EIR

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Funding and curricula for U.S. schools
Muslim Brotherhood gathers in Houston
Texas Lyceum: what future for the Sunbelt?

Japan, Mexico challenge the IMF at North-South summit

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EIR

From the Editor

The evidence that something is drastically wrong with U.S. education assaults Americans at every turn. In this week's Special Report, we address three components of the crisis: 1) the liberal perversion of curricula, and why it is insufficient to simply go "back to basics"; 2) the misdirection of federal aid into "social-work" spheres rather than into the prerequisites for scientific excellence; and 3) the fallacy that school employees' salaries, not the sapping of the tax base through de-industrialization and crushing interest rates, have devastated local budgets. The report was prepared by Freyda Greenberg and Stephen Parsons under the direction of education authority Carol White, a long-time associate of *EIR* founder Lyndon H. LaRouche, Jr. Further reports will examine the varieties of "computerized learning" foisted by the United Nations and the Club of Rome on U.S. classrooms.

In our cover story on the Cancún North-South summit, you will find the leaders of Japan, India, Mexico, and others insisting that educational development of the moral and material skills of Third World populations is one essential vehicle for economic development—as is a reversal in the International Monetary Fund "equilibrium economics" that has suffocated global growth since the end of World War II. If you wondered why the Anglo-American press pronounced the summit a failure, while neglecting to report the substance of initiatives by Japan, Mexico, the Philippines, and others, our report from Cancún by correspondent Peter Ennis gives a sense of how the Socialist International defenders of the IMF, and their ally Margaret Thatcher, were deprived of the victories they had expected.

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Departments

Correction: A box accompanying last week's Special Report gave the misleading impression that President Reagan had committed himself to overcoming specific regulatory obstacles to nuclear construction, including the Sholly Rule and redundant licensing and hearing procedures. President Reagan did pledge himself to "overcoming regulatory obstacles," but was not specific.

Economics

Volume 8 Number 44 November 10, 1981

Special Report

International

The participants at the Oct. 22-23 North-South summit in Cancún, Mexico.

Courtesy of the Government of Mexico

National

BIS circles look to the end of the dollar era

by David Goldman

In conjunction with plans for a European Defense Community which might effectively replace the European branch of NATO, European officials are now elaborating an expansion of the European Monetary System to the point of forming a European currency bloc sundered from the dollar. In the view of the European Monetary Commission, long dominated by the views of Tommasso Padua-Schioppa, Prof. Robert Triffin, and other Europeans who believed that the postwar emergence of the dollar standard was an unpleasant interlude in monetary history, a "complete break" with the dollar will occur during the next 12 months—although some European observers doubt the timetable could move so quickly.

In fact, the total instability of world market conditions makes some form of break likely, following less a preconceived scheme of the sort offered so often by the Bank of Italy, than the model of the 1930s breakdown of the world into competing protectionist blocs. The chief economist of the Bank for International Settlements, Alexandre Lamfalussy, warned of "a deterioration of the world in protectionism and other inward-looking measures" if the United States maintained its present disastrous monetary course. But Lamfalussy, who addressed the 20th anniversary meeting of the Atlantic Institute in Brussels Oct. 23, only reiterated the threat of an economic crisis comparable to "the inter-war period" that was made earlier in the June published annual report of the Bank for International Settlements, and the similar utterance of his superior, outgoing Bank for International Settlements President Jelle Zijlstra, the former Governor of the Bank of Holland.

The specific issue under debate is important, but hardly defining, with respect to the problems involved. The U.S. dollar, as Lamfalussy noted, has risen 25 percent and then fallen considerably over the past year, making world market conditions impossibly unstable for the European economies, who have seen the price of their oil and other raw materials imports skyrocket to the point of becoming a principal cause of the present European recession. Lamfalussy, as sources at the Basel-based Bank for International Settlements emphasized, is after the head of Treasury Undersecretary Beryl Sprinkel, the Milton Friedman clone who announced last May that the United States would take no action whatever to moderate the extreme fluctuations of the dollar on foreign markets, returning in effect to the "benign neglect" policy of the Carter administration.

Immediately prior to West German Chancellor Schmidt's May visit to Washington, European finance ministers agreed upon a plan to link the dollar's value to the European Currency Unit, thus to the fixed-rate zone that Schmidt and Giscard had authored at the Bremen conference of European leaders in July 1978. Specifically, Schmidt intended the dollar/Europe link as an aid to the White House in bringing down interest rates; a move to obviate the $200 billion or so in credit demand associated with hedging and speculation against dollar fluctuations would obviously remove considerable pressure from short-term interest rates. It was in response to this indirect flanking maneuver against the Federal Reserve's monetary policy that Sprinkel, the ideologue par excellence of Chicago School monetarism, announced that the United States would do the precise opposite of what Schmidt had in mind.

The issue has never merely been currency fluctuations, but rather the monetary policy responsible for them as well. Since May, however, the departure from office of Schmidt's collaborator, French President Giscard, the situation has fundamentally altered. A European link to the dollar on terms amenable to the White House and European leaders is not in the cards.

The outlook

Between now and the first quarter of 1982, the following elements will conspire to bring the longstanding fight to the point of confrontation:

1) After rising to DM 2.56 in early August, the dollar has fallen back to about DM 2.30, and is expected to fall again to DM 1.70 to DM 1.90. Both former Carter administration officials like C. Fred Bergsten, now at the Carnegie Endowment for International Peace, and his ideological enemies at the Regan Treasury, including Beryl Sprinkel, argue that the dollar must fall substantially in order to improve American trade competitiveness.

2) The United States economy is plunging into severe recession while inflation continues to rise (to almost 15 percent p.a. in September), and interest rates refuse to fall substantially, both indications that the debt bubble generated by the Federal Reserve has taken on a life of its own. The implication is widespread bankruptcies throughout the sphere of dollar credit.

3) The unsustainability of the \$100 billion current-account deficit of the developing nations, as characterized by the Interim Committee of the International Monetary Fund in its Sept. 27 communiqué. Despite the IMF's unprecedented warning that the cycle of oil- and debt-service-related deficits must come to an end, no such thing is happening; on the contrary, IMF economists point out that commercial banks are lying ferociously about the volume of short-term loans they are still putting out to roll over Third World debt.

West German banks, meanwhile, have already begun to disengage as far as they might from dollar-based lending, and have fallen back—as Deutsche Bank Chairman Wilfrid Guth intimated in an Oct. 13 speech in Luxembourg—upon increased trade financing in their own currency, an unprecedented development during the postwar period.

What the European Monetary Commission's "Third Force" advocates have brought to bear on this is the following: The immediate objective, already endorsed by Deutsche Bank's Guth and other Germans, is to bring the British pound into the European Monetary System (EMS). The British would then support the near-term erection of a European Monetary Fund, as a credit-institution for European purposes—something very different from the original Giscard-Schmidt conception of the European Monetary Fund as a vehicle for long-term trade financing between Europe and its developing-sector trading partners. However, the Germans are understandably cautious about permitting the British to join the EMS, having spent close to DM 15 billion in support for the weak French franc in the course of the past year as a matter of fulfilling their obligations as members of a fixed-rate currency zone. Should they have to back up the chronically weak pound as well, the German currency, whose weakness during the first eight months of 1981 traced principally to oversupply of marks on the market following currency-support operations, would suffer.

Therefore the European Monetary Commission has won the West German central bank's approval for an extraordinary tradeoff. If more German marks must enter the market through expanded German intervention operations to support an expanded EMS, more central banks, particularly those in current-account surplus, must be convinced to hold marks in the form of reserves, reducing the otherwise problematical oversupply of marks. The Commission, consequently, has opened negotiations with the Arabs to price oil shipments to Europe (and possibly other countries) in the form of German marks, European Currency Units (a compound of currencies in which the mark's weight is predominant), or some similar combination.

Nothing is to be expected from such a proposal at the moment; however, under conditions of a rapidly deteriorating dollar, the prospect of significant Arab central-bank diversification out of dollars would be real for the first time since the 1973 oil-price increase. At the University of Louvain, the unofficial think tank for the European Monetary Commission, the view is that a decline of American political influence in the Persian Gulf would accelerate the process on the monetary front. The President's striking political victory on the AWACS sale may throw a monkey-wrench into the scenario, given that the Saudis are less concerned about the possible deterioration of their portfolio than they are about the threatened overthrow of their regime.

The 'Third Force' effort

However, the AWACS victory does not eliminate the basic problem. One top European official, speaking off the record, maintained, "There is talk about some countries leaving the IMF, resigning from the Fund. It is being discussed by very influential people. I am very worried about the U.S. at the moment. Its foreign policy and military planning may create a disruption on the financial front, in particular the issue of missiles emplaced in Europe, and President Reagan's remarks last week [on limited nuclear war]. There is declining acceptance of the American umbrella, and growing unwillingness to accept financial rules which are becoming increasingly distasteful."

As of the IMF meeting at the beginning of October and the October 19 meeting in Scotland of the Nuclear Planning Group, the United States left Europe with a set of entirely unacceptable policy alternatives, including what Weinberger is willing to call plainly a policy of limited nuclear war in Europe, and a currency and interest-rate policy which makes economic life impossible in Europe at the same time. Both policies are the result of the influence upon Washington of the Thatcher government of Great Britain, particularly through its semi-official intelligence arm, the Washington-based Heritage Foundation.

Yet at the same time, Britain's Foreign Minister Lord Carrington and Chancellor of the Exchequer Sir Geoffrey Howe are negotiating with their French counterparts to break away from the obnoxious policies which the British themselves encouraged for so long, in the direction of independent European defense and monetary institutions.

What ultimately will come of this? The United States went through the worst economic decline of any nation during the 1930s, with national output falling peak-to-trough by more than 40 percent. In the currency blocs that emerged from the 1931 flotation of sterling and the 1933 floating of the dollar against gold, the old European family fortunes clustered around a Swiss-French-Italian bloc pegged to gold. The direct continuity of the European gold bloc of the 1930s, whose assets appreciated against U.S. equities (through currency and stock market declines) by roughly 1,000 percent, is foreign ownership of about one-third of U.S. equity.

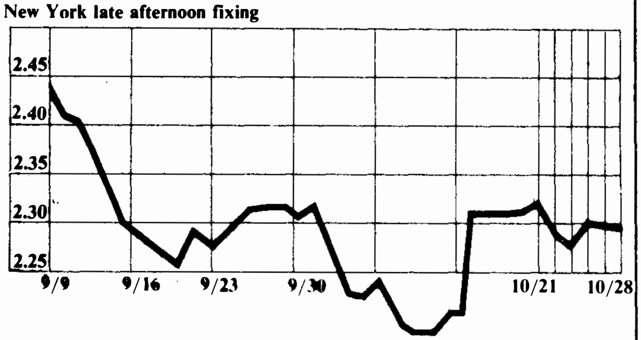
The direct, unbroken connection between the coup of the old continental European fortunes, and present financial institutions is the Bank for International Settlements, created in 1930 as a combined public-private vehicle for managing international reparations payments and debt service associated with their financing.

The gutting of the Paris headquarters of the Banque de Paris et de Pays-Bas (Paribas), in favor of a shift of operations to Switzerland and Belgium, is exemplary. While Mitterrand runs a rampage against French industrialists and bankers, the most important sections of the client business of this most important of the French banques d'affaires has flown to Switzerland and Belgium, and the constituent shareholders of Paribas (e.g. Warburgs) have simply put their money into a new, and inviolable, Swiss- and Belgian-based shell. These interests look toward the demise of even the IMF, whose distasteful feature, for them, was that it was dominated legally by the American government. The world shall return to the type of currency blocs prevailing during the inter-war years, precisely as the June report of the BIS warned; and their advantage in controlling a gold- and petrocurrency-based bloc against a declining United States and failing dollar would be immense.

Currency Rates

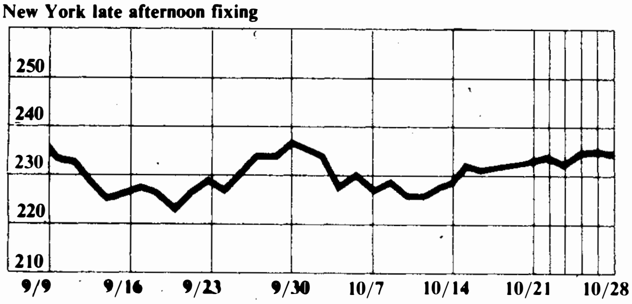
The dollar in deutschemarks

New York late afternoon fixing



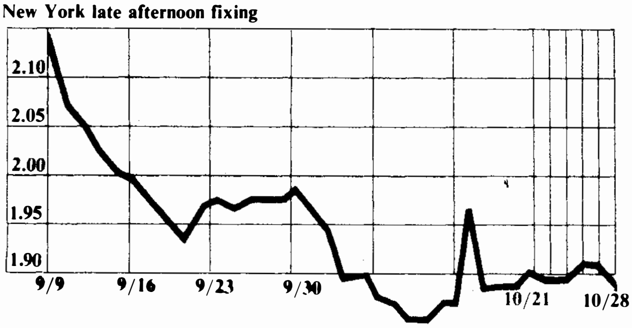
The dollar in yen

New York late afternoon fixing



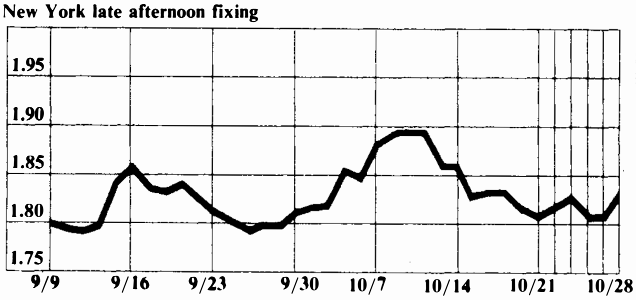
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



AUTO INDUSTRY

U.S. wages driving production abroad?

by Richard Freeman

General Motors and the other two top American automakers are planning to shake out the U.S. auto industry by demanding that the United Autoworkers Union members take a 30 to 50 percent pay cut, or they will move auto production out of the United States.

General Motors announced Oct. 23 that it is canceling its plans to build a $500 million assembly plant in Kansas City, Missouri. GM had already announced in the last six weeks its plans to cancel a $400 million expansion of a Baltimore assembly plant, and also canceled plans to build a several-hundred-million dollar plant in Flint, Michigan which was to have replaced plants there that are being closed down.

This cancellation of GM's three key expansion projects represents a dramatic cutback in plant construction in the United States. A source who is very well placed in the U.S. auto industry reported recently, that "during the next 12 to 18 months, the auto industry will be at a turning point. The Big Three, particularly GM and Ford, have a lot of money planned for expansion abroad. They are planning to get the sources for components from abroad, and if they find that they can't break wage levels in the U.S., they will conclude that it is cheaper to build and run plants abroad, and do so."

GM already expects to spend $18 billion, or 30 percent of its $60 billion capital-spending for the decade, in plants outside the United States. It is now possible that they will increase that amount to 40 to 60 percent.

"A move of this dimension will not be small," Bill Puchiluk of Chase Econometrics told *EIR* Oct 26. "If Ford or GM makes this move, then the size of investments they are talking about are about $1 billion a shot for plant and supporting industries. When you make a move of that sort, then the dollars you're taking out of the U.S. are big." Chase Econometrics is consultant for all three American auto companies on plans they have to go abroad, and Wayne State University Automotive Center has already done a "Delphi" consensus report on which product lines are the best produced abroad.

Currently, U.S. auto production, at 6 million autos this year, is at 60 percent of 1973 levels. Should the auto companies reduce their capital-spending in the United States, U.S. auto output will plummet to only 40 percent of 1973 levels!

In all likelihood, the U.S. would become the final assembler of autos, while the value-added construction of components and parts would be done elsewhere. The United States would become the site of the "Third World," labor-intensive end of the world auto-production process.

The wage issue

The key to effecting this next level of collapse of the auto industry is the claim by GM Chairman Roger Smith Oct. 26 that auto wages must fall drastically because auto workers, who are too greedy, are the cause for the collapse of the auto industry—not the high interest-rate policy which has collapsed consumer incomes. Smith stated, "The lights in U.S. auto plants have been going out all over America—extinguished by high labor costs. The rank and file have to understand, what's at stake," he warned. "Their jobs." Ford Motor Company echoed GM's Smith, announcing Oct. 22 that workers at its Sheffield, Alabama aluminum-casting plant would have to take a 50 percent wage cut or the plant would close.

The argument that American auto workers' wages are too high is a lie, which can be shown on two levels.

GM claims that it pays its employed auto workers $19.80 per hour, while Japanese auto workers earn only $11.20 per hour, but produce Japanese cars at $1,000 to $1,500 less. But the GM figures are wildly overstated. The leading auto-maker takes its total wage bill, plus its total cost for benefits—of employed and unemployed workers both—and the costs for unemployment insurance, and then divides that by the number of employed hourly workers to arrive at its hourly labor cost of $19.80.

Obviously, each employed worker does not take home in his pay envelope what GM figures as the fringe benefits of unemployed workers, nor the unemployment checks. The hourly labor-cost figure per GM-employed auto worker is probably closer to $15.50. Moreover, Japanese wages, which were much lower than American levels 30 years ago, have been rising spectacularly along with the rise in Japan's standard of living. Taking the hourly compensation level that existed for American workers in 1960 as equal to 100 on an index scale, then the American hourly compensation was only at a 113 index level in 1967, and 122 in 1976; if we set the Japanese hourly compensation level of 1960 as equal to 100, then the Japanese hourly compensation rose to 140 in 1967, and 300 in 1976. If this rate of rise continues, by the mid to late 1980s, Japanese workers will be better paid than their American counterparts.

But the wage level is really only a secondary consideration. In the 1950s, American auto wage-levels were nearly twice those of British auto workers, yet America produced cars that were 10 to 15 percent cheaper than

British cars. The real issue is that Japan today has better, more modern plant and equipment as a result of the country's capital investment policy and the freedom from domestic versions of Paul Volcker interest-rate policies. Japan produces almost one-and-a-half times as many cars per worker as America. At Nissan Motor's Zama plant, which has 50 robots, 160 workers turn out 800 units a day—the highest level in the world—even though each worker is given two 10-minute coffee breaks and a 1-hour lunch break.

The U.S. auto industry was first crippled by the environmentalist movement, which demanded unsafe safety standards—smaller cars result in more accidents and of greater severity—and then by the two oil shocks during the 1970s. Even though the auto industry spends a huge amount for plant and equipment—$100 billion for the decade of the 1980s—much of it is diverted into environmental standards, not basic production techniques.

The danger of the U.S. auto industry's moving abroad is not that auto production someday should not take place elsewhere, but that the United States is not moving simultaneously up the technological ladder of production—to producing fusion plants, cryogenic plants, monorail plants, etc.

What GM, which is essentially run by the Mellon and Morgan banks, has in mind for U.S. auto is indicated by the story of GM's Hyatt plant in Clark, New Jersey, which has been "sold" to the workers, and opens "under new management" Nov. 2 (see page 8), with cuts in pay, workforce, and seniority.

Earlier this year, workers at Ford's Dearborn, Michigan steel plant agreed to a cut in incentive pay, and workers at a Ford stamping plant in Cleveland, Ohio and at a parts plant in Monroe, Michigan have agreed to certain productivity-related changes in local work rules.

Chrysler Motor Company has already gotten the UAW to agree to a profit-sharing plan, in which the workers took large pay cuts and givebacks, totaling $450 million, in return for a hoped-for piece of the profits sometime later. GM and Ford have explicitly asked for this arrangement from the UAW and are prepared for a long strike, according to sources at Chase Econometrics.

GM's strategy, which was first enunciated by GM chief economist and New York Council on Foreign Relations board member, Marina von Neumann Whitman, will not work. If the top auto-maker does achieve its objective, which is nothing short of breaking the union, it will simply contribute to the lowering of living standards in the United States in the way Fed Chairman Paul Volcker has persistently proposed. At continued falling wage-levels, the consumer demand for cars will not exist, regardless of where they are produced.

GM'S HYATT PROJECT

'If you can't sell cars, sell labor the plant'

by Leif Johnson

On Monday, November 2, 800 workers at the former Hyatt-General Motors bearing plant in Clark, New Jersey will re-enter the plant both as new employees and new "owners." In a buyout by the employees that has taken more than a year to negotiate, GM succeeded in liquidating a plant that makes obsolete bearings, and adding to its own cash flow, while taking tax losses carried forward and achieving unprecedented wage and benefits givebacks.

The workers have accepted a 30 percent wage cut, pledged a 50 percent "productivity" increase (although new machinery will not be provided), abolition of seniority, and the attrition of half the workforce. The remainder bears responsibility for servicing the $60 million new debt which was incurred in purchasing the plant from GM. Still being members of the union, workers will continue dues payment.

The workers will not own the factory directly. The Employee Stock Ownership Trust (ESOT) will be run by a board of directors, of which three members will be chosen by the union, three by the lenders, and three by the management. The management group will be headed by C. D. Howell, a social-engineering specialist from Arthur D. Little, Inc., the Boston-based de-industrialization consultants.

General Motors' good fortune was relatively easily achieved. Since the mid-1960s, the company has been divided into an assembly division and a parts-supplier division. While the company kept the assembly division intact, it has contracted out much of its parts supply. Most of the suppliers, whether domestic or foreign, have been set into desperate competition against each other. As the whole auto industry dissolves, the competition increases, and supply-company managements search for cost-cutting devices—primarily wage cutting.

GM President Roger B. Smith recently declared that "just as GM has to compete with the Japanese auto companies as if they were right across the street, so does our worker have to compete with the Japanese worker as though he lived across the street."

GM informed Hyatt's union, Local 736 of the United Auto Workers (UAW), in March 1980 that it would close the plant. The union argued that management should diversify production at the plant, since the tapered bearings being produced are for rear-wheel-drive cars that are being gradually phased out. GM responded that it would put no new capital into the plant, but would search for a buyer.

Prospective buyers came and sniffed, disparaged the largely obsolete equipment, and left.

According to the union leadership, the idea for employee ownership was its own. James Zarello, Local 736's Chairman, claims that "sometime in the summer, Jim May [the Local's President] and I were discussing this problem, and we read an article in the *New York Times* about an employee buyout of a company in Iowa. We had to do something to preserve our jobs. Some of the men thought GM was bluffing, but I had watched them close plants all over the place."

The union was then led through a set of meetings with top de-industrialization consultants by Alan V. Lowenstein, an attorney in Roseland, New Jersey. Lowenstein had created an ESOT for the Paterson, New Jersey Okonite plant five years earlier when that corporation informed its workforce that it would close. Lowenstein also had the contacts to put together the $25 million mortgage loan from Prudential Life Insurance Company, $15 million revolving credit from Fidelity Bank, and $10 million in federal grants. The remaining $20 million was subscribed by GM in a block of 100,000 non-voting preferred shares, although Prudential and Fidelity have the option of converting their loans to voting equity, and also have three members on the new board of directors.

The union leadership met with the New York- and London-based McKinsey and Company, and with Booze, Allen Hamilton, finally choosing Arthur D. Little (ADL) to make a $90,000 feasibility study. The study and additional legal fees were paid by a subscription of $100 each from 1200 of the plant's 1600 workers. The ADL study said that the plant, which had been carried on GM's books for several years as a losing operation, could be made profitable if the employees would accept large pay and benefit cuts and take on Douglas Howell, the study director at Arthur D. Little, as the company's new President.

According to Howell, "we gave jobs to those who gave money to the Job Preservation Committee—a contribution that many union members would not make because they knew it would involve pay cuts—and to those we thought were skilled. Technically we are a new corporation, so we hire who we want, so that eliminated seniority."

Of the former 1,600-man workforce, 950 applied to be re-hired, of which 800 will be selected. Four hundred will retire while many of the remainder will seek to use their seniority at other GM plants in the area. The union had warned these workers that they would be unsuccessful because the other plants have been hit by heavy layoffs.

Howell is most concerned about changing employee "attitudes" to achieve the plant goal of producing as much with two shifts as was previously produced in three.

"All the workers will be sent to classrooms to learn about the new attitudes," Howell explained. "We will develop a pride about the plant. For example, we'll have a cleanup day on a Saturday, for which I'll ask the workers to come in voluntarily and we'll scrub the plant. I'll be like everyone else, and wear my overalls.

"I'll also be writing a newsletter once every two weeks, telling everyone how they are doing, what they are not doing correctly and so on."

Howell describes the Clark buyout as one of the most advanced "Quality of Work Life" experiments. "Quality of Work Life is my religion. I live and breathe it."

The purpose of Quality of Work Life is to convince employees that compensation is not as important as the "quality" of work and the right to make decisions about work, to have group discussions about production procedures, and to take financial responsibilities. Instead of having the company impose pay and benefit cuts, workers will be trained to do it to themselves.

Once in the ESOT, workers cannot pull out until they retire, since the ESOT is a trust, rather than direct ownership. According to Howell, "No worker gets any of his equity until he retires. He gets some pay bonuses based on productivity and some small profit-sharing during the year, but no ownership shares until he retires."

Many workers were convinced to accept ESOT to protect their pensions, not merely their present jobs. One 49-year-old worker told reporters last week that with 18 years at the plant he was only 6 years from GM's early retirement. Of course, his retirement benefit will be affected by the pay cut which chopped his salary from $12 to $9.25 an hour. As this worker put it, "We're in a bind."

This "bind" is the controlled environment sought by the "Quality of Work Life" labor controllers. The 29-member International Council for the Quality of Working Life meeting recently in Toronto, Canada and representing top-level psychological-warfare experts of the London Tavistock Institute and the Organization of Economic Cooperation and Development, the controlling body of NATO, have constituted a World Association for the Quality of Work and Life. According to Basil Whiting, Executive Director of the Michigan Quality of Work Life Council, "They decided it was time to take it out of the hands of the monks and give it to the practitioners." Their actual intent is being demonstrated today in Clark, New Jersey.

Conference Report

German industry in a policy debate

by George Gregory, Bonn Bureau Chief

This year's annual conference of the German Chambers of Commerce and Industry (DIHT) provided a rare spectacle: representatives of the feisty old-guard of the German industrial world tearing away, with as much of a sense of humor as they could muster, at some of their less entrepreneurial colleagues, who were being urged by DIHT President Otto Wolff von Amerongen to get "a sniff of American economic policies." Such a "sniff meant getting used to the idea of "curative bankruptcies," a phenomenon enforced here, too, to an increasing extent by historically high interest rates crimping liquidity available for investment in meagerly capitalized industries, accompanied therefore by exhortations to face up to open confrontations with the trade unions, and willingness to throw a simple temper tantrum to force more budgetary austerity on the part of the SPD-FDP Bonn government coalition.

Of course, since early spring, it has been well-known that Chancellor Schmidt has sworn that he would "never think of applying American [fiscal] methods here." Von Amerongen has, nevertheless, gone on the warpath: his DIHT, even before the annual conference, launched an astonishing attack on the German Bundesbank for having lowered the special lombard bank-refinancing rate from 12 to 11 percent as "premature, and therefore a mistake." That alone put von Amerongen on the opposite side of the fence from most of the business community, and from such figures as Professor Rodenstock, President of the Association of German Industry (BDI), Karl Klasen, former President of the German Bundesbank, Hans Fahning, President of the Association of Public Banks, and, of course, the government in Bonn.

Otto Schlecht, State Secretary in the Economics Ministry, proposed that Mr. von Amerongen get a new pair of glasses, in response to von Amerongen's accusations that the Bonn government "has no courage for long-term planning," and that this had caused German industry to lose its nerve. While Schlecht pointed out that present shifts in Bonn's budget allocations will give industry an additional 16-billion Marks in depreciation allowances, Economics Minister Otto Graf von Lambsdorf suggested the explanation that Amerongen's behavior was merely due to "high blood pressure." All this was quite refreshing.

On the other hand, when it comes to long-term, or even medium-term thinking, the DIHT meeting evinced a serious disorientation on the part of German industry. While too many visibly enjoyed gloating over the foolishness of some Social Democrats who fretted over nuclear power and wanted to build "only small nuclear reactors so that it is still possible to reverse any decisions we make," most of the industry audience merely sat dazed at the prospect of the Federal Republic's covering 18 percent of its energy requirements by 1990 with nuclear power, as opposed to 28 percent in France, even under the Mitterrand program. The same disorientation was visible in the rather simplistic appeals of some to apply the "Japanese model," which in their eyes simply meant lower wage costs. Worst of all, even though there is hardly anyone who will not admit that the reforms of German education in the 1970s under the influence of Socialist Willy Brandt have been a complete disaster, apparently the best alternative these gentlemen can think of is a return to a crude "apprentice vocational training system."

The old-timers parry

Back in the spring, von Amerongen had already made his move to take up the banner against the Schmidt government. Just at the time when the IMF surveillance team was demanding even more drastic budget slashing than Bonn was planning, and making it known that the IMF was thereby acting in support of both Paul Volcker in the United States and the interest-rates policy of the Bundesbank, von Amerongen lined up with the trumpet-call that the "1980s will be the decade of high interest rates," ostensibly because such masses of capital would be needed to finance synfuels projects that nothing would be left over. Ironically, von Amerongen made that move just as his own company, the Otto Wolff A.G., formerly a decent-sized steel-trading firm, announced that it was getting out of the steel business altogether in favor of diversification into electronics and other "sun-rise industry" fields, because it could no longer afford to finance steel inventories at 14 percent interest rates.

This time around, von Amerongen was out to rabble-rouse among his industrial colleagues. His claim that German business is losing its nerve was intended to convince Bonn that major powers in German industry are renouncing their loyalty to the Schmidt government, and von Amerongen backed this up with the pronouncement that GNP growth for Germany in 1982 would be nowhere near the 2.5 percent previously predicted by the OECD, IMF, and the Bonn Economics Ministry itself. Therefore, the Bonn government would have to slash away at the budget, and industry would have to slash away at wages.

The fact that corporate earnings in the Federal Republic have dropped—according to an analysis by the German Bundesbank, by 15 percent in the first half of 1981 below the first half of 1980—and high interest rates have increased financing costs and pulled nearly 30 billion deutschemarks out of corporate treasuries into bank deposits, securities, and an untold amount of similar foreign hedging-operations, has produced a pronounced squeeze on investments overall. Furthermore, the overwhelming proportion of current investments is going to oil-substitution and energy conservation in an effort merely to cut the energy-cost factor in production. A number of DIHT conference participants argued, therefore, that the only remaining place to cut to gain investment latitude was wages, and the "Japanese model" was usually appealed to in support of the argument.

As simple-minded as that argument was, the old-guard countered with some significant if unintended help from the Brussels European Community Commission, whose representative made it clear that the perspective being offered by his and Amerongen's crew was for an outright de-industrialization of Europe. Heinz Duerr, President of AEG Telefunken and one of the younger old-guard members, stated that "the problem we are facing is that our industries simply do not produce enough; we are producing way behind our actual capacities. If anyone wants to refer to the Japanese model, let me tell you that it is neither better marketing nor lower wages that make Japan more competitive. It is the fact that Japanese industries—and I can say that for electronics in particular—produce in large volumes. We in Germany have to see to it that our industries run at high capacities."

That opened up a furor of debate, with Herr Kirchfield of the machine-tool industry attacking the notion that, under the force of high interest rates, they can afford to get out of production and begin to export more "knowhow" services, since obviously "construction of industrial facilities is seen as the business card proving the capability of transforming scientific and industrial technological progress into production." The main kind of program needed, he said, was to make sure that financing was available for high-technology exports, and that also meant shoring up the federal export-insurance company, Hermes.

This was an excellent backdrop for the horror stories and perspectives presented by a representative of the Brussels EC Commission, who said that "there is a long-term trend toward the decreasing competitiveness of European industries, and structural reforms will decrease by 90 percent in most cases" of these no-longer-competitive industries.

To that, Heinz Duerr countered, "If that is really true, then we are obviously well-advised not to go for that kind of solution," and went on to argue that the only applicable policy was to assure that higher-skilled jobs produce at their appropriate capacities for output, so that "the wage-cost factor reduces itself naturally to its proper level. That we can live with."

When people still insisted that the present American policy would still be a good experiment to try, Economics Ministry State Secretary Schlecht bluntly characterized the American economy thus: "The American economy is a ship sailing under the flag of supply-siders, but the crew at the rudder are the demand-siders, and the rest of the crew on deck just throws out the anchor to stop the money from flowing. You can't run a ship like that."

Education myopia

As much fun as some of the Industry representatives had giggling about the incompetence of certain Social Democrats, when North-Rhine Westphalia Christian Democrat Kurt Biedenkopf took the stage to make his pronouncements on education, the fun was over. Anyone who was thinking of a change in government in 1984 and bringing the CDU in became suddenly less jovial. "I think what the youth is doing is good," he babbled. "They are experimenting with small models of life, and I like that, because I think our best industrial policy is to decentralize, create small businesses."

All of German industry is acutely aware of the lack of skilled manpower (in which category, in fact, unemployment rates reach 2 percent at most—i.e., full employment), and the technical universities generally fill less than half of their potential enrollment. Nevertheless, the DIHT itself tried to present a solution to the crisis that represents nothing but an expanded apprentice system of vocational training, a system which has already traumatized the labor force because of the "reschooling" of operatives from one specific skill to another.

Some, like Duerr, Rodenstock, and Manfred Lennings of Gütehoffnungshütte, pointed out that German-language skill, foreign languages, mathematics, physics, and so forth were being given short-shrift, and that therefore, no basis for future skills could be gleaned from the educationl system. However, such self-evident observations remained at the same level as their instinctive rebuttals of von Amerongen. Industry as a political force is clearly a long way from the institutionalization of the educational system launched by the von Humboldt brothers, and incorporated into the Göttingen association of classicists, physicists and industrialists at the turn of the 20th century in Germany. The tragedy such myopia presented was all the more painful, insofar as some of today's German industrial leaders are themselves products of the Berlin-Göttingen-von Humboldt system of education in science and the classics.

Energy Insider

The 'Greenies' and who controls them

by William Engdahl

The remarkable thing I have seen in West Germany is the extent to which the same individuals and think tanks as in the United States have largely succeeded in bringing nuclear power development to a screeching halt. Since the mid-1970s, and most intensely since the early months of the anti-nuclear Carter administration, the West German nuclear program has suffered a de facto moratorium. The first visible reason for this energy sabotage centers around the operations of the anti-growth environmentalists, called *die Grünen* (the greenies) here.

Die Grünen, significantly, have been financed by dollars from the same coffers that set up the anti-growth radicals in the United States in the late 1960s. These funds initially flowed from the boardrooms of McGeorge Bundy's Ford Foundation to lower levels of operatives, such as Petra Kelley. Kelley, now a functionary with the European Community in Brussels, was formerly an aide to anti-growth, pro-drug legalization Sen. Edward Kennedy. She helped in setting up the umbrella anti-nuclear operation in the early 1970s known as the European Movement Against Nuclear Power. Kelley works with die Grünen, together with such a collection of fruitcakes as "ex" neo-Nazi August Hausleiter. Josef Beuys of the so-called Free University for Creativity, himself a devotee—along with such "pro-nuclear" industrialists as Peter von Siemens—of the neo-fascist anthroposoph organization in Bavaria, is another leader of die Grünen. And the Frankfurt Zoo's Bernhard Grzimek, an "animal lover" who was formerly Nazi Minister for Food Distribution under Hitler, has helped to train key leaders such as Herbert Gruhl of die Grünen over the last decade. It is not surprising, then, that older German citizens, who hold chilling memories of the rise of a similar anti-science movement out of the beer-halls of Bavaria some 50 years ago, refer to the current movement as the "green fascists." Only the color of their shirts is different.

Die Grünen in Germany is spawned out of the aristocratic sewers of the Club of Rome; Amory Lovins's Friends of the Earth/Europe, headquartered in London; Julian Huxley's International Union for the Conservancy of Nature at Morges, Switzerland; and the World Wildlife Fund, now headed by John Loudon, the former head of Royal Dutch Shell. The movement got its substantial seed capital from such sources as IBM, Ford Foundation, Robert O. Anderson's Atlantic Richfield Foundation, and the Volkswagen Foundation.

However, such an anti-growth movement could hardly have succeeded by itself, funding notwithstanding. It has depended for its success largely on internal subversion against Chancellor Schmidt's own government. The most blatant source of this subversion has been Interior Minister Gerhard Baum. Baum, known to be soft on terrorism and drugs, also controls government licensing of nuclear power plants.

To illustrate the absurdities of the current situation, one nuclear industry source told me that an electric utility must prepare for Baum's office and other officials some 300 pounds of various environmental impact studies and related engineering-safety studies just to license an ordinary coal plant. And the experimental high-temperature nuclear reactor required more than 6,000 pounds of such paperwork. Little surprise, then, that progress is infinitesimal. The predictable result of such nonsense is that a typical West German nuclear plant costs more than twice that of its counterpart in France where licensing is streamlined.

Today, West Germany, with 13 nuclear plants on-line, ranks a far-distant second in European nuclear capacity, having 8,250 megawatts, compared to France's approximately 14,000 megawatts; in 1979, Germany was ahead of France. In addition, with West Germany now importing large amounts of both coal and oil, nuclear energy is the only rational alternative.

This month, official debate began on the latest Federal Energy Plan. Schmidt has already announced a commitment to speed up the nuclear-licensing process. He has also announced plans to complete two to three new nuclear plants each year. This would be a positive shift, albeit far less than needed to gear up German exports for developing-sector industrialization.

A key question is the fate of such advanced research projects as the high-temperature reactor (HTR), which has the capability to double the potential overall energy efficiency for nuclear-generated power from 30 percent to about 60 percent of total energy. The process heat from the HTR, as well as the ability to use the HTR to make energy-intensive economical synthetic gas and hydrogen fuels, makes the future of this program crucial.

Schmidt's cabinet has resolved to continue construction of the research and development facility for the 300 megawatt prototype high-temperature reactor, and the equally important 300 megawatt fast-breeder demonstration project at Kalkar.

World Trade by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
$31 mn.	U.S.A. from Japan	Fujitec is building automated plant in Lebanon, Ohio to produce 3,000 elevators and 600 escalators per yr. for U.S. and Canada. Plant will include industrial robots, numerical control machine tools, and 500 American workers. Will have world's tallest elevator research tower, the height of a 100 story building.	Japanese bring "high technology" to Ohio.
$438 mn.	Egypt from West Germany	Agreement for 2 nuclear reactors signed shortly after Sadat murder. KWU will provide two 1,000 megawatt units after details worked out.	Shows commitment to Egyptian stability.
$674 mn.	Brazil from U.K.	Brazilian Planning Min. Delfim Netto signed memorandum with U.K. for one of biggest British-Latin American trade deals. Delfim's policy is to tie capital-goods orders to concessionary financing and extra bank loans to cash-strapped state agencies, permitting them to pay bills to local suppliers. This, for example, cuts hostility of Brazilian shipyards to foreign orders. Concessionary finance package signed was for $1.2 bn., including $350 mn. govt. credit aid.	British tried to buy off India, Mexico, and Brazil with sweet industrial development deals on eve of Cancún summit.
INCLUDES:			
$200 mn.	Sunaman from British Shipbuilders	4 roll-on/roll-off ships	Needed for Brazilian export push.
$200 mn.	from Klockner of U.K./NEI	Conversion of electric plant from oil to coal and building new coal mine.	Energy substitution.
$130 mn.	from Ferranti	Electrical systems for 4 Brazilian-built corvettes and a training frigate.	Brazilian navy.
$70 mn.	from GEC	Urban rail system for Recife.	
$590 mn.	Thailand from Scandinavia	Fertilizer complex to produce 1,500 tons per day ammonia awarded to Haldor (Denmark), Norsk Hydro (Norway), and Swedyards consortium. Beat Mitsui (Japan) and Agrico (U.S.A.)	Nordic Investment Bank financing
$100 mn.	Venezuela from U.S.A.	Lagoven, state-owned oil company, ordered 2 cantilever drilling barges from Blocker of Houston. Will be made in U.S.A. and towed to Lake Maracaibo in late 1982.	Letter of intent signed.
$400 mn.	Libya from Europe	Libya has bought 10 European Airbuses.	
	Indonesia from Japan/U.S.A.	Govt. has authorized Komatsu (Japan) to build 1,000 bulldozers per year in joint venture with local firm. Caterpillar has similar authorization and will be competing with Komatsu in this growth market.	Komatsu will also export Japanese steam shovels to U.S.A., competing with Cats and Bucyrus-Erie.
$265 mn.	Nigeria from Switzerland/France	Aprofim of Geneva was awarded contract for design and construction of 1,000-room Nicon Noga Hilton hotel in brand-new Nigerian capital of Abuja. Hotel being built by National Insurance Corp. of Nigeria with loans from private and French govt. banks.	
$268 mn.	U.S.S.R. from West Germany/France	Soviets have ordered rolling mill for steel complex near Kursk from Schloemann-Siemag and partners including Stein-Heurty of France.	

Free zones to cut world lending

International Banking Facilities for the United States mean "planned shrinkage" of credit and trade.

When International Banking Facilities (IBFs) go on-line Dec. 3 in major U.S. cities, the Federal Reserve and its controllers at the Swiss-based Bank for International Settlements are expecting to enforce a "shrinkage" of world credit.

The Federal Reserve Governor, Henry Wallich, who attends monthly BIS meetings in Basel for the Fed, recently bragged about this to *EIR* Economics Editor David Goldman. Asked if IBFs would help the Fed to limit world lending, Wallich replied "You're damned straight I think they will. The whole idea is to repatriate all those dollars and get them back where we can control them."

As Wallich implied, when they become legal Dec. 3, IBFs, also known as Free Banking Zones, will allow bankers to do in New York and other U.S. money centers what they now do in the totally unregulated offshore dollar markets in London, Singapore, Hong Kong and the Caribbean. In the offshore markets, U.S. dollars are borrowed and lent totally without reserve requirements, federal regulation, country lending limits, deposit insurance, and interest-rate ceilings. This is banking at its most unsafe.

It is also banking at its most lucrative in the short term, and there are over $1.2 trillion so-called Eurodollars out there. Now the Fed and the BIS expect this huge amount of cash will start to stream back into the U.S.

As world liquidity is increasingly concentrated under the Fed's jurisdiction, the Fed and BIS believe that they can tighten credit on the world banking system as a whole, just as Paul Volcker has done to the U.S. economy. Since the Fed is the world's most effective arm of the BIS, this would amount to putting the world dollar credit system under a BIS dictatorship.

IBFs could also mean a major foreign-policy blow for Ronald Reagan, forcing him to preside over the "dethroning" of the U.S. dollar as the world's reserve currency. The Swiss gnomes at the BIS have long desired to remove the national independence America still gains from the dollar's world role; BIS Executive Director Alexandre Lamfalussy warned in Brussels last month that the dollar may be in for "serious turbulence."

The fact is, IBFs provide a sort of "bomb shelter" into which the Fed could withdraw dollar assets in the event of a major dollar crisis such as that of 1977. Other crisis possibilities abound, such as the shaky Polish debt negotiations, which all but collapsed this week; a breakdown might trigger a foreign run on U.S. dollars or U.S. banks. Given IBFs, under such circumstances the Fed would just encourage U.S. banks to pick up their marbles, walk away from their foreign subsidiaries with all those messy LDC loans, and bring their assets back to the United States.

That means IBFs, as German bankers warned at the end of October, have the potential to "take apart" the entire postwar dollar-based monetary system. It may divide the world into a shrunken dollar bloc, largely located within the United States, and a host of other currencies, whose nations would then be forced to take up the world credit role of the dollar.

German bankers have already warned the Fed that Volcker and Wallich are "unilaterally taking apart" the monetary system, Fed officials told *EIR* Oct. 28. Two years ago Germany proposed a joint U.S.-German plan to control runaway offshore lending; but now the Fed is going ahead "unilaterally" with IBFs to cut back dollar credit. "They feel we have abandoned the principle of international negotiation, " the Fed man said, adding "that the rug was pulled out from under them, and that we have done something advantageous to our own banks at their expense."

In response, the Fed said, Chairman Wilfred Guth of Germany's Deutsche Bank has proposed that German banks set up their own offshore market in German marks in the Duchy of Luxembourg, to replace lost Eurodollar business in London. Deutsche Bank has announced majority purchase of the Banque de Luxembourg, and invited French depositors fleeing the Mitterrand government to deposit in Luxembourg.

Bankers also met with the Fed Oct. 28 to explore an even more dramatic proposal by Bank of America that U.S.-based IBFs be allowed to take non-dollar foreign currency deposits. This will further erode the dollar and the world credit system, breaking it up into unstable blocs and making trade finance between nations a nightmare.

Tokyo's new market

Quietly and steadily, Japan is becoming a major force in international gold transactions.

Japan's Ministry of International Trade and Industry, in the purest spirit of Japan's brilliant trading abilities, took the moment of greatest weakness in the international gold price to announce the opening of a new gold exchange in Tokyo. Earlier this year the Japanese became the most visible source of demand for physical bullion, and the trade ministry's approval for an international gold exchange makes it possible for Japan to conduct substantial accumulation without the previous reliance on Hong Kong, which the Japanese found supremely distasteful.

To associate the sudden Japanese interest in gold purchases, which is occurring at the broadest base of the Japanese population—two dozen or so new retail facilities for the metal's sale are now opening in Japan each day—with the motives for gold hoarding that occur in France, or even the United States, would be a grave misjudgment. Not only do the Japanese still enjoy a single-digit inflation, a remarkable achievement for a nation entirely dependent on imported energy sources, but the Japanese population trusts their financial institutions in a way that the French, and increasingly the Americans, do not.

It is wise to recall that the Japanese are a population which dutifully handed their private gold hoards over to the central government in 1947 in exchange for paper, only two years after the conclusion of the world war.

For political reasons, the Japanese do not choose to accumulate a substantial governmental gold reserve. Pressure from the United States Treasury was sufficient, while France, Germany, and Italy drained America's gold reserves during the 1960s, to persuade the Japanese to forego exchange of their growing dollar reserves for gold. It is not the Japanese way to enter into an open quarrel with the United States. Neither are the Japanese so foolish, however, as to enter the 1980s without a substantial gold reserve. Well-informed Japanese sources explain simply that individual wealth of this sort is national wealth, whether it be in the backyards of Japanese farmers or in the vaults of the central bank. Should the government ask for it, the Japanese population will happily turn their gold in for low-interest, long-term government bonds, just as they did in 1947.

Moreover, the reported volume of Japanese gold purchases—97 tons during the first nine months of this year—reflects only part of what the Japanese have actually bought. Relatively insignificant buyers during the big 1980 price runup, the Japanese are aware that this may be the last chance to purchase gold at a price less than the marginal cost of new gold production (or about $500 per ounce, according to Consolidated Gold Fields). Should the dollar run into major trouble over the next year, as appears likely, the price would run up considerably further.

On Oct. 21, for example, Japanese brokerage firms placed a several-page advertisement in West Germany's leading daily, the *Frankfurter Allgemeine Zeitung*, to argue to their German counterparts that the strong dollar, "based on America's trade surplus and leading strategic role," was a thing of the past, and that other currencies, including the mark, yen, and French franc would slowly replace many of the dollar's functions. But the Japanese are skeptical of the sort of pure "multi-currency" system that the Bank for International Settlements likes to talk about, and expect the weakness of the dollar to necessarily lead to a fallback onto gold.

Therefore the Japanese are engaging in a gold-accumulation campaign almost without precedent in recent history. The 100 tons or so reported may reflect a little more than half of the actual totals, Japanese experts say, because Japanese Treasury reporting requirements on gold purchases are extremely lax.

Furthermore, the cited figure reflects only the gold actually imported into Japan. It does not include purchases of gold, gold shares, or gold mines and undeveloped deposits by Japanese nationals, including Japanese trading companies, in a dozen different areas of the world. Actual purchases of gold by the Japanese this year probably amount to between $4 and $5 billion at current market prices, thus perhaps $10 billion at the likely price one year from now. I would not be surprised if the Japanese were planning to mine gold on a scale surpassed only by South Africa and Russia as well.

Business Briefs

Fiscal Policy

Four-year farm bills go to conference

More than a month after the expiration of the 1977 farm legislation, two widely differing versions of a new farm bill will go to a House-Senate conference that is expected to begin Nov. 4. At press deadline the House had named its 17 conferees, but the Senate had yet to move. House conferees will be joined by nine members of the House Foreign Relations Committee to work on the PL-480 "Food for Peace" portion of the farm bill.

The House finally approved its version of the farm bill on Oct. 22.

The administration quickly condemned the House bill as "a budget-busting piece of legislation," and threatened a veto if its support provisions prevail in conference. The Senate version, passed in September, is acceptable to the administration.

The most controversial issues to be resolved in conference center on the dairy program and crop loan-support price and target-price levels. The Senate bill sets dairy support-price level at the present $ 13.10 per hundredweight, with provisions for annual adjustment between 70 and 90 percent of parity, providing that program outlays do not exceed $750 million. The House bill calls for a $13.10 per hundredweight support price in 1982, which rises to at least $14.57 in 1983.

On the crop-loan and target-price programs the differences are significant. The wheat loan rate and target price in the House bill are set at $3.55 and $4.20 per bushel respectively; and in the Senate bill at $3.50 and $4.00. Corn rates are set at $2.65 and $2.90 in the House bill, and $2.50 and $2.70 in the Senate version.

There will also be debate on the peanut and sugar programs. Both were key elements in White House wheeling and dealing for Southern votes on the budget and tax package.

Both bills also contain stringent meat-import inspection standards, opposed by the administration for interfering with free trade.

The House Agriculture Committee Chairman, Kika de la Garza, denounced the administration's "budget-busting" charges. "The bill is under budget for fiscal 1982," he said, and pointed out that the projections for the bill's cost over the next four years—pundits like to say that the House bill will cost $16 billion while the Senate bill will cost $10 billion—aren't "factual."

Econometrics

Forecaster warns Reagan against Volcker

According to the winner of the First Annual Economic Forecasting Award, James L. Pate, "The monetary policy of the Federal Reserve and the course of high interest rates will determine the depth and duration of the economic downturn. The present excessively high level of interest rates is in direct conflict with the President's economic program."

In a private interview with *EIR* in Washington, where he received this prestigious new award on Oct. 28, the Pennzoil Vice-President and Treasurer elaborated further on his public warnings to the President. "I respect the quasi-independence of the Federal Reserve System, but the administration has the right—indeed the obligation—to speak out with regard to monetary policy. Paul Volcker was not elected. President Reagan was elected, in part for his economic philosophy. So it is a matter of legitimate concern in the White House whenever the Federal Reserve is pursuing policies that result in interest rates that nullify the very things the administration is trying to achieve. It is not at all improper for the President or the Treasury Secretary to express such views.

"The Federal Reserve is a creature of Congress. It is very crucial to many people's lives and the President's program. My view is simply that the present excessively high interest rates are dragging the economy down deeper and deeper. As growth declines, this just complicates the problems for the federal budget."

The significance of such advice coming from this source is not only that Pate's empirical forecasts for the economy were surprisingly accurate when those of the President's trusted economic advisers—the same advisers pushing continued support for Volcker—are now publicly recognized as pathetic frauds, but also because Pate considers himself a very strong supporter of the President's economic program.

Pate's predictions for the coming year? He told *EIR*: "I saw Volcker's comments the other day, and what he said is he plans to continue tight money. I do think interest rates will remain high, though declining appreciably. But by my predictions, they will still be too high to allow a measure of success to the President's program."

Agriculture

Farm income heads for all-time low

Net farm income in 1980 dropped a full 39 percent, from $33 to $20 billion, according to the USDA income and balance-sheet statistics for the year. Returns to operators were slashed by half, from $26 to $13 billion in 1980.

The plunge in net farm income, the critical margin of income from which new capital investments are drawn, is the result of a violent cost/price squeeze. While cash income from farming dropped by $6 billion, farm-production expenditures have continued to soar. Production expenses for 1980 hit $130.7 billion, up 10 percent from 1979 and double expenditures for 1973. Fuel, fertilizer, and interest charges increased the most.

Significantly, interest charges are now the single largest cost component for farmers. Since the 1940s parity policy was dismantled, American farmers have been forced to produce at below the cost of production, mortgaging their equity to make up the difference with borrowed capital. Today, producers have to rely on borrowed money for 23 percent of their *operating capital*—compared to 5 percent just 10 years ago!

Projections for 1981 net farm income have been progressively reduced by USDA from the $30 billion to the $20 billion range. Production costs for the major crops are estimated to have risen another 15 percent, and crop prices have dropped sharply since the beginning of the year.

If this trend holds, 1981 will be the second disastrous year in a row for American farmers, with real spendable income per farm at the lowest level since 1934.

Foreign Exchange

Currency controls predicted for Europe

The election of leftist governments in Europe may accelerate the adoption of exchange controls, predicted David Sandberg, chief currency-management service economist for Bankers Trust Bank Oct. 30. "France has already had several items of exchange controls in existence since Mitterrand was elected. Until a few weeks ago, (I haven't checked since) a French company could not buy any forward cover for currency," Sandberg continued. "It is likely that other governments will move to adopt exchange controls if they elect Socialist governments. Portugal is holding elections soon and it looks like a Socialist will win there. In Greece, exchange controls will become necessary if the new Socialist government of Greece follows the program of Mitterrand of increasing government expenditures to increase employment, which tends to depreciate the currency, unless exchange controls are adopted."

Sandberg also said that exchange controls are likely in Britain. "The government in Britain announced last week that they are making an official study on the need for exchange controls to try to stop capital outflow. Of course, adopting exchange controls may conflict with the ideology of Margaret Thatcher, but she may be thrown out of government," he concluded.

Transportation

Burlington may abandon farm-service track

Burlington Northern Railroad Company, serving the West and Midwest, is pushing for abandonment of 4,160 of its 24,600 miles of track. Since 1,140 miles of threatened trackage lies in North Dakota, farmers and officials there are particularly worried.

North Dakota Agriculture Commissioner John Jones last month met with the Interstate Commerce Commission Chairman Reese Taylor, and has invited ICC and USDA officials to the state to witness the potential harm caused by large-scale abandonments.

After Jan. 1, 1982, the railroad, which in 1980 was separated from its 7.5 million acres of land and mineral rights by the creation of a holding company, will press to abandon as much non-mainline track as possible. Without the income from the land and mineral rights, the railroad, though profitable, can show many more losses than in the past. These losses, under provisions of the Rail Act of 1980 can then be the basis for rapid abandonment of branch lines.

If Burlington is allowed to abandon the 1,140 miles of track in North Dakota, thousands of farmers will be left more than 50 miles from rail connections. Some farmers will find themselves as much as 200 miles from the nearest rail terminal.

In an Oct. 2 public hearing, North Dakota Tax Commission Kent Conrad said, "I have found in talks with many North Dakotans, a fear that rail service has become a secondary interest of Burlington Northern and that the company considers mineral development over rail maintenance when making investment decisions. This thing is really heating up. Burlington Northern has been too arrogant too long."

Briefly

● **EDWARD HEATH,** former British Prime Minister and top British intelligence operative, announced Oct. 28 that he is forming a private International Research and Intelligence Service. Heath announced IRIS, which has hired 120 former CIA agents, will have access to the CIA's computer in Langley, Virginia, and will sell its intelligence to private companies.

● **ABDUL TAHER,** chief of the Saudi state oil company, Petromin, told Japanese Prime Minister Zenko Suzuki that there "is a very big role Japan can play in the cause of stability of the Middle East" by transferring industrial technology to aid economic stability in the area, according to Jiji press. Taher visited Japan Oct. 28 to prepare for a visit to Tokyo by Saudi Crown Prince Fahd.

● **THE JAPANESE** government of Zenko Suzuki announced 53 billion yen ($250 million) worth of debt moratoria Oct. 29 on debts owed to Japan by the governments of Madagascar, Senegal, Uganda, Zaire, and Liberia.

● **POLAND** is making preparations to apply for membership in the International Monetary Fund, according to Reuters on Oct. 28.

● **TOHRU MOTO-OKA,** professor of engineering at the University of Tokyo, revealed that the Japanese Ministry of International Trade and Industry will invest $50 million in the development of a fifth-generation computer. Its main use will be to increase industrial efficiency and facilitate tool and production-line design.

● **THE SALOMON BROTHERS** Center for the Study of Financial Institutions has announced that it will hold a conference Nov. 5-6 with the title, "Crises in the Economic and Financial Structure: Bubbles, Busts, and Shocks." *EIR* wonders if Salomon Brothers is expecting Sally Rand to show up.

How to transform U.S. schools: the curriculum question

by Carol White

The present crisis in education is the product of the policies of two decades, which have affected not only funding but have vectored what is taught away from traditional curriculum. The result has shown on both sides of the spectrum: in the accelerating rate of high school dropouts, drug users, and functional illiterates; but also in such comparative statistics as those which match U.S. performance in mathematics and science education to those of the Soviet Union. Is it less than a national emergency when the Soviet Union graduates 300,000 engineers and scientists each year while the U.S. has a freshman-class enrollment of only 100,000, many of whom are, in fact, foreign nationals who plan to return to their native lands?

Clearly something must be done, and quickly; but even were it possible, it is in no wise adequate to merely unravel the tangle: to somehow get back to the situation of U.S. education in the immediate post-Sputnik period of the early sixties, when, with government sponsorship, mathematics, science, and language education flourished. It was precisely then that American education suffered its gravest damage, with the systematic introduction of curriculum revisions such as the "new math."

When we look at the courses in lifeboat ethics, consumer economics, sex education, and conservation presently being taught, we can almost sympathize with the supporters of the Moral Majority who advocate a return to "basics"; but such apparent palliatives are no answer to the challenge posed by the present Soviet success in training a growing scientific elite. Nor should it be overlooked that *every* Soviet high-school graduate must complete a two-year course in the calculus, along with four years of training in physics, three years in chemistry, and other physical sciences.

The post-Sputnik impulse to revitalize curricula in the United States was in itself healthy: the problem was that the model for that revision was taken from the French structuralist school—Jean Piaget—and British logical positivism—Bertrand Russell—when, in fact, the United States had an appropriate model at hand, by reflecting on the essential impetus to our fusion and space programs given by scientists either German-born or German-trained.

Carlos de Hoyos/NSIPS

A sixth-grade student in New York City explains a model of a magnetic-confinement nuclear fusion device.

As Lyndon LaRouche wrote in the Aug. 11, 1981 installment of his *EIR* military policy series, the German educational system, prior to the 1960s reforms of Willy Brandt, was a model for the training of youth. This program, properly associated with the name of Wilhelm von Humboldt, had a century-and-a-half record of unparalleled success, not only in producing genius, but also a cadre of scientists and engineers capable of enriching the discoveries of geniuses such as Bernhard Riemann.

By the time of the First World War, 8 percent of German youth who had graduated from gymnasia (academic secondary schools), had received an intensive education centered around the study of the Greek language, physical geometry, classical poetry and drama, and universal history, taught by the educators of the standard of the best university professors. It would have been 12 percent, but post-world-war attrition; nonetheless, up until 20 years ago, German gymnasia still operated under a curriculum modeled on the Humboldt educational reforms, and today there is a movement under way in Germany to restore the curriculum and revoke the Brandt liberalization of educational standards.

The key to reversing the present disastrous trend in American education is to be found in the core commitment of the Humboldt curriculum to the study of language, and particularly Greek, as the repository and generator of the capacity for concept-formation.

A person who cannot articulate his or her thought, to that extent cannot think. A child exposed to rock music, pornography, and the banalities of television programming, and their reflection in the schools under the guise of popular culture, is doubly deprived: he or she is continuously exposed to the articulation of gibberish or worse, but he is also being denied access to the history and accomplishments of civilization by which to gauge himself morally, as well as functionally.

The study of English through the medium of the King James Bible, the plays and poetry of Shakespeare, the writings of Milton, and the writings of Benjamin Franklin, Alexander Hamilton, George Washington, and Abraham Lincoln—to give only a partial list—must become the core of the high-school curriculum. Every child must be offered, as well, the opportunity to master the Greek language and its poetical and scientific writings in order to appreciate how Greek developed in conceptual richness, as the thought of that people emerged from the time of Homer to Plato. At least one modern language should also be taught.

If language is taught properly, it implies the study of history, for example, through the medium of the plays of Friedrich Schiller and William Shakespeare; but every student must know the sweep of history, as well as grasp in-depth knowledge of American history. Again, if properly taught, the study of the topology of language, the manifold degrees of freedom expressed by its moods, cases, tenses, and voices, is a prerequisite to a deep understanding of the languages of physical geometry.

If we are to maintain our public schools—and we must—it is not enough merely to restore our schools. We must give our youth the moral tools necessary to rebuild the nation.

Federal funding's twisted history

by Freyda Greenberg

Cuts in the federal budget during the current administration have focused attention on the nation's ability and commitment to provide education. Fiscal austerity at the federal, state, and local levels now poses the frank question, "Will American public schools close their doors?"

It would be a mistake, however, to blame the Reagan policy for destroying, in one fell swoop, the largest free public education system in the history of mankind. It would also be a mistake to succumb to the mythology perpetrated by "budgetary experts" like OMB Director David Stockman, that "human services" be subordinate to the "cold, hard realities" of economic tides. The principles on which the United States was founded make most emphatic the responsibility of the government to promote the well-being of the population in the present generation and the generations to come. If Mr. Stockman's economic policies violate those principles, then his economic policies are wrong.

Postwar decline

In 1958, the National Defense Education Act (NDEA) was instituted. The shortcomings of the U.S. education system were properly seen as a threat to national security, and grants were provided for the improvement of natural-science and foreign-language education. These grants were "categorical" in the sense that funding was provided for stipulated subjects—the aim being to produce scientists, engineers, and teachers.

In 1965, however, the "Great Society" planners altered the meaning of "categorical." Instead of stipulated educational subject-matter and content, aid was directed to *categories of the population* deemed disadvantaged, ranging from minorities to handicapped. Financially strapped school districts, in order to receive federal aid, literally had to shift funds out of educational programs and into "special programs" amounting to social work for the disadvantaged part of the student body, because these programs were now mandated by federal law, while math, science, foreign languages, music, and other subjects that are the heart of education were not. As economic difficulties deepened, the social work programs could not be cut, so science, math, and so forth were.

By the mid-1970s, a crisis became apparent as studies documented a decline in the performance of public-school graduates. It was found that by 1975, twelve out of one hundred 17-year-olds were functionally illiterate. In 1975, only 53 percent of 17-year-olds knew that each state had two Senators and that the President did not appoint the Congress.

During the same period, only 20 years after NDEA was enacted, concern for educational excellence was superseded by concern about whether children would return from school each day. A 1977 Department of Health, Education and Welfare survey of violence found that although children spent 25 percent of their waking hours in school, 40 percent of robberies and 36 percent of assaults on teens occurred in school.

Plummeting career aspirations, an expanding drug subculture, and low educational standards had combined to make school the most dangerous place for a child to be. Such studies only confirmed what parents and teachers across the country already knew: we have come a long way down in a very short time.

The causes

There were two reasons for America's educational decay in the wake of the 1958 recession. One was the deepening industrial decline, which consistently eroded the tax base at the local level. The second was the deliberate subversion of school curricula, partly by means of federal aid itself.

The period into the 1960s was characterized by a great demand for education. Eyes were focused on a record percentage of college-bound children. NDEA continued to provide improvements in laboratory science and foreign languages and libraries through categorical grants in these areas.

At the local level, economic conditions were such that voters readily approved school bond-issues to improve education. There was no unemployment among, but rather a great shortage of, teachers, engineers, mathematicians and scientists.

Then came Lyndon Johnson, the "Great Society," and the Elementary and Secondary Education Act (ESEA) of 1965. The problem with the "Great Society" in general was that, true to its design by "post-industrial society" architects, it worked against capital formation and the growth of basic industry, against broad-based scientific and technological progress for the nation. In the same way, ESEA worked against educational excellence.

Contrary to some, the problem was not too much federal funding, nor federal funding itself. The problem was that the Johnson administration used federal funding to transform the schools from centers of education into centers of social-welfare work. ESEA focused federal aid away from the essential educational curricula emphasized by the NDEA, and gave grants for special programs targeted on specific categories of the population: handicapped, minorities, under-achievers, those with speech defects, and so forth.

At the same time, amendments added to the NDEA itself in 1965 subverted the purpose of its categorical grants for science and foreign languages, by adding "other critical subjects." As economic difficulties worsened, science, math and foreign languages were subject to budget cutting, lacking the protection NDEA might have provided prior to the "Great Society" amendments.

Economic conditions were worsening steadily. Industrial contraction, eroding local property-tax bases, cut into school budgets. The Nixon administration's federal revenue-sharing shifted administrative responsibility more heavily to states where tax revenues were continuing to suffer. In the same year, only 47 percent of school bond issues were approved, compared to an average of 72 to 74 percent throughout the 1960s.

Beginning in 1969, capital outlays for education, as a percentage of local, state, and federal expenditures, fell from a 1950s average of 20 percent to 11.5 percent. By 1977, it was down to 6.5 percent. Instructional costs, reflecting the peak in teachers' salaries, rose to their all-time high of 58.6 percent in 1971-72. Outlays for physical maintenance increased in the same period: fixed expenses for plant maintenance, fuel and so forth increased from 5.8 percent in 1959-60 to 8.5 percent in 1971-72, and to 11.5 percent in 1977-78. Other service

An emergency proposal

The following legislation was drafted by EIR *Economics Editor David Goldman for the National Democratic Policy Committee, a political action committee whose advisory board is chaired by* EIR *founder Lyndon H. LaRouche, Jr.*

Be it resolved in the House of Representatives and Senate of the United States assembled that this act shall be known as the National Education Emergency Act of 1981.

Findings

Congress finds:

1) That the financial condition of state and municipal governments across the United States is at a point of crisis without precedent since the decade of the 1930s;

2) That the financial crisis of municipalities and entities thereof responsible for education threatens the nation's capacity to raise a new generation with the outlook, skill, and goals expected of Americans;

3) That the mass closing of schools, firing of teachers, and delaying of school-system openings constitues a grave, immediate, and intolerable threat to the welfare of this nation;

4) That the present conditions of municipal finances have led to a national educational emergency;

5) That although the solution to the educational crisis lies broadly in a national economic recovery program, the emergency nature of present conditions demands immediate action on the part of the Congress of the United States.

Title 1. Determination of Crisis Conditions.

Section 1. The Secretary of Education shall accept representations from duly organized School Districts that a "state of crisis" be declared for such Districts.

Section 2. A State of Crisis shall be defined as a condition in which the absence of financial resources will compel School Districts to eliminate major portions of educational services, defined as closing of schools or firing of teachers.

Section 3. The Secretary of Education shall declare a School District to be in a "state of crisis" upon determination that such School District's inability to obtain financial resources is due to circumstances outside the District's control. Such circumstances shall be limited to reductions in state or federal aid to education, inability to raise local taxes through referenda, and inability to obtain credits through the private financial markets.

Title 2. Loan Guarantee.

Section 1. Upon such determination of a "state of crisis," the Secretary of Education shall duly forward his determination to the Secretary of Treasury, including a statement of the School District's financial shortfall for the current educational year.

Section 2. The Secretary of Treasury shall authorize a Guarantee by the Department of Treasury of a new bond flotation by the cited School District, to the amount of the shortfall determined by the Secretary of Education, and of maturity of not less than two years following the commencement of the current education year, and with the full faith and credit of the Government of the United States.

expenditures grew from 6.6 percent in 1959-60 to 8.4 percent in 1977-78.

Just how Great Society federal aid for education worked to undermine the school system under these conditions is exemplified by the Education for All Handicapped Children Act of 1975. The act mandates a "free appropriate public education" for a gradually increasing percentage of handicapped children, until all were served within five years. The federal government was to pick up an increasing percentage of the tab, 10 percent in 1979, increasing to 40 percent by 1982. (The Ford administration fell behind, and when Jimmy Carter authorized $875 million, it came to only 12 percent in 1980, when it should have been 20 percent.)

What does it mean for a local school district to be required by law to provide "a free appropriate public education" to all handicapped? The law reads that the states and localities must provide a "free appropriate public education" for some 8 million handicapped children in the U.S.

The discussion at the local level thus proceeds: "We have *x* amount of revenues, we must by law fund the following programs. That leaves *y* amount of revenue. We will have to cut programs the law does not require." As revenues have declined, the laws have stayed the same, and the cost of implementing the laws has increased.

The effects of such "federal aid to education" were indicated in a study by Beryl Wellborn, a professor at Grinnell College, who examined the effect of revenue shortages on the curricula of 76 percent of Iowa's public schools. He found that cuts were applied to art, music, classes for the gifted, physical education, advanced literature, libraries, advanced science, and mathematics. The effects on math and science, he concluded, would be devastating.

Thus, in a period of economic crisis, schools were forced to make a tradeoff between necessary programs for the handicapped and basic educational necessities.

Ironically, when federal aid to education passed through Congress under the Great Society, it was with the pledge that curricula were to be kept the business of the local school districts. In fact, in ways typified by the "handicapped" act, federal grants did more to shape—and destroy—educational curricula than any other single influence in the history of American education.

The Reagan shakeout

The destructive influence of such aid is compounded in two ways by the Stockman budget. First, by eliminating categorical grants of many types in favor of "block grants," the administration has forfeited its responsibility to ensure adequate funding of those educational programs most urgent to national well-being, yet most deeply eroded—science, education, foreign-language study, and so forth.

Second, some cutbacks in federal aid do not lessen legal stipulations for local school board "social-welfare" programs. Thus, President Reagan is proposing to cut the federal portion of Aid to the Handicapped funding to $737.6 million from $875 million, which was itself 8 percent short of federal contributions required by the original legislation. While Congress raised the figure back to $900 million in July, the present continuing resolution brings it back down to the $875 million, not counting probable reductions of 12 percent now under discussion. Yet, states and local school boards are still required to provide handicapped education at the same level as before!

Under the block grant procedure, some 40 smaller federal categorical grants have been consolidated into a few lump sums, with administrative discretion turned over to local officials. The lump sum amounts to a 25 percent cut across the board. Sources in Congress and the soon-to-be-dissolved Department of Education predict that the block grants achieved through the Consolidated Education Act of 1981 are a foot in the door for consolidation of all federal education spending.

What's wrong was shown by administrative reaction to one Congressman's initiative on behalf of education. Paul Simon (D-Ill.), declaring that "where there is a need, we have to meet it," is sponsoring a bill to provide $87 million annually for foreign-language study in schools and colleges. CIA Deputy Director Bobby R. Inman had testified before a subcommittee of the House Education Committee that the nation's "rapidly deteriorating" foreign-language capability was having an "adverse impact" on national security.

Education Secretary Terrell Bell, however, declared his opposition to the legislation in a letter to the subcommittee, citing "budgetary constraints," and "philosophical disagreement" with such a categorical grant in an age of block grants.

The Friedmanite approach

On the state level, the tax limitation movement that brought us Proposition 13 in California and Proposition 2½ in Massachusetts, among numerous other actions, is being used against the American system of education—manipulating responses to economic decline, and destroying the basis for economic progress, namely, a well-educated labor force. California enacted Proposition 13 in 1978 when the state boasted a multibillion-dollar surplus. Today, the surplus is gone, with the state garnering $2.5 billion less in tax revenues a year. The effect of Massachusetts' Proposition 2½ was felt immediately. The city of Boston alone lost $600 million this year. Boston has laid off 25 percent of its teachers and closed 15 percent of its schools.

Milton Friedman et al. jump in next to propose that if the public sector cannot provide education, the "private sector" can. The same "privatization" lies behind Sen. Daniel Moynihan's insidious tuition tax-credit proposal concerning federal subsidization for private and parochial schooling. The bill is based on a lie: the claim that a net migration of students from public to private schools is occurring. Even were this true, Moynihan's bill would only accelerate the trend, rather than address the problems of America's public-school system. However, while it is the case that public-school enrollments are declining, there is absolutely no corresponding increase in private-school enrollment. (Slowed population growth and an accelerating dropout rate in major U.S. cities may account for this.) Moynihan, one of David Stockman's original patrons and a Socialist International operative turned "neo-conservative," would therefore seek to *initiate* an exodus from the public schools.

Such "privatization" is also being promoted by the advocates of Proposition 13 in California. This "system" is comprised of glorified daycare centers using abandoned school buildings, church basements, and the like, staffed by "paraprofessionals" and laid-off teachers—at 20 percent lower wages. Fire and safety codes are met, but education is whatever the assembled staff decides to provide.

Such proposals, as *EIR* Economics Editor David Goldman implies in the accompanying draft legislation, are indeed a threat to America's national security. Free universal compulsory public education is not an incidental feature of a nation-state; it is essential to provide the percentages of scientists and technicians, and the quality of population that can assimilate the scientific and technological progress, and the patriotic commitment, upon which a nation depends. If this system is destroyed, America itself will soon follow.

'Compulsory schooling is a thing of the past'

Education vouchers are being touted as a scheme that will "solve" the current dilemma of financing education—improving education and saving money. The proposal would replace public financing with a policy of issuing vouchers to families for their school-aged children. The family then choses which school, private or public, they wish to send their children to. Schools would vie for enrollments, and the bureaucracies involved in disseminating funds to public schools would be eliminated. According to the Education Voucher Institute (EVI), which promotes both the vouchers and its sister "foot in the door" plan for tuition tax credits, "principles of free enterprise" would thus lead to "a superior system of quality education."

Voucher advocates, who include Milton Friedman, point to the enormous savings their plan will provide. Where annual costs per student in public education now average between $2,000 and $3,000 per year, (Boston schools spend $4,000 per student per year,) Friedman et al. call attention to a figure of $750 per year per student in private schools. If this is so, the voucher proponents argue, then a $1,000 or $1,200 per year voucher would lead to tremendous savings. It would in fact do much more. In an interview made available to *EIR*, the Director of the Michigan-based EVI, Dr. Frank Fortkamp, expounded on how the plan would end America's compulsory education system.

Q: Under the voucher plan, won't certain schools go bankrupt if families chose not to patronize them?
A: Sure! But new schools will be set up, teachers will wise up and start new schools. They'll say, "Look there are 500 students in that apartment building, they each have a $1,000 voucher, that's $500,000 for us to start a school." They'll find a church basement, get local people to help with the janitor work, brown-bag it instead of cafeterias, and they'll have a school.

Q: What about standards?
A: Compulsory education is a thing of the past. . . . Our public school system may have been appropriate to the industrial revolution of the 1800s but it is not appropriate for the new technological revolution.

Q: Do you mean more computerized education?
A: The parents and the job market will set the standards. . . . The home education movement is growing, compulsory education is not enforced; parents, even affluent ones, are leaving their children at storefront centers to learn on computer terminals . . . that's the education these children need today. . . . Our public school system is boring, uninteresting.

Q: Where do you foresee breaking through on this proposal?
A: In systems that are belly-up like in Michigan. Why do you think we located here? The Boston Finance Commission has a committee on vouchers. . . . We're not comparing our proposal with a functioning public education system. In several years, there won't be a system.

A Case Study

Urban education: the economics of Philadelphia's school crisis

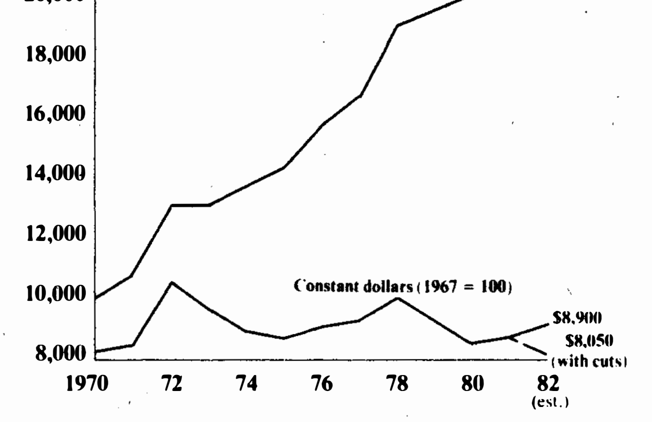
by Stephen Parsons

On the 16th day of the Philadelphia school strike, three prominent officials from the City of Brotherly Love held a quiet luncheon meeting in New York with Felix Rohatyn.

The ostensible topic of discussion among Rohatyn and Mayor William Green, City Representative Richard Doran and Finance Director Edward De Seve on Sept. 25 was how to put together a financing package to "save" the Philadelphia school system. But the actual purpose of the meeting was to ensure that Philadelphia's schools would get the Big MAC treatment from Rohatyn.

What both Rohatyn and Philadelphia's financier elite are demanding is that Green set up an "independent" school fiscal agency, modeled on New York City's Municipal Assistance Corporation ("Big MAC") and the Chicago School Finance Authority, that would force the school district to implement savage austerity under the rubric of "living within its means." The bottom line would be the final destruction of Philadelphia's battered school system, as well as the disenfranchisement of the traditional School Board and a further slash in the living standards of teachers and other public employees.

Figure 1
Average Philadelphia teacher salary



The school strike

The Philadelphia school district ended its 1980-81 fiscal year with a $71 million deficit, which the Board of Education attributes almost entirely to state underfunding of mandated Special Education programs over the past two years. Despite extensive staff and teacher reductions since 1977, and the inclusion of a formula in the current teacher contract which has permitted the elimination of hundreds of positions due to declining student enrollment, the district faced an additional $152 million budget gap for this school year.

In March, School Superintendent Michael P. Marcase warned that if the city would not "live up to its commitment to seek funds to finance the teacher contract" and the state would not "meet its legal and moral commitment to the handicapped children of Philadelphia, . . . we will have no alternative but to recommend massive and devastating budget cuts that will violate contractual, court, and legislative mandates, and all but paralyze the school system."

But with both the city and state unwilling to provide extra funding and facing their own share of a combination of stagnating revenues, skyrocketing inflationary costs, and federal revenue-sharing and categorical aid rescisions, the district reluctantly instituted drastic budget cuts of between 15 and 20 percent. When inflation is figured in, the cuts would actually amount to 25 to 30 percent.

The Board announced that it was laying off 3,500 of the district's 26,000 employees—mostly teachers—despite a no-layoff clause in its contract with the 22,000-member Philadelphia Federation of Teachers (PFT). In addition, it rescinded the scheduled 10 percent salary increase it had previously negotiated with the teachers—who had already deferred any wage hike until this school year. The Board also called for a three-student increase in class size and the drastic reduction of teacher preparation time.

Faced with a clear breach of contract and what Marcase warned would be the virtual destruction of education, the PFT went on strike Sept. 8 and stayed out for 50 days. The strike ended Oct. 27 when a three-judge panel in Commonwealth Court modified a lower-court injunction ordering the teachers to return to work. While upholding the original back-to-work order, the panel stipulated that the union is covered by last year's contract, a move that effectively reinstates the 3,500 laid-off employees.

Although the logjam has been temporarily broken with the court ruling, the question of funding is still very much unresolved.

The truth about salaries

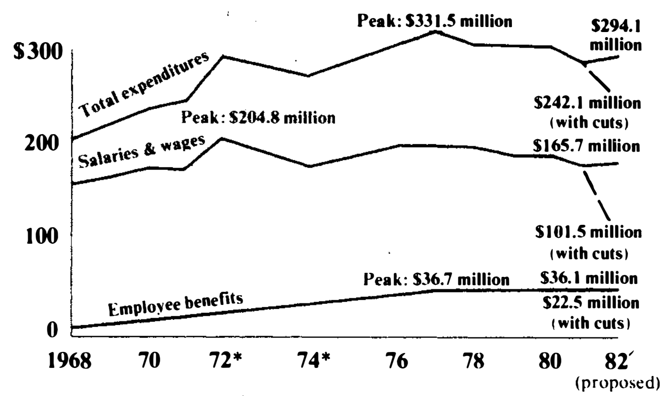
Mayor Green and the Philadelphia financier elite vociferously blame the district's financial plight on the teachers—"the highest paid in the world," they say. While it is certainly true that the PFT's salary increases comprise the largest single component of the $223 million deficit, and that personnel expenditures are the largest budget item, it is false and incompetent to pin the district's problems on either the teachers or Board of Education.

As Figure 1 demonstrates, while the average teacher's salary has nearly tripled since 1970, last year a

Figure 2

General Fund expenditures: Constant dollars

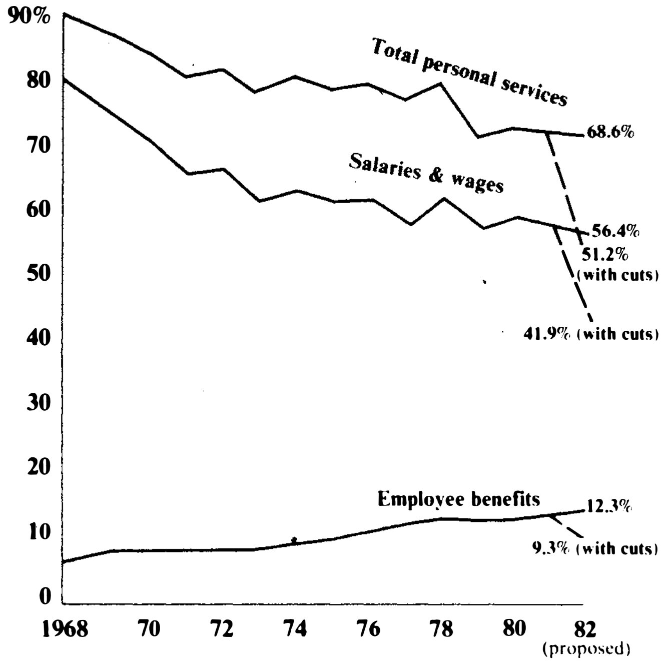
(millions of dollars; 1967 = 100)



* 1973 not included due to long strike, which reduced General Fund expenditures substantially.

Figure 3

Allocation of General Fund expenditures



teacher actually made only 2 percent more than in 1970—and 15.8 percent *less* than 1972's peak—once inflation is considered. Even if the teachers win their 10 percent salary increase this year, the average teacher will earn only $8,700 to $9,000 in 1967 dollars—10 percent below the 1972 figure.

Individual teachers have, of course, increased their real wages over the years by advancing through the system's 11-step pay scale. But once they reach the top pay grade after 11 years, they lose real income. Last year, teachers with a Masters degree who had 11 years or more seniority, earned 20 percent less than they did in 1972 and 1973, in constant dollar terms.

Administrators have not even fared this well. A "664-level" director at the top pay grade, for example, earned just under $20,000 in 1969, in constant dollars. This year, he will earn less than $13,000—a 35 percent cut—and has lost money almost annually.

The situation is even worse at lower and entry-level pay grades. If our "664-level" director were starting this year at his new position, he would receive only $11,500 in 1967 dollars. A first-year teacher with a Masters degree probably wouldn't bother: he would get only $3,660!

City officials might like to trot out current dollar charts to show how education expenditures and personnel costs are "out of control." But Figures 2 and 3 show a very different reality. When inflation is taken into account, total expenditures have fallen 11 percent from the 1977 high, and would rise only slightly this year even with full budget funding. Salaries and wages peaked in 1972 and have fallen 20 percent since then. If the proposed budget cuts are effected, expenditures would be slashed 20 percent from 1980 levels, and more than 25 percent from the peak; salaries would plummet 44 percent below 1980, and over 50 percent from the 1972 peak!

Moreover, salaries and personal services (i.e., salaries plus benefits) expenditures have declined sharply as a percentage of education expenditures (Figure 3). In 1968 salaries and total personal services comprised 79 percent and 85 percent, respectively, of all costs. Under the original 1982 budget proposal, that would fall to only 56 percent and 69 percent. With the cuts enforced, they would sink to only 42 percent and 51 percent. And the greatly ballyhooed "employee benefits perks" have risen only from 8 percent to less than 12 percent of total expenditures in 13 years.

The revenue plunge

The chief cause of the school district's financial crisis is the fall in constant-dollar revenue, and especially Philadelphia's local tax receipts. Mayor Green and the news media might exclaim all they want about how much money is pumped into the school system; but in reality it is the relative stagnation of revenues in the face of soaring inflation that has precipitated the crisis. Figure 4 shows why.

Figure 4
Philadelphia School District revenues: Constant dollars
(millions of dollars; 1967 = 100)

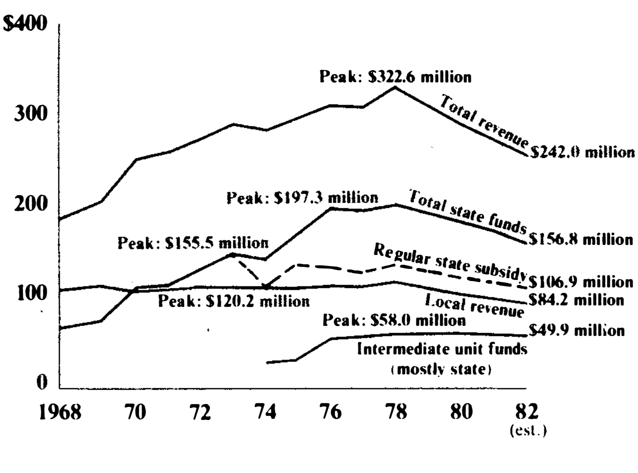
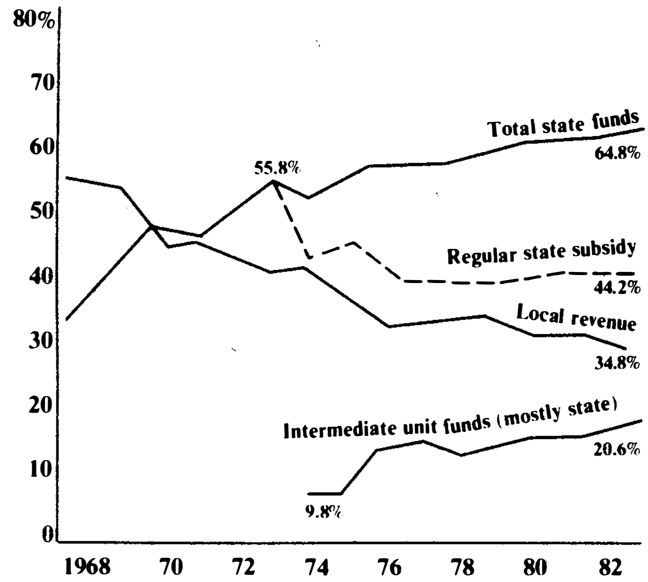


Figure 5
Proportion of Philadelphia School District revenues



Since its peak of $323 million in 1978, by the end of the 1982 fiscal year revenues will have plunged by 25 percent or more in 1967 dollars. This has coincided with sharp inflationary pressure on the cost side, where expenses have zoomed, especially non-salary expenses.

Both the city and school district have been in a revenue bind since the 1960s. Since 1968, the peak years for local revenues have been only about 10 percent higher than that year (in constant dollars), and now revenue is 21 percent lower. Increasingly since then, the slack has been taken up by the state, which has increased its funding nearly 600 percent in nominal dollars, and over 100 percent in constant dollars. The local share of school funding has gone from 59 to 35 percent, while the state's share has increased from 38 to 65 percent (Figure 5).

Since 1978, however, the increase in state funding has fallen far short of inflation, its subsidies declining 20 percent in constant dollars, as local revenues plunged 30 percent. While the city of Philadelphia's revenues can barely keep pace with its sharply cut-back obligations, the city coffers hardly have much to spare for a school bailout.

The increased dependence on state funding has also resulted in a major shift of emphasis in public education. As Figures 4-5 show, the largely state-funded Special Education component of school expenditures—which includes education for the handicapped, vocational education, and other programs—has risen to over 20 percent of the budget, while state subsidies for regular education have fallen.

This has forced a de facto shift of teachers from the regular classroom into these programs. Moreover, because state and federal law mandates open-ended funding for Special Education, there has been a tendency to greatly increase student enrollment—and hence, teachers and administrators—in these programs.

Thus, in 1978 and 1979, as both expenditures and revenues began their precipitous declines in real dollar terms, Special Education enrollment doubled from 11,600 students to 23,000. The number of "learning disabled" students suddenly went from 501 in 1977, to 1,582 in 1978, and 2,668 in 1979. In 1978, those labeled "detention" and "retarded educable/emotionally disturbed" increased from 571 to 6,821.

Why revenue has dropped

It is clear why the revenues of both Philadelphia and the school district have dropped in real-dollar terms. As in New York City and other large urban centers, employment in Philadelphia has plunged disastrously, with the heaviest decline in the productive sectors of manufacturing, construction and transportation (Figure 6). On a proportional basis, Philadelphia has been hit even harder than New York, with total employment since 1970 dropping 15 percent, manufacturing by no less than 43 percent, and construction by 34 percent. Today, manufacturing constitutes only 17 percent of total employment, versus 26 percent a decade ago.

Although property values have climbed steeply, the loss of business and employment, especially manufacturing, has caused a 13 percent and 25 percent drop in real estate taxes for the school district and city, respectively, in constant dollars.

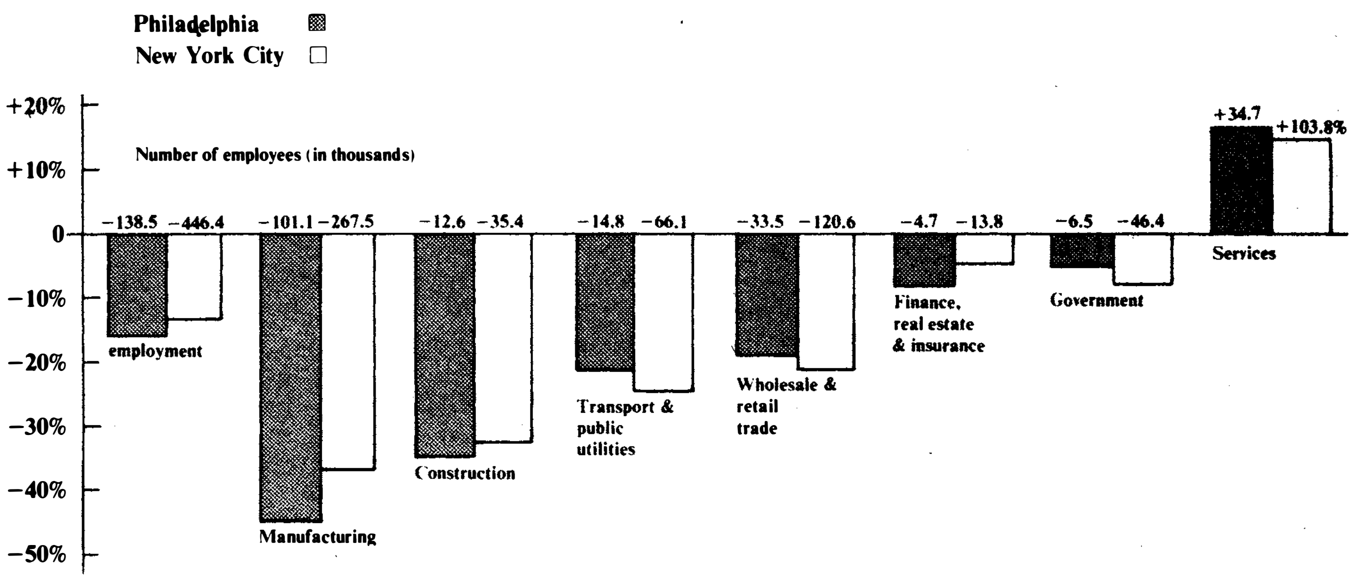
Real estate tax revenue, which comprises 80 percent of the school district's local tax receipts, has also suffered from both the heavy increase in other taxes (especially federal and state income taxes), which have occurred in the last decade and because localities have been politically unable to increase tax rates. It should be noted that in other parts of the United States, where rates have increased substantially, Proposition 13-style tax-limitation moves have threatened to, or actually have in fact, lowered tax rates and local receipts.

Most other tax revenues in Philadelphia have fared even worse, as the city's depressed economy has generated a virtual population exodus. The nation's fourth largest city has lost 20 percent of its population since 1970, and its public school enrollment is down nearly 25 percent.

As is now apparent in the Chicago school system, in New York City generally, and in the federal government, no amount of fiscal austerity can solve problems that are fundamentally caused by the collapse of revenues and real economic growth.

Figure 6

Employment shifts in Philadelphia and New York City, 1970-1980



Japan and Mexico pose 'American System' policy

by Peter Ennis, Cancún Correspondent

When Mexican President José López Portillo and Canadian Prime Minister Elliott Trudeau, the Co-Chairmen of the first-ever International Meeting on Cooperation and Development, entered the crowded Convention Center in Cancún, Mexico on Oct. 23 to read a summary statement on the conference, few among the approximately 3,000 journalists and staff present failed to notice the decidedly opposite mood of the two men. López Portillo was optimistic; Trudeau was dejected. Cynics in attendance claimed López Portillo had no choice but to act in this fashion, as host of the conference. It was Trudeau, they said, who accurately reflected the results of the conference.

But the two leaders had ample reason for their respective states of mind. The Mexican President and his friends from, in particular, India and Japan, had succeeded in diffusing the many diversionary tactics launched at the conference, and placed their goal of international economic development through drastic reform of the International Monetary Fund at the top of the conference agenda. On the other hand, Trudeau, along with his fellow social-democrat French President François Mitterrand and Socialist sympathizer Alexander Haig, had failed to provoke "right-wing/left-wing" confrontation.

Cancún was the first gathering of heads of state from both the industrialized "North" and the Third World in the postwar period to discuss the fundamental issue of modernizing the underdeveloped countries, and in the course of the two days of discussions, every essential element of a plan to revive the world economy was presented, at least in outline form.

The Cancún summit also set back the prestige and influence of the Soviet Union in the Third World. Hardly a speaker failed to attack the Soviets for boycotting the conference, even as Moscow was issuing daily sour-grapes bulletins denouncing the proceedings as a front for "imperialist" interests.

Reporters were denied access to the conference proceedings themselves, which occurred in the remote Cancún Sheraton Hotel; all high-level delegates to the summit confined themselves to the Sheraton as well. *EIR* assembled this exclusive report based on discussions with diplomats from many countries, from occasional general briefings given by delegations, and from information from journalists from many nations who were regularly briefed by their delegations.

Japan's active role

The role that Japan played at Cancún, both in setting the environment for overall development discussions and in mediating between the North and South was unprecedented.

Japanese Prime Minister Zenko Suzuki came to Cancún intent on taking a much more active role than is customary for Japan in international forums. In recent months, Japan has moved to rectify the world economic situation, particularly in the developing countries, by expanding lending to these countries on a large scale, to enable them to import Japanese and other advanced technologies. The basis for this effort is "American System" economics: deliberately fueling industrial growth through technological development, mass education, and political leadership dedicated to nation-building.

In this regard, relations between Japan and Mexico have become particularly friendly in recent months.

Reliable sources reported to *EIR* that midway through the first day of the summit, President López Portillo spoke to Prime Minister Suzuki and asked him to speak to Reagan about moderating the American position at the talks. Suzuki, who had been eager to assume such a role, immediately accepted. The problem for Suzuki was that the White House was refusing to arrange a meeting between Suzuki and Reagan. Alexander Haig was reported to be well aware of Suzuki's desire to mediate at Cancún, and calculated that Suzuki could not perform this role if he were denied access to Reagan.

Japanese sources reported that Haig was particularly upset that, several days before the Cancún summit, PLO leader Yasser Arafat had visited Tokyo and met with Suzuki. "Haig is worried that Japan is adopting a more independent policy stance," one source stated.

Though Suzuki could not meet with Reagan, Japanese Foreign Minister Sunao Sonoda told Haig late one evening that the United States was in danger of becoming "totally isolated" at the summit, and urged a softening of American policy stance.

Meanwhile, in his presentation to the conference, Suzuki had taken note of the effect of IMF "adjustment" (austerity) programs in the developing countries, and announced that Japan was expanding its foreign aid program. He also delivered a remarkable characterization of Japan's own successful drive to modernize, saying that "nation-building" depends on raising the skill levels and modernizing commitment of the nation's population.

A difficult question remained for Suzuki, López Portillo, and their allies: how will President Reagan absorb the education in statecraft that was given to him at Cancún? The short-term results were unpromising; at the prompting of Haig and Britain's Margaret Thatcher, Mr. Reagan kept up a stubborn defense of the IMF as if oblivious to the statements by numerous conference speakers, patient but emphatic, that the IMF's policies pose the greatest obstacle to Third World development, and thus the greatest cause of instability and the danger of war.

The origins of the conference were themselves two-sided. It was organized largely on the initiative of President López Portillo, yet the meeting has first been suggested by the report issued two years ago by the "independent commission" chaired by former West German Chancellor Willy Brandt to study the North-South question. Brandt was urged to establish his commission by former World Bank President Robert McNamara, an unabashed advocate of reducing the population of the developing countries. Among the commission's leading members were Peter Peterson, Chairman of the New York investment firm Lehman Brothers-Kuhn Loeb, and Katharine Graham, owner of the *Washington Post* and daughter of Eugene Meyer of the Lazard Frères investment firm. The two firms have played essential roles in imposing the IMF/World Bank austerity programs in developing countries.

Cancún preparatory meetings in August 1981 agreed to follow the outline of the Brandt report and focus on four issues: food and agriculture; energy; trade and industrialization; and monetary and financial issues. The Brandt Commission backers hoped to protect the IMF and its affiliated private interests by dividing discussions into isolated topics with a shared premise of inevitable austerity and financial blackmail.

At the same time, the Brandt Commission-allied Club of Rome, operating through Dr. Ervin Laszlo and his "Futures Project" at the United Nations Institute on Training and Research, had dragged the procedural issue of future "global negotiations" onto center stage. The ostensible question was whether future talks would take place in the U.N. General Assembly, where developing countries can out-vote developed countries, or in the so-called "specialized agencies" like the IMF and World Bank, where OECD nations dominate the voting due to the larger contributions they make to those institutions.

Finally, with Haig encouraging President Reagan to harangue the Third World on "free enterprise," the stage was to be set for a confrontation between the "haves" and the "have-nots," with Trudeau and Mitterrand encouraging this confrontation.

Mexico sets the tone

But from the moment López Portillo greeted President Reagan with a warm embrace at the Cancún airport, it was clear the Mexican leader was determined to prevent any such confrontations. The tone was set in his conference inaugural address on Thursday, Oct. 22. He urged that the sterility and tension characterizing previous discussions on North-South relations be put aside. Instead, he said, attention should be focused on the obvious harmony of interest of the developed and developing countries. World prosperity can be achieved, he said, if ways can be found to link the *financial resources* of OPEC and other countries, the *technologi-*

cal and industrial capacities of the developed countries, and the acute *need for technology and consumer products* in the developing sector.

That redefinition of the economic question, 180 degrees away from "redistribution" or "small is beautiful" toward expanded credit and production, became a theme dominant throughout the entire conference. It was repeated with striking unanimity by heads of government all the way from communist Yugoslavia to the "right-wing" regimes of Brazil and the Philippines, and brought forward with particular eloquence by Prime Minister Gandhi of India and Foreign Minister Saraiva of Brazil. López Portillo himself emphasized that fundamental changes in the international monetary system are necessary to realize this potential.

López Portillo also set another theme for the conference: failure to pursue that objective harmony of self-interests in technological development would result in economic and political disaster—"whirlpools of world-wide decline."

Philippines President Marcos and Yugoslav President Kraigher asserted that the Third World's balance-of-payments deficits and consequent indebtedness have reached a breaking point. "There is no way of paying these debts in the present situation," Marcos said bluntly in his opening address to the conference. Kraigher warned, "This is leading to the danger of repayments moratorium," adding, "There is no need to emphasize what all this may mean for the overall world financial structure." Mrs. Gandhi took these warnings a step further: "Surely the whole point of this conference is to try and avoid war as an outgrowth of the North-South problem," she told a press conference.

The Reagan script

Mr. Reagan's personal reaction to these warnings is not known at this time; but the script handed him by Haig and the State Department advocates of depopulating the Third World made the President the backroom laughing stock of the underdeveloped countries' diplomats—insofar as they pushed aside their knowledge that U.S. defense of the IMF and "free enterprise" will mean accelerated mass murder in the coming period.

It was a startling scene: Ronald Reagan, who can count his trips abroad on his two hands, preaching to the experienced leaders assembled at the conference table on the importance of "free markets" and "free enterprise" in achieving economic development. Most of the nations present had not long been liberated from the British version of "free enterprise," and continue to suffer what the Philippines' Marcos called the "disastrous inheritance" of this period: widespread illiteracy in the population, a wholly inadequate industrial base, little infrastructure, and less technology to bring to bear on their nagging food shortages.

Speaker after speaker tried to direct the President's attention to the practical reality of "market forces" under the IMF's regime, some well aware that it was "free-market" colonialism against which the United States fought a revolution. Indira Gandhi reminded the President that before a nation can pull itself up by its own bootstraps, it needs a pair of boots. When India became free 35 years ago, she said, "we had nothing—literally nothing—in the country. No technology, no industry—we barely had a beggar's bowl." But sheer determination has led to great success in modernizing India, she asserted. Marcos urged that all "platitudes be left in the marketplace." And Brazilian leader Saraiva, whose country is a favorite investment site for American corporations, told the conference that "the marketplace" will not build the infrastructure needed in the developing countries. "Even in Brazil," he said, "it has been necessary for the state to pragmatically take over considerable responsibilities in important sectors. What can be said of countries that do not possess a business community, or sufficient capital accumulation, or even technical cadres?"

At one point, the reaction against Reagan's preaching was so serious that López Portillo had difficulty maintaining a non-confrontational atmosphere. An African diplomat stated privately that "Reagan is in another world. He seems to have no idea what the world around him looks like."

The final summary

The entire summit came to a head at about 5:00 p.m. on Friday, the second day of the two-day conference. At this moment, Japan's Suzuki finally got his chance to mediate.

It had not been expected that the conference would make any dramatic announcements or agreements. Thus, the only announcement expected was where and when future talks would take place, and a final summary statement containing this and other related information; it was in this context that the much-publicized issue of "global negotiations" assumed some prominence.

At that time, the conference adjourned for a period of two hours, during which time a most unusual procedure was visible. The 22 heads of state broke up into small, roving negotiating groups, trying to work out the final language of a statement to indicate when and where future talks would take place.

Reagan spent virtually the entire time with Margaret Thatcher, insisting that any reference to "global negotiations" be clarified with a statement reaffirming the power of the IMF and the other specialized agencies. Venezuela and Algeria insisted that the statement include reference to "global negotiations" in "the United Nations." When this was finally agreed to, Mrs. Gandhi had the words "with a sense of urgency" included, noting that any talks at the United Nations could last forever.

The chief diplomat during those final two hours was Suzuki of Japan. Japanese sources reported that Haig told Sonoda the United States would compromise on procedure "if you back us up on substance when the talks take place."

Reagan had announced in his speech to the conference that the United States was willing to take part in future talks, but the power and authority of the "specialized agencies" must be maintained. For Haig, this was not a question of voting tallies; the point is to maintain the IMF's ability to enforce backwardness.

Similarly, for many of the developing countries, the issue is not merely to switch the talks to the U.N. General Assembly so as to "outvote" the developed countries. The goal is to transform the policies and/or reduce the power of the IMF. This is exactly what Indira Gandhi told a press conference: "We are not wedded to certain phrases. We are more interested in the results and the substance."

Thus, the issue at Cancún was, and remains: will the IMF continue to determine North-South relations? The summit did not resolve this question, but placed it clearly at the top of the agenda.

Developing nations mount a challenge to IMF austerity

The most important debate in the Cancún summit revolved around proposals to drastically reform the philosophical basis and the functions of the International Monetary Fund. In the words of Philippine President Marcos, there were "bitter remarks" on this issue. "Proposals to resolve this problem were presented," announced Miguel de la Madrid, the presidential candidate of Mexico's ruling PRI party.

The developing countries have for some time considered the IMF the chief obstacle to matching the obvious economic demand in the Third World with the obvious economic production capacities of the advanced countries. The 1976 heads of state meeting of Non-Aligned Nations held in Colombo, Sri Lanka, and the 1979 meeting of the same organization in Havana, had raised the issue of creating a new monetary system to meet the actual needs of the developed and underdeveloped economies. What was striking about Cancún was the sharpness and anger of Third World attacks on the IMF, and the clarity of their ideas about changing the system. Moreover, Cancún was the first forum for this debate comprising leaders of both the advanced and underdeveloped countries.

The controversy forced French President François Mitterrand to shed his image of "friend of the developing countries." Mitterrand strongly defended the IMF, arguing that the agency is "evolving" its policies to be "more in line" with the needs of the developing countries. Mitterrand's Brandt Commission policies were thus revealed publicly as a soft-sell version of Reagan and Thatcher's "free enterprise."

A particularly heated exchange took place between President Reagan and President Julius Nyerere of Tanzania, who was the spokesman on balance of payments problems for the African nations in attendance. Nyerere, whose country has been ripped apart by IMF "conditionalities," objected to Reagan's constant emphasis on private capital as the key to development. "Mr. President, can you please tell me one American company that will come to my country and construct the power lines, the dams, and other infrastructure that we desperately need? Please tell me which ones, because I would like to invite them." Nyerere went on to emphasize that private capital has been too timid to enter many countries, and official loans from government and international agencies are indispensable.

Reagan responded that, nonetheless, official loans and aid should be the "seed crystal" around which private capital builds. He told Nyerere that if the World Bank or some other international agency finances a project, the project should then be sub-contracted by the recipient country to a private firm.

Insiders say Canada's Trudeau intervened at this time, and asked Nyerere to guarantee against expropriation of foreign capital in his country. Nyerere responded by citing joint ventures that exist in his country with foreign capital.

The development programs of developing countries must be reviewed by the IMF, both Reagan and Thatcher said, in order to instill confidence in foreign investors, who hold the key to success. The developing countries, without exception, protested this demand, as indicated below in excerpts from the statements by Brazil, Yugoslavia, and the Philippines.

The "conditionalities" imposed by the IMF on its borrowers were the biggest target of developing-sector criticism. The Philippines presented an entire background paper on this issue.

Speaking to reporters, Mexico's Industry Minister José Andrés de Oteyza summed up the monetary and financial discussions in this way:

High interest rates: Developing countries insisted that high rates are leading the entire world economy into a deep recession, which will only reduce economic activity, increase inflation, and increase developing sector debts.

"Linkage": Developing countries insisted that there must be a "link" between the solving of balance-of-payments deficits of developing countries and the overall development plans of those countries. So often, they said, the IMF destroys the development plans of nations in the name of "reducing payments deficits."

IMF conditionalities: Developing countries insisted that conditionalities imposed by the IMF are particularly unacceptable in the case of the poorest nations, whose poverty is so abject that they can not afford to cut imports to "save" foreign currency.

Both Mitterrand and West Germany's Foreign Minister Hans-Dietrich Genscher adopted the Thatcher-Reagan position. Japan, on the other hand, did not take a stand directly on the IMF debate, but focused on attacking high interest rates, and suggested that government aid be provided to developing countries to ease the burden of interest charges.

The other agenda items: food, energy and trade barriers

Along with international monetary and financial questions, food, energy, and trade comprised the agenda of the Cancún summit. The themes that ran through discussions: 1) that the issues could only be effectively considered in the context of an overall development approach, and; 2) that short of a major reform of the international monetary system in the near future, the developing countries pragmatically hope discussions will lead to quick, at least marginal increases in the flow of financial resources to them.

Food: It was generally agreed that given modern technologies, it is intolerable that hundreds of millions of people are hungry, and the year 2000 was suggested as a target date for the complete elimination of hunger worldwide.

Virtually every developing country insisted that expanding food production in their countries must be the goal, for which necessary provision of emergency food supplies cannot substitute. Expanding production depends on an integrated development program, including especially infrastructure.

Prime Minister Indira Gandhi of India, whose nation has achieved food self-sufficiency, emphasized fertilizers, technology and improved seeds, together with determination in her nation; with proper resources, she said, other countries could do the same. Nigeria spoke for Africa on this issue, and startled attendees with the fact that in dollar terms, the African continent imports as much food as oil. Japan presented a document on rural development, calling food production the backbone of "nation-building," and observing that in rural areas improved infrastructure will increase productivity and create financial incentives for farmers to produce. President Reagan made his only specific proposal to the conference at this time, offering to dispatch expert American "task forces" to developing countries. Austria proposed a "Marshall Plan" to mobilize funds for infrastructure development in the developing countries.

Energy: There was general agreement on the need for international cooperation, and Mexico proposed an ambiguous World Energy Plan. Discussion focused largely on each country's developing its own energy plan, which primarily means backward "renewable" resources such as wood-burning and solar. There was no mention of nuclear energy. OPEC nations reportedly urged indexing oil prices to inflation in the OECD, with the nominal support of the other LDCs. LDCs strongly supported establishment of a World Bank energy affiliate, to finance non-OPEC energy resource development. The United States opposed this energy bank, while Britain placed the condition that OPEC provide the bulk of funds.

Trade and industrialization: Mrs. Gandhi and other LDC leaders emphasized the importance of these. LDCs strongly emphasized that depressed economic conditions in the OECD nations are raising the costs of LDC import bills and reducing export earnings. LDCs also strongly criticized the Reagan administration for reducing overall economic activity, including LDC exports.

In the expectation of continued OECD recession, the LDCs hope to maximize export earnings through several means, including a "Common Fund" to stabilize raw material export prices (the conference final summary noted that all participants agreed to speed up execution of this plan), and increased export of manufactured products, especially fibers and leathers, to the OECD nations. Virtually every participant called for maintaining and improving the "free-trade" system, and many gave verbal endorsement to the General Agreement on Tariffs and Trade (GATT), and to negotiation of a new Multifiber Agreement; many LDCs have developed a fiber-manufacturing capability.

All these are, at best, stop-gap measures, as most LDCs admit, not an alternative to a genuine revival of the OECD economies. The Common Fund is especially dangerous, as the strategists around Henry Kissinger hope such schemes will lock the LDCs into backward, raw-materials-extraction modes of production.

The final statement from the summit

Excerpts follow from the final summary statement of the discussions at the Cancún summit. The statement was read to assembled reporters by President López Portillo and Prime Minister Elliot Trudeau.

The North/South relationship was seen as one of the most serious challenges to be faced in the coming decade, ranking with and linked to the maintenance of world peace, as a priority for the attention of governments. Our task was to bring our voices to bear at the highest level on the fundamental issues, to identify the major problems and to try to evaluate and promote possible solutions. We were not bound by traditional bureaucratic entanglements.

We believe we succeeded in creating a spirit of genuine confidence and trust amongst ourselves. Our task now will be to ensure that we build upon this, with the aim of revitalizing the world economy and accelerating the development of the developing countries.

The Heads of State and Government confirmed the desirability of supporting at the United Nations, with a sense of urgency, a consensus to launch Global Negotiations on a basis to be mutually agreed and in circumstances offering the prospect of meaningful progress. Some countries insisted that the competence of the specialized agencies should not be affected.

We focused on what we viewed as the major issues: food security and agricultural development; commodities, trade and industrialization; energy, and monetary and financial issues.

Food: Within as brief a period as possible, hunger must be eradicated. Food aid should not be used as a permanent replacement for the necessary development of the required food production in the developing countries themselves. The rate of population growth in some countries leads to increases in food demand that are difficult to meet. The experience of a certain number of countries has shown that development of a population policy aids in solving some of the most acute aspects of the food problem. A number of steps should be taken to improve the effectiveness of food-security mechanisms.

Commodities, trade, industrialization: Participants agreed on the need to complete procedures for bringing the Common Fund into operation. The need was recognized for continued efforts to resist protectionist pressures. A number of participants referred to the importance of industrialization of developing countries and the contribution which increased trade could make to this objective.

Energy: The problem was characterized as a global one. To ensure an orderly transition from the era of hydro-carbons, the proposal for a World Energy Plan was recalled. It was recognized that energy conservation must be pursued by major oil-consuming countries. Support was expressed by many participants for establishment of a World Bank Energy Affiliate.

Monetary and financial issues: Participants reviewed the financial difficulties being experienced by developing countries. They discussed conditions of access to the various sources of financing. Points raised in the discussion included the impact of high interest rates, the creation of the SDR as a main reserve asset and in financing development, IMF conditionality, the decision-making process in the international financial institutions, access to capital markets, and the respective role of private and official sources of external capital in development financing. Several suggestions were noted for improved international financial cooperation.

Mexico: 'Interdependence'

Below are excerpts from the opening statement of President José López Portillo of Mexico. This speech inaugurated the summit.

The first important achievement of this event is the very fact that we are gathered here together to pursue a common goal, cooperation and development. This meeting is not intended to replace or to compete with existing organizations, but rather to infuse them with new vitality and to strengthen them.

Our world today is still split by a lacerating contradiction between opulence and poverty; between North and South, and between progress, backwardness and sometimes even backsliding. We have not succeeded in agreeing on what is important for all, and attention is still being focused only on what is urgent for some.

I have no wish to dramatize the facts, but I must conclude that unfairness does exist, that injustice is suffered, and that in many parts of the world, which is man's common home, there is hunger, poverty and squalor. Further, all of that, grave in itself, is the cause of widespread instability and the source of confrontations that become vicious circles—veritable whirlpools of worldwide decline.

We are not dealing with transitory circumstances or momentary situations, but rather with matters of structure, and of the type of organization that we have developed for ourselves.

Food is used as a weapon, and its production and distribution is given an overwhelmingly discriminatory priority. Death lurks in both alternatives.

In the matter of energy sources, we have reduced the solution to questions of price and market manipulation, instead of planning for a reasoned and well-directed transition from the age of petroleum to the following one.

Where financing for development is concerned, there is haggling over the terms of cooperation, and aid, as often as not, is refused because it is thought of as wealth undeserved by peoples who have not created it; or is made subject to conditions favoring vested interests or ideologies. Powerful interests oppose any effective reform of international monetary and financing institutions. Everything seems to indicate that, far from wishing to design a new system, there is every intention of maintaining, or even of turning back the clock on the present system, which has proved to be both inadequate and unfair.

Inflation and recession prevent a harmonious relationship between guided processes of industrialization and trade, and seem aimed at freezing the present structure of trade exchange of the international division of labor.

Due to its lack of harmony, the world in which we live is becoming increasingly dangerous for the rich countries, and implacable and cruel to the poor countries. We had not experienced anything similar since the Great Depression.

In the poor countries economic growth continues to be feeble because they lack the goods and services which are only produced in advanced countries, and which the former are unable to acquire owing to their lack of foreign exchange, since their growth rate is determined by their balance of payments. Demand does exist, but is only potential. Thus the drama of underdevelopment occurs. Not even the most basic needs become demands.

With truth, imagination and political will, the world must find ways to *coordinate the actions of countries having technical knowledge, unused productive capacity and unemployed manpower with those of countries having demands but limited purchasing power, and with those others which do possess financial resources, so that all can join in making international cooperation for development a reality.* [emphasis added].

A lasting and stable reactivation of the world economy cannot come from the prosperity of just one of its segments, if the others remain in a state of stagnation. The progress of each is increasingly a precondition for the progress of all. Let us grasp the fact that the growth of advanced economies—provided protectionist pressures can be overcome—results in an expanding market for the exports of the developing world, and sufficient demand to keep the prices of those exports from falling. The development of the peripheral countries is transformed into growing markets for the products of the industrialized countries, thereby stimulating their growth and creating jobs. It also represents sufficient supplies of raw materials and of energy, which in turn encourage economic revival on a world-wide scale. Domestic economic policies and international cooperation efforts in which everyone joins must be fitted to the new realities of global interdependence.

It would be to our everlasting shame and would irretrievably doom us if we were to prove unable to organize and act together in time.


Zenko Suzuki

Japan: 'Desire for progress'

Excerpts from the opening statement delivered by Prime Minister Zenko Suzuki of Japan:

I believe it would be no overstatement to say that this meeting is a meeting of the foremost importance in the history of mankind and that it is truly a timely and epoch-making event.

Most countries are faced with various difficulties, such as inflation, recession, and a deteriorating international balance of payments. The non-oil producing developing countries, in particular, are faced with large deficits in their current account and accumulating debts. A major part of the deficit is the result of the sharp rise in the price of imported oil, high interest rates, and a slowing down of their exports as a result of the stagnation in the economies of the developed countries. I believe it important that, with regard to these developing countries' difficulties, we should not simply wait for adjustment efforts by the developing countries to take effect, but rather that all countries, particularly the developed countries, should cooperate for the attainment of non-inflationary growth and, thereby, seek steady expansion of the world economy.

The road ahead calls for each of us to abandon the false perception that the interests of North and South conflict with each other, and for both the developed and developing countries to extend the hand of cooperation to one another in order to revitalize the world economy and to attain the goal of world peace and prosperity. Let us leave to our posterity a world at peace, a world of prosperity, by overcoming the various difficulties.

Japan realizes the political significance of the global round of negotiations at the United Nations and hopes sincerely that, as early as possible, agreement on procedure and agenda acceptable to both North and South will be obtained and every arrangement for its launching will be made.

The modes of international cooperation to assist the self-reliant efforts of the developing countries will need to be made more balanced. It will be very important to make the best use of the vitality of the private sector. However, Official Development Assistance (ODA) has the central role in promoting economic assistance to meet the various needs of the developing countries. The Government of Japan will continue to expand positively its ODA. In implementing our assistance, it is Japan's policy to contribute to the strengthening of the basic infrastructure of the developing countries.

The most important motive force for a country's development and economic growth is that country's own determination to succeed in the task of nation-building and its own self-reliant efforts.

Today, my country is fortunate in being a country with one of the most active economies in the world. However, when Japan began to grapple with the task of modernizing the nation about 100 years ago, it was a poor country, small in area and poor in natural resources, inhabited by 30 million people. It had no advanced technology and very little capital. Its leaders were, however, filled with the ardent resolve to attain progress and growth, believing that education was the most essential prerequisite for the nation-building, and worked with dedication and determination to lay the foundation for education of the people. *High-quality human resources fostered in this way, together with an appropriate leadership, made it possible for us to introduce advanced technologies from foreign countries, to establish an institutional framework for development and to accumulate capital* [emphasis added].

One success led to further aspirations for growth and consolidated the prerequisites for attaining higher objectives. The principle of free competition stimulated the desire of the Japanese people for progress, led to the inflow of foreign capital, raw materials and new technologies from abroad, and high-quality labor forces continued to make full use of them as effective additions to their production capacity. The reason why Japan was able to overcome the serious setback it suffered as a result of World War II and attained a rapid economic growth in the past is widely believed to be the tremendous vitality of the Japanese people. In short, there was first the determination to be self-reliant, and the self-reliant efforts kept turning the wheel of modernization.

Reagan 'IMF is key'

Excerpts from the opening statement of U.S. President Ronald Reagan:

History demonstrates that time and again, in place after place, economic growth and human progress make their greatest strides in countries that encourage economic freedom. In examining our collective experience with development, let us remember that international economic institutions have also done much to improve the world economy.

The IMF remains the centerpiece of the international financial system. It has adjusted its programs and increased its resources to deal with the major pressures and problems of our era.

We are prepared to carry out the commitment in the Ottawa Summit Declaration to conduct a more formal dialogue—bilaterally, with regional groups, in the United Nations and in specialized international agencies. It is our view that "circumstances offering the prospect of meaningful progress" are future talks based upon four essential understandings among the participants:

• The talks should have a practical orientation toward identifying, on a case-by-case basis, specific potential for, or obstacles to, development which cooperative efforts may enhance or remove.

• The talks should respect the competence, functions, and powers of the specialized international agencies upon which we all depend, with the understanding that the decisions reached by these agencies within respective areas of competence are final. We should not seek to create new institutions.

• The general orientation of the talks must be toward sustaining or achieving greater levels of mutually beneficial international growth and development.

• The talks should take place in an atmosphere of cooperative spirit.

But our main purpose in coming to Cancún is to focus on specific questions of substance, not procedural matters. In this spirit, we bring a positive program of action for development concentrated around these principles:

• Stimulating international trade by opening up markets;

• Tailoring particular development strategies to the specific needs and potential of individual countries and regions;

• Improving the climate for private capital flows, particularly private investment;

• And creating a political atmosphere in which practical solutions can move forward, rather than founder on a reef of misguided policies that restrain and interfere with the international marketplace or foster inflation.

Manila: 'IMF is wrong'

The following document was submitted to the Cancún summit by Philippines President Marcos, with the provision that a "Bretton Woods type of conference" might be needed to deal with the issues raised.

The burden of adjustment continues to be excessively borne by non-oil developing countries. This is mainly attributable to:

- depressed economic activities in major industrial countries resulting from over-emphasis on anti-inflationary policies.
- perpetuation of trade protectionist measures that hamper manufactured exports from developing countries.
- further deterioration in terms of trade against developing countries.

Thus, in spite of stringent domestic adjustment policies pursued by most non-oil developing countries that further contributed to decline in their growth rates, their current account deficits and prospects continue to grow.

This, in turn, is aggravated by the stiffer terms of financing from both private markets and international financial institutions (IMF, World Bank). Escalation in interest rates and shortening in maturities of loans from private markets further impinge on debt servicing capacity of non-oil developing countries.

The uncertainties of volatile exchange rates compound the problem of programming adequate resources for debt servicing.

In view of these considerations, *it is unreasonable to call for stricter conditionality on non-oil developing countries using IMF resources. The tendency to prescribe traditional adjustment measures in the monetary, interest rate and exchange fields ignores the fact that their deficits are, by and large, external in origin* [emphasis added]. If all deficit non-oil developing countries were to adopt:

- devaluation measures; their exports will not necessarily improve, their foreign exchange receipts may in fact decline.
- increase in interest rates measures; their business cost and inflation rate will continue to rise, increasing disincentives for investments, production and employment.
- other restrictive monetary measures; likewise, will only further depress their economies without correcting the structural problems requiring medium and long-term solutions.

I urge the heads of state or government to:

1) Note that successful global adjustment can only be realized if all countries undertook materially reinforcing measures. It must be stressed that it would be inappropriate for the IMF to increase conditionality when action of other countries renders such conditional programs ineffective.

2) Recognize the importance of greater surveillance of exchange rate behavior.

3) Recall the agreement to establish a centrally managed international reserve system based on SDRs. Further allocation is necessary to enhance this role thus providing additional resources that will enable countries to undertake adjustment measures not destructive of global trade and development.

4) Note that IMF quotas are significantly out of line with global trade.

5) Recognize the interdependence between developed and developing countries noting that sustained growth in the latter would contribute to prosperity in the former. It is therefore agreed that greater assistance be extended to help in the development and restructuring of the economies of developing countries.

6) Stress the urgency of the above-mentioned program of action, that they be undertaken without delay and that if necessary, a global conference on money and financing be convened to hasten their implementation.

Brazil: 'System out of date'

Excerpts from the opening statement delivered by Ambassador Ramiro Saraiva Guerreiro of Brazil:

The economic system established in the postwar years and still in force today in organizations like the IMF, the World Bank and the GATT has never tackled specific problems of the developing countries in a comprehensive and integrated manner. It was based on liberal assumptions according to which it would be possible to achieve in a short period a basic degree of homogeneity among nations and the market would be an essentially efficient mechanism for regulating exchanges and allocating resources.

Underestimated was the fact that the operation of market mechanisms cannot be considered in abstraction of trade, economic, and even political realities which, under the apparent neutrality of the interplay between demand and supply, reflect the often profound inequality between countries of so disparate levels of development. The benefits deriving to the developed countries from a more active presence of the South in international exchanges are clearly brought out if one considers the anti-recessive and anti-inflationary nature of the South's demand for goods and services produced in the North, and of the South's supply of goods and raw materials.

It is tragic that at this very moment 24 million workers in Europe and the United States are being paid not to produce, while in the South so much is left undone due to the lack of resources to import what those very workers could now be producing.

One cannot predicate the objectives of economic and social development on activities which are by definition profit-oriented, and which might not be always available when needed. Even in Brazil, which adopts a philosophy of market economy and of encouragement of its private sector, it has been necessary for the state to pragmatically take over considerable responsibilities in important sectors. What can be said of countries that do not possess a business community, or sufficient capital accumulation or even technical cadres?

The very system that emerged from Bretton Woods no longer seems able to offer solutions with the required urgency and flexibility. The countries of the South have the greatest interest in preserving the stability and credibility of the Bretton Woods institutions. What they ask of those institutions is simply greater sensitivity to the specific conditions and needs of the developing world.

Belgrade: 'The debt danger'

Excerpts from the opening statement delivered by President Sergej Kraigher of Yugosalvia:

None of us is spared the difficult problems plaguing the world, from unemployment and inflation, through balance of payments deficits and monetary instability, to the slowing down or even discontinuation of economic growth. The problems confronting us have indeed assumed the most dramatic proportions in the weakest link in the chain of the world economy—in the developing countries.

The current account deficit of the non-oil-developing countries amounted to $82 billion dollars in 1980, twice as much as compared with 1978. This year it will reach the figure of $100 billion. Only one-quarter of this deficit was covered by official international assistance. For the rest new commercial loans must be sought.

This makes the position of these countries increasingly difficult, so that new foreign debts, by and large, are used for debt servicing, while only one fifth remains for development financing. Any increase of 1 percent in the interest rate results in an additional outflow of capital from these countries of nearly $2 billion.

The foreign indebtedness of these countries amounted to $400 billion at the end of last year, twice as much as the value of their total exports.

All this leads to the curtailment of economic development, decrease in creditworthiness, and, hence, to the danger of repayments moratorium.

All this testifies in favor of the need to develop international monetary cooperation on the basis of new principles. Changes in the international monetary and financial system could produce desired results only if they are conceived as a function of economic development.

Glimpses of Cancún

I arrived in Cancún early on October 20, and the distasteful aroma of the world's second oldest profession—journalism—was already stifling the air of the small but crowded airport. Reporters from all over the world were pushing and shoving for position at the press reception desk established by the government of Mexico to assign hotels for the reporters. A temporary respite was gained when I suddenly overheard the Mexicans telling an irate *Newsweek* correspondent: "I am sorry, your reservations have been canceled."

But one of the uglier duos in the profession came to the rescue of *Newsweek*. Marlise Simons, the British national who serves as the *Washington Post* correspondent in Mexico, offered temporary lodging to her colleague. Later, while waiting for a bus to our hotels, Simons and her British national husband Alan Riding, who is the *New York Times* correspondent in Mexico, were overheard talking about Central America with an American journalist. Simons: "I have been informed by interesting channels that I am no longer welcome in Central America." Husband Alan: "I don't go there anymore. Let them sink in their own blood. . . . How about that from a revolutionary socialist."

The situation did not get much better with the journalists. One of the more striking things to witness was the White House press corps clinging to the pants of Alexander Haig for a (usually false) statement on Cancún to print. During the conference, Haig generally obliged by giving several briefings per day to the press. Not bothering to cross-check the Secretary's assessment of the conference, the reporters were generally content to fill in the gap between Haig's utterings by taking in the beaches of Cancún.

The result: a rather distorted picture of the conference appeared in the American press. Two examples suffice. Haig told reporters that the meeting between President Reagan and Indian Prime Minister Indira Gandhi included discussion of India's successful "green revolution" in agricultural production. Haig said the President viewed this success as proof of his claim that "private initiative" is the best method of Third World development. "Let the farmers produce," the President is reported to have said. But the Indian delegation reported the Reagan-Gandhi meeting slightly differently. Mrs. Gandhi is said to have told Reagan that India has a "balanced approach" including the private and state sectors." She pointed out the success of India's nationalized oil industry. No word of this from Haig. "He told more of a half-truth than an actual lie," one Indian commented, "but the effect is certainly the same." Haig also reported a "remarkable convergence" of views between President Reagan and Nigeria's President Shagari, including on the touchy subject of Cuban troops in Angola. Nigeria's response: "Let's just say Mr. Haig was exaggerating," said the country's Foreign Minister. He said Nigeria believes Angola has the right to invite Cuban troops on its soil, especially as long as Angola's national security is threatened. He also said Reagan should use the stick and not the carrot with South Africa.

The Japanese were more active at Cancún than any other recent world meeting, and a little noticed booklet they circulated, "Japan and the Developing Countries," made clear how they are currently operating. The booklet outlined Japan's foreign aid program in detail, and included a section on debt renegotiation with developing countries. "When the commercial debt of a developing country to a private Japanese company cannot be paid due to the deterioration of its international balance of payments, the Japanese government refinances the debt through the central government of the recipient country. When loans from the Japanese Government cannot be repaid by the recipient country, the Japanese Government reschedules the maturity."

This Japanese policy, of course, puts Japan squarely at odds with the International Monetary Fund.

The danger of war was never far from the minds of the assembled heads of state. Most arrived just after President Reagan's much-publicized statement that "limited nuclear war" is a possibility.

Perhaps the most interesting statement on this subject came from Philippines President Ferdinand Marcos. In a booklet widely circulated at the conference, Marcos wrote: "Whether in nuclear war or in conflicts on economic issues, there is nothing for anybody, not even for the neutrals. There is only defeat, for as some of the philosophers have put it, 'for conflict itself is the meaning of defeat.' . . .

Limited nuclear war cannot be assured to remain limited. Military and strategic considerations make escalation inexorable. Once the first nuclear missile, whether tactical or otherwise, is released, no one knows when the exchange will cease. Again, referring to the philosophers. . . . 'War's necessity is terrible and, once released, its course lies almost wholly beyond the compass of those who seek to make it the servant of their ends.' The same can be said of the issues that divide the North and South that are now called international economic issues. They are starting out in economic terms but actually deteriorating into matters of survival which may ultimately end as causes for war."

Papandreou's Victory

The Alexandrians take over Greece

by Criton Zoakos, Editor-in-Chief

To get a flavor of the kind of old British intelligence networks that are involved in the management of the new Papandreou government in Greece, one should evoke the heady, sodomy-and-necrophilia-scented atmosphere of Lawrence Durrell's *Alexandria Quartet*, a novel about life in British-run Alexandria in the beginning of this century. The Durrell novel is useful because in it one finds the most accurate portrayal of the kind of mind and world outlook which dominates the government of Mr. Andreas Papandreou.

Lawrence Durrell, however, is not the first to either express or notice this spirit of the *Alexandria Quartet*, a spirit which can best be described as the stench coming out of a Hellenistic-era sarcophagus within which a decomposing, putrescent mummy is being sodomized, amidst dust gathered through millennia and the perspiration of an Alexandrine midsummer noon. The mentality accompanying this horrid image is honored among Greek literati from the 1930s to this day as the "Alexandrian School" of modern Greek philology associated with the names of Constantine Cavafy and Nobel laureate George Seferis, two Greek-Alexandrine "poets" whom T. S. Eliot tried to imitate throughout his life and whom present-day Greek literary society holds as the most exquisite expression of modern Greek thought.

It is this Alexandrine spirit which won during the parliamentary elections in Greece. This spirit is the principal vehicle which British intelligence has employed to control Greek politics.

At least three ministers of Mr. Papandreou's cabinet have close political ties with British intelligence and

Alexandria. First of all, the Prime Minister and Defense Minister, Mr. Papandreou himself; then his Foreign Minister, Mr. Haralambopoulos; and finally the pathetic Culture Minister, Melina Mercouri, Mrs. Jules Dassin.

'Rudderless states'

During the Second World War, when Greece was occupied by the Wehrmacht, Winston Churchill established a Greek government-in-exile which most of the time was stationed in Alexandria, Egypt. The head of that government was George Papandreou, the father of the present Prime Minister. Around that government, a large number of political and military figures gathered to share the vicissitudes of exile and war. A Greek military expeditionary force was also formed under British command which fought at Mesopotamia and El Alamein. One of the officers in that Greek army under British command was the new Foreign Minister of Greece, Mr. Haralambopoulos.

Those years of exile during which politicians and officers from mainland Greece mingled with British intelligence and with the ancient Greek-Alexandrine community forged a common bond and a common outlook which was brought back home after the war ended. A very influential novel was written which captured the spirit of that experience of exile, death, self-degradation, and sellout to the British Intelligence Service. It influenced postwar Greek letters and politics more than anything else. Its title was *Rudderless States,* and its author, Stratis Tsirkas, was a leading member of the Greek Commmunist Party. Mr. Tsirkas was an Alexandrine Greek with British intelligence antecedents. The spirit of the novel is a drastically more pungent form of what one finds in Lawrence Durrell's *Alexandria Quartet,* except all the characters are politicians, party members, intelligence officers, and army personnel, mingled together in a three-volume orgy of politics, proletarian conspiracy, sweaty whorehouses, betrayals, military heroics, three-thousand-year-old fantasies, sexual obsessions, and the main hero's atonement by means of a lurid, protracted sado-masochistic sexual relation with the wife of a British intelligence officer. The main hero is a leading Communist Party intellectual. His mistress has been ordered by her British SIS husband to conduct the sado-masochistic liaison with the Communist. The Communist finds out about the scheme, realizes that he is entrapped in an intrigue which is designed to benefit the Churchill-run government of Mr. George Papandreou, but he is unable to break with his carnal obsession. Why? Because of the ineluctable seductiveness of the Alexandrine spirit. His atonement is to humbly submit to his putrescent Alexandrine carnality, to betrayal, and to British dominion. This is the shared ideology of the campaign organizers who were behind Mr. Andreas Papandreou's electoral triumph on the eighteenth of October.

One of them I happened to have known with a certain degree of intimacy, Mr. George Votsis, the brother-in-law of the author of *Rudderless States,* Stratis Tsirkas. During 1967-68, George Votsis was the chief of the underground organization in Greece which was leading the opposition to the then military government. The superior to whom he was reporting was the chief chamberlain of King Constantine, although Mr. Votsis would profess the most sincere and purest of Communist sentiments among "resistance circles." When King Constantine was ousted from Greece by the military government, George Votsis removed to London and joined with a British terrorist-oriented organization, the International Socialists, led by the son of Mr. Michael Foot, the Labour Party leader. Today, Mr. Votsis, an intellectual proponent of terrorism as notorious in Greece as Professor Piperno is in Italy, is the chief editor of a major Greek daily, *Eleftherotypia,* whose main source of funding is Mr. Latsis, a London-based Greek shipowner, who owns an oil company in Qaddafi's Libya, purchases Libyan oil on the account of a Greek refinery, and then transships that Libyan oil to Israel. An asociated newspaper venture, *Avriani,* receives its financing from the notorious Israeli Knesset member and fugitive from justice Samuel Flatto-Sharon. This is typical of the intelligence network layers which manufactured Mr. Andreas Papandreou's electoral victory.

The PASOK

Mr. Papandreou's party, the Pan-Hellenic Socialist Movement, known by its acronymic PASOK, was created by British intelligence in Toronto, Canada during the 1971-72 period. Both his party and his person have always been and now are creatures of British SIS. Andreas, of course, was born to George Papandreou when the latter was already a major figure in Greek politics and already known to the Greek electorate officially as an agent of British intelligence.

During the 1920s and early 1930s, electoral politics in Greece were such that for a candiate for public office, it was an advantage to be known as a British intelligence agent. So George, Andreas's father, made sure that his attribute as a British intelligence agent was a publicly well-known fact. When in August 1936, a pro-German and German-educated General, Iouannis Metaxas, instituted a dictatorship for the purpose of preventing the pro-British Greek royal family from siding with England against Germany, the police imprisoned the youthful Andreas Papandreou on grounds that he was leading a Trotskyist organization.

However, he was mysteriously released from jail and sent to the United States for higher education. He went to California, studied economics, participated, under

Jan Tinbergen, in the RAND Corporation's development of econometrics, and became involved in the Adlai Stevenson wing of the Democratic Party, having acquired U.S. citizenship. He returned to Greece in 1959. During the war he served as a medical orderly in the U.S. Navy in the Pacific, a fact which has made him now, as Greek Defense Minister as well as Prime Minister, the object of derision among Greek officers.

Mr. Andreas Papandreou was forced to flee Greece for a second time in 1967, after a military coup d'état. He went to Toronto, Canada, where he lived a drunken, destitute existence until British SIS created a party for him, PASOK, for which they also supplied a domestic and foreign program. Those acquainted with PASOK literature, from its Canadian 1971-72 period, will readily recognize the fact that the new Greek goverment's program, including such features as withdrawal from NATO, sharpening of hostilities between Greece and Turkey, domestic decentralization and community control, and special friendly relations with Qaddafi's Libya, is, down to the last detail, the very same program which was penned in Toronto by British intelligence, during a period when Mrs. Margaret Papandreou, Andreas's wife, was reporting extreme concern about her husband's perpetual intoxication. His excessive consumption of Scotch during that period, reported to have been upward of two quarts daily, was attributed to the combined influence upon his person of Messrs. Willy Brandt and Edgar Bronfman.

Carrington pawn

The new Greek government has no soul of its own. It is a British intelligence asset throughout. Its task will be to carry out certain specialized operations on behalf of Lord Carrington's scheme of launching a London-dominated "Europe" as a "Third Force" in international diplomacy, presumably equidistant between the United States and the Soviet Union. In the intermediate term, this will involve a major rupture of the southern flank of NATO, a new Balkan diplomatic game-plan bringing into play an eruption of Balkan nationalist conflicts among Yugoslavia, Bulgaria, Albania, Greece, and Turkey, which will provide the public theater for pinning down a "nuclear-free zone" in the Balkans according to the specifications of Lord Carrington.

With respect to politics in the southeast Mediterranean, Andreas Papandreou is programmed to link up with Libya's Qaddafi and inflame the perrenial Greek-Turkish crisis in Cyprus. An early Cyprus crisis is a high priority for Mr. Papandreou for numerous reasons. First, an aggravated communal conflict between the Greek-Cypriot and Turkish-Cypriot communities in Cyprus, will give the opportunity to Great Britain as that little island republic's "guarantor power" to enter the military regional sweepstakes promptly as United States military bases are kicked out of Greece by Mr. Papandreou. Further, a Cyprus crisis will give Lord Carrington all the required levers for putting an end to the still-unbridled Kemalist-republican tendencies within Turkey's present military government, which the British consider very dangerous. Finally, Papandreou, under British instruction, will attempt to open up the way for Colonel Qaddafi to establish a major base of operations in Cyprus from which to exert greater direct control over events into the volatile Lebanon-Syria-Israel situation.

The Papandreou government represents a destabilization potential far out of proportion to the tiny nation over which it presides. For that governemnt to be neutralized in its foreign-policy effectiveness, it must be exposed before the eyes of its own electorate as an extension of the British Foreign Office. The wide margin of electoral victory won by Mr. Papandreou is in a way a measure of the moral deterioration of the present Greek populaton which will make this task of exposure more difficult. Increasingly over the past 20 years, the basic moral outlook of the population at large has been drastically undermined along the lines of the existentialist-hedonistic outlook of the Alexandrine-Hellenistic literary tradition of Cavafy-Seferis-Tsirkas, the equivalent in English-language literature of a mass culture based on T. S. Eliot, Lawrence Durrell, and D. H. Lawrence.

The music of Mikis Theodorakis and the films of Melina Mercouri have been instrumental in spreading this outlook to large layers of the population. The recent educational reforms have drastically curtailed the teaching of the classics, and among those still taught, Plato is nowhere to be found. And when found, Plato is taught in that peculiar Stoic twist which made the old Alexandria of the Ptolemies notorious as the world center of mass manipulation by means of religious and philosophical cults. So it should come as no surprise that Mrs. Melina Mercouri, a cheap actress with a preference for impersonating prostitutes on the movie screen, was named the poor country's Minister of Culture. Mrs. Mercouri, of course, also comes from a family of impressive British intelligence credentials. Her father, once the Mayor and political boss of Athens even before the Second World War, built an impressive real estate fortune in London, where Mrs. Mercouri's, and her brother Spiro's, personal wealth still resides.

Unless a serious effort is undertaken to free the Greek population from the yoke of cultural self-degradation, an effort which shall flank a broader international undertaking to revitalize science and art on the basis of classical Platonic culture, the secondary but crucial strategic and diplomatic problems which the Papandreou government poses cannot be effectively attacked.

Subversives and Khomeniacs convene at Houston's Rothko Chapel meeting

by Nancy Coker

The international leaders of the Muslim Brotherhood—the secret society that put Ayatollah Khomeini in power in Iran and is responsible for the Oct. 6 murder of Egyptian President Anwar Sadat—met Oct. 21-25 in Houston, Texas, despite a nationwide campaign to prevent the conference from taking place on American soil. As expected, the conference was dedicated to formulating strategy for fomenting the "Islamic Revolution" in the Middle East, with three countries immediately targeted: Saudi Arabia, Egypt, and the Sudan.

The conference was largely attended by Muslim Brotherhood leaders from the Middle East itself, with one of the most notable participants being the Mahdi of Sudan, the fundamentalist chief of western Sudan tribes who is allied with Libya's Muammar Qaddafi in the projected overthrow of Sudan's President Numeiry.

Yet, despite the open threat to U.S. allies in the Middle East, the conference was permitted to take place through the last-minute intercession of the U.S. State Department of Alexander Haig.

The Brotherhood meeting was sponsored by Houston's Rothko Chapel and its founder Countess Dominique Schlumberger de Menil, a French aristocrat living in Texas since 1945. Since its establishment 10 years ago, the Rothko Chapel has sponsored and funded cult organizations, such as the Muslim Brotherhood, on both the extreme right and the extreme left of the political spectrum, in the name of "religious ecumenicism."

Rothko conference organizers have privately admitted that the Muslim Brotherhood meeting, which had been billed as an academic colloquium on Islam, was severely set back by the nationwide effort to shut down the conference. The effort was organized by the National Democratic Policy Committee and publicized by *EIR*. Only 120 out of an expected 400 or more showed up at the Rothko meeting. "The publicity by the *EIR* and its people scared the audience away," complained Madame de Menil, whose late husband John (originally Jean), a co-founder of the Rothko Chapel, was implicated in the assassination of President Kennedy.

The principal speakers at the Rothko conference were not deterred by the lack of an audience from making their calls for revolution in the Muslim world.

The most outspoken of the Brotherhood extremists was Hamid Algar, a professor of Islamic and Iranian studies at the University of California at Berkeley and a leader of the violent, pro-Khomeini Persian Speaking Group of the Muslim Students Association, the U.S. branch of the Muslim Brotherhood. Algar is a British subject, who embraced militant Islam 20 years ago, and found it convenient for his purposes to adopt a Muslim name. A Sufi mystic, Algar has attracted around him a cult following of young, pro-Khomeini extremists who revere him as their guru.

In his Rothko Chapel presentation, which was attended by his MSA supporters from around the country, Algar hailed the Islamic revolution in Iran as a "holy crusade" and praised the Ayatollah Khomeini as one who "deserves the blessings of God." Sadat, he said, was "a disgrace" and "was assassinated because his policies were contradictory to Islamic thought. Sadat believed Khomeini would crumble, but in the end it was Sadat who was swept away."

Algar proclaimed that Islamic fundamentalism would overtake the "heathen Saudi Arabia and the Egypt of Camp David." Egypt's economic troubles will be the likely trigger for "a revolution on the model of Iran," he said.

Algar's ravings were met with frenzied chants of "Kho-mei-ni! Kho-mei-ni!" from the audience.

Although some of the more mild-mannered academics present at the conference politely took issue with Algar's open advocacy of violence, the overwhelming sentiment was in favor of his extremism. Hisham Djait, a Muslim Brotherhood leader from Tunisia, defended Algar with the declaration that "violence is inherent in revolution."

"I'm quite happy as a Muslim to be regarded as a violent person, as an extremist," Algar stated in his own defense. He accused those who believe that social change can be achieved without violence of engaging in "doubletalk."

Algar also defended Khomeini's policy of mass murder in Iran, now being carried out as "political executions," including the executions of nine-year-old children. "Under conditions of stress all kinds of things may happen," said Algar. "Revolution in Iran is the practice of the spirit of Islam. It is a return to the spiritual, intellectual, cultural, political, and economic hegemony of the Muslim people."

Saudi Arabia: prime target

According to Arab intelligence sources, the purpose of the Rothko Chapel conference was threefold: (1) to tighten the international coordination of the Muslim Brotherhood and its attendant organizations on both sides of the Atlantic, in preparation for an intense campaign in the Middle East; (2) to plan for MSA-sponsored violent activity in the United States, beginning in the spring of 1982; and (3) to plan the next phase of the destabilization of Saudi Arabia, one of America's closest allies in the Middle East. If the Muslim Brotherhood is successful in bringing the Khomeini dark ages to Saudi Arabia, it will have destroyed one of the few remaining moderate Arab nations and will have handed the "oil weapon" to Islamic fanatics.

"The Saudi way of life violates Islam," intoned Rothko speaker Mohammad Naguib al-Attas, a Malaysian Sufi mystic based out of Ohio University in Athens, Ohio. Saudi Arabia, he asserted, is based on "corrupt values and corrupt principles," in a reference to the Saudi commitment to industrialization.

Another speaker was Salem Azzam, the Secretary-General of the London-based Islamic Council of Europe, the clearing house for Brotherhood subversion throughout the world. Islam, said Azzam, "obligates Muslims to rebel against rulers who violate human rights" and to "remove those rulers."

Privately, Azzam bitterly attacked Crown Prince Fahd of Saudi Arabia and his recently floated eight-point peace plan that recognizes the right of all states to live at peace in the region. Azzam predicted that his Islamic Council of Europe, the umbrella organization of hundreds of Islamic centers across Western Europe, would "split" because some of its members support the Fahd plan. "This cannot be tolerated," raved Azzam to a friend.

Azzam and others at the conference lavished considerable attention upon Prince Mohammad al-Faisal of Saudi Arabia. Mohammad, who is best known for his kooky strategy to float icebergs from Antarctica to Saudi Arabia for drinking water, is a fervent supporter of Khomeini's perverted brand of Islam. In his speech, Mohammad said that he was working for the unity of the "one Islamic nation," in which there is no room for individual nation-states. Mohammad also came to the defense of Khomeini, stating that "Islam has no fundamentalists, only fundamental principles as laid out in the Koran."


NSIPS

Harley Schlanger addressing Houston's City Council.

Mohammad's defense of Khomeini is not surprising. He is known to oppose Prince Fahd's pro-American and pro-development policy. As Chairman of the Islamic Investment Fund in Saudi Arabia, Mohammad sits at the head of a Libyan-Kuwaiti banking nexus that funnels millions into the Brotherhood. While in the United States for the Rothko conference, Mohammad met privately with U.S. businessmen in Houston, Chicago, and Philadelphia.

Prince Mohammad is also working closely with Ahmed Ben Bella, Algeria's first President, who was deposed and jailed because of his Islamic extremism. Released last year, Ben Bella surfaced at the Rothko conference spouting Islamic revolutionary rhetoric and denouncing "secular nationalism." According to intelligence insiders, Ben Bella has been designated by the British to operate as a bridge between Khomeini and the Saudis, with Prince Mohammad serving as his Saudi point man. It will be remembered that it was Algeria that served as go-between in securing the release of the U.S. hostages.

According to Dominique de Menil, Ben Bella and Prince Mohammad have been working together since 1978 to help Khomeini.

No to science

The core of the Muslim Brotherhood ideology is its hatred of science and technological progress. At the Rothko conference, Abdus Salam, a member of the Club of Rome (which favors global depopulation) and father of the "Islamic" nuclear bomb, discussed "the meaning of Islamic science," lying that historically Islam has held low esteem for science. "Even with the achievements of ibn Sina, Omar Khayyam, and ibn Rushd," the physics Nobel Prize winner asserted, "the Koran does not make a priority of science. Islam is superior to science."

Another Muslim Brotherhood cultist working with UNESCO seconded Abdus Salam that the "spirit" is primary and that in Islam "tools and technology" are not necessary. Salam hailed the year 1180 as the turning point in the history in Islamic civilization when science ceased to be important.

To the uninitiated, Salam's Nobel Prize credentials may obfuscate his identity. Salam operates as director of the International Center of Applied Physics in Trieste, Italy, which has served as a training and recruitment ground for scientists involved in smuggling nuclear secrets to radical Arab governments—the Islamic bomb project. The Center is funded by the same Italian aristocratic families who sponsor the genocidal Club of Rome and is closely linked to the Islamic Council of Europe and the Islamic Institute of Defense Technology. The latter includes Egyptian renegade Gen. Saad el Shazli, who is implicated in the Sadat assassination.

EIR alert

A national alert was placed on the Rothko Chapel conference by the National Democratic Policy Committee and *EIR*, which worked together in Houston, Washington, D.C., and other cities to expose the details of the subversive conference for weeks prior to its occurrence. Harley Schlanger of the NDPC's Houston chapter, appeared repeatedly on television and in the press there, and testified on Oct. 14 before the Houston City Council in an appeal to prohibit the Rothko Chapel meeting. "The Rothko Chapel, inviting the Muslim Brotherhood to Houston, is sponsoring the very same organization responsible for the murder of Anwar Sadat," Schlanger stated in his testimony. "Houston officials must do whatever is necessary to prevent the entrance of these people into the United States."

"I have no doubt that what he told us is correct," Republican Councilwoman Christin Hartung, who invited Schlanger to testify, told the *Houston Post* following Schlanger's statement. She submitted two proposals recommended by the NDPC representative: that the Council request denial of visas, and, should the State Department refuse, that the Council unilaterally move to shut down the meeting.

Although both resolutions were seconded, passage was blocked by liberal Councilwoman Eleanor Tinsley. Despite the stalemate, Houston Mayor Jim McConn authorized the Houston Police Department to investigate the situation.

From around the country pressure to stop the meeting mounted. Following the NDPC's distribution of thousands of leaflets, local officials of the American Legion and the Veterans of Foreign Wars requested their national headquarters to respond to the controversy. Numerous telegrams from around the nation were sent to Mayor McConn urging him to shut down the Rothko meeting. From Boston, City Councilman Albert O'Neil sent a telegram to McConn urging the Houston Mayor to take "all legal measures necessary to stop the upcoming meeting of the Muslim Brotherhood in your city. Supporters of terrorism should not be given a public forum."

In response to this campaign, Rothko Chapel officials reversed their earlier denials that the Muslim Brotherhood was going to be involved in the meeting. "Three or four of the people coming to the conference are members of the Brotherhood," Rothko spokeswoman Ann Mead admitted lamely. Conference coordinator Nabila Drooby added, "We know that these people—some of them—have been involved at some time in the Muslim Brotherhood."

Prompted by the NDPC's and *EIR*'s exposés, some White House officials and law enforcement agencies, including the CIA, began an investigation of the Rothko meeting. According to intelligence sources, the State Department was considering revoking the visas of the Brotherhood members slated to attend the conference—until Alexander Haig intervened.

Madame de Menil, operating through Brotherhood apologist William Crawford, a former U.S. ambassador to the Middle East who now heads the Washington-based Islam Centennial Fourteen, arranged to send Rothko Chapel Board Chairman Thompson Shannon to Washington for a meeting at the State Department. With Crawford's help, Shannon reportedly met with Willard Depree of the Office of the Inspector-General of the State Department to ensure that Washington would allow the conference to take place. Following these talks, the State Department okayed the Muslim Brotherhood meeting.

In the two weeks before the Rothko event, exposés in *EIR* circulated throughout the United States to press, congressmen, law enforcement and security officials, and political and trade union leaders.

Madame de Menil bitterly complained that her conference had been spoiled as a result of the "bad publicity." Commenting on the almost total lack of attendance by Houston's business community, she said, "You know how stupid American businessmen are. They read the *EIR* and they believe it."

Madame de Menil was reported to be particularly upset over *EIR*'s report that her family was linked to the Kennedy murder in 1963. Despite her hurt feelings, the facts on that score are clear. In 1963, John de Menil was a board member of Permindex, a Montreal-based intelligence company exposed in New Orleans District Attorney Garrison's of the Kennedy assassination. De Menil was also present at a spring 1963 secret meeting in Montego Bay, Jamaica, to plot the Kennedy murder.

Mitterrand government announces a reign of terror at home and abroad

by Dana Sloan

If you are an American businessman trying to export to the Middle East, if you are a Mexican or Latin American political leader committed to pulling your nation out of underdevelopment, if you are a Saudi or Middle Eastern ruler who does not wish to see Islamic fundamentalism take over, the French government of François Mitterrand is now your sworn enemy.

As the Cancún summit approached, the Mitterrand government and its ruling Socialist Party (SP) declared war on anyone and everyone, at home and abroad, who stands in the way of their policies. While President Mitterrand issued a call to arms to Latin American terrorists in a speech in Mexico that was boycotted by President José López Portillo, in Paris the opening of the Socialist Party national congress was the scene for an outbreak of calls for purges, witch-hunts, and the guillotine in France.

"We must not say 'heads will roll' like Robespierre told the convention, but say *which* heads and say so rapidly," Socialist Party Energy Commissioner Paul Quiles told the party congress, which opened in Valenoe on Oct. 23. Louis Mermaz, number-three in the party's leadership added: "If we succeed, there will be no turning back to the past. Certain forms of opposition will have been destroyed."

The national congress, in short, saw the top leaders of the Socialist Party declare a reign of terror, while a list was being drawn up of the enemies to be eliminated. Quiles told the party congress, which opened in Valence mob against France's ambitious nuclear energy program—still the largest program in Europe—declared that "university deans, prefects, directors of national businesses, and high functionaries" were among those that had to be swept from centers of power.

The Socialists now control not only the presidency, but also hold a single-party majority in the National Assembly, which guarantees passage of any bill or law presented by the government; and they are rapidly consolidating all forms of political and economic power through state takeovers of major banks and strategic sectors of industry.

Against the backdrop of the debate in Parliament on the economic nationalization program, where the opposition put up a fruitless fight against the proposal, the Socialists indicated that even verbal opposition, however impotent it may be, was unacceptable under certain circumstances.

Jean Poperen, number-two in the SP, railed that "the parliamentary opposition is playing for time, while the capitalists organize the flight of capital. . . . Those who won in [the] May and June [elections] will not allow themselves to be tricked by the bourgeoisie." He was joined by Louis Mermaz, who demanded that the government "strike hard and fast at the heads of groups which are playing with moneyed interests against the national interest. All the elements of an economic counter-revolution are in place. The class struggle is now upon us."

The Constitution: a dead letter

Every SP leader we quote above is a close collaborator of President François Mitterrand, belying the many assertions that this was just the party blowing off steam. When the party leaders speak, it is with the full knowledge and blessing of their President.

One of the features of the new French Revolution is precisely that the distinctions between party and government have been abolished, in violation of the intent of the 1962 Fifth Republic Constitution. Lionel Jospin, General Secretary of the Socialist Party, attends at least twice-weekly meetings with President Mitterrand and his ministers to set policy and ensure that it is carried out.

Lionel Jospin has otherwise proclaimed his intention to trample on the Constitution. During the chaotic debate in the National Assembly that preceeded the SP congress, Jospin threatened that were the Constitutional Council (France's Supreme Court) to rule the nationalizations of banks and companies illegal, that ruling would be overridden.

Jospin warned that "never in history have the great currents of reform been stopped by supreme courts. . . . There is a left and a right. . . . The opposition has the right to express itself, but the will of the people must be respected."

The National Assembly debate was the scene of wild accusations thrown against some of France's most respected national leaders, men like Gaullist leader Michel Debré, who co-authored the Constitution of the Fifth Republic with General de Gaulle. Debré was accused of opposing the nationalization of large parts of industry on the basis of his family ties to some steel-industry interests. Also high on the list of those targeted were members of former President Giscard d'Estaing's family who are prominent board members of several of the companies slated for state takeovers.

The debate became particularly venomous after it was reported that Pierre Moussa, Chairman of the Banque de Paris et de Pays-Bas (known as Paribas) had succeeded in selling off the bank's Swiss assets to a foreign firm, thus preventing those assets from coming under the state's control. The Socialists' charge: "Nationalization is the class struggle being expressed. . . . Before the French Revolution, the ruling class was proud of its origins. Then they entered the democratic political system. Today, they don't like being told that they hold illegitimate power, financial power."

International dark ages

What was said at the SP congress was simply the most explicit announcement to date of a policy that began immediately after François Mitterrand's inauguration as President in May: that terror is to be an instrument of state policy. Hundreds of terrorists were freed from jail, including many members of Action Directe, France's equivalent of the Italian Red Brigades or the West German Baader-Meinhof Gang. The Interior Ministry at the same time focused its attacks against various branches of the police force (see *EIR*, Nov. 3) accused of being racists and anti-Semites. Terrorists set off several bombs at various "bourgeois" establishments in Paris, such as restaurants and merchants that cater to the wealthy.

This policy of terror is also intended for export to Latin America, the Middle East, and Africa. Just as Ayatollah Khomeini would call on the Islamic masses to overthrow those regimes based on "Westernized" culture and industrial development, so did Mitterrand address a call to the populations of Latin America in a speech made in Mexico before the opening of the Cancún summit.

Going against the entire thrust of President José López Portillo's policies—use of Mexico's oil revenues as the basis for in-depth industrial and agricultural development of the nation—Mitterrand declared that "there is not and there cannot be political stability without social justice. . . . There is no real economic development without the preservation of . . . original culture." Although the speech was delivered to a crowd of only 6,000 people (compared with 1 million who came to hear General de Gaulle many years ago) it was clearly a call to López Portillo's internal enemies to rise up against him.

Adding to the flames

Mitterrand continued: "Hail to those who are gagged, persecuted and tortured, who want to live and live free. Hail to those who are being held, who have disappeared, who have been assassinated, who only wanted to live and live free. Hail to the brutalized priests, to the peasants without land, to the jailed trade unionists, to the unemployed who sell their blood to survive, to the Indians chased from their land, to the workers without rights, to the resistance fighters without arms, who want to live and live free. To all of you, France says: courage, liberty will conquer!"

The speech, conspicuously boycotted by López Portillo, demonstrates the import of Régis Debray's presence as foreign policy adviser to the French President: promoting guerrilla warfare is now state policy.

Mitterrand has similar plans for the Middle East, plans he has wrapped in Islamic garb. He and his Foreign Minister Claude Cheysson made an approving appearance at a Paris conference of Islam and the West Oct. 14-16, an organization actively seeking to spread Khomeini's dark ages throughout the rest of the Middle East and Africa. It was Cheysson who after the assassination of Egypt's President by the Muslim Brotherhood announced that Sadat's death removes an "obstacle to peace."

The U.S.-based arm of this Dark Ages terror policy has been revealed to be centered around the recent conference in Houston of the Muslim Brotherhood, held at the Rothko Chapel. The Rothko Chapel conference, which brought in leading Islamic fundamentalists from all over the world to explicitly target the Saudi Arabian regime, was sponsored by Countess Dominique de Menil, née Schlumberger. The Countess, who is a member of a family-held industrial grouping that is extremely close to the Socialists, was among the guests at the state dinner in Yorktown, Virginia given in Mitterrand's honor.

No wonder the old Comintern hack and long-time liaison with British intelligence, Boris Ponomarev of the Soviet Politburo, left the Socialist Party congress feeling quite pleased with himself.

Middle East Report by Robert Dreyfuss

A Kremlin pact with Carrington

The Soviets are lining up with Britain's geopolitics to drive the United States out of the region.

Soviet President Leonid Brezhnev issued an unusually strong condemnation of the United States on Oct. 27 for "endangering" Libya with "saber-rattling" in the Mediterranean. In a speech greeting the arrival of the President of North Yemen, Ali Abdullah Saleh, Brezhnev declared: "The so-called 'strategic cooperation' between the United States and Israel means blood, destruction, and sorrow for the Arabs," and called for an international "people's" alliance to challenge "U.S. imperialism."

Brezhnev's statement is a signal from the top of the Soviet leadership that the Kremlin has adopted a policy of fomenting chaos in the Middle East, using its radical allies, such as Libya, to challenge the United States. Behind this policy is a deal between Moscow and the British Secret Intelligence Service under Foreign Secretary Lord Carrington to carve up the region and force the U.S. out. The mediators in arranging this agreement are a Soviet KGB faction under Soviet Communist Party Central Committee hardliners Michael Suslov and Boris Ponomarev—and the Russian Orthodox Church.

The Oct. 17 arrival in Moscow of Patriarch Ignatius, leader of the Antioch Orthodox Church, is seen by Arab intelligence sources as an indication that the Soviets are planning "a major crisis" in the Middle East. Lebanese sources report that the Patriarch's rare visits to the Kremlin are always followed by fresh destabilizations in this area. Ignatius, a protégé of the British Anglican intelligence operative Herbert Waddams, will meet Patriarch Pimen of the Russian Orthodox Church, a leading KGB operative. These sources report that they are now plotting a renewed war in Lebanon, where the Antiochian Church has profound influence, with the complicity of a faction of Israeli intelligence centered around Defense Minister Ariel Sharon as the first phase of their policy.

Lebanese diplomatic sources report that during the last week in October, Israel began massing troops in preparation for a terrorist attack from radical Arabs in southern Lebanon.

As Ignatius was visiting Moscow, 14 communist parties of the Eastern Mediterranean, the Mideast, and the Red Sea convened their first regional meeting to coordinate tactics on "combatting U.S. activity" in the area. The participants included the legal parties of Israel, Greece, Cyprus, Syria, Jordan, and Iran's Tudeh Party, and the outlawed parties of Turkey, Egypt, Sudan, Iraq, Saudi Arabia, and Bahrain, with representatives from Ethiopia and Afghanistan.

Qaddafi himself delivered a statement that was transmitted throughout the Arabic world on Radio Tripoli warning that Egypt's Hosni Mubarak would "soon receive the same treatment delivered to Sadat."

And Radio Moscow's Arab-language broadcasts have taken on an increasingly radical tone. An Oct. 20 broadcast attacked Saudi Crown Prince Fahd's peace plan and endorsed the call of the "Steadfastness Front" meeting in September in Libya that Arab states should "use all resources at their disposal . . . including oil and the billions of dollars in American banks," as a weapon against the U.S.

Over the same period, Moscow intensified its Arab diplomacy. Palestine Liberation Organization chief Yasser Arafat made a surprise visit to Moscow late last month, where the Kremlin made the decision to give the PLO full diplomatic status, the first major power to do so.

The Arafat visit, which was set up by Ponomarev was followed less than 72 hours later by the arrival of both the President of North Yemen, and the Kuwaiti Minister of State for Cabinet Affairs, Abdul Aziz Hussein. The stepped-up Soviet diplomacy, particularly with nations of the Arabian peninsula such as Yemen and Kuwait, is intended to pressure Saudi Arabia to open relations with Moscow.

The unusual reception delivered Oct. 26 to North Yemenese President Saleh is meant to send a shock through the Saudi elite. North Yemen has traditionally been a strong Saudi ally and a buffer between Saudi Arabia and South Yemen, a Marxist-Leninist regime which recently signed a military pact with Libya. Arab sources report that the aggressive Soviet diplomacy will probably benefit a faction within the Saudi elite centered around Third Crown Prince Abdullah which favors closer ties with the Kremlin.

 by Josefina Menéndez

Unity of the left shatters

Ayatollah Heberto threw a temper tantrum when he wasn't chosen as the left's presidential candidate.

One of the most sophisticated operations against the stability of the Mexican political system got hit badly this week when the Mexican Workers Party (PMT), led by Ayatollah Heberto Castillo, angrily stomped out of the negotiations which were bringing the Mexican left together in a bloc.

EIR has seen documents proving that the brains of the intended unification of the *left,* announced last month, is nothing other than the Mexican *right:* the Jesuit Social Communication Center (Cencos). This Cristero entity, directed by José Alvarez Icaza, who along with Porfirio Miranda has promoted the "Christian-Marxist" dialogue, has been one of Ayatollah Heberto Castillo's primary bulwarks of support. Alvarez Icaza has worked for years to build an alliance to do to Mexico what Khomeini did to Iran. As the confidential documents we reviewed show, the Cencos strategy was to pull every Mexican left party out of any form of traditional politics, and into an alliance premised on anarchist hostility to the state.

A key piece of this strategy was that, once unification was achieved, Heberto Castillo would be elected as the "strongman" of the coalition. That is, Castillo would be Secretary General and the unity candidate for President.

In less than a month, the entire Jesuit apparatus was announcing through all the media at its disposal that Heberto, "the most charismatic and best known opponent of the government" (i.e., of industrial development plans) would be the left candidate. All the left press, including the Communist newspaper *Oposición,* the daily *Uno más Uno,* and the weekly *Proceso,* trumpeted that Heberto was *the* man. The operation reached its climax Oct. 17 when the PCM held its national congress. Jesuit-controlled PCM chief Arnaldo Martínez Verdugo announced in his long keynote that the PCM would make itself disappear into a new left unity party. That party, he announced, would promote a unity candidate for President, Heberto Castillo. In fact, the leaders of the six other left parties were already up on the PCM platform, chanting along with the PCM mob, "the left united will never be defeated." But when the dust settled at the end of the PCM congress, they had nominated an old trade unionist from their ranks, Othón Salazar—and *not* Ayatollah Heberto—as their presidential candidate. The spanking new "unity of the left" was shattered—defeated by the counter-attack of Moscow, Eurocommunism, and the Mexican government itself.

I learned from well-informed sources that the Soviet leadership disapproved of the alliance: Russia is reportedly more interested in the political stability of the Mexican government than in encouraging the disappearance of one of its supposedly fraternal parties. And they passed the word on to the PCM leadership.

Another factor was Italian Communist boss Enrico Berlinguer's visit to Mexico. Berlinguer, present at the PCM meeting, manifested his total lack of enthusiasm for their "popular front" tactic by not once mentioning the central theme of unity in his speech closing the conference. And in contrast to Martínez Verdugo's plaints about the "repressive" Mexican government, the Italian Communist chief publicly thanked President López Portillo for the courtesy of granting him a private meeting. Berlinguer also congratulated López Portillo for the Cancún summit, while telling the local Communists he would stand clear of Mexican internal politics.

We also learned that some forces inside the Mexican government energetically explained to the PCM that support for Heberto could cause some unspecified "problems" to the PCM's electoral efforts.

What is certain is that the Mexican Workers Party (PMT) refused to accept unity, and promptly announced their withdrawal from the unity talks until after the July 1982 elections. Yet less than 48 hours after the PMT pullout, its leading intellectual quit the party. Francisco Paoli Bolio, educated by the Jesuits at the Universidad Ibero-Americana, and currently Dean of Political Science at the Autonomous Metropolitan University, issued a tearful open letter bitterly decrying Heberto's failure to see that his move would destroy the party.

Can the left still remain united without its "charismatic" figure? That's what analysts now ask.

International Intelligence

Japan, Mexico upgrade economic ties

The first act taken by Japanese Foreign Minister Sunao Sonoda upon returning from Cancún on Oct. 26, according to Japanese press reports, was to elevate the Japanese Ambassador to Mexico, Nobuo Matsunaga, to the post of Deputy Foreign Minister for Economic Affairs. Matsunaga had been Ambassador to Mexico since 1978, and, in recent months especially, had emerged as a leading proponent of full-scale Japanese collaboration with Mexican industrialization plans.

At the same time, the Ministry of International Trade and Industry (MITI) announced the largest-ever Japanese trade and investment mission to Mexico, Nov. 6-18. Headed by Bunichiro Tanabe, Chairman of the Board of Mitsubishi, Japan's largest trading company, the delegation will be composed of 131 government officials and executives of trading companies, department stores, manufacturing companies, and banks.

One of those in the mission, Bank of Tokyo head Minoru Nishima, summed up the Japanese attitude to a Mexican reporter on Oct. 26. Japan, he said, is ready to "finance the industrialization of Mexico," because it sees in Mexico a "reliable partner." Nishima, asked if Mexico's foreign debt were a problem, answered that it was not, because Mexico's imports go into industrial projects. In the short term, Mexico could be "an industrial power," he concluded.

Socialists prepare for power in Spain

The Spanish Socialist Party, led by Felipe González, is preparing itself to take power in general elections in Spain. General elections in Spain are not due to occur until 1983, but recent developments have substantially weakened the ruling Democratic Center Union (UCD) of Prime Minister Calvo Sotelo. If the government is further weakened, observers predict general elections well before that time, and a likely victory for the Socialists.

The latest blow to the Center Union resulted from last month's elections for the regional parliament in Galicia, one of Spain's northern states, which took a sharp twist to the right. As a result, the Center Union will almost certainly have to form a coalition with the right-wing Popular Alliance Party if it is to continue its rule in the region. If this happens, however, the Center Union's stature as a "center party," relatively free of domination of old Francoist elements, will be severely tarnished. Already the country's Social Democrats have announced that they will leave the national government coalition if the right-wing alliance takes place in Galicia.

Pellecer still a Jesuit, says order

Father Eduardo Pellecer, a former leftist guerrilla with the Guatemalan Army of the Poor (GAP) has been brainwashed to denounce the Jesuits' involvement in left-wing terrorism, and remains a Jesuit nonetheless, according to a press statement in late October by the order's regional head, César Jérez.

Pellecer appeared at a government-sponsored press conference in September to expose the Jesuits' political activity with the terrorist GAP; and collaboration with Amnesty International and Caritas.

Pellecer himself had disappeared some months earlier—broadly said by the left to have been kidnaped by the rightist death squads. However, he said, he had, in fact, joined the guerrillas. In his government statement, Pellecer stated that he wished to leave the Society of Jesus, but remain a priest.

The renegade Liberation Theologist is currently touring other Latin American countries, under sponsorship of the right-wing military government to give broader exposure to his denunciation of the "Theology of Liberation," a move which has left the order badly shaken.

César Jérez, attempting to recoup against the blow, however, told the press that "our order is not a merry-go-round," but "a serious congregation where whoever wants to get out must go through a long process similar to that which one goes through to get in."

Lutherans blasted for greenie support

Holger Börner, Governor of the West German state of Hesse and a close ally of Chancellor Helmut Schmidt issued a dramatic denuciation of the German Lutheran Church Oct. 25 for its support of the environmentalist movement.

Referring to the notorious fact that the Lutheran Church was an institutional collaborator of the Nazis during the 1920s and 1930s, Börner said that "certain churchmen" among the Lutherans are now trying to make up for their failure to oppose the Nazis by collaborating with the greenies against a democratic government.

It was the Lutheran Church which sponsored last month's so-called peace demonstration of 250,000 in Bonn. That demonstration was an attempt at destabilizing the government of Chancellor Schmidt in favor of the terrorist environmentalist wing of the Social Democracy.

A 'white' coup occurs in Peru

An upheaval in the Peruvian military which culminated in Oct. 28's cabinet shakeup shows that civilian President Fernando Belaúnde's days may be numbered. Belaúnde loyalists, who had supported him during the 1968 coup that removed him from the presidency, were ousted from the top positions in the army, navy, and air force. The most significant cabinet shift is that Gen. Luis Cisneros, former hard-line Interior Minister, made himself Commander of the

Army, the ideal position from which to achieve his ambitions to enter Pizzaro's Palace as President.

As Interior Minister in 1976-77, Cisneros made Peru a living hell in which all efforts to reverse the austerity were savagely repressed.

The shakeup was provoked by the forced resignation of Interior Minister José María de la Jara, a lifetime political partner of Belaúnde and stalwart of his Acción Popular party. De la Jara had protected the civil liberties of the Maoist Sendero Luminoso terrorists who during the last year have perpetrated over 1,000 terrorist attacks, largely against power lines and unoccupied government offices. After the Maoist provocateurs escalated their guerrilla warfare to make bloody attacks on police posts in Ayacucho Department in early October, De la Jara's fate was sealed. A state of emergency was declared and the army and air force rounded up hundreds of known terrorists and sympathizers in Ayacucho.

Peru intends to maintain an image of democratic normality as part of its renegotiating its foreign debts, and to avert international attention from its mammoth cocaine exports. Thus, Belaúnde may be allowed to remain as figurehead to an increasingly repressive regime.

Germany signs nuclear pact with Egypt

A state-to-state agreement was signed Oct. 27 in Bonn for the transfer of nuclear power-generating technology to Egypt. The German Minister of Research and Technology, Andreas von Bülow, stated that the agreement shows the Schmidt government's "commitment to Egypt's economic buildup," adding that Bonn has developed a broad strategy for stabilizing Egypt through expanded economic cooperation.

Von Bülow also announced that the two German-built nuclear plants in Egypt could come on line as early as 1983, and characterized the new accord as a model for Germany's strategy toward the underdeveloped sector.

The nuclear-energy program initiated by Anwar Sadat foresees 8,000 megawatts of nuclear-generated power by the year 2000 in Egypt.

FAO pushes 'Minimum Food Programs'

East Africa, under the United Nations Food and Agriculture Organization (FAO), erratic distribution of imported food stocks is being replaced by food-for-work programs called "Minimum Food Progrms." In Somalia, food in these programs means one bowl of corn soup possibly supplemented with some dates and edible oil in exchange for a day's manual labor.

In the isolated instances in which conditions are "improving," the American Council of Voluntary agencies for Foreign Service documents that "improvement" means long-term malnutrition rather than starvation; that is, conditions "improved" to a slower form of death.

Persistent drought during the past decade is eliminating the region's meager crop production. Areas subjected to tribal and border wars—such as northeastern Uganda and Somalia—have had their agriculture further disrupted. Among Africa's least-developed countries, per capita food production has dropped 13 percent in the past decade.

The food-for-work programs, essentially modeled on the concentration slave-labor camps of Nazi Albert Speer, were the subject of an FAO policy conference in Paris on the least-developed countries this September.

At the conference it was proposed that one-third of all aid to the LDCs be allocated for agriculture. The U.N. agency is on record endorsing "appropriate technology" agriculture, rather than the high-technology transfer required to provide necessary food production.

The other two-thirds of aid is to presumably go for further debt rollover and energy costs. Yet today all LDCs combined—most of the Third World—received only $800 million from the world's financial institutions and aid agencies.

Briefly

● **YOSHIHIRO INAYAMA,** the head of Japan's Keidanren business federation, advocated a conciliatory trade policy toward Europe in a report to Prime Minister Zenko Suzuki. Inayama proposed both export restraint by Japan and an activist import program. The report followed a stormy 15-day tour of Europe by more than 100 top Japanese business leaders in which the Japanese were met with surprisingly harsh protectionist threats. Others of the business delegates, however, argued that Japan should not cave in to what they regard as unfounded European demands.

● **NICOLAE CEAUSESCU** of Romania issued call for the Soviet Union to withdraw its middle-range missiles from Eastern Europe. He also urged the United States not to deploy such missiles in Western Europe. In doing so, Ceausescu plays into Britain's building of a "Third Force" for Europe. Ceausescu's call immediately follows the recent NATO meeting of foreign ministers, which also called for the withdrawal of missiles from Eastern Europe.

● **BORIS PONOMAREV,** Soviet Central Committee Secretary and Deputy Secretary Vadim Zagladin held high-level strategy sessions with the French government and the Socialist Party leadership during the latter's Paris conference last month. Zagladin later announced that "the Soviet Union is ready to participate in an international disarmament conference if France should decide to organize it in Paris," and specified that François Mitterrand would preside over the conference.

● **HO CHI MINH** City Mayor Mai Chi Tho will head a delegation of Vietnam's National Assembly members to Tokyo on Nov. 1 to meet with Japanese Foreign Minster Sunao Sonada and to have in-depth talks about a solution to the Kampuchean issue.

After AWACS: further victories for sanity?

by Richard Cohen, Washington Bureau Chief

While no one in Washington is yet prepared to project the full political effects of President Reagan's dramatic and unexpected Oct. 28 Senate victory for his proposed sale of AWACS aircraft to Saudi Arabia, most here now agree that the President has bought more than time: he has attained what may amount to a final opportunity to reshape the policy and personnel of his administration.

The AWACS vote represented a shocking and unprecedented defeat for the genocide lobby, headed by British Foreign Secretary Lord Carrington and the Mitterrand-directed Socialist International. However, in order to immediately consolidate the U.S. position in the Middle East and crush the Anglo-French drive to destabilize the area, the administration will have to take the advice of National Democratic Policy Committee (NDPC) Advisory Council Chairman Lyndon LaRouche. LaRouche, immediately following the AWACS victory, recommended to President Reagan that the United States join with Japan and West Germany to provide a nuplex-centered economic stabilization package for Egypt. Mr. LaRouche further suggests that the administration immediately consider a gold-reserve monetary reorganization aimed at disciplining the London-controlled private markets and the Federal Reserve, and allow for the immediate rechanneling of credit, the only available means for averting depression.

Presidential failure to seize this opportunity will shut the door on the President's political survivability, by no later than January of next year.

The President was able to swing eight crucial Democratic Senators, over the objection and private arm-twisting of the Democratic Party's nominal leadership. Democratic National Committee Chairman, banker Charles Manatt, the congressional Democratic leadership, including House Speaker Tip O'Neill, Senate Minority Leader Robert Byrd, and Senate Minority Whip Alan Cranston, and a traitorous last-minute prominent role played by former Vice-President Walter Mondale, were all directed to defeating AWACS, just as they defend high interest rates, to saddle the President with the destructive effects.

Importantly, the majority of the eight Democrats—particularly those who swung behind the President in the crucial last 48 hours, including Senators David Boren (Oklahoma), James Exon (Nevada), and John Melcher (Montana)—have formed, since at least May, a moderate caucus which has vigorously and openly promoted a direct presidential confrontation with Federal Reserve Board Chairman Paul A. Volcker and his crushing policy of high interest rates.

In fact, it was Senator Melcher himself who sponsored a resolution in September that would have, if passed, forced President Reagan to confront Volcker. That resolution was stopped by a combination of intense lobbying by President Reagan's most trusted economic advisers, including Office of Management and the Budget Director David Stockman, Chairman of the Council of Economic Advisers Murray Weidenbaum, and the Senate and House Democratic leadership, with the support of Manatt's Democratic National Committee.

Further, there was a significant pro-AWACS move among freshmen Republican Senators. Many of these Senators have become, over the course of the past two months, the most active in pressuring the White House for a bold immediate battle-plan against high interest rates. In fact, Senate Majority Leader Howard Baker, appearing on national television Oct. 25, warned that the number-one issue facing elected officials nationally is high interest rates.

Beyond providing the President with a ready-made anti-Volcker alignment of Republicans and Democrats in the Senate, the AWACS lobbying process exposed incredible weaknesses in the President's national-security apparatus. Sources close to the White House are all but convinced that National Security Adviser Richard Allen will soon be replaced. In addition, there are reports now circulating in Washington which suggest that administration house-cleaning may reach the treacherous Secretary of State.

Over the course of the week prior to the vote, White House sources gave similar indications concerning the future of the administration's economic brain-trust.

The President's "second round of budget cuts" is under savage attack on Capitol Hill; on Oct. 21 it was reported that the gross national product had declined an additional 6 percent; on Oct. 23 it was reported that the September Consumer Price Index had shot up an astounding 1.2 percent; finally, budget-deficit predictions for fiscal 1982 are now climbing up to the $100 billion mark. The credibility of Weidenbaum and Donald Regan—particularly on Capitol Hill—has collapsed. What is clear is that the President's most trusted political advisers, including Chief of Staff James Baker III and Counselor Edwin Meese, have concluded that changes will have to be made at the senior levels of both domestic and foreign policy-making.

Importantly, those changes will be determined by how rapidly the President and his political advisers grasp the opportunity the new alignment represented by the Senate AWACS vote, and further will be determined by how boldly and dramatically they are prepared to reshape White House economic policy. Were the President to cling to a course of "practical politics" with Congress—a game well known to Chief of Staff Baker, whose influence is said to be rising—the economy would unravel into an unstoppable general depression and the President would find himself in an unsalvageable political position by no later than January.

Indeed, opponents of the AWACS sale are preparing the next flank against Reagan: the economy. Appearing on national television Oct. 25, former Vice-President Mondale defended Volcker, stating that the Fed Chairman was forced to adopt a high interest-rate policy because President Reagan had initiated a sizable three-year tax cut, thus widening the budget deficit. The following day, Oct. 26, Democrat Jim Jones of Oklahoma, Chairman of the House Budget Committee whose efforts had been applauded the day before by Mondale, told the annual meeting of the U.S. Stock Exchange in Washington that even if President Reagan's "second round of budget cuts and taxes" passed, the budget deficit for fiscal 82 would reach an astounding $100 billion. Incredibly, Jones, following the tactic of the Mondale-Manatt-O'Neill clique, ruled out a serious Democratic legislative-policy alternative until early next year.

This treachery reached a high point on Oct. 26 when Rep. Joseph P. Addabbo (D-N.Y.), Chairman of the House Defense Appropriations Subcommittee, started work on the administration's defense-spending bill. Addabbo shocked everyone present by proposing an $11.2 billion cut in the defense budget and the elimination of the B-1 bomber and MX missile programs. Ted Stevens, Democrat of Alaska, Chairman of the Senate Military Appropriations Subcommittee, sent the White House a confidential hit list that strips an additional $2.4 billion beyond the $2 billion reduction in the defense budget already proposed by the President. In the letter, Stevens reported that he will attempt to kill the B-1 bomber program outright in his Subcommittee markup. There are also indications that when the Subcommittee report goes to the full Senate Appropriations Committee, Republican Chairman Mark Hatfield (Oregon) will attempt to double cuts already made in Subcommittee.

In principle, the administration has agreed to further deep cuts in the defense budget. In secret meetings on Oct. 18 involving senior White House staff and the Senate Republican leadership, a compromise package was worked out which would have included an additional $1 billion in defense cuts.

Close observers of the White House point to OMB Director Stockman as the key proponent of accepting more sizable cuts in defense. Importantly, Stockman's name has not been mentioned among those in trouble with the President's senior political staff. And of further note, it was James Baker III who had backed Stockman in an earlier bout with Defense Secretary Caspar Weinberger aimed at enforcing larger reductions in the defense budget.

In addition, on Oct. 26, the Senate Finance Committee, headed by Robert Dole (R-Kans.), sent a proposal to the White House suggesting $50 to $70 billion in additional new taxes to be collected during fiscal 82, 83, and 84. The momentum toward large tax increase is so strong that Majority Leader Senator Baker had to eat his own words. Speaking on national television Oct. 25, Baker rejected the possibility of any new taxes for 1982; two days later he was publicly recanting.

Indeed, the mood on Capitol Hill was summed up in the approach being promoted by Senate Budget Committee Chairman Pete Domenici (R-N.M.). Over the course of fiscal 1982 to 1984, Domenici outlined $20 to $25 billion in additional cuts in appropriations, largely in defense, $30 to $40 billion in cuts in entitlement programs, and shocking increases in taxes.

The economy of Texas and the future of the Sunbelt

by David Goldman, Economics Editor

How well can the Texas boom economy hold up if the rest of the United States moves into a steep recession? To a great extent, the past year has already answered the question: apart from the oil sector, the most important Texas industries, including chemicals, electronics, and homebuilding, as well as agriculture, are all operating below year-earlier levels, and almost certain to fall further during the coming months.

Oil drilling, measured by the number of new rigs in operation, is at an all-time record, of course, and 37 percent higher than a year ago. But although growth will continue, lack of pipe, equipment, skilled labor, and perhaps even financing means that the past year's growth rate cannot be sustained through 1982. The Dallas Federal Reserve economists foresee only a 15 percent growth rate in the coming year, and *EIR's* own econometric model indicates an even lower growth rate.

The basic conclusion is that oil will not be able to sustain the Texas economy through another bad year. Basic industries in the nation's most prosperous state are a mix of industries heavily weighted toward growth sectors. The Federal Reserve's industrial production index for the state has, in fact, been dead flat for the entire past year, reflecting the overall stagnation of the U.S. economy. A few key sectors whose rapid growth reflected the Texas boom are in serious trouble:

Homebuilding: Only 11,000 new single family homes will be built in the Houston area during 1981, less than a quarter of the 48,000 homes produced during 1978. Apartment construction is almost as badly off: 14,000 units will be built this year, against 30,000 in 1978.

Electronics: Softness in demand for semiconductors produced the first layoffs on a wide scale during the history of the rapidly-growing Texas semiconductor industry.

Aerospace: The four major aerospace manufacturers in the Dallas area laid off significant numbers of skilled workers and engineers over the summer, in response to softness in demand for civilian aircraft. Despite the expectation of substantial military orders through the Reagan defense budget increases, the aerospace companies are not rehiring, and will not until at earliest a year from now—if and when they are certain that a new round of budget cuts will not wipe out the expected influx of orders.

Chemicals: The largest industry in the state in terms of value-added began falling sharply during the first quarter of 1981, from an index level of 150.0 in December to 145.6 in April, and has fallen further since. Both oil refining and synthetic fibers, in which Texas has a large portion of the nation's total output, have fallen back significantly, and are expected to worsen during the next several months of economic downturn.

Is the Texas boom over? Various environment-oriented think tanks are already arguing that this year's drought demonstrates that attempting to build a highly developed agricultural and industrial economy in this part of the country was a bad idea in the first place. The attention of professional academic doomsayers has shifted from the neglected Northern cities eclipsed by the "Sunbelt," to the so-called "Sunbelt crisis."

Nothing has actually happened, however, to invalidate basic Texan optimism. But the state of the nation's and the local economy prove that considerably more skill and foresight will be required to take a successful business through the next ten years than through the last ten years.

Public enemy number one is the Chairman of the Federal Reserve, Paul Volcker. Texas insurance companies and savings and loans are threatened by the double-digit interest rates which Fed officials blithely expect to persist through the 1980s. A high rate of savings and willingness to lend through institutions capable of providing capital to growing industries is a cornerstone of Texas prosperity. That prosperity will not be secure if the state must depend on Canadian money building downtown office buildings, rather than savings and mortgage bankers building homes.

The indirect effects of Federal Reserve interest-rate policy upon the Texas economy are as bad, or worse, than the direct effects. The pride and source of strength for all of the state's high-technology industries has been the Houston NASA center. Now, under pressure from the Federal Reserve—which has increased the federal government's debt costs by $30 billion per year—the administration is reluctantly shutting down virtually the whole NASA program. As already noted, the threat of further cuts in the defense budget is a major depressant for the state's aerospace and other defense-related industry.

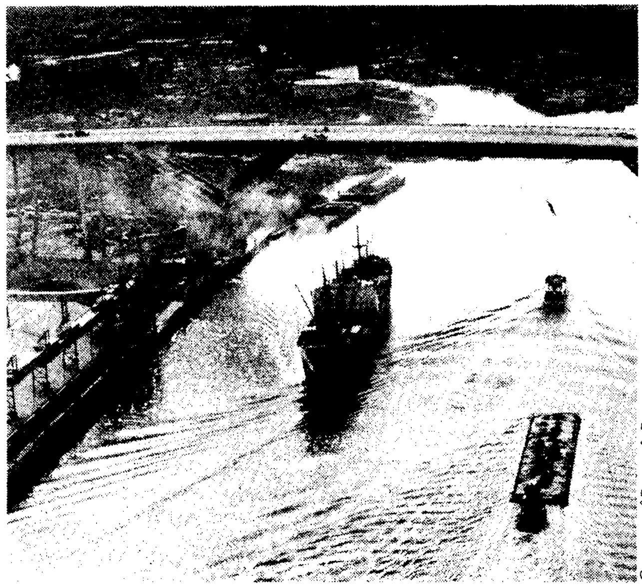
Of almost equal concern is American policy towards Mexico, our nation's fast-growing trading partner and a potential market for $50 billion in U.S. capital goods alone during the next decade. The last administration did not want—in the words of Zbigniew Brzezinski—"another Japan south of the border" and ruined energy deals that were in the American interest. Now President Reagan has struck a friendship with President José López Portillo, and sincerely wants the right kind of relations between the two countries. But the Cancún Summit meeting last week showed he had a lot to learn: to the extent that the specific economic policies he offered came from a script prepared by Treasury and State Department officers who write off the entire developing sector, the United States will lose its natural advantage in trade with Mexico.

Mexico does, indeed, want to become another Japan: the largest delegation of business leaders that Japan has ever sent to any country will be offering to help Mexico do just that during the same week that Texas Lyceum meets. However impressive the record of Texas oilfield service industries, among others, in exporting to Mexico, the next decade's opportunities will make the previous one's look puny. This has not been lost on other trading nations.

The great irony of the situation is that Texas might, indeed, escape the worst consequences of a failing U.S. economy, by virtue of its proximity to one of the greatest boom areas in the world economy. Not merely the oilfield market, but the demand for capital goods, agricultural technology, and every sort of industrial "know-how" will generate demands for Texas ingenuity from the Mexican side—regardless of whether Ronald Reagan is able to put the Volcker problem under control.

But the opportunity will not present itself in front of your office door. The immense improvement in Mexican-American relations since President Reagan took office is far from grounds for complacency. All indications are that the President himself does not fully understand the Central American problem, and has to deal with a State Department that thinks population control by any means is the only important American objective in the region.

Texas is going to have to fight hard for its chance for prosperity in the 1980s, not merely by stretching its traditional ingenuity, but by playing the kind of role in the nation's politics that guarantees that major opportunities are not missed.


Courtesy of Brown & Root

Texas and the surge in U.S.-Mexico trade

by Timothy Rush

No area of U.S. trade has grown faster than that with Mexico over the past three years. During that time Mexico has moved from fifth place to third place in the list of American trading partners, and is rapidly moving up on second-place Canada. Translated into figures, the picture shows total two-way trade with Mexico at $14 billion in 1978, $21 billion in 1979, and $34 billion in 1980.

No state has benefited more from this explosion in trade than Texas, whose pre-eminence in the production of oil and gas equipment has perfectly matched Mexico's needs. It is estimated that a minimum of 75 percent of the Pemex technology acquired from the U.S. has been Texan; and Mexico is buying the vast bulk of its technology in America. During a four-year span in which Mexico fully trebled its oil and gas production up to the present 2.7 million bpd, it's no wonder that the Texas procurement office in Houston handled more business than all other Pemex procurement offices combined.

Texas benefited from Mexico's poor harvests of 1978-1980, participating in the U.S. grain export bonanza which peaked at 10 million tons in 1980.

Houston's Ship Channel Bridge, gateway to the Gulf of Mexico.

No precise statistics on Texas exports to Mexico are available, but a 1979 study conducted by the LBJ School of Public Affairs in Austin extrapolated Texas's share of exports in key categories from Texas's share in overall U.S. production of those items. The top six: 1) chemical: $163 million 2) Non-electrical machinery: $143 million 3) food products: $65 million 4) fabricated metal: $53 million 5) transport equipment: $51 million 6) electrical and electronic equipment: $46 million. In most categories these figures underestimate the situation, since they do not take into account Texas's proximity to Mexico, the oil and gas technology bonanza, and other factors. And in all areas of trade, Texas has gained by the concentration of transport throughout Texas border-crossing points—fully 65 percent of all American goods bound for Mexico in 1980! Figures from the International Trade Administration of the Commerce Department show the following phenomenal increase in border traffic over the past decade through the two Texas border customs districts of El Paso and Laredo: (in millions of dollars)

	El Paso		Laredo	
	1970	1980	1970	1980
Import	180	1,497	370	2,668
Export	87	1,754	963	8,302

The Port of Houston announced this year that Mexico is now its number-one shipping partner.

The trade surge in fact led to bottlenecks when the spectacular leap in Mexican production goods imports in 1979-1980 coincided with the surge in grain imports. Train crossings at Laredo, McAllen and Brownsville backed up for miles, and Missouri Pacific found its storage sidings crammed all the way back into the Midwest.

Much of that problem has eased today. Mexico ironed out some of the transport chaos inside the country. Customs procedures improved; U.S. exporters got more savvy about properly filling out paperwork; and probably most important, the flow of goods itself eased off somewhat, particularly as the Mexican grain purchases resumed lower levels.

And of the future? The basic climate for trade is set in Washington and Mexico City, not in Texas and its sister border states in Mexico. The Reagan administration seems to be getting off to a good start in reversing the bitterness of the Carter years, which took the edge off of what could have been an even greater boom for U.S. producers and transporters.

At the first full session of the new U.S.-Mexico Joint Commission on Trade and Commerce in Mexico City Sept. 21-22, U.S. Commerce Secretary Baldrige unbent a bit from lecturing Mexicans—whose mixed system of public and private production under state sector direction has worked out well for both partners—on the merits of British-style "free enterprise." "Developing countries, like Mexico—in their eagerness to expand their industrial base, increase exports, and raise their people's standard of living—sometimes require government intervention in the private sector. We understand that," he declared.

In a major trade and technology initiative, the U.S. delegation stressed renewed interest in Mexican nuclear development—an interest meeting an encouraging Mexican response (See *EIR*, Oct. 20). Some lesser issues were also successfully smoothed out, such as adjusting the steel trigger price on Mexican steel imports so that the base price is taken as of delivery in Houston rather than at the Eagle Pass border crossing.

Among the unresolved issues is trucking. The U.S. is demanding "reciprocity" so that U.S. truckers, currently banned from operations in Mexico, gain the opportunities which some Mexican firms have in the U.S. Mexico, however, is in no great hurry to work out a bilateral agreement on the point: it has noted U.S. Trade Negotiator Brock's interest in convening an international GATT-linked negotiating round on exactly such "invisibles" as the trucking issue represents, and wants to see the outcome on this level first.

The bigger problem areas to be overcome are the issues of General System of Preferences—the U.S. is threatening to apply its new "graduation" theory to ease Mexico out of some benefits here—and of countervailing duties. Baldrige kept open the trade warfare options in this latter category during his Mexico visit. One of the chief theorists of such trade war: University of Texas's Sidney Weintraub.

Most important are the broader economic policies of the Reagan administration. High interest rates are the single most important factor cutting into Mexico's internal expansion plans at this moment. The much heralded economic problems of Monterrey's Alfa Group, for instance, were triggered by a sudden leap of $110 million in debt repayment costs. Some $750 million has been cut from the firm's 1982 expansion plans.

And continuing declining energy consumption in the United States as well as most of the other OECD importers has left Mexico with at best a flat perspective for future energy sales—the motor for its growth and the method of payments for the import surge. It will be a number of years before other exports can reduce oil's crucial role. Finally, the Administration will have to pump some new life and funds into the Eximbank, if the United States is to successfully compete on such big-ticket items as $1 billion nuclear plants.

Hence, 1981 trade should continue to climb, probably to the $40 billion range. But sustained strong growth thereafter will require that the administration pull the country out of the current Volcker-Stockman economic nosedive.

Governor Clements talks to EIR about past and future relations with Mexico

The following interview with the Governor of Texas, William Clements, a Republican, was conducted by EIR*'s Harley Schlanger on Oct. 29 in Houston.*

Schlanger: A lot of credit has come your way for the role that you have played in helping to shape relations with Mexico. What has been the important accomplishments so far in improving U.S.-Mexican relations?

Gov. Clements: Well, I think that undoubtedly the single most important factor has been to be able to open up the line of communications. It doesn't do any good to have a telephone if the line is dead. In my endeavors, we are now enjoying an open line, where at least we're talking to each other and discussing mutual problems. That sounds like a simple thing to accomplish, and you wonder why it was not heretofore existing, but it didn't. People talked, but nobody listened. Too often, there was a one-way conversation; too often the United States was talking down to Mexico, instead of talking to Mexico as a partner and as a neighbor, as a sovereign state.

Because of the Mexican culture and the type of people that they are and their traditions, they want to be treated with respect. Part of that respect has to do with the recognition that they are indeed a sovereign state, that they are our neighbor, and that they want to be treated in a neighborly fashion. On that fundamental premise I have been able to open up the line of communication.

Schlanger: Now the lines are open, what do you see as the immediate priorities?

Gov. Clements: I have said on many occasions that the most sensitive area in our relationship has to do with the undocumented worker. Some people refer to it as the illegal alien; the Mexicans prefer to call it the undocumented worker, and I appreciate the nuance. I think it has been difficult in the past for the U.S. to recognize that this is in fact the most sensitive area we have between us. I will say to you that until we solve this problem, or until we properly address this problem, we are not going to solve the others. This one strikes right at the heart of the relationship.

Schlanger: Some of the press have made a great fuss about whether you switched your position [on the Reagan immigration program]. . . .

Gov. Clements: That's nonsense.

Schlanger: What do you think at this point of the Reagan policy, and where do we go from here?

Gov. Clements: I agree with my Mexican governor associates who met with us in El Paso recently that President Reagan's program as articulated by Attorney General Smith, who headed up the cabinet task force, is a great first step forward, with emphasis on "first step" and on "forward." They don't consider it a step backward—it's a beginning; I don't think it's much more than a beginning.

I think that everybody has to realize that not only will Texas continue the in-depth studies that we've had under way, we are going to further define those studies, and we will present our position before both the House subcommittee and the Senate subcommittees. There will be some differences in our approach to the problem than the administration's. But I can assure you that it's all in the spirit of constructive criticism or constructive suggestions. We will not be the only ones putting forward different ideas. So I come back to what our Mexican friends and governor associates said, that this is a good first step forward; there are some differences, but that's to be expected.

Schlanger: You mentioned different approaches. One of those which has had lots of play in the press and has been thoroughly rejected by the Mexican government is the approach of the Hesburgh Commission, and the bill presented by Sen. Walter Huddleston, which says that the first problem is closing the border and the second problem is getting Mexico to reduce its population. This was the proposal which had come forward from the Carter administration around the program of Global 2000. What are your comments on that?

Gov. Clements: Well, not only is closing the border absurd, in my judgment it's impossible. All of us in

Governor Clements

government have a starting point which has to do with the real world, and the real world tells me that we cannot close the borders.

In Texas, we have over a thousand miles of border along the Rio Grande River, and some of it is very wild wilderness area. There is no way in this world that we can physically close this border. I don't know of any good neighbors that have, so to speak, a Berlin Wall. I am absolutely opposed to that sort of thing. Any solution that we come up with has to address the mutuality of our problem and have the concurrence and agreement of Mexico. If Mexico is not in agreement with it, it's not going to work, I don't care what the plan is.

The so-called "Hesburgh plan" or the "Jimmy Carter plan" that not only includes the closed border but also a blanket amnesty, that's no plan. And Mexico doesn't want that; they don't want to lose their citizens, and we don't want that. We in Texas would go right up the wall on some kind of general amnesty for all these undocumented workers. That is not the right approach to the problem.

Now the other issue, that has to do with decreased population, hits a very sensitive nerve in Mexico. I think President López Portillo and all of the governors with whom I've discussed this issue agree that their rate of population growth must be slowed and they're working at it . . . and I might add that they are making progress in this regard.

Schlanger: I think it's fairly clear that their approach, which I think is a correct approach, is that it's not a population problem, it's a problem of having the resources, the industry, and the technology to be able to provide for the population. Ambassador Gavin has taken steps to address this in his statement in Mexico City. He said that there would be no more "obstructionism" in the United States toward Mexican development. In particular he put forth the idea of oil for technology, and included in that was the idea of nuclear technology for oil.

Gov. Clements: I agree fundamentally that the proper approach, the long-term approach, for Mexico is to build their industrial base, and by building their industrial base, they create jobs, they help their economy and they increase their gross national product. They do all those things, but I want to emphasize that that is long-term—not short-term. For the kind of industrialization that will have the impact that people like to talk about, beyond the year 2000, we are talking about enormous amounts of capital. We're talking about a gain in technology, in personal skills—career skills for the Mexican people, none of which can be accomplished overnight. So we have, first of all, a short-term set of problems that we must address. Then we have long-term goals that must be addressed and *implemented* over time. But let's not confuse short-term and long-term.

You know, it's well and good for various individuals to talk in glowing terms about "increased investment," "planned development," "industrial base," "literally hundreds of thousands of new jobs," and "raising the standard of living and making work in Mexico more attractive," and so forth—that's fine. You know I could talk about motherhood in those same glowing terms, but you are talking about a cycle that will probably cover two to three generations. We have a set of problems that it is in our mutual interests that we identify, and try to find solutions to them *in the short term.*

Schlanger: What kind of progress do you see being made in the short term?

Gov. Clements: Well, I think good progress is being made, talking about commerce, in the usual sense—we are not only exporting from the United States, but we are importing from Mexico. In other words, again, a communication between the two states, where it flows both ways. We're talking about tourism—both ways. We're talking about cultural exchange—both ways; we are talking about educational opportunities—both ways; and I can go on and on. Environmental problems along the border—there's no use waiting long-term for these problems, we can address them right now. The energy problem, I agree, is a short-term problem. If we need the energy, and they have the energy, there's no reason why we can't work this to our mutual benefit on a fair market price.

There's another set of problems that are long term; they require a different approach, and they have to be carefully considered—long-term as to the implications within Mexico, where they are fundamentally related to a long-term Mexican plan that employs the resources of the United States, whether it's in straight-out, simple capital terms, or whether it's in partnership, business-venture terms, or whether it's in the exchange of technology.

But these are things that are sovereign decisions within Mexico. And they will have long-term implications within Mexico, and *they* are the ones who have got to make that decision.

Schlanger: Do you see the economic plan of the López Portillo administration as a step in the right direction then?
Gov. Clements: Yes, I do. I don't guess that I'm entitled to an opinion as a Texan and a U.S. citizen, but I much admire President López Portillo. I have high respect for his judgment and his vision, if you will, of what Mexico's all about; where it's been in the past, where it is now, and where it's going in the future, and I think he's made an excellent President for Mexico.

Schlanger: Do you see the probability for continuity with Miguel de la Madrid?
Gov. Clements: I don't think there is any question about it. I have discussed this with some of my friends in Mexico at considerable length. I'm satisfied that there will be continuity and, if anything, that De la Madrid is a logical next step forward in this overall planning for Mexico. I think he is the right kind of choice. He has a well-known and recognized background, in economics and financial matters, in budgetary matters, and he will be, in my judgment, a good person to carry forward these plans and this vision that President López Portillo has enunciated so well.

Schlanger: In the past, the United States has, particularly under the Carter administration, been very unreliable as a partner. The Reagan administration has made steps to improve that. . . .
Gov. Clements: I just want to make the point that one President's term of four years is a very short time in history and that I don't at all think that Mexico looks upon the United States as unreliable. I don't think they ever did think that. I think that they thought we could have chosen a better President than Mr. Carter, but, nevertheless, they realized again that that is short-term, and this relationship—this goes on forever. In history four years is nothing. And Mexico, I think, has a great respect for the United States. All we have to do is to do our part as a good neighbor, as a partner with Mexico, and I am convinced that they will do their part.

Schlanger: Was there progress made at Cancún?
Gov. Clements: Always from meetings of this kind, progress is made. I think those meetings are good. The most is accomplished on what you would term "non-substantive issues." The fact that they do get together, the fact that they do talk about mutual problems, the fact that these lines of communications do open up—I think that's the important thing.

Schlanger: What do you see as the economic outlook for Texas up ahead?
Gov. Clements: Excellent.

Schlanger: What can Texas say to the rest of the country?
Gov. Clements: Well, I don't think the rest of the country represents the kind of business environment that Texas does. We don't have a corporate income tax in Texas, we don't have a personal income tax in Texas We have one of the very lowest tax rates in the United States. We have a very strong right-to-work law in Texas where the unions cannot be and are not dominant. These are the things that I think make a state have a strong economy or not. The free-enterprise system flourishes in Texas—Texas exemplifies the spirit of the entrepreneur. And you can take that as a beginning and say, "Well, is that true in New York?" Or "Is that true in Michigan, or Pennsylvania, New Jersey, or Massachusetts," and under those circumstances you might come up with the answer, "Well, no that really isn't true." They do have excess taxation, they do have a domineering factor in their unions. Free enterprise does not flourish, the spirit of the entrepreneur is dead. I could just go on and on.

I am not preaching gospel or trying to stimulate more people to come to Texas—we have more people coming to Texas than we can say grace over. We've got them coming from both directions.

Schlanger: Do you foresee an increase in trade in Texas with Mexico through the ports and island trading areas?
Gov. Clements: I think it will continue. I know of no one in a senior position in the Mexican government that doesn't agree with me that this will continue. And one of the reasons is—they're for it and I'm for it. It's no accident that when we meet in El Paso that all those items were on the agenda; in the interim period between meetings, we had subcommittees meeting on it.

Schlanger: As someone who has had some experience with defense policy in the past I'd like your comments on the AWACS victory yesterday.
Gov. Clements: Well, I strongly supported the President in his program with the AWACS and, as a matter of fact, I predicted a victory for the AWACS a month ago. This is not a new position. I felt that the President would win. I thought that others were not only on the wrong side of the issue—they were on the wrong side for the wrong reasons! They really hadn't thought it through, and they really didn't know what they were talking about. And it was only right and logical that the President would prevail on that issue.

Haig pushes for a 'write-off' policy

by Lonnie Wolfe

Capitol Hill sources confirmed at the end of October that Alexander Haig's State Department is working from a secret triage list of developing-sector countries in designing U.S. policy.

According to a senior congressional staffer with high-level contacts in the State Department, Undersecretary of State for Economic Affairs Meyer Rashish has set up a secret task force within the department. Its assignment is to examine U.S. trade with developing-sector countries in so-called strategic materials vital for the operation of the U.S. economy, especially for the defense sector. Rashish is reported to be proceeding from the premise that during this decade parts of the developing sector will plunge into chaos caused by overpopulation. His task force is thus preparing a list of nations that supply the United States with vital materials whose trade must be triaged because of the alleged potential for population-induced instability. Trade with these countries is to be phased out over a 5 to 10 year period, and plans made to seek for stable suppliers. Where this is not possible, Rashish's group plans to force U.S. consumption cuts and substitution of expensive synthetics.

"They are working totally from the kind of population perspective laid out in the *Global 200 Report,*" said a congressional aide who had been briefed on the work of the group.

"They have written off whole sections of Africa, Latin America, and Asia," said another source familiar with Rashish's thinking. "The assessment is that these countries cannot survive and are headed for population holocausts. There is little that we can do to prevent it; so we must decouple as much as possible."

A congressional aide with connections to the Committee for the Year 2000, the elite group of prominent citizens and former government officials established to propagate the Global 2000 policy doctrine, said that Rashish is operating with the full approval of Secretary of State Haig.

Within State, the Rashish group is reportedly coordinating with the Agency for International Development, (AID) and its Director, Peter McPherson, an overt supporter of Global 2000. AID, which coordinates all non-military assistance programs, is being instructed not to channel aid into countries that cannot be saved. In addition, State Department desk officers will be instructed to tell potential private investors not to waste their money on countries that are being written off.

Last spring, *EIR* reported that former Chairman of the Joint Chiefs of Staff Maxwell Taylor had drafted a hit list of developing-sector countries which he stated would, within the decade, collapse into famine, epidemics, and population-induced wars, both internal and external. Taylor drafted his report for the Draper Fund, and it was widely circulated by the Draper Fund's political lobbying arm, the Population Crisis Committee. In an interview published in *EIR*, Taylor, himself a member of the Draper Fund, went even further. He stated that it was strategically necessary to write off more than 1 billion people and several dozen countries.

At the time, based upon interviews with several sources internationally, *EIR* charged that Taylor's plan was the operative policy of the State Department, and that Taylor's triage list was being used to shape policy. The State Department refused to deny the charges.

Now congressional and other sources report that Rashish and other "realists" in the State Department concur with Taylor's assessment and will carry out the General's policy recommendation. These sources also say that the State Department will officially deny the existence of the Rashish task force. When population risks force shifts in countries—i.e., when they are added to the "triage list"—the State Department will claim whenever possible that Soviet interference has forced the shift, and will blame them for exacerbating already-existing population problems in a target country.

Senator Mark Hatfield (D-Ore.) has introduced legislation, S. 1771, that would establish an Interagency Council on Global Resources, Environment, and Population. The Council, said Hatfield in a statement accompanying the Oct. 26 introduction of the bill, "would be mandated to develop a national population policy. This policy would include a declaration encouraging national population stabilization in the long term." The Council would review existing laws, regulations, and programs for the purpose of making recommendations to the president and the Congress as to the need to modify or eliminate programs and activities "which limit the achievement or implementation of the policies and purposes of this Act." Hatfield, one of the earliest opponents of the Vietnam war on self-described moral grounds, now finds himself keeping close company with the architects and overseers of that war.

As for the White House, only the President and his closest advisers are to see the results of the policy planning. They will see the assessment of the risks—without the genocidal assumptions that are behind them. According to sources, the President is not yet "tough enough" to understand such matters.

The Weathermen and Mr. Civiletti

by Donald Baier

The Chairman of the National Democratic Policy Committee charged Oct. 26 that Carter Attorney General Benjamin Civiletti had acted to quash outstanding federal warrants against Kathy Boudin and other members of the Weather Underground terrorist group two years ago, at the same time Civiletti's Justice Department was concentrating its firepower on securing the Abscam indictment of Senator Harrison Williams (D-N.J.) and other congressmen. Warren Hamerman stopped just short of naming Civiletti as personally responsible for the deaths of two police officers and a private security guard in the Oct. 20 bank robbery shootout in suburban Rockland County, New York, where the notorious Boudin and other Weather Underground leaders were finally arrested. But Hamerman left little doubt that he regarded the murdered law officers as casualties of the Civiletti Justice Department's reorientation away from investigation and prosecution of violent crime in favor of "white collar" sting operations against labor, business, and political leaders like Senator Williams.

"In the wake of the Oct. 20, 1981 terrorist acts of Kathy Boudin," Hamerman said in a statement, "the U.S. Senate should move to conduct a full investigation of the actions by the U.S. Department of Justice in the Weathermen cases. It is not too late to bring those responsible for these needless deaths to justice."

Civiletti is currently telling reporters that "I don't have any particular recollection of events" at the time that federal charges against Boudin, Jeffrey C. Jones, and other Weather Underground fugitives growing out of the 1969 "Days of Rage" riots in Chicago and the 1970 town-house bombing in New York were dropped. Yet he and other Carter Justice Department and FBI spokesmen have previously implied and continue to suggest that the decision was the result of a legal technicality. One such account was given in the Oct. 21, 1979 *New York Times:* "Otis Cox, an FBI spokesman, said in Washington that the warrants had been dropped because the state of Illinois 'dismissed the case.' "

On the same day, the *Washington Post* reported, "The FBI has quietly ended its 10-year pursuit of six Weather Underground leaders, but arrest warrants remain in effect in Cook County [Illinois], a top local prosecutor said yesterday. State felony warrants charging aggravated assault and mob action by the six continue, First Assistant State's Attorney Barry Gross said."

The Weather Underground was not the only terrorist group to benefit from Civiletti, Hamerman noted:

"In all, 16 persons, either accused fugitives or convicted of crimes stemming from political terrorism were pardoned or had their charges dropped during the time that Civiletti was a top official of the Department of Justice. These individuals include Lolita Lebron, Irvin Torres, Rafael Cancel Miranda and Oscar Collazo, all freed from prison sentences resulting from an armed attack on the U.S. House of Representatives in 1950; Imari Obadele, Addis Adabba, and Karim Njabafundi, all of the Republic of New Africa and imprisoned in 1971 on charges ranging from possession of stolen weapons to murder; Carleton Armstrong and David Fine, wanted in connection with the bombing of the University of Wisconsin Army Research Building in which one student died; and Eldridge Cleaver, former leader of the Black Panther Party faction which worked closely with the Weather Underground."

Police in Mississippi made arrests Oct. 27 in which the "Republic of New Africa" figured prominently. Law enforcement officers increasingly act on the hypothesis that a terrorist command apparatus exists linking a variety of groups, from the FALN to the Weather Underground to the May 19 Coalition, and that the terrorists operate as one network.

A 1974 subcommittee of the Senate Internal Security Committee held hearings on the Weather Underground. The record of those hearings showed, among other things:

- On Dec. 19, 1969, Boudin was indicted by the Cook County grand jury for mob action stemming from the October 1969 Days of Rage.
- On March 6, 1970, Kathy Boudin fled from the Greenwich Village town-house at 18 W. 11th St. after the Weatherman bomb factory at that address exploded.
- On April 2, 1970, Boudin was indicted by a federal grand jury for conspiring to cross state lines to incite riots.
- On July 23, 1970, Boudin was among 13 Weathermen charged by a federal grand jury in Detroit with conspiracy to blow up police stations in New York, Chicago, Detroit, and Berkeley, California.

Former Attorney General Civiletti responded to a reporter's suggestion that it "had been a mistake" for the government to drop charges against Boudin et al.: "Why do you say that? . . . Why would the existence of charges or a particular charge have anything to do with whether these particular acts would have occurred?" When the reporter responded, "They might have been brought to justice," Civiletti objected. "I don't follow what you said," he replied. "There are several leaps of faith there."

Congressional Closeup by Barbara Dreyfuss and Susan Kokinda

Population control resolution introduced

Representative Sam Gejdenson (D-Conn.) and Rep. Pat Schroeder (D-Colo.) introduced a Sense of the House Resolution Oct. 22 which would encourage the President to pressure world leaders to make an effort "in world population control and birth control throughout the world."

Both Schroeder and Gejdenson have previously signed a letter to President Reagan urging him to implement the Carter administration's *Global 2000 Report,* which calls for cutting back the world's population by 2 billion within 20 years. In fact, it was the Population Action Council, one of the major population-control groups, that helped draft this resolution. The Population Action Council recently held a conference, attended by many leading administration figures including Undersecretary of State Meyer Rashish, which urged businessmen to actively promote population-control in underdeveloped nations. The Council is working closely with corporate executives in lobbying for passage of this resolution.

As Gejdenson's aide admitted, the resolution tries to sell population-control programs to those who would not normally back such programs, on the basis that U.S. national security is involved. The resolution warns that as "the pressures for food and other foodstuffs increase," nations would become chaotic and exports of strategic minerals would cease.

It also tries to compel the President to act, based on his having heard the concerns of Third World leaders at the Cancún summit about underdevelopment. "This is especially appropriate, with President Reagan today in Cancún at the North-South conference taking a look at the disparities in the world as far as wealth and the industrial nations, compared to the underdeveloped nations."

The population-control lobby is hopeful that the resolution will pass this session of Congress, because there are already 72 co-sponsors. Included are the most outspoken backers of population control: Richard Ottinger (D-N.Y.), who put forth his own legislation to set up an office to monitor population trends; James Scheuer (D-N.Y.), who previously headed up a special committee on population trends; and Robert Garcia (D-N.Y.), who has held hearings on Global 2000.

SPIS renews labor probes

The Senate Permanent Investigations Subcommittee (SPIS) reconvened its hearings on labor racketeering and corruption on Oct. 28 with testimony from Labor Secretary Ray Donovan, who announced that the Labor Department now fully endorses the witch-hunt tactics against labor that have long been advocated by the Subcommittee and its ranking minority member, Sen. Sam Nunn (D-Ga.). Donovan, whose own confirmation hearings were marred by Ted Kennedy's unsuccessful but much-reported attempts to link him to "corrupt" labor officials and practices, now appears to be bending over backward to prevent a recurrence of such charges.

Donovan put the administration on record behind Nunn's pending labor-racketeering legislation (S. 1163), which would remove a union official from elected union office immediately upon conviction of a crime, rather than upon final expiration of the appeal process, as is currently the case. Donovan went so far as to propose that S. 1163's extension to 5 to 10 years of the period barring a convicted official from again holding office be *even further* extended. Donovan further delighted Nunn by revealing that the Labor Department has reversed its long-standing policy of pursuing primarily civil charges against violators of such laws as ERISA—which governs union pension funds—and would now actively seek out and pursue criminal charges against labor officials. Nunn interrupted Donovan's testimony to crow, "This is by far the strongest statement of Labor Department intentions in this matter that I have ever heard. I find this a profound, significant, and positive change."

Donovan also reported that in early March the Labor Department, along with Treasury and Justice, had established a task force on labor racketeering which was already refining its "targeting" procedures.

Following Donovan's testimony, Nunn carried out a little grandstanding with taxpayers' money, by flying in Anthony Scotto, the convicted former head of the Brooklyn local of the International Longshoremen's Association. Scotto, not surprisingly, exercised his Fifth Amendment rights, and refused to answer questions. Subcommittee member Warren Rudman (R-N.H.) suggested that the Committee explore the possibility of granting Scotto immunity in exchange for testimony on corruption on the waterfront—a proposal which will be explored by the Committee.

The hearings continue with representatives of the Teamsters Central States Pension Fund, and the AFL-CIO's Lane Kirkland.

Skilled labor shortage facing U.S.

Senator Lloyd Bentson (D-Tex.) made a series of lengthy floor statements during the last two weeks of October expressing concern about the shortage in skilled labor he says the U.S. faces.

Bentsen in a floor speech Oct. 22 presented a series of statistics from the Department of Labor on skilled manpower shortages projected for the 1980s which he warned merely indicate the magnitude of the problem, and are far below projections of the Chamber of Commerce and others. Bentsen declared in summary that, "Our nation confronts a shortage, for example, of 28,000 computer operators, or 21,300 machinists, each year of this decade. And an accumulative skilled-labor shortage will exist in excess of 250,000 persons annually, or 2.5 million over the full decade in just the 13 cited occupations. .. These are minimum estimates.... The actual total for all skilled occupations is substantially higher."

Although Bentsen intends to make further statements on what should be done to correct the problem, he noted in his floor statement Oct. 22 that either more labor-saving equipment could be introduced into workplaces to "stretch out" the existing skilled-labor pool, or that education programs can be geared more toward meeting the demands for skilled craftsmen.

Bentsen announced that he will hold hearings Nov. 3 in the Joint Economic Committee's Subcommittee on Economic Growth and Intergovernmental Relations to review the shortage of skilled labor. Representatives of the American Electronics Association, the National Machine Tool Builders and the Materials Research Corporation are scheduled to testify.

Lifting paraquat ban gains momentum

Congressional efforts to overturn the so-called Percy Amendment, the ban against using U.S. assistance Act in mid-October. The act quat to eradicate marijuana crops, achieved a major success when the Senate passed the Foreign Assistance Act in mid- October. The act included an amendment which would repeal the ban that was originally put forward by Charles Percy (R-Ill.). Senator Lawton Chiles (D-Fla.), who led the fight to repeal the paraquat ban, had already gotten Percy's agreement to back the repeal before the bill went to the Senate floor.

Efforts for the House to take similar action are stymied because the entire foreign aid bill is stalled. The House has been unable to pass a new Foreign Assistance Act for three years because of controversy obver various aspects of the bill, and so has only passed a continuing resolution which maintains programs and aid at existing funding.

In an effort to get House action on the paraquat amendment, four Congressmen introduced a separate bill on Oct. 22, H.R. 4822, which would lift the ban on U.S. funds going for paraquat spraying. The four Congressmen are Andy Ireland (D-Fla.), E. Clay Shaw (R-Fla.), Earl Hutto (D-Fla.) and Billy Lee Evans (D-Ga.). Congressman Ireland declared that "It is no accident that three of the members introducing this bill today are from Florida. Our state is being literally buried under drug money—an estimated $7 billion every year. Honest businesses and businessmen are being driven out. Banks are flooded with so much money they must take three days to count cash from honest businessmen."

The Congressmen also detailed the findings of the House Select Committee on Narcotics Abuse which show that, despite claims to the contrary, paraquat itself is not dangerous, should some marijuana sprayed with it be smoked. Ireland also noted that Mexico, which has dramatically slashed marijuana growing by using paraquat, had to spend only $10 million in 10 years to do so. Effectively, use of paraquat in Colombia, which supplies about 85 percent of U.S. marijuana according to the Congressman, would cost far less.

National News

Donald Regan funded environmentalist groups

Treasury Secretary Donald Regan may well rank as the person who has done more to sabotage nuclear energy than any other man in America. From his position as director of Wall Street's Charles Merrill Trust, the Treasury chief channeled millions of dollars to anti-nuclear environmentalist groups over the course of the 1970s.

Robert Zubrin reports in the Nov. 3 issue of *New Solidarity* that in 1979, when Donald Regan was President of Merrill Lynch and Company, the world's largest investment firm, and Director of its Charles Merril Trust, he signed over grants ranging in value from $10,000 to $130,000 each to such groups as the Sierra Club, the Natural Resources Defense Council, the Environmental Fund, the World Wildlife Fund, and the Draper Fund/Population Crisis Committee. The total value of Charles Merrill Trust grants to anti-nuclear and population-reduction organizations over the 1970s adds up to millions of dollars. The Treasury Secretary's tenure as President of Merrill Lynch, Pierce, Fenner and Smith, Inc. dates from 1968 to 1981.

Mondale backs Volcker Global 2000

Former Vice-President Walter Mondale apparently has hopes of taking back the White House in 1984 by supporting the very economic collapse policies which caused the electorate to bounce him in the first place. On national television Oct. 25 Mondale gave full backing to Carter-appointed Federal Reserve Chairman Paul Volcker, whose interest-rate policies have crippled the U.S. economy. The Federal Reserve, declared Mondale, "is the only inflation game in town. They are trying to keep a restraint on inflation."

Mondale unofficially announced his campaign for the 1984 Democratic presidential nomination with a major speech to the Foreign Policy Association Oct. 20. At the same luncheon, Mondale told *EIR* that he was sill behind the *Global 2000 Report* put out by the Carter administration. That document called for a reduction in the world's population by 2 billion by the year 2000. "I support the general thrust of it," he said. "The idea of reviewing the limits of the world's resources. I wouldn't want to be held accountable for all the figures in the report, but the general thrust yes."

Due process hearing in Williams case

In the Long Island courtroom of Abscam Judge George C. Pratt, final argument was given Oct. 21 in the judicial frameup of Sen. Harrison Williams (D-N.J.). Williams was found guilty on May 1 in a trial in which three major exculpatory documents had been withheld from the jury and from Williams by order of the Presiding Judge Pratt. The documents were internal Justice Department memoranda admitting that the Federal Bureau of Investigation, after 13 months of pursuing Williams, still had no case.

The Oct. 21 re-hearing of the due process motions arose after these documents later became public. A full Senate vote is expected during the week of Nov. 16 on whether to expel Williams.

The focus of the Oct. 21 re-hearing was whether, in fact, still more exculpatoy evidence is being withheld by Abscam Prosecutor Thomas Puccio or the Department of Justice.

Judge Pratt was obliged to ask, "Are there any more 302s [FBI reports], Mr. Puccio?" A pregnant pause fell over the courtroom, after which Puccio ambiguously answered, "Nothing that I know of, Your Honor." This answer tends to corroborate what most legal observers have assumed to be the case, that in all likelihood additional clearing evidence remains to be seen on Williams and his co-defendant Alex Feinberg. With the probability that such documentation is outstanding, there is no question that the U.S. Senate should not entertain holding a vote on the question of expulsion.

At one point during the due process hearing, Dean Erwin Griswold, a former U.S. Solicitor General who represents Williams, characterized the government's Abscam sting operation as "shameful, immoral, and shocking in the extreme." Asking the court to consider the consequences of condoning such actions on the part of the government, he asserted it would be sanctioning a "police state."

Griswold asked Pratt whether, if every time someone played golf with him or walked into his office to discuss social business matters he had to worry if that person were taping his conversation, would not he find himself uneasy?

To this, Judge Pratt jolted forward in his seat and replied, "Are you saying that this would be a terrible state of affairs? My parents always taught me I should speak in private as if I were on stage at Carnegie Hall."

New York mayors call for lower rates

The New York Conference of Mayors has written a letter, following the specifications of their Sept. 26 conference resolution to President Reagan regarding interest rates. The resolution was introduced by Auburn, New York Mayor Paul Lattimore, who had personally contacted the President on the problem.

The letter by Conference President Herbert D. Brewer states:

"The Executive Committee of the [New York] Conference of Mayors, at a meeting held in the City of New York on Sept. 26, 1981, adopted a resolution which relates to the impact of high interest rates upon our economy. . . .

"We know that the goal of your Administration is to reduce interest rates. Since the time of the adoption of our resolution, the prime rate has dropped almost two points, and it appears that such trend is downward. Seemingly, the goal you seek will be achieved.

"Nevertheless, in order to comply with the directive of the Executive Committee, I set forth herein a portion of the resolution. . . .

"Wherefore be it resolved, that this Executive Committee of the Conference of Mayors assembled at its fall meeting in the City of New York, motivated by the best interests of the people of the State of New York, respectfully calls upon President Reagan and officials of the Federal Reserve System to act to significantly reduce interest rates with all due speed."

A copy of the letter was also sent to the Federal Reserve Board in Washington.

Illinois court fight over NADC status

The drug lobby received a sharp blow Oct. 23, to its efforts to take over the state of Illinois when State Attorney General Tyrone Fahner lost the first round in his courtroom bid to shut down the National Anti-Drug Coalition (NADC). Judge John Hechinger of the Cook County circuit court denied the Attorney General's request for a temporary restraining order which would have immediately halted all Anti-Drug Coalition fundraising in the state and allowed the government to seize and dissolve the only statewide organization fighting the drug epidemic.

A spokesman for the Coalition ascribed the Attorney General's extraordinary legal demand for emergency action without a full hearing to heavy pressure from the state's drug lobby and the ultra-liberal *Chicago Sun-Times*. The *Sun-Times* and key drug-lobby figures have admitted they are determined to destroy the National Anti-Drug Coalition, the spokesman said.

Fahner's motion was argued by Assistant Attorneys General Danita Harth and Floyd D. Perkins, both of whom have worked with the *Sun-Times* to smear the Anti-Drug Coalition for alleged non-compliance with the Illinois charitable statutes.

The NADC has repeatedly informed the Attorney General that it is not a charity but a political organization dedicated to a "war on drugs." The Attorney General's office has admitted that its application of the charities statutes to the activities of the NADC is "novel" and "uncharted" legally.

Legal experts consulted in Chicago pointed out that the Attorney General had hoped to gain a press coup for his beleaguered "investigation" of the National Anti-Drug Coalition by the grant of a temporary restraining order. The tactic of not properly serving the NADC in order to prevent adequate legal representation was employed for this result. The Coalition first heard about the lawsuit when the Attorney General issued a press release reporting that it had been filed.

Soviets launch new killer satellite

The latest issue of *Aviation Week & Space Technology* reports that the Soviet Union has launched a battle-station capable of destroying U.S. satellites in low-earth orbit. The satellite is reportedly armed with clusters of guided missiles, which, according to Edgar Ulsamer, senior editor of *Air Force* magazine, could represent a serious threat to the more than 100 reconnaissance and communications satellites that the United States has placed in low-earth orbit.

However, Ulsamer stressed that the U.S.S.R.'s battle-station would not be able to destroy those U.S. satellites which are in geosynchronous orbit—22,000 miles up—which is the orbit for the critical early-warning satellites. A "kill" of the geosynchronous satellites will only become possible when the Soviets either emplace high-energy lasers in their new battle-station or place it into a higher orbit using a TT-50 rocket, (similar to a Saturn V), goals the Soviets hope to attain, according to both Ulsamer and to former Air Force Intelligence Director Gen. George Keegan.

The Pentagon had no comment on the *Aviation Week* article, but said that the Defense Intelligence Agency was looking into the journal's claim.

Briefly

● **DONALD HOVDE,** the new Undersecretary of Housing and Urban Development called for the real-estate industry to "help bring about a change of attitude in housing," at a meeting in Houston of the Industrial Development Research Council Oct. 26. "The philosophy of the seventies is not appropriate to the philosophy and needs of the eighties," he said. The new decade dictates a need for cluster, townhouse, and condo-type housing, not the split-levels of the past. The country has been suffering from "a situation of excesses," Hovde concluded.

● **A NATIONAL** conference on a project to bring water from Alaska to the High Plains and Colorado River regions and a revival of the 1960s National American Water and Power Alliance proposal of the R. M. Parsons Company will be sponsored by *EIR* on Jan. 27, 1982 in Denver, Colorado, at the Airport Hilton Hotel. The High Plains, which feeds 49 percent of the nation's cattle and 22 percent of agricultural exports, faces near-term depletion of its water supply from the Ogallala Aquifer. Regional meetings leading up to the Jan. 27 conference are planned for Phoenix, Arizona, Canada, and Mexico.

● **AN APPELLATE** court Oct. 28 upheld a 1978 lower court ruling that the American system of using local property taxes to finance public-school education in New York State is inequitable and unconstitutional. A final decision on further appeal by the state is expected during next summer. The appellate court ruling bolsters the free enterprisers' moves to end the American system of public, compulsory education.

● **THE ENGLISH-SPEAKING** Union announced Oct. 29 that Secretary of State Alexander Haig is not a member.

Eye on Washington by Stanley Ezrol

'John Paul II is a Marxist'

Operatives of the Society of Jesus have initiated a one-two-punch campaign here to discredit Pope John Paul II's new encyclical, *Laborem Exercens (On Human Work)*, which newly acclaims the principle of the necessity of man's increasing mastery of the universe. The left-wing attack appeared at a seminar on the encyclical sponsored by the radical Institute for Policy Studies (IPS) and addressed by former Rep. Father Robert Drinan, S.J.; Father Phillip Land, S.J. of the Jesuit think tank "Center for Concern;" Marcus Raskin, of IPS among others. Speakers described the Pope's document as a "radical statement" for its defense of the rights of labor to organize, bargain collectively, and strike. Monsignor Higgins of the Dominican Catholic University of America went so far as to praise the Pope for addressing the Marxist issue of "altering the workers' relations to the means of production."

'John Paul II is a right-wing libertarian'

Following this, the pseudo-conservative Heritage Foundation sponsored a symposium at Catholic University involving Father Jim Schall, S.J. of Jesuit Georgetown University, Jude Dougherty and Claes Ryn of Catholic University, and Bruce McColm of Freedom House, and other New Right activists. Claes Ryn, the most explicit, complained that the Pope might be misinterpreted as expressing a concern for all men. With the enthusiastic approval of Father Schall, he made the astonishing statement that Christianity has always opposed a concern for the fate of the human species as being too "morally easy." He insisted that Christian morality did not extend beyond the injunction "love thy neighbor," which he asked to be interpreted literally as the only acceptable sense of responsibility for other humans. Therefore, he concluded that the Pope could only only be supporting freedom for "mediating structures," those "free associations of individuals" below the level of nations, which, according to him, form the only basis for morality. Ryn concluded that the Pope wrote *Laborem Exercens* in the Tory tradition of Edmund Burke.

Father Schall next suggested that the influence of British economist Barbara Ward on John Paul II should be examined, and compained that the encyclical was generally uninspiring and probably delinquent in some respect, because it did not endorse the role of the "free marketplace" in determining wage levels.

Schall told me privately that he was horrified at the possibility that John Paul II might be moving beyond his "Thomist and Aristotelian background" by "confusing" creative intellectual activity with work.

The next day, I went to what was billed as a debate between libertarian conservative Terry Dolan of the National Conservative Political Action Committee (NCPAC), trained by the Jesuits at Georgetown, and liberal labor consultant Vic Kamber, who has founded the Progressive Political Action Committee. What the two actually announced is that they had already begun to work together on the 1982 congressional election campaigns.

Dolan said that if he is successful in manipulating "perception" of the issues, the New Right will score ballot victories despite the effects of their own policies as embodied in David Stockman. Dolan said, "I think the standard [Ronald Reagan] will be held to in 1982 to 1984 will not be a particularly strong one. . . . In 1934 the depression was worse than it was in 1932 when Roosevelt said, 'If you elect me I'll get you out of it.' "

Kamber responded, "Much of what Terry said, I agree with. We will copy the New Right." He then outlined a campaign for attacking Senate Labor Committee Chairman Orrin Hatch for raising money from Houston oil interests, concluding "Is it evil to raise money from oil PACs? Not at all. Is it wrong? Not at all . . . but those are the kinds of tactics that have been used against the liberal candidates."

When I questioned Dolan, he realized that I was attacking his left/right partnership with Kamber. He leaped to Kamber's defense; "I don't think it debases the political process to talk about our issues, or Vic's issues." At which point, Kamber interrupted, "our issues." To which Dolan responded, "Right, our issues. What it boils down to is you don't like our issues."

I chatted with Kamber's aide about the role of the Society of Jesus in leading both left- and right-wing political movements. He said, "The order is cohesive. They work through different movements to achieve their goals, but they are all Jesuits." When I asked him what he thought about the battle now raging in the Church between the Jesuits and the Augustinian current that the Pope is allied with, he became quite agitated. "That's not true. The Society takes its orders directly from the Pope. The order is called 'the Black Armies of the Pope' because it does the Pope's dirty work. They always follow the leadership of the Pope."

Methinks he did protest too much.