Deputy Prime Minister, and the new Foreign Minister, your counterpart—they all have reputations of being very strong Malay nationalists and having, let us say, a healthy suspicion of the Chinese. Do you think there could be an improvement in Vietnam's relations with this new government?

**Thach:** I think that as long as ASEAN makes a front against us, they will not improve bilateral relations. I think they will continue to support Thai policy.

**Sneider:** So the key is Thailand?

**Thach:** The key is Thailand, and the key is whether they succeed or fail in the confrontation policy. The key is this, not Thailand only.

## A fight among Social Democrats

*Willy Brandt would like to see the SPD a house divided, by means of the "peace movement" riots.*

While hundreds of smashed windows, plundering, and public violence in nearly all of West Germany's big cities remind many of the older citizens of the rampant Nazi movement at the end of the Weimar Republic, a handful of courageous politicians, led by the Chancellor himself, has taken steps against the spread of rioting that goes under the guise of "the new social movement."

Both Helmut Schmidt and one of his closest allies in the SPD, Holger Börner, the Social Democratic Governor of the powerful state of Hesse, have addressed two major causes of these riots: the deteriorating economic situation and the fact that the riots are being used against Schmidt.

Facing increasing problems with the "peace movement," which works into the rather unstable situation in the Social Democratic Party (SPD) and undermines Schmidt's public image, Schmidt wrote to SPD Chairman Willy Brandt on Sept. 16, addressing the need to discipline the party's discussions about the "peace issue." Schmidt drew a direct line from the Berlin riots against U.S. Secretary of State Haig, through the following series of terrorist attacks on U.S. military officers and facilities, to the Bonn demonstration against NATO on Oct. 10 that is planned to assemble more than 100,000. SPD Chairman Brandt, whose sympathies for the "peace movement" are not con-

cealed, failed to rule that no Social Democrat, and especially no leading member of that party, may participate in the Bonn demonstration; a deep split and open controversy followed between the Chancellor and the SPD Chairman.

The Schmidt faction of the SPD, known as the *Kanalarbeiter*, has called for application of the party's incompatibility regulations against members who join the demonstration. In a widely publicized statement, Peter Corterion, Undersecretary of State in Bonn's Foreign Ministry, has characterized the demonstration as "an undisguised effort to stab the Chancellor and his government policy in the back." The Brandt wing's endorsement of most of the recent—and mostly violent—demonstrations has led many party members to demand that Brandt resign his post.

The Chancellor himself, as if to underline his political position, met with the chairman of the police trade union on Oct. 6 to assure him of the government's and the nation's support for the very difficult task of the police.

Holger Börner faces similar problems with the environmentalist protest against such industrial projects as the construction of a third runway for Frankfurt's international airport. It was Börner who, in an interview with the weekly *Der Spiegel*, first termed the radical environmentalists as "tendentally fascist"—a notion that has since

been expressed by most of the trade unions here, whose offices were ransacked by rampaging youth.

Börner, who had previously blamed recessionist policies as the main cause for the urban riots that shook Britain this spring, has added an attack on monetarist policies, in a speech he gave at the Hesse state SPD convention on past errors. Stressing that his own policy is one of industrial jobs, he said, "What is being practiced as an alternative economic model in England or in the United States at present, I would not wish to be practiced here in our country." He said that he considered it "intolerable cynicism if millions of human beings are made, as happens there, victims of a few scientists who try to apply to living beings economic theories they invented on their drawing boards. Not even Wall Street believes in the application of this American policy."

Börner asserted that a policy of "planned recessions" would inevitably lead to more unemployment and the growing susceptibility of people to "strongman propaganda" and toleration of political violence—as West Germany has begun to experience it in the form of youth riots thinly disguised as "peace movement" demonstrations. Instead, Börner proposed a policy of social stability and détente as the best way to secure industrial jobs and exports and, thereby, public wealth.

Börner and Schmidt, aware that they do not have the support of the Socialist International and its Chairman, Willy Brandt, have stated they intend to hold town meetings to gain public support for their policy among the "silent majority" of West German citizens.



## Where left and right opposition meets

*The presidential campaign is fast getting under way here, with an unusual new entry: Solidarism.*

The next eight months will see some of the most intense politicking in the recent history of the country. The Political Reform, which was put through in 1978, is for the first time operative in a presidential election. This means that in addition to the governing PRI party and its traditional rival, the PAN, there will be six other parties with legal registration in the lists, all with guaranteed access to the press and campaign financing in part subsidized by the government itself.

In 1976, current President López Portillo faced a very different situation. No legal party fielded a rival candidate. The only avowed opposition was a Mexican Communist Party (PCM) candidate who was not on the official ballot.

Each of the parties in this election's new ballgame will be scrambling to get enough votes to stay above a stipulated minimum for continued registration: the Political Reform giveth and taketh away. How are they going to carve a place for themselves?

The main thrust from the left is to attack the state oil company, Pemex, and the industrialization its revenues are financing. Redistributionism is the watchword, and the chief focus, the backward peasant and Indian areas of the country where much of the oil development is taking place.

The situation has an unusual twist for the PRI in dealing with its traditional challenger from the

right. This is the National Action Party (PAN), which is unveiling a long-gestating approach designed to unite warring internal factions: Solidarism. (That's right, as in Poland.)

Pablo Emilio Madero, the PAN presidential candidate, declared a few days ago that the party identifies itself with Solidarism in "the search for the common good," and that the party's principal theses are based on economic redistributionism and the abolition of state involvement in the economy.

Now the most interesting thing about this process of a right-wing party picking up a pseudo-leftist profile, is that it coincides completely with the campaign of the supposed "enemy," the ultra-left itself. The PRT (a Trotskyist grouplet with registration) has openly endorsed Solidarism as the "only alternative." Not to mention the PCM, which has been extravagantly promoting Polish Solidarism in the pages of its publications.

For those familiar with the history of the opposition, both left and right, it's not surprising to discover that both Efraim González Morfín (son of a founder of the PAN) and Porfirio Miranda, former Jesuit, defender of the Theology of Liberation, and one of the most important visible controllers of the PCM, were both prominent students of Oswald von Nell-Breuning, the leading ideologue of Solidarism in Europe today. What's more, González

Morfín was the first to introduce the ideas of Nell-Breuning to Mexico, translating the bulk of his writings.

The Coalition of the Left—an umbrella shielding four unregistered sectlets together with the PCM—is moving toward selecting Heberto Castillo of the Mexican Workers Party (PMT) as their stand-bearer. Castillo has been built up in the media as the "major opposition figure" to the industrialization effort. He is known here as "the Ayatollah."

The Socialist Workers Party (PST), formerly viewed as a left extension of the PRI, has factionalized completely and just launched an ultra-leftist candidate from one of the regions slated for major oil and agricultural development, the Huasteca. To obtain the required number of votes, the PST will have to concentrate on maximum confrontation between the party's declining peasant base and the state.

For its part the Trotskyist PRT is promoting the candidacy of a Mrs. Ibarra de Piedra, of renown for shielding terrorist networks under a "human rights" cloak. The Mexican Democratic Party (PDM), a right-wing party with links to the old Cristero apparatus of the center-west of the country, is also fielding a candidate.

The thing that worries some people here is that in this reshuffled electoral deck, the card every opposition party threatens to play, even if it doesn't say so, is violence. The Southeast and the Huasteca are the most prominent of several areas nurtured as laboratories of conflict with the state. Now, with "Solidarist" theses as the common denominator of all, "electoral balkanization" is the scenario in play.

# International Intelligence

## ***Genscher's plan backed by Peking and Paris***

Visiting the People's Republic of China, where he endorsed Peking's policy of brute-force depopulation, the West German Foreign Minister Hans-Dietrich Genscher, received support Oct. 7 from the Chinese leadership for his proposal for a European political union as a counterweight to the Soviet bloc.

Genscher, a leader of the liberal Free Democratic Party, which is Helmut Schmidt's antagonistic coalition partner, has recommended that Western Europe's foreign and defense policies become the prerogative of the British-dominated European Council.

Support for Genscher's proposal also came from neo-Gaullist leader Jacques Chirac, the Mayor of Paris, who gave a press conference emphasizing his enthusiasm for both the Genscher pan-European proposal and for Socialist Prime Minister Pierre Mauroy's plan for a tightly supranational European military system.

## ***Thai faction wants to end support for Pol Pot***

Thailand's strident opposition to Vietnam and its armed support of the Khmer Rouge and other rebel groups in Kampuchea may be ended if former Prime Minister General Kriangsak Chamanan returns to power, as many observers believe he will.

A Kriangsak supporter, former Foreign Minister Bhichai Rattakul, told the press, "The threat to Thailand will die away when Vietnam pulls its troops out of Kampuchea. I believe Vietnam will do that if Thailand stops helping the Khmer Rouge and other anti-Vietnamese resistance groups."

Kriangsak himself told the press that the Indochinese and Southeast Asian countries grouped in the Association of South East Asian Nations should meet to

resolve the Kampuchea issue, rather than holding a broader international conference. Kriangsak's statement is in line with Vietnamese proposals for negotiations.

A recent article by the Kampuchean press service SPK reports without mentioning specific individuals that "there are some important Thai personalities who . . . have advised Thailand to adopt a more realistic policy. Certain government circles in Japan and Western Europe are also being drawn to the truth."

Kriangsak, Prime Minister from 1977-80 until parliamentarily ousted in 1980 by the current Prime Minister, Prem, is regarded as pro-American. Reliable Asian sources have told *EIR* that Japanese industrialists are aiding Kriangsak's attempt to return to power.

## ***French nuclear program to be slashed***

After two days of debates, the Socialist Party-dominated French National Assembly Oct. 8 voted up the government's program for slashing the nation's nuclear program, once the world's most ambitious.

The plan is to reduce the number of nuclear plants to be started in 1982-83 from the nine planned by the Giscard government to six, in terms of megawatts a reduction of more than 33 percent. The government also reversed its July freeze on construction of five nuclear plants, but relegated final decision to the local authorities. After the June legislative elections, "local authorities" increasingly means Socialist-dominated bodies.

The freeze had provoked a series of demonstrations and strikes by labor unions and others in the affected areas. Of the committees created to pressure the government into fulfilling construction schedules of all plants, the "Committee to Save Cattenom," in the industrial Lorraine region, has become one of the most effective. Founded by the local organizations of the Young Giscardians, the European Labor Party, and the French

branch of the Fusion Energy Foundation, the committee announced Oct. 8 that it will become a nationwide organization.

## ***D. K. Ludwig saved from the piranhas***

Jari, the empire carved out of the Amazon jungle by maverick billionaire Daniel K. Ludwig, has eluded bankruptcy, at least for the moment. Jari's management announced in July that it would default on the \$20 million payment due on its government-guaranteed loan from Japan for its huge paper pulp plant.

Ludwig's people blamed their problems not merely on depressed paper pulp prices, but on the Brazilian government, with which they have been in running battle for several years.

Ludwig wrote an open letter last year to President João Figueiredo's quondam chief adviser and decision-maker, General Golbery, blaming him for the regime's refusal to bail out the sagging Jari project or even permit the sale of the immense resources it controls in an Amazon area the size of Belgium to Alcoa, Arco and other multinationals.

Golbery checked every move by the obsessively secretive Ludwig because nationalist concerns persisted with the Brazilian military and bureaucracy about a foreigner's exerting de facto sovereignty over such a mammoth enclave in the Amazon. Their suspicions were compounded by the aged Ludwig's willing the property to his obscure Swiss "cancer foundation."

The logjam on Ludwig's bailout requests broke up in early August, at the same time that Golbery was forced out of his super-powerful position. The Brazilian press reported that the government secretly lent Augusto Azevedo de Antunes, Ludwig's long-time Brazilian front man, \$35 million to pass on to Ludwig. Sales of bauxite deposits were approved, and Brazil picked up the tab for running Jari's impressive company town.

Antunes de Azevedo is chairman of CAEMI, a mining and trading house group tightly tied to European oligarchic centers such as Genoa and Brussels. According to the London-based *Latin America Regional Reports*, CAEMI is funding the efforts of General Octavio Medeiros, the powerful head of Brazil's intelligence agency, to put himself into the presidency.

Medeiros was hostile to Golbery's efforts to judiciously phase in civilian rule to replace Brazil's increasingly fragile military dictatorship. Medeiros ran the coup against Golbery. Are D. K. Ludwig and the Mossad-trained General Medeiros on the same team?

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### ***Anti-pesticide campaign prelude to global EPA?***

The airing Oct. 5 and 7 of a documentary, "Pills, Pesticides and Profits: The International Trade in Toxic Substances," on U.S. public television signals a new campaign to establish what would in effect be a supranational Environmental Protection Agency.

Dr. Lee Talbott, director of the Switzerland-based International Union for the Conservation of Nature and Natural Resources, the arch-environmentalist organization of the World Wildlife Fund, opened and closed the first installment on pesticides.

The TV special targeted DDT and a range of other chemicals successfully smeared by the environmentalists and banned or restricted in the U.S., and stressed the urgency of international action with the argument that these banned substances are coming back into the United States in imported agricultural products.

John Wier, co-author of a recent diatribe on the same subject, titled *Circle of Poison*, played a prominent role in the film. Wier is a former editor of *Rolling Stone* magazine.

His interest in the "export of hazardous substances" coincided with the 1976 U.S. government paraquat program to

wipe out marijuana cultivation in Mexico. Wier led the effort to prevent the export of 2,4,5-T and other herbicides effective against marijuana to Colombia.

The PBS television documentary will be followed by publication of a new book with the same title, written by several senior staffers of the Natural Resources Defense Council; it also coincides with a similar campaign launched in the United Nations.

The anti-chemical activists hope to revive the Hazardous Substances Export Control Policy that former President Carter had made into law by executive order several days before he left office. That mandate for an international anti-chemical propaganda network under the aegis of the U.S. State Department, was rescinded by President Reagan soon after he took office.

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### ***Suzuki questions anti-Soviet policies***

Japanese Prime Minister Zenko Suzuki has commissioned a Japanese think tank report assembling the evidence that the Soviet Union is not a threat to Japan. According to Kyodo news service, "Suzuki believes the Soviet Union poses no threat to Japan's security because of its political instability and poor economic performance." He has asked the Japan Institute of International Affairs to study the Soviet Union "in an attempt to give substance to his view." The study group, to be headed by Keio University Professor Hiroshi Kato, will include Makoto Momoi, chief researcher of the Defense Institute of the Japan Defense Agency, as well as other academics and other officials from the Defense and Foreign Ministries.

Suzuki believes it would cause political problems within the ruling Liberal-Democratic Party (LDP) as well as a diplomatic problem with Washington for him to give direct public vent to his views. "Thus, Suzuki is trying to have a private think tank make a similar remark," sources cited by Kyodo explained.

## Briefly

● **JAPAN** announced Oct. 8 that it is considering an Egyptian request to roughly triple its economic development aid to Egypt, now to total \$400 million in the next six months for food, agricultural development, and technical assistance. \$250 million over four years may also be provided for Suez Canal improvements. The Tokyo government has stated that "what Egypt needs to remain stable is economic aid." An \$800 million integrated steel complex is under way in Egypt under Japanese auspices.

● **KOREAN** nuclear energy cooperation with Japan may be in the offing, if Mitsubishi Heavy Industries (MHI) accepts the request from South Korea's government-controlled Korea Heavy Industry and Construction Company for comprehensive technical cooperation in nuclear power generation. Japan's *Nihon Keizai Shimbun* reports that MHI is receptive to the idea.

● **MEXICO** formally opened bidding Oct. 5 for the next stage of its nuclear reactor program, two plants with combined 2300 megawatts. Six companies are in the running, one each from France, West Germany, Sweden, and Canada, and two from the U.S., Westinghouse and GE. Sources at Mexico's Federal Electricity Commission indicate that the U.S. firms have a significant shot at the contracts.

● **EDWARD HEATH** and his Tory cofactioners Ian Gilmour and Geoffrey Ripon are promoting a "recovery program" for Britain and the European Community designed to include the U.K. in the European Monetary System within an "independent Europe," and to link their Tory group with Britain's new Social Democratic Party/Liberal alliance.

# Bold moves required from the Reagan administration

by Richard Cohen and Lonnie Wolfe

For the Reagan White House, the proverbial chickens are coming home to roost. After several months of puffed-up self-confidence, the administration finds itself confronted with acute policy crises which gained momentum while they pounded their chest. And as they scramble to respond, official Washington seems more, not less, a morass of back-room deals and petty partisanship. The crisis is in truth deeper than the worst fears of the most serious government executives.

On Oct. 6, the Reagan White House was confronted with its gravest foreign-policy decisions to date by the assassination of President Anwar Sadat of Egypt. White House sources report that the President was "deeply angered" by the assassination, focusing this anger on suspicions of Israeli involvement. Reagan, by all indications, has correctly assessed that U.S. national security interests require immediate moves to shore up the new government in Egypt, as well as Saudi Arabia. Thus far, through public statements by administration officials and the President himself, no holds have been barred to convey confidence in the Egyptian government.

Yet the single most important feature of any stabilization package must be the passage of the AWACS sale to Saudi Arabia, and that remains in question. The Sadat assassination has invigorated administration efforts to swing Senate votes. With the House given up for lost, the President and his top aides are concentrating their firepower on the Senate (the measure passes unless both houses defeat it). Reagan pulled a group of 43 GOP Senators into the White House on Oct. 7, and told them that his ability to conduct foreign policy in the Middle

East and for that matter anywhere, hinged on passage of the AWACS sale. These efforts were not without effect; eight GOP Senators, some undecided and others sponsors of the Packwood anti-AWACS letter, announced their intention to vote with their President.

By Oct. 9, however, White House vote-counters were still privately talking about 52 to 55 Senators still committed to, or leaning toward, a vote against the package—enough to defeat the President. The administration hopes to take advantage of the momentum caused by the President's call for support in wake of the Sadat assassination. But the White House is starting late; it has treaded lightly on the Israeli lobby and its supporters out to sabotage the effort, including administration officials like Alexander Haig, and its prospects for success must be labeled dubious.

Nor has the White House truly fathomed the nature of the beast arrayed against it. The strange Senator Bob Packwood (R-Ore.), the leader of the anti-AWACS grouping who so bumptiously denounced the President at the private White House meeting, is among the key individuals in the population reduction lobby in Congress—an active member, along with the other anti-AWACS leader, Democrat Alan Cranston of California, of the Draper Fund, the inner-core depopulation strategy group. The White House has yet to ask itself what is the commonality of interest between the Draper Fund and the Zionist lobby in promoting a destabilization of Saudi Arabia and blowing up the Middle East.

And though the Reagan White House was caught off guard by the Sadat assassination, it was given ample

evidence of a grave pending destabilization of the region—a point emphasized during private discussions between the administration and Egyptian Vice-President Mubarak during the latter's visit to Washington just before Sadat's murder. Mubarak was carrying urgent messages from Sadat himself warning of Libyan efforts to blow up the region and requesting additional U.S. support. When a review is finally made of the last few weeks' developments, the Reagan White House will be forced to examine its own failure to act, and act decisively, when the handwriting was on the wall. The White House, and its top advisers, chose to wish away reality, then found that reality has a way of reasserting itself.

If Reagan is to recoup the situation on the AWACS and move to calm the crisis, it will require bolder action than he has taken so far. Some of his advisers are counseling him to do what he does best, take the issue to the American people in a television address before the vote; as of Oct. 10, no address was planned.

### **Congress and the White House**

Reagan confronts a domestic crisis of parallel proportions. After months of proud statements about the wonders of his economic program, Reagan's subservience to Federal Reserve Chairman Paul Volcker's interest-rate policies leaves the economy in a state of what is increasingly appearing to American business and the public at large as permanent disaster.

On the Volcker question especially, Congress has displayed a gutlessness and stupidity equal only to that of the White House. The Democratic Party's congressional leadership is running what amounts to a protection racket for Volcker. Meeting in Senate Minority Leader Robert Byrd's home state of West Virginia over the weekend of Oct. 3-4, the 41 Senate Democrats—those left over from the Senate majority, which paid for Jimmy Carter's support of Mr. Volcker—decided to do nothing effective against the Federal Reserve. Agreeing that Senate Democrats should be allowed to wait against high interest rates, the body rejected any serious moves to bring them down. Their argument, as *EIR* has reported: an effective attack on Volcker will bail out President Reagan, and we wouldn't want to do that. Instead, in a fit of partisanship, under the leadership of California banker Charles Manatt, they are prepared to let their constituents suffer the snowballing results of the Volcker policy. That reinforced decision was transmitted onto the floor of the Senate the week before the Columbus Day recess, as a series of Democratic Senators spun rhetorical flourishes against the interest-rate policy, without either naming Paul Volcker or proposing an alternative policy. The Democratic leadership continues to sit on resolutions sponsored by Sen. John Melcher (D-Mont.) that could open the way to bringing down interest rates. This disgraceful retreat under the

banner of partisanship has carried over into what passes for a debate on defense policy. At their West Virginia get-together, the Democrats decided that they would attack Mr. Reagan's feeble Oct. 2 strategic arms proposal most loudly and from all directions; but, no thank you, they would not offer any alternative of their own. And even the most serious of the critics of Reagan's defense program, like Senate Armed Services Committee Chairman John Tower (R-Tex.) and House Armed Services Committee Chairman Mel Price (D-Ill.), have failed to ask publicly how it is possible to have any strategic program at all so long as Volcker is in control of the economy. The defense debate is now nothing more than finger-pointing, a self-serving game.

What next? The President and his top advisers, even if they know little about economics, understand that a deep slump is bad, even devastating, politics. One source close to the White House told me that the White House believes that unless the President's tax cut and budget policies bring recognizable results in curbing inflation and bringing down interest rates, he faces "irrevocable Carterization" at home and abroad.

It is now widely agreed, not least within some top White House circles, that the \$16 billion budget and tax proposals have no chance of passing the Congress. Reagan instead announced that he will veto what he terms budget-busting appropriation bills; the House immediately brought this to a test by passing a health, education, welfare, labor allocation for the so-called safety net programs that was a full \$4 billion above administration specifications.

Sources report that the White House is beginning to examine figures that show the economy to be a worse nightmare than anyone in top circles had dared tell the President. With their political life on the line, as well as his ability to govern, it is just beginning to dawn on the White House that its high interest-rate and budget-cut policy may not only not work, but will become a political albatross around their necks. Some circles say Reagan's people are privately telling Volcker to ease up before his policies blow into a deep recession. Treasury Secretary Donald Regan, in an interview with the *Washington Post*, floated a bit of public jawboning against Volcker. The Fed Chairman in turn told his critics once more to go to hell. By Oct. 9, White House spokesman James Baker stated to the press that the administration had not changed its support of past Fed policy.

It is all still very tentative. The administration right now lacks the courage to attack Volcker and his policy, though they may recognize its political damage; yet one thing is certain. The price for continued timorousness, is very high indeed. The United States has lost an allied leader, may lose others, and may sacrifice the entire U.S. economy.

# Caspar Weinberger's defense package: neocolonial warfare in strategic garb

by Steven Bardwell, Military Editor

The first year of the Reagan administration has seen the most intense debate in 20 years over military strategy. With the announcement of proposed budget cuts by Secretary of Defense Weinberger and the President's Oct. 2 military policy statement, the Reagan administration, which entered office with the promise of a revision of the disastrous, self-defeating military policy of the preceding several administrations, has put itself firmly on the side of the policy explicitly described in the Carter administration's *Global 2000 Report*: a strategic policy setting the nation on a course whose successful completion would guarantee the destruction of the United States.

In the recent debate over U.S. military deployments, the most fundamental question has been implicitly answered in common by both sides of the debate. For both the "Team B" hawks, like Richard Burt or Richard Pipes, and the doves like Fred Iklé and Cyrus Vance, the Malthusian premises and genocidal conclusions of the *Global 2000 Report* are the starting point for military deliberations. The tendencies in the Reagan administration which earlier this year threatened to break the unspoken terms of this debate, seem now, with Weinberger's and Reagan's most recent statements, to have been effectively silenced.

The basis for any military debate must be a definition of the *goal* of a nation's war-fighting capability. This statement of objectives had been largely unspoken until the *Global 2000 Report* provided a lengthy justification of the policies that had, in fact, dominated to a greater and greater extent U.S. military policy since the late 1950s. It is worth noting, however, that the military argument for this Malthusian policy was enunciated in 1960 by James Schlesinger, who, when he became Secretary of Defense under Gerald Ford, inherited a DOD already primed with almost 15 years of the policy. He summarized in his book *The Political Economy of National Security* the underpinnings of what is now the mission of the U.S. military:

We have gone around the world spreading the "gospel of plenty," raising the level of expectations. In the nature of things, these rising expectations can never be satisfied. Despite the modification of the original Malthusian dogma over the years, the danger remains that excessive growth of population will wipe out the gains of economic

progress. Any economic revolution will be shortly wiped out by a Malthusian counter-revolution and the illusion of growth. It is unwise to overstate the importance of economic growth per se.

We must in our strategic policy return to the days before the Industrial Revolution [and] prepare to fight limited wars. Higher Soviet industrial development rates than attained in our production will have very little strategic significance. The industrial mobilization base is only one of several gauges of power. A strategic menace may be based upon a rather modest economic structure. We must build our military force on the exact opposite of the industrial potential notion.

The logic of Schlesinger's doctrine is terrifyingly simple: each nation must fight for resources obtained at someone else's expense. Since more people consume more resources, every country except our own is, again of logical necessity, overpopulated relative to our security needs. Thus, the twofold mission of the military becomes control of natural resources and regulation of population growth. That is, the strategic mission of the U.S. military, as defined by these strategists is *not* confrontation or containment of the Soviet Union or other enemies, but rather the maintenance of regional hegemony in actually or allegedly resource-critical areas like southern Africa and the Middle East, and the determination of demographic dynamics in highly populated areas like Southeast Asia and Latin America.

This policy has been argued for in some of its particulars in the "military posture" statements of the most recent Secretaries of Defense, but no one has stated it so clearly as Caspar Weinberger in his statement to Congress this spring, in his lengthy description of the Rapid Deployment Force and necessity for the United States to maintain geopolitical control over areas critical to U.S. national security—a security that he defined as based on resource control. The *Global 2000 Report*, and the military documents based on it (see *Military Review*, August 1981, "Military Implications of Global 2000") have made explicit the population control aspect of this policy. They state that uncontrolled population growth is the primary determinant of international instability, and that, as a result, control of already "overpopulated" areas (specifically Central America) is essential to U.S. security. This control must prevent emigration of improv-

erished populations to the United States, and institute measures to prevent "overpopulation." The means to this end are explicitly stated to range from contraception to civil war, starvation, and plague.

Perhaps the most damning indication that the Reagan administration has adopted this strategic conception is provided in the internal evidence from the recent policy statements by the President at his Oct. 2 news conference. The President noted proudly that his restructured "strategy for deterrence"—his plans for an MX missile, the B-1 bomber, new submarines, and new communications systems—will consume only 15 percent of the U.S. military budget in the 1980s, compared with more than 20 percent spent on strategic defense during the 1960s. The changed structure of the military budget does not in fact reflect Reagan's frugality, but rather of the new strategic mission of the armed forces. It is to be carried out not by ICBM forces or long-range bombers, but by the Rapid Deployment Force, by highly-armed, highly mobile conventional forces capable of fighting limited wars in the Third World—the "regional wars" of which Weinberger and Schlesinger are so fond.

### What kind of war?

The contrast between this mission and the traditional American armed forces' mission could not be more striking: starting with George Washington, Sylvanus Thayer at West Point, and Abraham Lincoln, through Douglas MacArthur, the mission of the U.S. military has been *nation-building*. Starting from a commitment to economic growth and industrial development, the military's role as an arm of that policy was first, to destroy the enemy with all available means (specifically, to deny the enemy the means of continued resistance and political power), and second, to rebuild the defeated country with the most advanced means possible. As many military men have noted, the American army was a force of engineers, whose success was measured in terms of deployment for reconstruction rather than destruction.

In the past two decades, this historic mission has been displaced by a "colonial" policy of control rather than construction. Even the Table of Organization of the U.S. Armed Forces shows the change. It used to prescribe a fifth captain for each brigade, whose responsibility was to advise the battalion commander on civil affairs. This position is now almost non-existent, and the Army Civil Affairs School, long located at Fort Gordon, Georgia, has been phased out, its responsibilities now borne by the army reserve!

All the military policies which Weinberger and Reagan described flow from this Malthusian mission of the U.S. military. In any other context, the planned deployment of the MX missile, the fantastic array of *Wunderwaffen* (the cruise missile, for example), the almost total avoidance of crucial R&D, and the refusal

to consider advanced systems like the various beam weapons—in any other context these policies would be explicable only as the acts of madmen or secret KGB agents. But if the mission of the U.S. military is limited conventional wars for resource and population control, all this becomes, if not brilliant military thinking, at least self-consistent.

The kind of war that becomes winnable and thinkable is a regional war, fought either with U.S. forces or with what these strategists call "proxy forces," known in less polite circles as mercenaries. Whether the specific strategist in question is willing to admit it or not, general nuclear war is *unthinkable* and *unwinnable*. The Pentagon has, according to a recent wire story, officially removed the very term from its list of accredited military terminology! Without a commitment to civil defense, in-depth defense production, and the most advanced scientific research in space exploration and high-energy plasma physics, no military man can seriously consider all-out nuclear war with an adversary who does have such a commitment. To argue otherwise, as Richard Pipes or Richard Burt do, is bravado of the ugliest sort.

The traditional American military doctrine, by contrast, has held that any war worth fighting must be pursued with all appropriate means at hand. The idea of a limited war was internally contradictory. This policy recognized that any means in the pursuit of economic and industrial development was justified, as long as that means did not itself preclude economic development after the war's conclusion.

In the Malthusian doctrine, since the aim of war is to protect American hegemony and prevent industrialization, then "victory" involves neither the conquest of an enemy's political power nor the imposition of American objectives of political stability and economic growth. In fact, as several military analysts have noted, the outcome of the Vietnam war in Southeast Asia was a victory for the Maxwell Taylor conception of war. The development of Vietnam and Laos was set back several decades by the wanton (and admittedly unnecessary) policies of indiscriminate bombing. The American-Chinese alliance installed the most effective population control policies in Cambodia, where the American-supported faction of the Khmer Rouge took power. The result was the reduction of consumption of resources by the population of that area by several orders of magnitude for many decades.

### The Malthusian order of battle

In the traditional American system, the infantry played the central role, since that was the only "system" that could, in the end, win a war. The enemy's territory had to be occupied (or be capable of being occupied), the reconstruction process begun, and new political power established. The peace had to be won. Infantry

with logistical support was the foundation of the order of battle, and all other deployments essentially played support roles for this infantry: the air forces provided long-range artillery and enhanced logistical capabilities (but *not* an independent strategic capacity); the navy expanded the transport and communications capabilities of this infantry; armor was a new sort of cavalry for this infantry. The advent of the ICBM and strategic nuclear weapons did not change this doctrine in any essential way. Nuclear war is neither more unthinkable nor unwinnable than any previous kind of war, and it will be won or lost on the basis of an infantry-based order of battle.

However, the advent of nuclear weapons did highlight what was always the most fundamental aspect of the logistics: the industrial, technological, and scientific base. The source of war materiel, the resupply capabilities, the reservoir of skilled manpower, and the constant revolution of the ways and means of war depend almost exclusively on a nation's industrial and scientific abilities.

Weinberger's order of battle is instead based on an enhanced capability for neo-colonial war-fighting. Thus, the primary mission is his Rapid Deployment Force, which requires only a relatively small, highly mobile conventional force. The fact that this force is prepared to use theater nuclear weapons is militarily irrelevant, since this order of battle has removed strategic nuclear war from its lexicon. On this basis Reagan can enunciate what he mistakenly calls the country's strategic deployment.

1) The proposed MX missile development is absurd if its aim is to deploy a modern ICBM force. The hardening of silos, as Reagan himself pointed out in answer to a question at his Oct. 2 press conference, provides a significantly enhanced survivability for these missiles for at best several years. Furthermore, as so many observers have noted, the hardening of silos is irrelevant, since these missiles will have been launched before the Soviet missiles have a chance to hit them.

The need for a more powerful, more accurate missile like the MX is indisputable; but the deployment of that missile as proposed by Reagan, in such small numbers and in such an absurd basing, shows that this deployment is actually determined by a *psychological bluff* against the Soviet Union—actual nuclear war will not be fought by the United States, this doctrine explains, since our principal problem is resource and population control in the Third World, we need these weapons only to deter the Soviets from using their nuclear weapons. Therefore, as Maxwell Taylor argues, we in fact have enough nuclear weapons right now—any increase is purely for psychological effect—to demonstrate our determination, or, as Reagan argued in his speech, to use for tradeoffs in arms negotiations.

2) The development of the B-1 bomber and following it the "stealth" bomber is likewise strategically insignificant in a period when totally new strategic weapons are on the verge of development. The fact that both bombers are almost certain to be extravagant white elephants, technologically obsolete or irrelevant by the time they are produced, does not, in itself, argue against their development. However, the fact they are touted as a strategic capability reflects the attempt to project a Schlesingerian "aura of power."

### The post-R&D era

Most telling is the role given to advanced technology in both Reagan's and Weinberger's statements. Reagan's policy statement on the U.S. strategic position never mentioned advanced R&D. After a nod in the direction of advanced ABM systems, Reagan elaborates a plan whose significance is correctly stated: "The Reagan program will determine, to a large extent, U.S. strategic capabilities into the next century. Not since the Eisenhower years has an administration proposed a nuclear program of such breadth and scope." Yet this program does not mention what almost all military planners agree will be the determining technologies already by the mid-to-late 1980s, directed energy beam weapons. That family of lasers, ion beams and microwave sources has the proven capability to not only destroy aircraft with unrivaled efficiency, but also effectively neutralize ICBMs. The result is a total *change in the significance of all present weapons*, most especially the strategic nuclear forces on which Reagan's program concentrates.

These weapons will be deployed by the Soviet Union in the next several years: yet the core of the Weinberger military program is the destruction of advanced research and development. In the message Weinberger sent to Congress in late September, he elaborated the cuts deemed sustainable in the defense budget. These included, besides significant decreases in conventional forces, a \$2 billion cut in the \$9 billion Navy R&D program and a corresponding cut for the Air Force and Army. The R&D program is *already* less than 10 percent actual R&D (the rest being engineering enhancements on existing weapons, a quantity which scales almost directly with the size of the procurement budget and so is grossly overstated in Weinberger's military buildup budget).

Senator John Tower's assessment is very apt: "The program is far less powerful than was implied by the original Reagan defense budget request, and I am not at all sure that the President's program is as capable as that which was projected at the end of the Carter administration." Both administrations shared a commitment to the Global 2000 military doctrine; Weinberger is merely one year closer to its final implementation.



## The CFR's population specialist calls economic hardship the best weapon

Phyllis T. Piotrow, considered by many the leading population expert among New York Council on Foreign Relations circles, recently spelled out the ultimate connection between the depression-producing economic policies of the CFR grouping and its advocacy of population reduction.

In an Oct. 2 interview obtained by *EIR*, Piotrow states that she fully expects world economic conditions to worsen, and that these worsening conditions *will raise mortality rates* in the developing sector, slowing or reversing population growth. Piotrow in fact identifies economic hardship as the single most important factor in forcing population reduction.

The former top aide to pro-population reduction advocate General William Draper, Jr., Piotrow was chosen to head the Population Crisis Committee/Draper Fund in the mid-1970s. It was the Draper Fund network, which includes former Chairman of the Joint Chiefs of Staff Maxwell Taylor and bankers George Ball and Robert McNamara, that assigned her to co-author the population volume for the 1980s Project, the CFR's policy blueprint. Her work was published by McGraw-Hill in 1978 under the title *Six Billion People*, the total the CFR says it wants to prevent from being born or otherwise eliminate from the world's population over the next four decades.

### Population growth and 1984

The volume predicts that increasing economic and social chaos will make alleged overpopulation the foremost concern after 1984.

Piotrow states point-blank that Chinese-style "totalitarian" "coercive methods" are the "most successful programs to control migration as well as fertility," will become necessary in the United States and the rest of the world. "Is it possible," she asks rhetorically, "in a world of rapidly increasing population, not to restrict some elements of freedom?" All economic development decisions must be taken in accordance with an overall aim of lowering population growth rates, she writes.

In his introduction to the volume, Council on Foreign Relations 1980s Project Director Edward L. Morse says that the population crisis shapes all other volumes in the study. This is especially true of the principal economic volume which calls for a controlled disintegration of the world economy, and provides the call to action for the Carter administrations's *Global 2000 Report*.

**Q:** In your book for the Council on Foreign Relations, back in 1978, you were very optimistic about the prospects for reducing population growth. Are you still as optimistic?

**Piotrow:** It depends on your point of view. In a sense, there have been some bright spots. The situation in Latin America, for instance, is quite hopeful. The ordinary people in Latin America have decided that they have had enough, and contraceptive use rates are going up and fertility is going down rather surprisingly in many areas. So I am very optimistic about Latin America. I am also quite optimistic about East Asia. There has been a lot of progress there. There is still quite a bit of concern about, because in Africa, unlike other parts of the world, there doesn't seem to be a desire for smaller families. At least the one survey that now exists in Kenya seems to show that people kept on wanting to have 10 children.

One really has to distinguish optimism about population declines from optimism about other things. There is growing evidence that economic hardship, *not development*—things getting worse, not things getting better—that really makes people want to have smaller families. And everywhere you go, things are getting worse economically.

I don't want to say that I am optimistic that things are going to get worse, and therefore people are going to want smaller families, ha, ha. So that's why I say that it depends on what you are optimistic or pessimistic about.

Everyone has been saying for a long time that it took development to persuade people that they want smaller families, but this summer I was in Latin America and I

asked people, why have attitudes changed about family planning and reducing family size? and the answer always was: people are so poor they know that they can't afford children. One hears this in a lot of places, in areas like Bangladesh, that poverty will reduce population growth. . . .

**Q:** People have said this about the advanced sector, the United States, Europe.

**Piotrow:** Yes, of course. But the cliché has always been that this is all very well for us, but in the developing countries, unless they get above a certain level, that won't be true. A lot of people are above that very bottom threshold level at this point. The faster you have urbanization, you have people being more aware of themselves in a modern context, this [economic hardship] becomes a real constraint on population growth.

I don't mean to say that I am optimistic that the economic situation is so bad that we are going to end up having fewer people around, but that is the reality. It appears that what is happening is that the hardship effect is really dominant now. In the latest pamphlet that I have done for the Foreign Policy Association, I said that there were really two factors encouraging lower fertility. One is the so-called positive factors—more education, more urbanization, more jobs outside the home and away from the home, and outside of agriculture. There is more of that and it encourages smaller families, but there is really a lot more of the hardship factors—limited cash income, seeing things get worse rather than better, and feeling that they can't meet the aspirations that they have developed. And I can't help thinking that these factors, the hardship, are basically going to accelerate into a major fertility decline. . . .

**Q:** Many people are talking about the world economy's continuing in a depressed state, well into this decade.

**Piotrow:** Well, the most obvious things that will happen is that death rates will go up and that will reduce population growth. That is bound to happen. If food supplies are limited, if distribution is even more inefficient than it is now, this will raise death rates, and this is very likely. It is now almost inevitable. If malaria programs are cut back, as is likely, if social infrastructure begins to collapse, these deaths are inevitable. It is inevitable.

**Q:** In the CFR book, you talk about developing chaos this decade caused by the population crisis, you are presaging much of what is happening now.

**Piotrow:** I think the chaos is increasing almost every day. Look at the situation in Iran. Look at Lebanon. Pakistan will probably be in chaos soon. I don't know enough about the situation in specific African countries, but you certainly have it [chaos] in El Salvador and Central America. I think you see even greater chaos

coming, but there are an awful lot of people who wouldn't see it as caused by population. But it is. Look at the administration. It is emphasizing terrorism. Terrorism and that kind of civil disorder, like in Iran does depend on the number of young people with nothing to do available to become involved. These numbers are still increasing, and will increase through the next decade.

**Q:** Do you see hope in this administration for an enlightened approach to population problems?

**Piotrow:** I can't speak for this administration, and I wouldn't even want to say at this point, because I think that there are a number of people in this administration who are concerned about these issues. They are a little bit caught between pressure from the right and people who say, "We don't want to get into social engineering." But these people in the administration see very clearly the problems they have to deal with and how to do it. I think that the administration as a whole is not intrinsically against looking at demographic problems and trying to deal with them. Their biggest problem is an extremist fringe, right-to-life organizations, people on the Senate, not really people in the administration itself. . . .

**Q:** Many people are saying that the way to do that is to talk about population control from the standpoint of national security.

**Piotrow:** Well that can be overdone too. If you talk about it too much from the standpoint of U.S. national security, it tends to backfire, because then you get liberals and other people, who are on your side, upset. I think that one solution is not to talk too much about it, but to support programs and policies that need support. . . . It is still too soon to tell whether the Reagan administration is going to cut these programs or not. They haven't cut them substantially so far. They have even added to them. . . . My personal interpretation is that they are trying to do it quietly without arousing opposition and they may give in on the very controversial issues like abortion, but the basic principle of supporting programs to limit population growth will not be abandoned at all. . . .

**Q:** There are many people who say that, because we did not take action to curb population years ago, it is now too late to save anybody, that hundreds of millions of people are going to die. This sounds like Malthus and it gets people upset.

**Piotrow:** Well, they shouldn't get upset. You can never expect the government to respond to a crisis, before the crisis has really happened. Governments really have to have their noses rubbed into crises before they are going to react to them . . . and that means that millions of people die, and problems occur that would not occur if they acted sooner.

**Q:** Is the Roman Catholic Church an impediment to solving population problems?

**Piotrow:** It probably will not be as much of a factor in the future. More and more people are tending to make up their own minds on this. Religious leaders, church leaders, tend to have more influence on the politicians and government leaders than they do on individuals, and this runs the risk of slower programs and less action like in Latin America, where the leaders of the Church are still pretty critical of family planning. Contraceptive use rates are becoming quite high. The problem is that there are still not very good government-supported programs, and women still go and get their abortions, and die, and fill up the hospital wards with victims of illegal abortions. So people are suffering as a result of Church policy, but the Church won't prevent birth rates from going down.

**Q:** In the CFR book *Six Billion People* you say that one of the countries which has had the most success with population policies is China. They use coercive methods. In the future, as the situation in the world gets worse, will more countries be forced to choose these coercive measure in the face of growing chaos and death?

**Piotrow:** It remains to be seen. The problems with most governments in developing countries is that they are not as strong and as tightly administered as the government of China. So that even if they wanted to do these programs, they probably couldn't. They would be overthrown, or like the government of India, kicked out of office. . . . It seems to me that it is far more likely that the population will take care of itself by the Four Horseman of the Apocalypse.

**Q:** You were very close to Gen. William Draper, Jr., who was quite outspoken on these issues for years and no one listened. Now you say people are still not listening.

**Piotrow:** We've made a tremendous amount of progress in the last 10 or 15 years. It is tremendous. I am not discouraged at all. I wish we could do more, and I am unhappy about the backlash against many programs. You can't expect 100 percent. Look at the number of countries where we have created substantial declines in fertility, 10 to 20 percent, it is really phenomenal. . . . The thing to keep in mind, of course, is that over the last decade we have had the oil crisis and that reduced population somewhat, but we have had pretty good years from an agricultural point of view. . . . There have not been disastrous droughts or floods in most of the food-producing regions. India is just now beginning to have trouble because of a bad monsoon this year, but India has had some terribly good years for awhile there. All it is going to take is a few years of bad weather, and then the thing will hit very hard. And then people will say that Draper was right. Not that I hope for that, but it is going to happen.

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## Book Review

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# The White House can learn from Ike

by Barbara Dreyfuss

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*The Declassified Eisenhower*, by Blanche Weisen Cook, Doubleday and Company, New York 1981.

*The Eisenhower Diaries*, edited by Robert Ferrell, W.W. Norton and Company, New York, 1981.

*Eisenhower the President*, by William Bragg Ewald, Jr. Prentice-Hall, Inc. New Jersey, 1981.

*Eisenhower and the Cold War*, by Robert Divine, Oxford University Press, New York, 1981.

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Late in September, Caspar Weinberger asserted that another Dwight Eisenhower is now in the White House. Certainly, many of the millions of Americans who voted for Reagan out of disgust with the policies of the Trilateral Commission's Jimmy Carter hoped that Reagan's presidency would restore the Eisenhower era of American economic and military power.

Like Reagan, Eisenhower was surrounded by advisers from the Eastern Establishment, committed to brinkmanship with the Soviets and limits on U.S. economic growth. Yet Eisenhower proved himself unwilling to act as their complete captive. It was not that he was an intellectual giant, or that he came to the White House with a well-conceived plan of what he wanted to do. Ike rarely made major initiatives; he merely responded to world events. But when he did, he acted out of deep concern for world peace.

Eisenhower grew up when the nation was undergoing great industrial development, and at West Point he gained a sense of the scientific outlook responsible for that growth. He had served as aide to Douglas MacArthur in the 1930s, of course, but it was the World War II years that most shaped the General. By the time he reached the White House, he had overseen the largest, most intricate logistical deployment in history, and taken responsibility for the infinitely delicate diplomacy required to maintain the Allied war effort. And during those years he knew that millions of women, young people, and black Americans, who had never before been part of the industrial labor force, suddenly found them-



*Eisenhower and Churchill in 1979, in John Foster Dulles's hospital room.*

selves vital elements of a technologically advancing, morally imperative economic mobilization.

### **'An Eisenhower, not a Haig'**

Attention to the Eisenhower period has been heightened over the past seven months by the publication of four major works on the subject, following a relative dearth over the past decade. The recent availability of oral histories and diaries of prominent Eisenhower administration personalities, as well as the opening of new sections of Ike's personal papers and journals at the Eisenhower Library in Abilene, Kansas, is partly responsible for the sudden proliferation of books; yet the need to educate Ronald Reagan and the American people was for some of these authors a further reason to publish their books now. "We need a General Eisenhower in the White House, not a General Haig, in order to avoid war," Mrs. Cook told me.

Eisenhower emerges from all four books as something other than the pawn of cold warrior John Foster Dulles, his Secretary of State, as has long been asserted. Using Ike's own words and those of administration officials, the books taken as a whole show that Eisenhower entered the presidency committed to American military supremacy, but also convinced that the U.S. and the Soviet Union could continue some approximation of the relationship that had existed during the war.

### **Relations with Moscow**

Although he was committed to keeping America militarily superior to Moscow, Ike had worked closely with Soviet military leaders during the war and came to understand Soviet thinking. He knew intimately how the war's devastation of the Soviet Union had intensi-

fied Soviet leaders' nationalist commitment to protect their homeland and to prevent another war. He knew men like Marshal Zhukov. He had fought with them and, though they were his adversaries when the war ended, he never regarded them with blind ideological opposition. In December 1945 after the war had ended, Eisenhower wrote Zhukov, "I truly feel that if the same type of association that you and I have experienced . . . could be established and maintained between the large numbers of Soviet and American personnel, both military and civil, we would do much in promoting mutual understanding, confidence, and faith between our two peoples. I know that during the entire period my own admiration, respect, and affection for the Red Army and its great leaders, and for the Russian people all the way up to the Generalissimo [Stalin] himself, constantly increased."

His belief that "Russia is not seeking a general war and will not for a long, long time, if ever," allowed Eisenhower to resist the pressures for confrontation from John Foster Dulles, Henry and Clare Boothe Luce, C. D. Jackson, and others.

Robert Divine's *Eisenhower and the Cold War* makes this point at length, showing how President Eisenhower, drawing on his own understanding of the Soviets and his own desire not to risk world war with every crisis, resisted the machinations of especially the crafty anglophile Dulles, for a tougher stance against Moscow.

Writes Divine: "He halted the Korean War six months after taking office. In the Middle East he had managed to contain the Suez crisis and restore temporary stability to that troubled region; in Asia, he had balanced the somewhat flamboyant rhetoric of his Secretary of State with his own restraint and achieved a delicate standoff between the Nationalists and the Chinese Communists in the Formosa Straits; in Europe, he had stood fast over Khrushchev's threats over Berlin, maintaining the American commitment to that city while avoiding a resort to force." And this during a period when, unlike today, the United States could back up its rhetoric with superior military force.

Nevertheless, though Ike did not go to the face-downs that Dulles and Clare Boothe Luce, for example, demanded, Eisenhower's administration was marked by creation of such groups as the National Committee for a Free Europe (NCFE), headed by C. D. Jackson, who was in charge of psychological warfare for the administration. NCFE and related groups like Crusade for Freedom, which Ike for a time was a part of, were dedicated to the liberation of Eastern Europe from the Soviet bloc, through propaganda campaigns, creation of emigré networks, and so forth.

But unlike C. D. Jackson, Eisenhower learned from the Soviet response to the 1956 Polish and Hungarian uprisings that Moscow would not tolerate the dissolu-

tion of the East bloc, and any clear U.S. backing for the opposition in those two countries could lead to a true, destructive crisis. As Blanche Wiesen Cook notes in *The Declassified Eisenhower*, "The events of 1956 seemed to end a Cold War era. Although Eisenhower never dismissed C. D. Jackson entirely, his own emphasis was now entirely different. After 1956, trade agreements replaced brinkmanship." Over the objections of Dulles and others, Ike then proposed initiatives such as large student exchange programs and increased trade agreements between the U.S. and the U.S.S.R.

### **Britain and the United States**

The war also taught Eisenhower, as it had FDR, that Britain was determined to use the United States to restore its own lost international clout. *The Eisenhower Diaries*, though it omits policy pronouncements by Eisenhower for the sake of anecdotal or mere review of well-known historical events, makes it clear that Eisenhower was constantly at odds with British military leaders during the war, especially over their efforts to stall the invasion of the continent.

While Robert Farrell's *Diaries* does not discuss the reasons behind the British thinking, Cook, in the *Declassified Eisenhower*, evaluates the war in detail. Using memoirs of leading contemporaries of Ike, she concludes that Britain ran its war policy to resurrect its lost empire. "If the Communists and the Fascists destroyed each other in Central Europe then the 'free world' could return to its traditional pursuits, at home and abroad. . . . Sir Alan Brooke, chief of Britain's Imperial General Staff, whose position paralleled General George Marshall's during World War II, hoped, for example, that the Nazis and the Red Hordes would destroy each other so that 'Britain might dominate an exhausted Europe.' "

Eisenhower's distrust of British motives continued throughout his life. William Bragg Ewald's *Eisenhower the President*, which gives a very personal account of the daily workings and relationships of the administration since Ewald served on the White House staff, notes Eisenhower's view of British efforts to continue their colonialism. On May 25, 1955 writes Ewald, "Eisenhower had a long talk, recorded on tape, with *Newsweek*'s Malcolm Muir on colonialism and Nehru. Eisenhower told Muir of his failure to convince Churchill that colonialism was dead and that Britain could capitalize on its death by insisting that all its colonies have the chance to decide for themselves whether or not to remain part of the British Empire."

Jim Hagerty captured this sentiment in his diary account of Churchill's visit to Ike in 1954, as Ewald notes. "Dulles said he was sure . . . the British were going to make a plea for a differentiation between French colonialism and British colonialism. The Presi-

dent interrupted to say, 'Sure, the British always think their colonialism is different and better. Actually, what they want us to do is go along to help keep their empire.' "

In his diary entry for Jan. 6, 1953, Eisenhower, after meeting with Churchill, set down what he thought of the British oligarchy: "Winston is trying to relive the days of World War II. In those days he had the enjoyable feeling that he and our President were sitting on some rather Olympian platform with respect to the rest of the world and directing world affairs from that point of vantage. Even if this picture were an accurate one of those days, it would have no application to the present."

Eisenhower acted on his decision not to back British imperial aims in his famous decision not to back the French, British, and Israeli invasion of Egypt. Eisenhower refused to allow foreign governments to run America's foreign policy on their behalf: "We cannot and will not condone armed aggression—no matter who the attacker, and no matter who the victim."

### **Economic policy**

Although these four books focus largely on Eisenhower's foreign policy, one gets a clear picture that Eisenhower was surrounded by economic advisers, like Arthur Burns, who were committed monetarists. Especially in the *Diaries* one sees Ike continuously demanding that the Fed loosen up money for productive investment and lower interest rates. "In the meantime I talked to the Secretary of the Treasury in order to develop real pressure on the Federal Reserve Board for loosening credit still further," reads one entry.

But under the policies of Burns and Fed Chairman William McChesney Martin, the U.S. economy during the Eisenhower years suffered from alternating tight and loose monetary policy which, nostalgia to the contrary, helped cause the lowest rate of industrial capital formation and productivity growth of all the major industrial powers.

With greater success, Eisenhower also cautioned the David Stockmans of his administration and the ideological conservatives that they could not, in their frenzy, wield the knife against some fundamental programs.

What might prove to be Eisenhower's most prophetic piece of advice to the Reagan administration came in a letter to Ike's brother Edgar. Ike declared, "Should any political party attempt to abolish Social Security and eliminate labor laws and farm programs, you would not hear of that party again in our political history. There is a tiny splinter group, of course, that believes that you can do these things. Among them are H. L. Hunt, a few other Texas oil millionaires, and an occasional politician and businessman from other areas. Their number is negligible and they are stupid."

## House Banking group paves way for takeovers

The House Banking Committee passed the Federal Deposit Flexibility Act, H.R. 4603, sponsored by Committee Chairman Fernand St. Germain (D-R.I.), by voice vote Oct. 6. The bill would give the Federal Deposit Insurance Corporation (FDIC) and the Federal Savings and Loan Insurance Corporation (FSLIC) "emergency" powers for approximately a year, to allow inter-industry and interstate takeovers of a banking institution when the institution is in default or "severe" financial difficulty.

The legislation is vigorously opposed by the savings and loans industry, which fears that such takeovers could lead to the dissolution of their industry. Federal Reserve Board Chairman Paul Volcker, whose disastrous high interest-rate policy is largely responsible for the crisis in the banking industry, is fully behind the bill.

Committee opponents of banking deregulation lost in their attempts to circumscribe the powers granted by the proposed legislation. Jim Mattox (D-Tex.) failed to limit the FSLIC authority to only allow intrastate mergers. Bill McCollum (R-Fla.) first lost his attempt to prohibit large commercial bank takeovers of S&Ls and then lost an effort to designate this bill as the exclusive legislation authorizing bank takeovers. McCollum wanted to limit what Volcker claims is his already existing authority to allow interstate and inter-industry takeovers under the 1956 Bank Holding Company Act.

Norman Shumway (R-Calif.)

had wanted to limit takeover authority only to those institutions already in default, instead of the vaguely defined term "serious trouble," but was defeated in this.

The bill is expected to come to a full House vote in late October or early November. The Committee is now going to move on to consider the long-term restructuring of the financial industry.

## Broomfield denounces Iran atrocities

William Broomfield (R-Mich.), the ranking Republican on the House Foreign Affairs Committee, took to the floor of the House Sept. 30 to denounce the genocidal policies of Iranian dictator Ayatollah Khomeini and demanded to know why the liberal human rights groups that had denounced the Shah of Iran are not speaking out now. Broomfield placed three newspaper articles into the *Congressional Record* outlining some of the atrocities in Iran today, and then declared, "The articles set forth what has befallen Iran since the maniac Khomeini has come to power. Not only has the regime officially executed well over 1,000 people in the last two years, but now he has turned his wrath upon helpless schoolchildren, some of them only 12 years old. While we do not have accurate figures on the total number of Iranians executed, but not officially announced, the number is believed to be several thousand.

"As the Shah's sister [Ashraf] appropriately asks, where are the human rights lawyers who were so active during the Shah's reign?

Now that Khomeini is killing thousands, where are the liberals who demanded the overthrow of the Shah for incarcerating radical elements of the opposition? Is a regime that executes children somehow less reprehensible than a regime that imprisons Marxist terrorists?

"Why have we heard nothing from Amnesty International over these recent events? Anyone who has developed a sense of political, religious, and human values opposes restrictions on basic freedoms, especially when it involves the loss of our ultimate freedom—the right to live. It is, therefore, all the more vexing that the traditional human rights establishment is silent while Khomeini murders his fellow countrymen."

## Armed services Chairman announces strategy hearings

Melvin Price (D-Ill.), the Chairman of the House Armed Services Committee, announced on Oct. 6 that he would convene a full set of hearings to examine the strategic posture of the United States. Price said that he would hear from the Joint Chiefs of Staff, other commanders such as the head of the Strategic Air Command, and various technical experts. Price's comments came at the opening of a hearing that featured Defense Secretary Caspar Weinberger and JCS Chairman Gen. David Jones, who testified on the President's newly announced decisions on the B-1 bomber and the MX missile.

Both Price and ranking Republican William Dickensen, (R-Ala.), expressed concern over the Presi-

dent's decision and the process by which that decision was made.

Price noted that the President's decision to deploy MX missiles in hardened Titan silos begged the question of modernization and "takes us back to the beginning." Dickensen also expressed support for the B-1 and the command, control, and communications upgrading, but did not support the MX decision. Calling for a full review of U.S. strategic posture, Dickensen said, "our enemy is no longer two feet tall, and it is ludicrous to rule out a first strike strategy for our nation."

## **D**emocrats still fumbling on interest rates

After a weekend retreat in West Virginia to discuss political and economic strategy, Senate Democrats brought the issue of high interest rates to the floor of the Senate on Oct. 6 in various feeble forays. A colloquy was led by William Proxmire (D-Wis.), and the sole Democrat to argue openly against John Melcher's (D-Mont.) resolution the previous week to bring down interest rates. Proxmire continued to lay the blame on the Reagan economic program and a free-spending Congress, rather than on the usurious policies of Federal Reserve Board Chairman Paul Volcker, and was joined by fellow Banking Committee members Alan Cranston (D-Calif.), Alan Dixon (D-Ill.), Chris Dodd (D-Conn.), Paul Sarbanes (D-Md.) and Harrison Williams (D-N.J.). The only "solution" implied from the colloquy was that the tax cut should be rolled back.

Capitol Hill sources noted that Senate Democrats could have emerged from their weekend retreat with one of two strategies—either full support for the Melcher approach to demand that the President sit down with the Federal Reserve Board and bring down interest rates, or a continuation of the "Paul Volcker protection squad" approach that blames high interest rates on the President, the deficit, or the Congress itself. The Proxmire/Cranston-led colloquy indicates the latter strategy.

Elsewhere on the interest-rate front, Sen. Lawton Chiles, along with Senators Boren (D-Okla.), Nunn (D-Ga.), Johnston (D-La.), and Pryor (D-Ark.), introduced S.J. Res. 112, a joint resolution to create a committee on interest rates and the availability of credit, which would, said Chiles, "set up a 'dual prime rate' structure, with lower rates for small business, housing and agriculture."

Besides, the obvious problem of hoping that lending institutions will voluntarily take a loss in today's cutthroat credit markets, the Chiles approach parallels the 1973 Committee on Interest and Dividends of former Fed Chairman Arthur Burns to such a degree that it would make the current Federal Reserve Board Chairman Paul Volcker its own committee chairman!

## **T**estimony heard on abolition of ATF

The House Judiciary Subcommittee on Crime held hearings Oct. 2 to seek clarification of press reports that the Reagan administration has decided to abolish the

Bureau of Alcohol, Tobacco and Firearms (ATF) law enforcement division of the Department of the Treasury, and abolish or divide its functions among other federal agencies. Congressman Bill Hughes (D-N.J.), Chairman of the Subcommittee, elicited a statement after intense questioning of Assistant Secretary of the Treasury for Enforcement and Operations John Walker, Jr. that "no decision" by the administration on the future of ATF "has yet been made."

Hughes, however, produced an inter-departmental memo at the hearings written by Walker to the heads of the U.S. Secret Service, ATF, and U.S. Customs Service, dated Sept. 22, that directly indicated a decision on ATF. "I have designated my Deputy for Enforcement, Robert E. Powis," Walker begins his memo, "to be Chairman of the newly formed Steering Committee on the phase-out of ATF." Under questioning, Walker squirmed that that had been "an unfortunate choice of words."

Strongly opposed to the hidden budget cuts in law enforcement under the rationale of "management efficiencies," Hughes rebuked the administration, saying that such "flights of rhetoric cannot stop crime," and warned that "unless the federal government provides adequate resources to its law enforcement agencies . . . we clearly cannot hope to make progress in the battle against crime." Witnesses supporting the ATF included the American Insurance Association, the American Wine Association, anti-arson law enforcement officers, and city fire chiefs.

# National News

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## Hatfield to sponsor depopulation bill

Oregon Republican Mark Hatfield, Chairman of the Senate Appropriations Committee, reportedly will sponsor legislation committing the United States to zero population growth, at home and abroad.

"Hatfield is our Senator X," said a spokesman for Zero Population Growth, Inc., a Rockefeller family group which spent six months looking for a sponsor for their bill, referring to rumors that an anonymous Senator had been found to propose it.

Sources say the bill, now scheduled for introduction Oct. 26, will be similar to legislation sponsored by Rep. Richard Ottinger (D-N.Y.), the Population Policy Act of 1981 (H.R. 907). The bill directs the Office of Management and Budget to monitor the "population impact" of all federal budgetary decisions, passing assessments to an Office of Population Policy to be created in the White House. The National Security Council would monitor all foreign policy decisions for a similar purpose, reporting to the White House.

This mechanism was recommended in a companion document to the Carter administration's *Global 2000 Report*, which declared that, since no effort should be made to provide modern technology to all the world's peoples, there will be 2 to 4 billion too many people by the year 2000 unless massive efforts are undertaken to ensure these people are eliminated before then.

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## Corporations wooed by genocide lobby

Werner Fornos, Director of the Population Action Council, boasted to a reporter Oct. 7 that a Washington, D.C. conference his council held at the end of September was extremely successful in bringing corporate executives into the

depopulation lobby. His organization is now forming small task force groups of corporate leaders to devise programs by which their corporations can foster "population control" in the Third World.

Fornos also indicated progress vis-à-vis the Reagan administration, which sent eight senior officials to the conference. "The administration wants to lend support to our activities, because the top economic team showed up even though the IMF meeting was also being held. This shows they consider the issue important."

That conference, presided over by Sen. Charles Mathias (R-Md.), gave Sen. Charles Percy (R-Ill.) its Legislator of the Month Award because he has advocated tying foreign aid to depopulation policies since 1967. Percy, who chairs the Senate Foreign Relations Committee, had grilled all administration appointees on their views relating to population policy.

One of the most supportive corporate leaders, reported Fornos, is Eugene Seculo of RCA, always a strong advocate of a U.S. alliance with China, where tens of thousands of pregnant women have been rounded up and forced to undergo abortions at gunpoint under a "no-second-child" law.

In 1972, Seculo reported, IBM ran a serious population-control program, but the Catholic Church intervened to oppose it, calling for a boycott of IBM products. The pressure was great enough that IBM had to halt the program.

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## Stockman may end the U.S. space age

The National Aeronautics and Space Administration has been hit so hard by the latest Stockman-OMB demand for \$367 million in additional budget cuts that it may soon be out of the business of exploring space. NASA is being forced to consider "turning off" and abandoning the Voyager spacecraft, presently on its way to a 1986 fly-by of Uranus and a 1989 rendezvous with Neptune. Aban-

doning Voyager and eliminating its support network of scientists, engineers and radio-receiving facilities would save \$222 million over eight years, NASA estimates.

NASA is also definitely going to forego a long-awaited Halley's Comet mission, and is considering cancellation of the Galileo mission to Jupiter. If both Voyager and Galileo are terminated, all interplanetary space exploration by NASA is essentially ended.

Even the militarily vital Space Shuttle is in jeopardy. NASA is considering cancellation of the fourth Space Shuttle, Discovery, due for service in 1985. This would save \$1.2 billion over four years, leaving only three of the five shuttles originally planned.

*Aviation Week* reports that Centaur rocket development may also be canceled. The rocket is to be a small third-stage vehicle for use as an orbital transfer vehicle moving payloads from space shuttles' orbit of several hundred miles to the utility geosynchronous orbit of 22,000 miles. Centaur cancellation would eliminate much of the Space Shuttle's potential usefulness.

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## Stockman opposes the Constitution

OMB Director David Stockman told a Senate Government Affairs Committee hearing Oct. 6 that he supports the establishment of a parliamentary system in the United States, because that is the only manner in which to implement his austerity program.

Stockman made his statement in hearings on the current budget reconciliation process. Senator William Roth (D-Del.) a Trilateral Commission member, asked Stockman whether he agrees with the Commission's Lloyd Cutler, former White House counsel, who said that a parliamentary system was needed to impose "harsh economic decisions." Stockman praised the budget reconciliation process for "moving us, to some extent, in the direction of a parliamentary system



## Briefly

and makes it extremely difficult for committee chairmen and their members to play their traditional roles." Only after austerity has been imposed can the United States afford the "luxury" of congressional debates and hearings on policies, he said.

Under the budget reconciliation system, established in 1974 but not fully utilized until this year, the Senate and House Budget committees determine spending levels for all government programs and then can mandate changes in existing laws to see that these spending levels are imposed, eliminating the power of individual congressional committees. Also eliminated is debate over crucial legislative actions.

### 'Old boys' hear misinformation

Some of the problems in the thinking of the U.S. intelligence community became evident at the seventh annual conference of the Association of Former Intelligence Officers in McLean, Virginia last week. Three hundred and fifty "old boys" sat still as Comte Arnaud de Borchgrave, a 30-year intelligence agent of European black noble families under cover as correspondent for UPI and then *Newsweek*, accused the Soviet Union of spreading "disinformation" throughout the Western world.

Appearing with the Belgian Comte was David Binder of the *New York Times*, who intoned with a straight face, "I do not think the press of democratic societies can be accused as a rule of disinformation." Binder quickly qualified: "Except in case of war or other national exigencies."

No one present asked Binder whether the *New York Times* considers the last 35 years to have been "a war or national exigency."

Nor did anyone ask de Borchgrave about his father's rumored link to KGB agent in the British services, Harold "Kim" Philby, at the end of World War II, or about his own connection to the

activities of Anthony Blunt, former Surveyor of Art in the household of Queen Elizabeth, whose identity as the "fourth man" in the Philby/Guy Burgess/Donald Maclean KGB operation was recently exposed.

The evidence is strong enough that *EIR*, in a "News-In-Depth Report" published earlier this year, "The KGB Moles and the Heritage Foundation," accused de Borchgrave of being "KGB-linked, deploying other operatives on behalf of 'world federalist' and 'post-industrial society' policies shared between certain KGB elements and the European noble households commanding de Borchgrave's loyalties."

### Brown's 'tirade' rejected by governors

California's Gov. Jerry Brown delivered a 15-minute speech to a meeting of U.S. and Mexican border-state governors in El Paso, Texas, Oct. 5, warning that supplying nuclear technology to Mexico was extremely dangerous, and predicting a "chemical nightmare" if pesticide use on both sides of the border is not immediately halted.

One observer described the speech as an "environmentalist tirade." It was coolly received by his audience, which included six Mexican governors and four U.S. governors.

In contrast to Brown, several conference committee meetings stressed the importance of high-technology transfers to Mexico from the United States. An aide to Gov. William Clements of Texas told ABC-TV that Governor Brown's fears were unfounded, and that Clements had long been an advocate of export of American nuclear technology to Mexico in exchange for oil.

The local ABV-TV affiliate included in its conference coverage an interview with *EIR*'s Houston bureau chief, Harley Schlanger, who emphasized the importance of the nuclear component in any U.S.-Mexico oil-for-technology agreement.

● **HANS KUNG**, one of Europe's schismatic Roman Catholic theologians, has taken a post at the University of Chicago Divinity School and may permanently join the University of Michigan faculty. Kung, who strongly opposes the Church's strictures against population control, was censured by the Vatican last year for his unorthodox Christology.

● **LABOR** leaders in New Jersey have called upon the Senate not to expel Sen. Harrison Williams, victim of FBI entrapment in the Abscam operation. National Democratic Policy Committee state coordinator Elliot Greenspan released a statement of support for Williams by 4 of 16 Central Labor Council chapters in the state, as part of the Policy Committee's campaign to keep Williams in office.

● **A CIA** Sovietologist, recently briefed on certain important breakthroughs in Soviet military technology, replied: "Well, I'll tell you. Now that all these budget cuts are going on, the Soviets are the least of our problems. We have to worry about the enemy within."

● **DALE BUMPERS**, Republican Senator from Arkansas, told a recent gathering of liberals at Pamela Harriman's salon, "I don't think there's any way for interest rates to come down short of a very serious recession." Liberals, said Bumpers, with Mrs. Harriman's evident approval, should not "intervene," but should rather "keep our powder dry," and wait for the economic collapse.

## DIA foresees ample Soviet oil

*The agency's new intelligence estimate sharply challenges the scenarios prefabricated under Schlesinger.*

**T**he U.S. Defense Intelligence Agency (DIA) has just made public its latest intelligence estimate of Soviet and Chinese oil and gas production potential. The new analysis contradicts the highly controversial Carter-Schlesinger April 1977 CIA assessment.

I happen to have first-hand knowledge of the circumstances surrounding the estimate made in the April 1977 CIA report "The International Energy Situation: Outlook to 1985."

One of the prime economists involved in "massaging" Soviet data so that Energy Secretary James Schlesinger, a RAND protégé, and National Security Adviser Brzezinski could advocate a specific strategic doctrine was the pathetic Walt MacDonald, who has admitted to working up the numbers in such a way as to contradict reality and give the impression that Soviet oil production would peak in 1980-82. This then would be followed by a sharp and growing decline, prompting Kremlin attempts to militarily secure Persian Gulf oil.

That CIA estimate is best described as a fraud, designed to back up the Schlesinger-Brzezinski view of the world. Right now, a battle continues between those U.S. intelligence officials who managed to survive the Carter purges, and people such as RAND's Henry Rowan, brought in as head of the CIA's National Intelligence Estimates under Bill Casey. All this spookery is

relevant because the issue of Soviet energy availability, and all strategic estimates, should be taken away from the RAND kooks and fully examined.

The DIA analysis, made public following closed-door testimony by Maj. Gen. Richard Larken before the joint Economic Committee on July 8, declares that "continued growth in energy production is one of the few bright prospects in the Soviet economic future."

According to DIA calculations, the U.S.S.R. will meet its 1981 oil production goal of 12.2 million barrels per day, continuing its role as the world's largest oil producer. They predict increasing absolute production through the rest of the 1980s, although at a somewhat declining rate of increase. Then, in the 1990s, given the fruits of increased exploratory drilling and increasing capital investment, DIA estimates that the Soviets could further increase production. "Continuation of the U.S.S.R. as a net oil exporter for the foreseeable future is anticipated," DIA concludes.

By 1985, Soviet oil production will reach an estimated 12.4 million barrels per day, with internal consumption of 9.5 million. Last year, internal consumption was 8.8 million. The report cites the usual problems of manpower, organization and equipment but claims that these "probably will have little effect on the industry." One reason is the priority being accorded to the

petroleum industry in the latest Five-Year Plan. The portion of industrial capital investment allocated to the oil and gas sectors has risen from about 12 percent in 1970 to more than 17 percent by the end of that decade, and its share is projected to increase. Energy investment in the Soviet Union is expected to increase roughly twice as rapidly as total Soviet investment.

But the real heart of Soviet energy expansion plans, according to the DIA lies in the U.S.S.R.'s enormous natural gas reserves.

DIA projects that natural gas production, which in 1980 exceeded the goal and reached 15.35 trillion cubic feet (tcf), will reach 22.24 tcf by 1985, with 19.49 tcf consumed internally. The rest will be for export to Eastern and Western Europe. The total available for export by 1986-87 will be an estimated 3.53 tcf per year, with about 60 percent going to Western Europe, including the large U.S.S.R.-West German project now in final negotiation. The U.S.S.R. is already the world's leading exporter of natural gas; the defense analysts expect this lead to widen during the 1980s.

Estimated reserves are placed at 1.059 quadrillion cubic feet, equal to 180 billion barrels of oil.

The Soviet planning strategy, according to DIA, is to use the vast natural gas resource "as a means to help reduce domestic requirements for petroleum. This in turn could permit greater exports of oil, a major source of hard-currency earnings." Soviet analysts, especially since last year's party congress, have placed this strategy of hydrocarbon exploitation in the context of the U.S.S.R.'s commitment to fission and fusion development.

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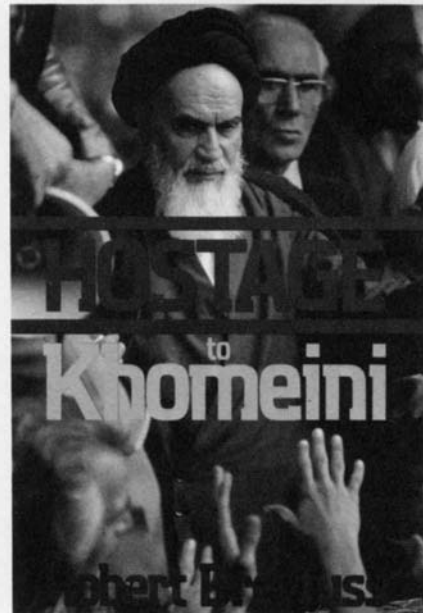
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