EIR

Executive Intelligence Review

March 9, 1982 $10.00

Japanese steel firms invest less, produce more
LaRouche in Washington: exploding policy myths
Abscammers' links to Mafia revealed in Italy

How the IMF and Wharton plan the Iranization of Mexico

Executive Intelligence Review
(ISSN 0273-6314)
is published weekly (50 issues) except for the second week of July and first week of January by New Solidarity International Press Service 304 W. 58th Street, New York, N.Y. 10019.

In Europe: Executive Intelligence Review, Nachrichten Agentur GmbH,
Postfach 2308, D. 6200 Wiesbaden Tel: 30-70-35
Executive Directors: Anno Hellenbroich, Michael Liebig
In Mexico: EIR,
Francisco Díaz Covarrubias 54 A-3
Colonia San Rafael, Mexico DF. Tel: 592-0424.
Japan subscription sales:
O.T.O. Research Corporation
Takeuchi Bldg.
1-34-12 Takatanobaba
Shinjuku-Ku, Tokyo 160
Tel: (03) 208-7821

Second-class postage paid at New York, New York and at additional mailing offices.
Subscription by mail for the U.S.:
3 months—$125, 6 months—$225,
1 year—$396, Single issue—$10
Academic library rate: $245 per year

EIR

From the Managing Editor

The two situations are broadly the same. One: a labor-backed member of the U.S. Senate who opposes Paul Volcker and has committed absolutely no misdeed, is framed up by the executive branch. His expulsion is planned in order to clear the way for any other Senator to be eliminated in like fashion, and for the President himself eventually to be deposed in an "ethics" scandal. Two: the head of government of the strongest U.S. ally in Europe is suddenly surrounded by scandals, aimed at the labor unions who form his key institutional base of support, and at members of his fragile coalition cabinet. While the scandals are tenuous and contrived, the pundits begin to foresee the ouster of this foremost international opponent of Paul Volcker.

These are the cases of New Jersey Democrat Harrison Williams and Social Democratic Chancellor Helmut Schmidt of West Germany. They are parallel attempts to subvert constitutional government and destroy leaders who challenge (or, in the case of President Reagan, might in the future challenge) the economic depression being deliberately imposed.

There is every reason to believe, moreover, that these parallel attacks have been instigated by one unified operation against the Western alliance. Next week's *EIR* will identify some of the individuals and institutions involved on both sides of the Atlantic, including the Institute for Policy Studies, which houses supporters of the terrorist would-be assassins of Helmut Schmidt, as well as "Reagan-gate" specialists in league with the FBI's Abscammers. Also to be examined is the Senate Ethics Committee, which recommended a vote on Williams's expulsion: not least its Chairman, Malcolm Wallop of Wyoming, and his aide Angelo Cordevilla, the latter an active agent against the Chancellor as well as Senator Williams.

This week's Special Report on the effort to wreck Mexico and its industrial growth potential provides remarkable intelligence on that flank of the undeclared war against industrial progress. Next week we will publish *EIR* Founder Lyndon LaRouche's personal evaluation of the matter.

Susan Johnson

EIR Contents

Departments

Economics

Volume 9 Number 9 March 9, 1982

Special Report

Economic dislocation, prompted by the peso's fall, is intended by Mexico's enemies to lead to social unrest and Khomeini-style insurgency.

International

National

The traps ahead for the U.S. credit markets

by Richard Freeman

"The biggest part of the recession has yet to come. And it will come, because half the corporate balance sheets are so illiquid that the corporations don't deserve to survive. The amount of money that must be borrowed to pay interest on debt service is crazy. There will be a period of pay-down by corporations; either it will come quickly or slowly, but there will be the biggest number of bankruptcies in the first few years of this decade that have been seen in a long, long while. I think that this crisis will break in the spring of this year."

This assessment was made to *EIR* on Feb. 24 by Peter Canelo, chief money market economist for Merrill, Lynch. It points to the time-bomb embedded in the world financial system: a U.S. economy and banking system approaching a spring credit market blow-out. Every parameter of the financial system is sending up distress signals: the rate of corporate and financial bankruptcies for the week ending Feb. 12 was the highest in 40 years; the loan/credit ratio, which is a measure of health for banks, is at its lowest level since October 1929, and the percentage of interest debt service paid by corporations, measured either as a percentage of operating capital or of total new corporate borrowings, is at an all-time high.

Shrinkage of production

The equity and real income base of the U.S. economy is contracting, while more and more debt is being levied against the income base. One standard practice of the Federal Savings and Loan Insurance Corporation (FSLIC) reveals the danger. Last year, the 3,800 S&Ls and 400 mutual savings banks suffered a withdrawal of funds in excess of deposits totalling a staggering $39 billion, and a profit loss of $6 billion. According to industry figures, the thrift industry lost 15 percent of its net worth in one year.

As Kathy Burdman shows in this issue, the policy of the Reagan administration and FSLIC is to let most of the S&Ls bleed to death, and to merge the most troubled into larger, healthier ones. This avoids the formal declaration of bankruptcy, but only by spreading bank equity more and more thinly against a greater volume of debt. The equity of the relatively sound savings and loan institution is now called upon to support its own debt and also the debt of the equityless S&L it is merging with.

Bankruptcy rate

The most stunning tip-off to the state of the economy is the increase in the bankruptcy rate. According to the latest figures released by Dun and Bradstreet, commercial and industrial failures stood at 374 for the week ending Jan. 28; jumped to 449 for the week ending Feb. 4, and then rocketed to 529 for the week ending Feb. 11: the largest single weekly level of failures in 40 years.

The increase of bankruptcies since Volcker began his credit shut-off upon taking over the Fed chairmanship in August 1979 is mind-boggling. In 1979, 7,564 companies went bankrupt. In 1981, 17,043 industrial and financial firms went belly-up, the highest level since 1933. For the first 6 weeks of 1982 there have been 2,560 failures, or an average of 427 per week, versus a total of 1,801, or an average of 321 per week for the comparable period last year.

The bankruptcies map directly onto the decreasing level of profitability and liquidity even for the largest U.S. corporations. Seasonally-adjusted after-tax profits of U.S. corporations, adjusted for inflation (in 1976 constant dollars), plunged from a level of $140 billion at the start of the first quarter of 1980 to $96.4 billion at the end of the fourth quarter of 1981, a fall of 31 percent.

When the factory capacity utilization operating rate was announced for January to be 70.4 percent—just a shade over the March 1975 all-time low, and down almost three percent from the December 1981 level—it became evident that sales and therefore profits will continue to deteriorate.

Sapping the strength from the industrial sector is the sky-high level of interest rates. According to Merrill, Lynch's Canelo, "Corporations are borrowing money to pay interest on what they borrowed. They have minimal working captal. For example, look at corporate net operating margins. This treats interest payments as a percentage of essentially the corporation's fund for interest rates plus retained earnings and a few assets [that is, interest payments as a percentage of aftertax profits—R.F.]. In 1979, this ratio was 25-to-30 percent. At the end of the fourth quarter of 1981, this ratio was up to 45 percent. That's unbearable."

An economist at Chase Manhattan Bank reported Feb. 23 that, "according to our calculations, 66 cents of every dollar of corporate working capital is going into paying interest debt service."

Commercial bank insolvency

The commercial banking system is showing the strain as corporations are unable to keep up with their debt service shedules. While attention has been focused on the S&Ls as the weak sisters of the financial system, Continental Illinois National Bank and Trust of Chicago, America's sixth largest commercial bank, announced Feb. 15 that its non-performing loans had risen sharply.

Conti Illinois reported that these loans—loans that are proving to be uncollectible, usually because the borrower can't pay interest payments—jumped from $453 million to $653 million between the third and fourth quarter of 1981, a staggering increase of 44 percent. This represented 1.9 percent of Continental Illinois's total loans outstanding. This is still less than the 5.8 percent that the bank reached during the height of the 1973-75 recession, but with such loan customers as the troubled International Harvester, the near-bankrupt $1 billion-plus American Invsco real estate trust, the ailing AM International, and Poland, and a downward-turning economy, Conti Illinois can expect the number of its "non-performers" to increase.

Keefe, Bruyette, the leading bank stock analyst firm on Wall Street, reports that non-performing loans for all money center banks nationwide has risen from 1.5 percent of total loans in the fourth quarter of 1980 to 2.0 percent in the fourth quarter of 1981. According to Robert Planner, an analyst at the firm, "we can expect that the ratio will get worse if interest rates stay high."

"There's no way of knowing how bad the situation of non-performing loans may be with the banks, because the figures are usually calculated and scribbled onto the back of an envelope," reported a Lazard Frerès banker Feb. 24.

Certain parameters are already known. Reports Merrill, Lynch's Canelo: "Banks are refinancing individuals and corporations at a ridiculous rate just to prevent the worst from happening. For the last three months, bank loans to businesses grew by 20 percent." In fact, for the last 6 weeks the rate has grown at 36 percent per annum."

Spring credit crisis

Thus the time is more than ripe for a major financial dislocation by early spring. Many of the financial forces connected to the Venetian and British oligarchy are actively organizing for such a crash. They want the U.S. economy to blow up in the face of Ronald Reagan, and so destroy his ability to govern. A Swiss banking official, close to the Basel, Switzerland-based Bank for International Settlements told *EIR* two weeks ago, "If Volcker keeps interest rates high for six to twelve more weeks, there will be a major credit market crisis in the U.S."

The likelihood of such a development increases while the prime lending rate stays in the stratosphere. At this point, U.S. money supply, reflecting the tremendous growth of corporate borrowing for survival—as well as the increase of individuals putting money in NOW accounts which are counted as M-1 to save something in case the economy goes into a free-fall depression—is growing at an 11.7 percent rate for the last 13 weeks. The $1.2 billion increase in money supply for the latest reporting week, ending Feb. 17, shows that the spectacular $11 billion increase in the money supply a month ago won't wash out. And since the Fed, under Volcker's monetarist direction, has made control of money supply the leading focus of Federal Reserve policy, the swell of money supply will be met by a new ratchet of credit tightening and thus higher interest rates.

The United States, in the midst of an industrial collapse reaching a 20 percent per annum rate during the last six months, simultaneously finds itself in the pathological condition of increasing borrowing and therefore increasing money supply and raising interest rates. Thus, the U.S. financial system is like a dog chasing its own tail until it dies of exhaustion.

Europe deciding that Schmidt is right?

by Laurent Murawiec,
European Economics Editor

A hastily convened meeting of European finance ministers reluctantly agreed on Sunday, Feb. 21, after much bickering to allow Belgium to devalue its besieged currency by an 8 percent margin. Belgian Prime Minister Willy Martens had just returned from an overnight visit to Washington. His attempt to convince President Reagan, on behalf of the entire European Community (EC), that the only way to avoid a worldwide depression was to cut U.S. interest rates, had met with stubborn if polite stonewalling by the blinded U.S. President.

On Feb. 24 and 25, Chancellor Helmut Schmidt of West Germany and French President François Mitterrand will meet for the regular Franco-German summit and Schmidt will try to rally his French counterpart to support his personal campaign to free Ronald Reagan from the grip of monetarist advisers and the dictates of Federal Reserve Chairman Paul Volcker.

A review of recent monetary events shows the profound difference between the vain efforts of various European leaders, central bankers, and finance ministers to "decouple" from the United states to solve the crisis, and Schmidt's passionate attempt to educate the President of the United States concerning his international responsibilities.

Can U.S. rates be kept at bay?

Since mid-1981, various European spokesmen, starting with French Socialist Finance Minister Delors, have tried to define some "joint European initiative" capable of circumventing the deadly repercussions of the usury being practiced by Washington, spreading recession from America throughout the world.

The common political denominator of these efforts has been the illusion that the crisis of political leadership in the United States could somehow be ignored, or simply bypassed by way of some technical arrangement. The European Community's administrative body, the supranational European Commission and its vast bureaucratic establishment, have worked tirelessly on plans to devise a "third way" pitting Europe against the United States, and paving the way for the darling scheme of European oligarchs, the "regional currency blocs" made popular by Belgian theorist Robert Triffin of the University of Louvain, among others.

Willy Martens's dash to Washington was conceived within that framework. Sources at the U.S. State Department as well as the French Treasury revealed that Martens "went there to set the record straight within the alliance—the Americans cannot ask us for special efforts in one field, sanctions against the East, while refusing any efforts in another field, interest rates," said the French source. The source at the State Department confirmed this by describing an American proposal for quid pro quo: We'll alleviate our pressure on sanctions if you stop yours on interest rates.

It is difficult to speak of an Atlantic alliance when things have gone this far.

After the failure of the Martens mission, concern spread throughout Europe that nothing could be done to stop the slide into economic disaster. President Mitterrand stated: "We must defend our economies together and guard against exaggerated interest rate increases totally undermining our efforts to achieve stability." The reality behind this brave statement, however, was spelled out by a finance ministry spokesman: "All they will do will be a diagnosis of the situation, but no initiative will come out. That would only be decided in consultation with the other EC partners, which means later. At most, what could be asked would be that the U.S. intervene regularly on the foreign exchange markets, not to achieve a solution, but to restore a bit of stability to the markets, and improve a daily situation which is intolerable. . . ."

A lead article in the French daily *Le Monde* by noted commentator Paul Fabra gives a sense of the underlying European diagnosis: "This new rise of U.S. interest rates [has] severe consequences. . . . It comes at the worst possible moment for Europe. . . . A strong dollar can only contribute to aggravating the recession in the U.S.A.,
ingly deflationary. . . . Preconditions [could be] prepared for the outbreak of a large-scale crisis, very difficult for the authorities to control."

Helmut Schmidt, who has not let one day go by for the last few months without hammering away at the theme that the danger of depression is the prime danger for world peace, is now trying to rally Mitterrand to this fundamental standpoint.

Schmidt-led Europe

So long as a powerful political goal was propelling the European Monetary System (EMS) toward an institutional form, the so-called phase two based on creating a European Monetary Fund to generate cheap long-term, gold-based credit, the EMS withstood stormy monetary circumstances. That political impetus was the common will of EMS founders Schmidt and Valéry Giscard d'Estaing. With the latter's political demise, the EMS is little more than a shell with technical functions in foreign-exchange market-regulation.

The recent crisis of the Belgian franc represents a watershed for the EMS—or rather, the first crack announcing its ultimate demise. Contrary to earlier occurrences, in which intra-EMS parity adjustments went remarkably smoothly, the Belgian devaluation was only achieved at the price of bruising political confrontation. Many European observers view this as a landmark: "It's not the thing itself, but *la manière* which matters, and it's been a political disaster," a leading Swiss financier told this author.

The most likely scenario now is that, with the coming disruptions on the exchange markets due to wide fluctuations of U.S. interest rates, strains inside the EMS will become intolerable, and it will collapse. Countries already halfway out, like Italy, will distance themselves further, while others, like France, will suspend participation. The result will be a return to the old European "currency snake," with a hard-core of middle-European countries clustered around a strong Germany, and involved in a loose parity-management relation with other EC and European countries.

While this dispels Triffinesque plans by various central bankers concerning a supranational central-bank control over the monetary and credit policies of individual EC nations, it nonetheless means an increased vulnerability of European nations to currency disruptions. West Germany has been compelled to cast off the French and Belgians, in economic shambles since Mitterrand's election last May, and prepare a defensive ring around what bankers call a "deutschemark bloc," including Austria and the Scandinavians. It therefore means the end of the precarious, yet real, relative stability achieved under the Schmidt-Giscard regime of the last three years.

[The Economics Editor adds: *EIR* wrote in our Oct. 20, 1981 issue that the useful function of the EMS had come to an end, and that the West Germans must therefore cease to waste resources on the futile defense of the French franc, and coordinate currency matters more closely with the Japanese—a possibility which emerged during the Ottawa Summit. At least half the German mark's depreciation during 1981 was due to Bundesbank bailouts for the French, particularly after the May elections, with massive consequent harm to the West German economy; the chance of preserving at least some economic stability in central Europe requires the jettisoning of the Mitterrand regime.]

Changing U.S. policy

Traditionally pro-American financier circles in Europe look in horror upon the "incoherence" of U.S. policy. "There is a danger a fresh rise in U.S. interest rates, which means a worsening of the U.S. recession, and its spread worldwide. Arithmetically, it is impossible that they reach their monetary targets, unless idiotic rates of well over 25 percent are imposed. How much longer can the U.S. economy stand the dose of deindustrialization imposed by Volcker, I wonder," one of Europe's best-informed monetary experts stated. "I don't see why the Russians should not use this tremendous advantage offered them for free. They'll move."

The fear of God, that is, Moscow, is striking a similarly deep chord in hearts usually not so intelligent. David Watt of the Royal Institute for International Affairs recently called in the London *Times* for a heeding of Helmut Schmidt's warnings, and proposed that only a reorganization of the international monetary system starting with cheap credits to the Third World can stop the disaster.

One of Geneva's top bankers told this writer that "on the international stage, the only man who understands things is Helmut Schmidt." That is a highly unusual admission from these quarters. But pending more rallying of international forces around Schmidt's policies, the short-term view in Europe focuses on a modicum of technical decoupling of European currencies from the dollar—i.e., from high interest rates. The consensus is that European currencies should be allowed to slide gently downward, letting the dollar fly upward as much as Volcker and the markets wish.

Contrary to the situation that prevailed one year ago, depressed petroleum and commodity prices allow European currencies to depreciate in relation to the dollar without immediately importing inflation through soaring import bills. Additionally, lower dollar parities mean enhanced price-competitiveness on international markets, which explains why over recent days, in spite of rising U.S. interest rates, many European central banks let their own rates drift gently downward.

In the special case of Schmidt's Germany, where economic conditions are relatively better than either in the United States or most other OECD nations, the problem lies with the artificial effect of higher U.S. rates, which attract international capital to U.S. banks, and conversely, depress Germany's current account. It is to slow down this outflow that the Bundesbank just reintroduced its "gentleman's agreement" with the big commercial banks, under which the latter are to moderate the size and amount of bond issues, in order to better control capital outflows.

This reveals that the maneuvering around interest rates and exchange rates, although capable of bringing about some temporary immprovement, is very limited and constrained by the dangeous games of Paul A. Volcker. Volcker is blindly supported by the White House. Therefore, Schmidt's solution of forcing a shift by the White House is the only approach that can bring about a fundamental change. That is the reality to which much of Europe is at present awakening.

The Group of 30's Peter Kenen discusses European credit controls and trade limits

Princeton University Professor Peter Kenen, who gave the following interview to *EIR*'s Richard Freeman Feb. 19, is one of the most influential international economists in the United States. Chairman of the Academic Panel of the "Group of 30," the advisory body created by former International Monetary Fund managing director Johannes Witteveen, and an adviser to the International Monetary Fund, Dr. Kenen is a former Treasury Department consultant for the Carter administration. The views expressed in the interview are his own, not necessarily those of organizations with which he is affiliated.

The debate over European exchange controls to which Dr. Kenen refers was triggered by the present high U.S. interest rates. As the London *Financial Times* complained in a recent editorial, the stated perspective of the U.S. Council of Economic Advisers is to meet a federal financing requirement estimated at above $200 billion by some economists for fiscal 1982 by drawing in substantial amounts of capital from abroad, presumably at the expense of European governments and private industry, who have their own substantial financing requirements. The American high-interest policy represents in European eyes a form of financial warfare, or "dollar imperialism," as an international economist at Chase Manhattan bank phrased it.

At the meeting of European Finance Ministers Jan. 16, French Minister Jacques Delors presented a formal motion for comprehensive European controls, which was rejected by the Germans and also by the British—despite calls by former Conservative Prime Minister Edward Heath for a "defensive ring" around Western Europe. Particularly after the acrimonious negotiations Feb. 21 over the devaluation of the Belgian franc, it now seems less likely than ever that the Europeans will, as a body, adopt a general system of controls. At the same time it seems more likely that Europe will feel compelled to undertake control measures on a national basis, or around the emerging "deutschemark bloc." German officials point out that full authority for controls is already established in Paragraph 23 of the *Aussenwirtschaftgesetz* (legislation on international economic activities); but they warn that it would take "at least a year" to establish the legal base for European-wide controls. At the moment this is on the back burner, but officials say a further strong rise in U.S. interest rates might change this.

EIR's Richard Freeman interviewed Prof. Peter Kenen on Feb. 19.

Freeman: Do you think that Europe will move toward exchange controls to defend against the high U.S. interest rates?

Kenen: Well, France already has exchange controls of a sort. It has a two tier credit system in which the banks lend at lower rates for domestic industry. This would be hard to maintain in most countries, but in France it seems to be working, because France is used to working with controls.

Freeman: What about controls for all of Europe?

Kenen: Well, Europe could have capital controls. This would mean essentially splitting banks in two. The domestic side would lend for domestic industry, for trade within the European Community, and for trade with other countries. But lending for international matters would be handled by the other half of the banking system. The international half would be allowed to take deposits but not make international Eurodollar loans. This would include restricting loans to the subsidiaries of American companies in Europe, like Ford Motor Company, etc. Thus, what you have is two banking systems, segregated off from one another, operating strictly separately, though you are really talking about the opposite sides of the same bank. This would mean essentially splitting the City of London in two. The American banks in London would be watched closely.

Freeman: Such a system sounds like it would be difficult to enforce.

Kenen: Yes, that's true. This would mean that any German banker going to his international bank in Luxembourg couldn't take any money with him. Germany or some German bankers might not like the system, but Germans had restrictions on which German firms could borrow abroad during the 1960s and 1970s. This would mean turning the situation around and limiting German bank lending. But this form of capital controls could be done. In Britain, Maggie Thatcher and Geoffrey Howe pride themselves on having lifted exchange controls when they took office, so there may be opposition there.

Freeman: Would such a system be effective?
Kenen: It's an awfully high fence that would have to be put around Europe, and that's very hard. I don't know. But the French have been able to isolate themselves much better than most. Of course they use a dirigist economy. Mitterrand is now enforcing provisions to prevent shipments of gold outside France, and arresting people and applying criminal penalties.

Freeman: If the Europeans do not move toward capital controls, is there something else the Europeans can do?
Kenen: One thing that I think that the Europeans may do is refuse to buy American products. This is what the French are doing. The French have decided to protect French industry against the effects of high interest rates. The French government is buying only or mostly French goods for its French plans. This is not like the buy-American campaigns. In France, when you talk about French government purchasing, for French companies and the French government—and there are more and more companies being nationalized every day—you're talking about 25 percent of all purchases. That's decisive.

Freeman: What does it mean to buy French products and not American products?
Kenen: It means that, for example, Europeans buy only European computers for their postal systems, not American computers. This could be extended not only to goods produced in America, but also goods produced by American companies who do production at factories in Europe. Technically, these are actually European companies, but everyone sees them as American.

Freeman: You mean like Ford Motor and IBM?
Kenen: Yes. You just don't let American companies bid on European government or other contracts.

Freeman: Wouldn't America immediately retaliate? What could the Europeans do, step up their trade with the East bloc?

Kenen: Yes, America would retaliate. I don't think that the trade with the East bloc would offer that much more trade or work out, because of the East bloc's bad credit rating. I don't know what would happen if the Americans retaliate. But this is already starting in France, and this approach represents one of the only ways that the Europeans can give a real response to the U.S. Treasury and people like Beryl Sprinkel. If Europe just says to Sprinkel, "Please lower interest rates, they're hurting us," he won't listen. But this is a threat he'll respond to. This idea is also one of the lead editorials of the latest issue of the London *Economist*.

Freeman: Do you think that the Europeans can take hope that Volcker will lower interest rates?
Kenen: No. I think that Volcker and President Reagan are thinking in the same way. If you want to know the truth, I think that Reagan's attacks on the Fed are demagogic. He has these monetarists in his administration and he is not going to break with the Fed unless he gets rid of those monetarist advisers. And Reagan doesn't plan to split from his monetarist advisers.

Freeman: What do you think Volcker would say if Reagan said to him, "lower interest rates"?
Kenen: Paul would say "get lost."

Freeman: You seem to know Volcker well.
Kenen: Yes, I know Paul pretty well. He has laid his credibility on the line. If I, Peter Kenen, were to become Fed Chairman tomorrow, I might have some latitude.

The French government is keeping U.S. bidders out of government purchasing, which represents a quarter of all purchases, as part of the pressure for lower American interest rates. Paul Volcker has locked himself into his policy, however.

But Volcker doesn't. He's already locked himself into this policy, and he knows that if he veers from this policy, both his liberal and conservative critics will jump on him. I think that Paul is showing that he has the guts to stick his program out. Further, I'll just say about the monetarist critics of Volcker, who keep saying that he has been too tight one month and too easy the next [in handling money supply], it's mostly their damn fault. You can't manage money supply month to month, but only on longer periods. And if there are too many people getting upset by month to month variation, that's because the monetarists have made this a focus of the press.

A Third World bind

Peter Rush outlines the underdeveloped nations' declining export income, ballooning debt costs, and vanishing credit inflow.

Continued super-high interest rates and the effect on world trade of the Federal Reserve's policies threaten to make 1982 the year the banks finally proved unable to finance the debt-requirements of the less-developed countries (LDCs). In that event, there will be not only a chain reaction of defaults bringing down the dollar-based financial system, but a collapse of world trade sufficient to mean the worst depression in centuries.

This is now being announced by the world's financial press, representing interests which have supported the Federal Reserve's usury. Articles appearing the third week of February in a number of journals say simply that in 1982, international banks will not, because they cannot, refinance a volume of lending to the LDCs which is absolutely required by the LDCs.

'Retrenchment'

The *Financial Times* of London Feb. 19 commented: "To put it bluntly, the time now appears to be coming when commercial and central bankers alike feel that deficit countries will no longer be able automatically to turn to the international credit markets as their first port of call." On Feb. 14, the *New York Times* quoted a top banker at Chase Manhattan: "Bankers are much more cautious today than they were a year or two ago in their international lending." The *Wall Street Journal* observed that "Non-OPEC borrowers may be unable to borrow all the money they need this year," making this statement in a Feb. 19 article devoted to the disappearance of the OPEC surplus whose recycling has been the mainstay of the banking system.

The "retrenchment" indicated by these circles is already underway, according to figures released by Morgan Guaranty Bank. In January, LDCs raised a piddling $422 million in credit on the Eurodollar markets. In December, they had raised $2.3 billion, while in January 1981, it was $3.1 billion.

This shortage of credit is paralleled by a ballooning of the expected credit requirements of the LDCs—precisely because Paul Volcker's policy has added tens of billions to Third World debt (($5 billion apiece to Brazil and Mexico in 1981) at the same time that massive amounts of flight-capital are leaving these countries, seeking high rates of return.

Bank for International Settlements figures show $525 billion in LDC indebtedness, not counting short-term trade credits which bring the total to $650 billion. With roughly $400 billion of this owed to private lenders at interest rates of approximately 18 percent, this means $70 billion in LDC payments of interest alone. Adding $50 billion more for principal payments, this comes to $120 billion. Several tens of billions more are owed on public debts, plus a conservative $30 billion for trade deficits (assuming the 1982 deficit is the same as 1981).

New money requirements of LDCs in 1982 thus come to several tens of billions more than $150 billion. The total lent in 1981 was $100 billion.

Intersecting this has been a nose-dive in Third World export revenues, due to the recession brought on by the Federal Reserve. The prices on many mainstay export commodities have gone through the floor: copper is off 25 percent; rubber is down 38 percent; coffee is off 26 percent; sugar is down between 25 and 55 percent. Volumes are also off, adding up to a major reduction in Third World revenues from exports.

The only reason the developing countries did not go under several years ago, when their debts began mushrooming, was a rapid and sustained growth in exports from 1975 to 1978. That was before the advent of Paul Volcker. Now, with usurious credit costs intersecting a dramatic fall in LDC exports, the "endgame" long predicted by this publication is upon us.

Bank debts coming due before July exceed the bank deposits plus unused credit lines of the 10 largest non-OPEC borrowing countries, reports the *Wall Street Journal*. This is an extremely dangerous position in which default by one or more of these major borrowers is virtually certain. One default sets off a chain reaction bringing down the entire system.

There are dozens of other countries unable to meet scheduled debt service payments over the last two years, in addition to Poland. Sudan has bankers worried. Costa Rica suspended payments last summer. Romania is still delaying many payments. Zaire, Turkey, Togo, Liberia, Malagasy Republic, Nicaragua, Pakistan, Senegal, Bolivia, and Vietnam have all fallen behind in payments or rescheduled debts.

Because the banking system's ability to roll over LDC (and other) debt burdens has depended on recycling OPEC surplus funds, the *Wall Street Journal* has reported that many LDCs won't get what they need precisely because that surplus has evaporated. In 1980, the OPEC surplus came to $116 billion. In 1981, it had fallen by more than 50 percent to $60 billion. Industrial contraction and falling demand for oil has forced OPEC prices down 10 percent since 1980, expected to cut into OPEC surplus by another $30 billion this year. Counting at least $15 billion in added expenditures, OPEC will have no more than $15 billion to put through the banking system in 1982, according to the Organization for Economic Cooperation and Development.

Daiwa Securities of Japan, in a prediction many believe more accurate, predicts a *net OPEC deficit* of between $3 and $6 billion.

Exemplary may be the case of Nigeria, which deposited $2.2 billion in the banks in 1980, but in 1981 withdrew and borrowed $2.3 billion—a swing of almost $5 billion in one year.

The options

Some bankers are calling for the World Bank and the IMF to increase lending to avert the crisis. Others are calling for advanced-sector governments to assume the debt burdens, getting the banks off the hook. But with huge budget deficits plaguing every major nation, the latter option is a pipe dream, while the IMF and World Bank lack the resources to more than dent the problem.

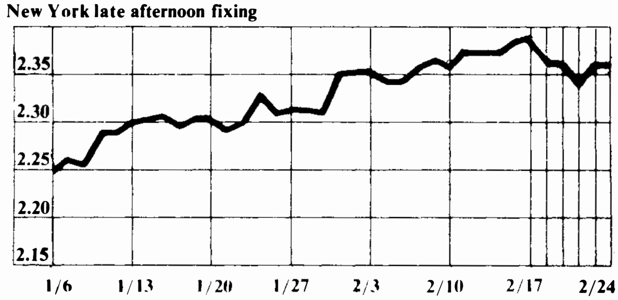
There is an option not mentioned in any of the financial press so far carrying the lurid facts and figures. An orderly reorganization of the world monetary-financial system based on gold could consolidate all LDC debts at low interest rates—as *EIR* has repeatedly proposed. If this is not carried out, then LDC defaults will be accompanied by murderous austerity in nation after nation—slashing imports for starters. This would knock the bottom out of every industrial exporting country with the near-term consequence of collapsing world trade to extremely low levels, and depression. Within the LDCs, this means political instability, "Iranization," and genocide.

The banks which have backed Paul Volcker to date, and are now announcing their "cautious" decision that they can no longer finance LDCs debts, are preparing the way for their own and the West's economic destruction.

Currency Rates

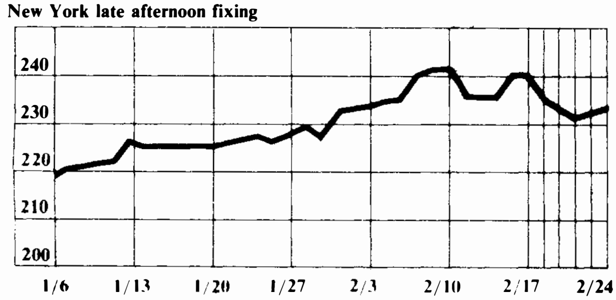
The dollar in deutschemarks

New York late afternoon fixing



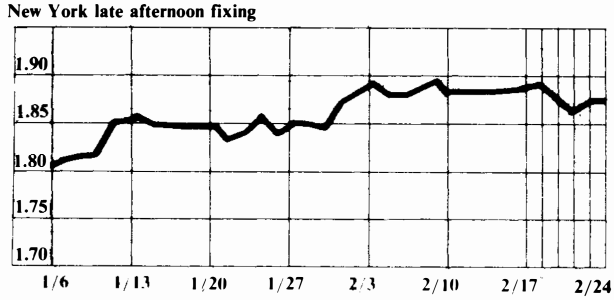
The dollar in yen

New York late afternoon fixing



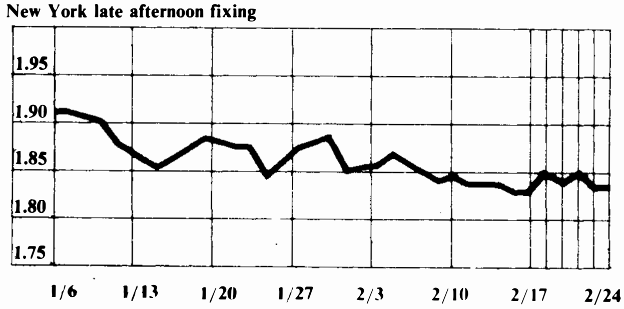
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



Japanese steel firms: investing less and producing more than U.S.

by Leif Johnson

If any Wall Street steel industry analyst applied the same measure to Japanese steel companies that he does to American ones, he would claim that the Japanese companies are heading for disaster.

In the past 20 years Japanese companies taken together have spent 25 percent less on capital equipment—new factories and machinery—than U.S. companies. From 1957 to 1976 U.S. firms spent $34.8 billion but the Japanese spent only $26.9 billion.

In addition, Japanese companies have been forced by their national and municipal governments to spend even more on pollution control devices than U.S. firms. Between 1971 and 1976 U.S. companies spent $1.67 billion but Japanese firms were forced to lay out $2.16 billion in costs that are universally agreed to be burdens on the companies and often unnecessary for the health of the population.

But if anything might crush Japanese steel, our Wall Street analyst would argue, it is wages. Japanese wages have been soaring. Today's Japanese steel worker's wage, expressed in dollars, is 18 times higher than it was in 1956. It is eight and a half times higher than it was as late as 1966 and has increased 46 percent in constant dollars since 1976.

Real take-home wages for a Japanese steel worker with a family of four (with fringe benefits, and taxes excluded, and adjusted for inflation) are only $1.25 less than an American steelworker's, and the pattern of almost continuous wage hikes shows no sign of weakening.

Worse, from the analyst's standpoint, Japanese tradition that almost carries the weight of law prevents the steel employer from dismissing workers even when production demands do not require the full complement of the workforce. Japanese steel today is running at about 65 percent of capacity, the result of the demand collapse after the 1973 Oil Hoax price increases. While capacity usage fell 30 percent, steel employment fell only five percent. The companies kept their employees on.

Will high wages kill the Japanese steel industry? Quite the contrary. High Japanese wages, like the historically high wages in the United States, will produce a workforce capable of even more rapid application of new technology. As Nippon steel explained in a 1981 publication, "[Nippon's] new integrated steelworks can more easily attract young workers who are highly motivated and who have a high degree of adaptability to new working systems." Conversely, crumbling U.S. wages are symptomatic of the American industry's collapse that could wipe out one half of existing production. Within five years, under present economic and industry conditions, the U.S. share of world steel production could slip below 10 percent—from the nearly 50 percent 30 years ago.

How the Japanese are different

The Japanese steel industry is by far the world's most technologically advanced and efficient. Japan's 1976 ability to produce a ton of steel 30 percent cheaper than the U.S. has been boosted to a 40-45 percent cost advantage by 1981.

In 1980 Japan produced 136.4 tons of steel for every 1000 manhours while the United States produced only 96.7 tons in the same labor time. This is all the more remarkable since Japan's yield was only 38.6 tons per 1000 manhours in 1964, when the U.S. was producing 81.2 tons in that same period.

If the Japanese corporations have invested a quarter less than their U.S. counterparts, have spent more on non-productive pollution devices, and have paid steadily rising wages while keeping workers on the payroll despite badly depressed sales, how did Japanese steelmakers become 40 percent more productive than U.S. producers?

Hans Mueller and Kiyoshi Kawahito in their 1978 publication, "Steel Industry Economics" explain the following:

"The most important cause of the Japanese industry's future advantage stems from the outstanding capital efficiency it achieved in the 1960's. The industry constructed a greenfield capacity in excess of 100 million tons, two-thirds of its total production potential in 1976, at a cost of only about $200 per capacity ton. In technology, layout, and equipment scale, this capacity is equal or superior to that of Bethlehem's Burns Harbor works and is in most respects comparable to the mill U.S. Steel considered putting up at Conneaut, Ohio. As regards scale economies, several modern Japanese plants are superior to even future U.S. greenfield plants. . . . "

The Japanese companies' policy was the precise opposite of U.S. companies'. Instead of replacing individual furnaces, rolling or stamping mills, or other parts of a plant, as the American corporations did—and continue to do—the Japanese built entirely new plants, seizing every opportunity to take advantage not only of the most modern technology and economies of scale, but of plant location to minimize transport costs of raw materials and of shipping the final product.

Thus, between 1957 and 1976, when the present Japanese steel buildup was nearly completed, Japanese companies had built 100 million tons of "greenfield" steel producing capacity. That means they disregarded the location of their old facilities, locating the new plants on new sites or "greenfields" to produce maximum efficiencies. In that same time span, the United States installed only 11 million tons of greenfield capacity. The Conneaut, Ohio mill mentioned by Mueller and Kawahito was scrapped by U.S. Steel two years ago.

As the Japanese companies built greenfield mills they incorporated the 1960s and 1970s technologies of basic oxygen furnaces, giant ore carriers, computer monitoring and operating, and continuous casting.

Eighty-two percent of Japan's steel works—compared to the U.S.'s ten percent—have deepwater (90 foot draft) harbors. Thus, Japanese companies could reduce the cost of iron ore from $17 per ton in 1957 to $16 per ton in 1976 while the cost in the U.S. tripled from $9 to $27 a ton.

Almost all Japanese continuous casting mills—mills that reduce ore to iron, produce steel, and shape it in one process—are computerized. Computers monitor both the steel making energy use, quality control, and, supplies and inventory in the plants, resulting in 25 percent labor cost reductions. No American mill is similarly automated.

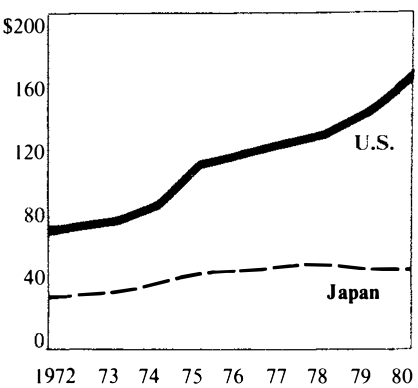
Perhaps most remarkable is that the Japanese companies were able to turn part of the more than $2 billion pollution control expenses into further development of greenfield plants, and reduction of energy use in existing facilities. By capturing waste heat from air and water borne effluents, companies presently use 30 percent less energy per ton of steel produced than American companies. Further, because Japanese steel plants are much larger—the smallest of Japan's top five is a quarter larger than America's biggest—installation of pollution control and heat-recapture equipment was far more efficient.

Technology shapes accounting

A large efficiency in steel making is effected by using continuous casting. Instead of making raw steel and then later reheating it to make shaped or specialty steels, the two processes are combined, saving a substantial amount of fuel. In the summer of 1981, Japanese steel manufacturers were producing 70 percent of their steel by continuous casting, which accounts for about half of the 30 percent higher energy efficiency of Japanese steel production relative to U.S. production. Less than 20 percent of U.S. steel is made by continuous casting—a figure that is lowest of all advanced industrial nations, even Great Britain.

While certain technologies and operating procedures

Labor cost per ton of steel
(U.S. dollars/ton)

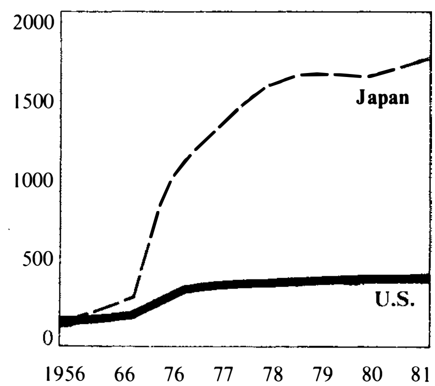


Japanese productivity offsets cost of rapidly rising wages

While Japanese wages increased six times faster than U.S. steel wages, labor costs fell to one-fifth those of the United States.

Sources: "Steel Industry Economics" by Muller and Kawahito (1978) for 1956 and 1966; U.S. Department of Labor Bureau of Labor Statistics for 1976-81; *Steel Industry Quarterly*, June 1981.

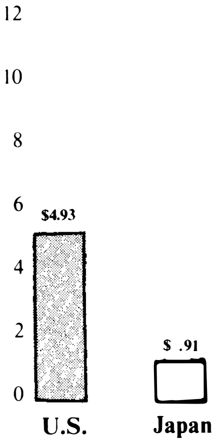
Index of Japanese and U.S. steel wages
(1956 = 100)



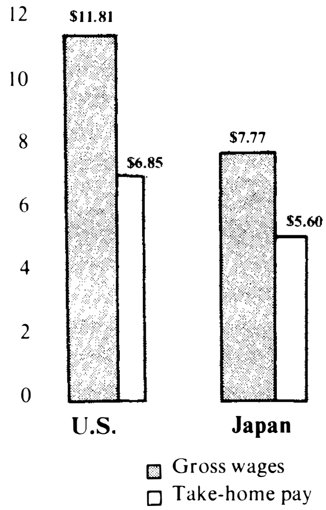
Japanese hourly wages closing in on U.S. rates

In 1966 Japanese steel wages were 18% of the U.S. level. By 1981, Japanese wages were 66% of those in the U.S., but take-home pay was 82%.

Nominal steel wages in 1966
(U.S. dollars/hour)



Gross and real steel wages, 1981
(U.S. dollars/hour)

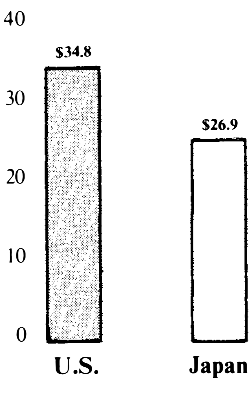


Sources: "Steel Industry Economics," by Muller & Kawahito (1978) for 1966 figures; U.S. Bureau of Labor Statistics for 1981 figures. All 1981 figures are adjusted for 1976-81 inflation. 1981 Japanese gross pay does not include company-paid housing and transportation subsidies. Take-home pay is minus fringe benefits and taxes for a family of four.

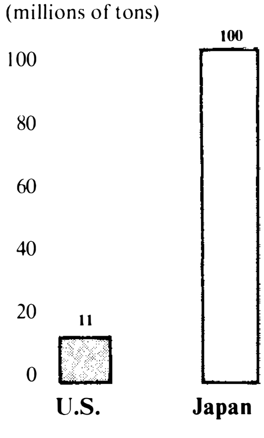
Japan built modern capacity with less investment

Japanese steel investment was 25% less than U.S. investment, but Japan built nine times the "greenfield" capacity.

Total steel investment, 1957-76
(billions of current U.S. dollars)



"Greenfield" capacity installed, 1957-76
(millions of tons)



Source: "Steel Industry Economics" by Muller and Kawahito (1978).

may be considered proprietary information by a particular company, there are no real secrets about how the Japanese steel industry works. It pours back as much capital as it earns and can borrow to achieve "state-of-the-art" technological application and economies of scale. Unlike American companies, they do not treat the computer as a device for simply processing office paper, but as a necessary element in industrial control, inventory and processing, and communication.

Japanese emphasis on greenfield plants shows a healthy disregard for what American accountants call "sunk costs." Japanese companies will replace a plant if it becomes technologically obsolete—no matter how new it is or how much it costs.

American steel management's fixation on "protecting" the value of existing assets by continuing to produce with older plants even when they become obsolete, results in costly piecemeal investment in plants in which the oldest portion of the mill continues to determine the overall productivity. By applying the accounting mentality of landlords who expect higher and higher rentals from aging property, the management of American steel corporations has dropped the U.S. share of world steel production from 50 to 20 percent since 1950.

Ironically, the Japanese have felt strong competition from the modern plants their manufacturers have built in Taiwan and Korea. The Japanese have therefore advanced their production to a much higher mix of specialty steel. In 1981, 40 percent of all Japanese exports to the United States consisted of high cost specialty steels including oil pipeline and related equipment.

Nippon Steel and other Japanese companies are still anxious to sell their technology. Nippon has been selling technical information and procedures to U.S. Steel since 1979 and has 1,200 of its engineers and scientists engaged overseas.

Now, the American steel industry faces a crisis even worse than obsolescence. There may be widespread shutdowns of basic carbon steel manufacturing.

According to the Morgan bank-run *Journal of Commerce,* the U.S. Department of Commerce will make a distinction between U.S. steel manufacturers that are "competitive" and those that are "non-competitive" in ruling on domestic producers' charges of foreign company dumping and unfair subsidization.

The *Journal* claims that the actions brought by specialty steel and the basic steel manufacturers in December and January against foreign imports may result in portions of basic steel manufacturing deemed "non-competitive" and therefore not eligible for any form of protection against foreign imports. Thus the suits brought by the basic steel producers could become the basis for scuttling a major portion of U.S. steel-making.

That the companies would actually do such a thing is not altogether surprising. Less than one-third of U.S. Steel's assets are in steel-making, and a mere 8 percent of profits came from steel. The company has diversified into ship chartering, real estate, timberlands, African uranium and copper mining, office buildings, financing, and oil.

The company's investment in the last five years, which has nearly equaled that of Nippon Steel's, the largest Japanese manufacturer, has been so wasteful that the company is in fact "non-competitive" not only with Japanese makers but with many European mills as well.

Union aiding capacity shutdown

What is remarkable is that the United Steel Workers union which represents most workers in basic steel—but not in specialty steel which is largely non-union—has joined the specialty steel makers action against European steelmakers. A leading strategist for the union explained that the union believes there is "too much steel being produced in the world and all countries have to cut back."

"We didn't get any satisfaction from the Economic Summit meeting held in Brussels in December even though (Secretary of State) Al Haig was there. So we are taking these suits to force them to cut back along the lines of the Davignon Plan." The Davignon Plan, named for Count Etienne Davignon, one of Europe's leading post-industrial-society advocates and the head of the European Community's Steel Committee, would enforce Depression-level reductions in European steel production.

The union also defends the diversification of the steel companies out of steel. Jack Sheehan, the United Steel Workers top Washington lobbyist says that "diversification has helped the steel companies survive. Sheehan claims that the $6.7 billion that U.S. Steel spent to acquire Marathon Oil Company were "non-steel funds." Ed Hojinacki, a Chicago area UAW vice-president, says diversification doesn't worry him because, he asserted recently, U.S. Steel "has pledged to invest $350 million in a new rail mill here and to add continuous casters."

If the steel union lends uncritical support to the industry's plans for basic steel shutdowns, who will move to change the policies of 20 years of ruinous mismanagement? That question must be answered soon. Presently one-third of the steel workforce is unemployed while the nation's fourth largest producer, Republic Steel, says that its Supplemental Unemployment Benefits fund could be bankrupt by as early as the end of February.

U.S. Steel: a profile

Steel production for America's largest steel firm is hardly its largest concern. U.S. Steel's 1981 finished-steel production was 16.6 million tons, a half a million less than at the time of World War I. Only one-third of its assets and an eighth of the firm's profits now come from steel production. In 1980 U.S. Steel's profits from non-steel enterprises were $419 million; from steel production, $58 million.

Plans for U.S. Steel's $2 billion greenfield plant at Conneaut, Ohio have been scrapped; and the company refuses to reveal the now low percentage of its steel production which is continuously cast.

Created in 1902 when J. P. Morgan and John Meyer wrested control of Carnegie Steel, the firm is still under Morgan control. As of 1979, U.S. Steel's board of directors included David M. Roderick, a member of the International Council of Morgan Guaranty and a director of the Morgan-connected Aetna Life insurance company; John M. Meyer, Jr., son of the turn-of-the-century Meyer and chairman of the Directors Advisory Council of Morgan Guaranty; Robert Scrivener, chairman of Northern Telecom (an affiliate of the Morgan-controlled AT&T), commander of the Knights of Malta and supporter of the Communist Chinese; and William McChesney Martin, former Federal Reserve Board chairman and a director of Royal Dutch Shell.

John deButts, chairman of AT&T; John Filer, chairman of Aetna Life, and Cyrus Vance.

In 1970 U.S. Steel increasingly borrowed on its land assets and invested in high-yield paper. Thirteen percent of the firm's 1981 first-quarter profits came from reinvesting cash from borrowing and liquidations of land including $700 million worth of coal lands sold to British Petroleum-Sohio. Late in 1981 U.S. Steel used some $1.5 billion in ready cash, not to invest in steel production, but to buy Marathon Oil from United Brands' organized-crime-linked Fisher.

U.S. Steel has received over a billion dollars in federal tax subsidies by lease-back arrangements and by running half-billion-dollar quarterly book loses. Despite the extensive subsidies, the firm has complained about foreign company steel "dumping" and steel company "subsidization" by their governments and the firms' "dumping" steel onto the American market. U.S. Steel brought a $1.2 billion suit against the Japanese in 1977, which it dropped a year later.

Swiss banking secrecy and the Tome inquiry

by Renée Sigerson

Over the last decades, United States authorities have found themselves on several occasions in the position where, by merely enforcing U.S. law against criminal perpetrators, they have had to challenge Switzerland's right to uphold banking secrecy.

An investigation presently underway by the U.S. Securities and Exchange Commission (SEC) is another such case, entailing SEC charges of stock price manipulation perpetrated by Genevan banker Guiseppe Tome, through the offices of a bank in the south Switzerland city of Lugano named Banca della Svizzera Italiana.

The SEC has moved to use its investigation of Tome to establish a new precedent for U.S. rights to demand lifting of Swiss banking secrecy. This is not the first time the United States has challenged Swiss banking secrecy, which is a system of numbered bank accounts which conceals the identity of depositors in Swiss banks. Other cases occurred:

- in 1945, in connection with Swiss protection of expropriated German family fortunes, which the United States claimed were under the jurisdiction of the Allied Occupation forces. The contested funds, which the Swiss eventually reimbursed their German depositors for, included a substantial share of fortunes of wealthy, South German families who had financed Adolf Hitler's career;
- in the 1950s, involving Swiss purchases of U.S. defense stocks in behalf of clients representing foreign intelligence agencies;
- in the 1960s, when Swiss banks were engaged in waves of targeted speculation on the New York Stock Exchange; as well as in handling bank accounts for known U.S. organized-crime operatives.

In 1973, the Swiss Bankers Association agreed to a Cooperation Treaty between the United States and Switzerland, which stated that in cases involving actions considered illegal under *Swiss* law, banking secrecy could be lifted. Because there are no Swiss laws against tax evasion, stock fraud or unreported large capital export—as there are in the United States—in the current case the Banca della Svizzera is refusing to release records the SEC has requested on BSI's dealings with Guiseppe Tome, the individual being charged with stock fraud.

Tome's friends

Tome, an Italian national entrusted with administering funds in Geneva for Italy's Agnelli family, is being charged with using confidential information divulged to him by Edgar Bronfman, Chairman of the Canadian Seagram Company, to make a speculative killing on the New York Stock Exchange. In addition to acting as the Agnelli point man in business dealings in Geneva and Montreal, Tome has also acted in behalf of the Agnellis in Mexico.

In 1980, in the same period that Tome was dealing with Bronfman, he closed a deal in Mexico City which linked the city of Geneva with the Mexican section of Permindex, Inc., the front corporation which arranged the assassination of President John Kennedy.

The chronology of this far-flung corporation worked as follows:

In the winter of 1980, Bronfman had assembled an extraordinary pool of corporate cash of $3 billion, by selling off Seagram's Texas oil holdings and then going onto the Euromarkets for a jumbo loan. The Agnellis, who have extensive joint financial operations with the Bronfmans, sent Tome to Montreal to serve Seagram as an adviser on foreign exchange and gold investments. During that time, Tome learned that Bronfman was preparing to use his cash to purchase a controlling interest in St. Joe's Minerals Corporation in Missouri.

Tome also went down to Mexico, where he attended a very private meeting between Edmund de Rothschild, one of Geneva's leading bankers, and representatives of Italy's Royal House of Savoy, who have resided in Mexico since they were expelled from Italy after 1945. During those meetings, Rothschild, Tome, and other representatives of the Genevan banking community put themselves at the disposal of the Savoyan exiles, with a proposition to found for them an international financial investments corporation which could be administered out of Geneva. The company was created under the name Finevest.

During their residence in Mexico, the House of Savoy has supported the front corporation Permindex.

Thus, surrounding Tome is a powerful financial nexus, extending from Geneva to Mexico City to Montreal, which among other things has striven to establish a strong footing in U.S. resource and industrial stocks. Tome got caught when he returned to Geneva in early 1981: knowing that Bronfman would soon make a bid for St. Joe's, he purchased a chunk of St. Joe's stock through BSI in Lugano for his friends. When Bronfman moved in to purchase, and St. Joe's shares skyrocketed in price—landing Tome several million dollars in immediate profit—U.S. authorities became suspicious and launched an investigation into the network involved.

Banking by Kathy Burdman

The free-market final solution

The Treasury and Fed go ahead with deregulation that they are well aware will mean the demise of thousands of S&Ls.

Several left-wing social democrats in Washington charged at the end of February that the administration's current support for Fed Chairman Paul Volcker and little else will cause shutdowns of whole sections of the U.S. banking system this year if continued. And the administration agreed.

In emergency legislation submitted to Congress Feb. 23 to aid the homebuilding industry, Rep. Fernand St. Germain (D-R.I.) urged the immediate establishment of a $7.5 billion Treasury fund to inject cash into the nation's ailing savings and loan sector. St Germain, the House Banking Committee Chairman, said the Reagan administration's policy is currently to "allow the S&Ls to be plowed under" by high interest rates.

This is true enough, since Fed Chairman Paul Volcker's tight money is forcing the S&Ls to pay an average 16 percent for deposits, while they only earn an average 8 percent on mortgages.

The same day, the Fabian Brookings Institution in Washington issued a major study of the S&L sector, predicting failure or death by merger of more than 1,000 S&Ls by the end of 1983. Brookings fellow Andrew S. Carron charged that the combination of high interest rates and deregulation will cost the government $8 billion to bail out the dying S&Ls' deposits.

I hate to agree with a social democrat, especially when he's just complaining about our President, but the Fabians *inside* the administration are acting as charged.

"Brookings is right, you know—but we think we can accomplish it for a lot less than $8 billion," a top source at Donald Regan's Treasury Department told me the same day. "St. Germain is also right. He just doesn't like what we are doing, because he has a lot of heat from his constituencies, and he wants to preserve the existence of S&Ls for home lending.

"Yes, interest rates will remain high, and yes the administration—at least this Treasury—will take no interventionist steps to bail out the S&Ls, except to continue our deregulation program, which will only accelerate matters.

"Why should we act? We want to shake down the [S&L] industry first. Let the free market do it. I'd say reducing the number of S&Ls by 25 percent, say a thousand or so, is about right." As he described it, Treasury and the Federal Home Loan Bank Board (FHLBB), are working with Volcker to apply a kind of free-market euthanasia to the S&Ls, "to save money and let the market do it."

The plan has several levels. First, Treasury is supporting Fed Chairman Volcker's recent announcement that the Fed will now act by fiat, without Congress, to declare protective banking regulations void, and allow cartelization of the banking system. Volcker is planning soon to permit big commercial banks, such as David Rockefeller's Chase Manhattan, to move across industry lines and buy up ailing S&Ls. The move will also be across state lines, allowing the big commercials not only to take over S&Ls home lending, but to do so rationally.

Second, the FHLBB's Federal S&L Deposit Insurance Corporation has announced it is cutting back on insurance pay-outs to S&Ls to save cold cash. The FSLIC, whose kitty is a mere $6.8 billion, has already laid out over $1 billion in mergers in 1981, paying off the buyer S&L to take the bad loans of the weaker S&L which it buys.

Now, my source says, the FSLIC is just going to "let the walking wounded walk." That is, the authorities will stop declaring certain selected S&Ls bankrupt—and let them go on doing business as if they were liquid, and buy up lower-tier "dying wounded."

"Solvency is in the mind of the public," the Treasury official observed. "As long as the public believes deposits are insured by the government, the S&Ls can operate deep in the red."

Third, and even wilder, is the Bank Board's new "purchase accounting" accounting fraud. Under this, an S&L in the red which buys another bankrupt S&L, gets an accounting break during the first five years, allowing it to actually make money on the transaction! The assets puchased, my source explained with a giggle, are brought into earnings twice as fast as the losses are written off. This can yield up to 20 cents on the dollar profit on the bad assets bought.

"It costs us nothing," my source said of the scam.

Recovery for West Germany?

Exports are leading the way to a modest uptick, the most recent economic surveys conclude.

Both West German and American bank economists have begun to talk of an economic "decoupling" between Germany and the United States—a term first used by this journal in a June 1980 comparison of the two economies. While the United States is headed for even worse economic results than in the September-January period, the most recent "Monthly Business Report" of Germany's leading business daily, the *Frankfurter Allgemeine Zeitung,* is entitled, "A Breath of Optimism."

The German newspaper writes, "Bad news items are tumbling over themselves. But the tone of the economy no longer represents an entirely dark picture. For some time the announcements from companies have been a shade more optimistic. Of course, no one would yet talk about an upswing. Almost 2 million unemployed at the end of January, a hardly diminished wave of insolvencies, a high count of non-performing loans—all this warns against excessive hopes.

"But," *FAZ* continues, almost all economic observers are convinced that the deepest point of the recession has been got past. The turn is in sight. The negative impulse which the economy received from the second powerful increase in oil prices is spent. . . . The increase in new orders shows clearly that the impulse this time will come from investment. . . . Export business shows quite the opposite of a pessimistic tone; in the past year, it was the backbone of the economy, and export levels have not fallen back, but remained at the previously reached high level."

In December, foreign orders stood at 21.6 percent above their year-earlier level, while total orders were 9.5 percent above their previous year's level, or about 4 percent higher in real terms. These are not spectacular results, and promise no early reduction in Germany's worst unemployment levels since the war; yet there is clearly a direction opposite to America's.

One German bank official said, "We have our backs to the wall, and the only way out is to increase investment, and maintain our international competitiveness. A surprising revival of investment is taking in the heavy machinery sector, electronics, and also in auto—where the Japanese have given us a bit of breathing room."

The "true export-led recovery," as one New York bank economist qualifies it, is surprising given the overall contraction of world trade, and especially the economic difficulties of countries with whom Germany trades heavily, e.g. France (13 percent of German exports), Belgium (8 percent of German exports), and the United States (6 percent of German exports), as well as the economic difficulties of the Third World. Part of the answer lies in the way present international market conditions have favored Germany's underlying strong industrial position: while the mark is clearly undervalued, due to high U.S. interest rates, the collapse of oil and commodity prices have meant that an expensive dollar does not mean higher import prices, as Chase Manhattan's "International Finance" newsletter pointed out Feb. 12. The result has been more room for maneuver and lower German interest rates.

However, to maintain the export drive and the investment to back it up, Germany must expand certain of its markets to compensate for attrition in others. The obvious place to look is the Soviet Union. Surprisingly, the Soviets ran a DM 1.6 billion *surplus* in trade with Germany last year, due to higher energy shipments, against a DM 426 million surplus the year previous. The German deficit with Comecon as a whole was DM 297 million, the first since 1965.

That clearly leaves room for additional German exports; indeed, the $600 million trade credit Austria granted to Moscow last month was motivated by Vienna's desire to correct its trade deficit with the Soviets. As the natural-gas pipeline begins shipment in the middle of this decade, the Russians will earn $10 to $15 billion per year in additional foreign exchange, according to Chase Manhattan Bank estimates, a great deal of which will be spent in Western Europe.

According to a senior Soviet economic official, "The Soviet Union is prepared to offer West Germany an immediate tripling of trade volume" from the present $6 billion annual level of German exports to the U.S.S.R. The pipeline earnings indicate that there would be few financial obstacles.

World Trade by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
$1.2 bn.	Indonesia from West Germany/U.S.A.	Aromatics petrochemical complex has been contracted from Thyssen Reheinstahl and Pullman Kellogg by Pertamina, Indonesia's State Oil Company. Plant will make Indonesia self-sufficient in polyesters, with 60% of production exported. Located in southern Sumatra.	Pertamina has granted $7.5 bn. contracts since last June in an impetus to industrialize undaunted by declining oil prices.
$1.6 mn.	Venezuela from U.S.A.	Venezuela's national horseracing institute has ordered complete system for validating and sorting lottery tickets. Turnkey system includes OCR document readers, software programs, installation, and training for Venezuelan personnel. Supplied by Lundy Electronics of Glen Head, N.Y.	Venezuela again applies high technology to its "post-industrial" society.
$233 mn.	Saudi Arabia from U.S.A.	Browning-Ferris Industries of Houston signed 5-yr. contract for garbage collection and street sweeping in Riyadh. Contract includes $30 mn. U.S.-made equipment to be shipped from Wilmington, Del., later this year. Contractor also has deals in Kuwait, Venezuela, and Canada.	Seeking contracts in Peru, Chile, and Argentina, where city workers fired and unemployed hired for lower wages.
$466 mn.	Qatar from Japan	A high-density polyethylene plant is being built by Mitsui Engineering in Qatar General Petroleum Corp.'s $7.67 bn. complex. CDF-Chemie of France is minority partner in venture.	Mitsui has abandoned similar plants in Iran and Singapore.
$100 mn.	Norway from U.S.A./U.K.	Norwegian state oil company, Statoil, awarded Fluor Ocean Services, a British subsidiary of Fluor Corp., $100 mn. project manager services contract for part of Norway's $3 bn. Statfjord gas field pipeline project. Fluor will join in design and engineering, platform building, pipelaying, and procurement. Project includes 840 km. pipelines and an offshore gas treatment plant.	
$60 mn.	Philippines from West Germany	Plant to process 69,400 tpy of coconut oil into 30,000 tpy fatty alcohol for use in detergents, 29,000 tpy fatty acid for export, and 8,000 tpy glycerine for export will be put up in Philippines. Lurgi will supply technology and $60 mn. plant equipment and receive 30% ownership in $130 mn. project.	United Coconut Chemicals is majority partner.
$2 mn.	U.S.S.R. from Japan	Soviets have bought another 800 tons of polyacryloamide chemicals for use in tertiary recovery of crude oil. In secondary recovery, water or gas is pumped into oil deposits.	Exporters are Nitto Chemical Industry and Mitsubishi.
	China from West Germany	China is moving an entire bankrupt German worsted spinning mill to Shanghai. Package deal, arranged through Swiss bank which controls bankrupt Kammgarnspinnerei Kaserslautern, includes the mill, dye works, labs, and technology.	German workers worsted by the bank.
UPDATE			
$1.4 bn.	Papau New Guinea from various	Financing for Ok Tedi gold and copper mine comes mostly from subsidized official credit of countries expecting to be suppliers: Australia, $242 mn.; U.K., $100 mn,; West Germany, $100 mn.; Canada, $88 mn.; U.S.A., $50 mn.; Austria, $50 mn. Citibank syndicate coming up with $150 mn. and stockholders including Amoco with only $70 mn.	Details in last week's *EIR*. Bechtel and Morrison Knudsen are prime contractors.

Watt retreating into the wilderness?

The new Interior proposal on mining and exploration underscores a problem: no resource strategy.

Interior Secretary James Watt performed what press has termed a "dramatic turnaround" Feb. 21, announcing that he will submit legislation to Congress calling for a moratorium through the end of this century on all mineral, mining, and oil and gas exploration on "wilderness" federal lands. Initially, the controversial cabinet secretary was committed to reversing this egregious Carter policy, which locked up tens of millions of acres of some of the nation's most valuable federally owned lands in Alaska and Western states including Colorado, Montana, and Wyoming. Now, he has agreed to prevent development of such lands for the next 18 years, and thus the apparent "turnaround."

The neo-feudalists who call themselves environmentalists, however, have had varied reactions. While the National Resources Defense Council, which boasts of two "moles" in the Bureau of Land Management, says those "moles" assured them that Watt has "made a significant backdown" from his resource-development commitment, a representative from the equally primitivist Wilderness Society told me that, on the contrary, Watt's decision was a "Trojan Horse"—appearing to concede, the Interior Secretary has actually sabotaged two decades of efforts to lock away valuable resources *permanently*. A young man from the Sierra Club poetically dubbed Watt's plan "a crock of s--t."

Actually, it is a stupid concession to the folks who have named their club after a desert. Under provisions of the 1964 Wilderness Act, a 20-year period of "review and study" was to have allowed seismic testing and exploration of proposed "wilderness" lands. Then, after Dec. 31, 1983, Congress was to use the results to designate as permanent wilderness only those lands deemed not to have overriding mineral value. Watt has now proposed that through 1999, all such potential wilderness lands be kept off limits—unless the President deems it a national emergency. Congress could then re-evaluate after 1999. He also proposes that 36 million acres in "non-wilderness" lands locked away by Cecil Andrus, his predecessor, be immediately released for mineral development.

This is typical of the way Watt and his associates, who came to Washington committed to reversing years of environmentalist sabotage, are fundamentally backing off on the most urgent national priorities. It is not just the Sierra Club's howling every time someone proposes that a human being is more important than a grizzly bear. The way Paul Volcker's interest rates have created a federal deficit, and David Stockman's coordinated budget cuts have *set policy* for every administration department, people like Watt are simply manipulated into jockeying for small change.

To wit: Last summer, the Secretary announced plans to proceed with approval of permits for seismic testing on Montana's Bob Marshall Wilderness area. The area borders on Yellowstone National Park. It was like waving a red flag before a bull. The environmentalists screamed and the House Interior Committee voted to invoke an obligatory freeze on the action.

The whole petty affair served to undercut support for the important moves to open offshore and onshore areas for energy exploration.

Recently, Watt also gave a green light to a project representing unqualified disaster from the standpoint of the national economy and the environment. This is the ETSI coal slurry pipeline project, which has been designed by Atlantic-Richfield and Lehman Brothers Kuhn Loeb to steal water from the American West in such magnitudes that it could undercut irrigated agriculture (see *EIR*, Feb. 16, 1982). It is part of the strategy to devastate the water and mineral resources of the West devised by one of the leading environmentalists in the world: Robert O. Anderson.

At the same time, insistently over recent months, Watt has publicly opposed the kind of long-range national water policy typified by the plan for a North American Water and Power Alliance, which he has called "environmentally" destructive, but without which the West, including American food-producing capacities, absolutely will not survive.

What has become clear is that James Watt has no real thought-out policy, no nation-building strategy, and has become easy prey to the combined screams of the Sierra Club and Stockman and his friends.

Continental Grain Company on trial

The Supreme Court dismissed one case but another, winning one is working its way through the courts.

No sighs of relief were heard in the corporate boardroom of one of the world's largest grain companies on Feb. 23 when the U.S. Supreme Court refused to hear a case charging that the grain giants had conspired with a government official to fix grain prices at an artificially low level in the huge 1972 grain sale to the Soviet Union.

The Continental Grain Company, named with five other grain merchants in the failed suit, is the principal defendant—along with Contintental's Vice-President and former Assistant Secretary of Agriculture, Clarence Palmby—in another suit now in discovery

William Witherspoon, the Hereford, Texas-based attorney for the plaintiffs in both cases, a group of farmers in the Southwest, maintains that the Supreme Court decision in "Wheat I"—referring to the producers' first round—is wrong, but he is confident that "Wheat II' has an excellent prospect of coming to a jury trial.

The multinational grain companies control the grain business in what might be called an "open conspiracy," dominating the production and trading of grain from seed to storage and transport, marketing, and processing. Their control is facilitated by unlimited access to credit through their own private banks in Switzerland and elsewhere, control of the commodity exchanges through their own brokerage firms, and vast high-speed telecommunications rivaled only by the CIA and U.S. Air Force.

Only if the government comes in on the producers' side, to maintain orderly marketing at "parity" price levels ensuring the producer a sufficient return to cover cost and profit for new investment, does the American farmer stand a chance against the grain companies' determination to "buy cheap."

The producers' first action, "Wheat I," was a class-action suit on behalf of more than 10,000 producers in Texas, New Mexico, and Oklahoma. These farmers sold their wheat at $150 or less in May and June of 1972 when news of the largest grain sale in American history was being kept secret, only to see the price shoot up to $2.30 or more per bushel when the deal between the Soviet Union and the grain companies was completed and made public in July.

In the suit, producers charged the existence of "a conspiracy between Continental and Mr. Palmby, removed from the distribution chain, interfering with the normal market forces by suppressing and withholding all information of the then-pending Soviet wheat sale." Mr. Palmby, it was charged, held a series of clandestine meetings with Continental officials in 1972—all documented, incidentally, in several congressional probes of the grain deal—during which the grain giant offered him an executive position in exchange for inside information on the Soviet deal.

The information allowed Continental et al. to "buy at inordinately low prices from farmers and sell high to the Soviet Union," the suit charged.

Mr. Palmby was the government's man in charge of the Soviet deal from the outset in January of 1972 when then-Secretary of State Henry Kissinger asked him to provide a scenario on how grain sales to the Soviet Union should be handled.

Palmby directed the negotiations to ensure, among other things, that the sales would be made through private channels—i.e., by the grain companies and not on a government-to-government basis. On May 12, after the substance of the negotiations with the Soviets had been completed, Palmby tendered his resignation from USDA. On June 7 Palmby left the USDA, and on June 8 he joined Continental.

In 1979, a Federal District Judge ruled against the farmers in "Wheat I" on a technicality. The ruling, upheld this month by the preme Court, cited a 1977 Supreme Court decision that antitrust claims were only valid when filed by persons dealing directly with the alleged antitrust violator. Many of the farmers in the class-action suit had sold their grain to local elevators or cooperatives, and not to the grain companies directly.

While appealing the 1979 decision, Witherspoon and his clients launched "Wheat II"—a second suit on behalf of several hundred producers who *had* sold their grain directly to Continental. There is every indication that the courts will have to confront the substance of the case this time around.

Business Briefs

European Community

Mitterrand back to German alliance?

French President Mitterrand and West German Chancellor Schmidt met in Paris Feb. 24, and agreed to continue remonstrations to the United States about continued high dollar interest rates, and to coordinate reductions of interest rates in Western Europe—the first formal agreement between the two leaders to this effect.

According to the French newspaper *Le Monde* Feb. 25, Mitterrand had earlier thought that the strong Franco-German ties that prevailed under his predecessor, Valéry Giscard d'Estaing, would attentuate, "but Mitterrand was forced to reactivate German ties by the turn of economic events," and, in particular, lack of British support in European Community agricultural issues. West Germany's quiet decision to cease expending substantial resources to defend the French franc may also have caused second thoughts in Paris.

International Credit

French bank proposes gold-backed bonds

A spokesman for the Paris-based Banque de l'Union Europèene in Paris told *EIR* Feb. 22 that the United States must issue a large volume of gold-backed, low-interest bonds in order to re-establish stability in financial markets.

"The only solution to America's monetary problems to enable markets to regain confidence in the U.S. would be a massive loan, secured on gold, of $10 or $20 billion, with a 2 percent interest rate, and a gold guarantee. This would allow the Treasury to transform and consolidate its debt from 15 percent short-term to 2 percent long-term. It would mean a huge savings on debt service.

"This bond would be oversubscribed on the international markets, and alleviate the plight of the U.S. bond markets. Otherwise, let the Fed permit a drop in interest rates! This would permit a money-market recovery, shifting the burden from the money markets to the bond markets. But will Washington accept that? I don't know. If they do not, the U.S. will run headlong into a depression. And since the U.S. situation still exerts a controlling influence on the world economy, there we go.

"I tell you, the Americans have to bring to an end 30 years of credit laxity. Let long-term borrowing become the standard again, and for this, a gold loan, something like $10 billion every six months, at 2 percent interest, is what is needed."

Banking

Volcker to establish bank cartel by fiat

Federal Reserve Chairman Paul Volcker and his administration supporters are moving rapidly to establish a British-style cartelization of the U.S. banking system by regulatory fiat, without legislative permission by the U.S. Congress.

While Congress quibbles on just how to rewrite the banking laws, Fed Chairman Volcker intends to move unilaterally "within the next few weeks" to declare the end of all separation between commercial banks and savings & loans, U.S. Treasury sources told *EIR* Feb. 24. That will mean a rapid end to the nation's 5,000 independent S&Ls, which finance 80% of home mortgages in the country (See Banking).

Separately, Federal Home Loan Bank Board Chairman Richard Pratt, a Volcker ally, announced Feb. 24 that his agency has ordered by regulatory fiat that all S&Ls now be allowed to move out of home lending completely and into commercial lending—real estate speculation, stock market brokerage, and so on.

Given a continuation of Federal Reserve Chairman Volcker's high interest rates, this proposal will merely mean that S&Ls will be forced into these more speculative areas immediately. The result will be that America's current 20,000 banking institutions will be reduced to some 1,000 "financial supermarkets."

This bank cartelization was warmly endorsed by the administration in the President's Economic Report by the Council of Economic Advisors in February. "The administration supports legislation and regulatory reform that would give S&Ls greater flexibility," it states. ". . .give thrift institutions many of the same powers to vary their assets that commercial banks now have." It also called for "interstate and inter-industry mergers."

Domestic Credit

Republicans to discuss "floating rate"

Republican members of Congress in the House Budget Committee will focus attention on a "floating discount rate" as a means to correct the Federal Reserve's "erratic performance in monetary management," according to well-placed Republican Congressional sources. This proposal, associated with Rep. Jack Kemp and, in a different manifestation, with monetarist critics of the Fed, will be prominent in upcoming hearings this spring.

The "floating discount rate" plan was first brought forward by banker Lewis Lehrman, now a Republican candidate for the New York gubernational nomination, in a 1981 paper circulated by Morgan Stanley. Lehrman then advocated a shutdown of all Fed credit issuance except through a discount facility with an interest rate floating above market rates, a plan rejected by Fed Chairman Paul Volcker on the grounds that it would be equivalent to a total shutoff of credit.

However, Lehrman later corrected himself to insist that the floating discount rate would result in a "mind-bending deflation" unless it occurred in the context of a gold standard.

Now there are apparently two "floating discount rate" plans. Milton Friedman has endorsed a discount rate floating above the market in the context of changes in reserve accounting which he argues would improve Fed control of money supply (for which there is no evidence whatever).

Meanwhile, "supply-sider" Jeffrey Bell now argues, as in a Jan. 27 release, for a floating discount rate *below* market rates, to bring down interest rates, which it certainly would, by flooding the market with reserves. Supply-side standard bearer Jude Wanniski, President of Polyconomics, Inc., commented to *EIR*, "We tend to think that this would be an improvement, in the sense that it would be a move away from the attempt to control the monetary aggregates. But we really don't know. Things can't get much worse than they are now."

Conference Report

Science and technology pursued for Third World

Three days of "consultations" among 45 developing countries ended Feb. 24 in New Delhi, with the desire of the government of India to emphasize "action" rather than abstract "global negotiations" dominating the proceedings. Preliminary reports from New Delhi indicate that Prime Minister Indira Gandhi set the tone for the conference with her strong denunciations of high interest rates and the immediate need to achieve cooperative economic relations between the developed and developing countries, so as to avoid catastrophe in the world economy. Predictable efforts by Algeria and Cuba to undercut the talks with radical rhetoric were largely, if inconclusively, diffused.

The talks, which brought together middle-level government technocrats for informal "consultations," were called by Mrs. Gandhi to discuss how to further pursue the North-South dialogue given the obstructions from the United States. The U.S. is currently demanding that a "preliminary discussion" be held to establish "objectives," before any full-scale conference is convened to establish a "new world economic order."

A second theme at the conference was "South-South" cooperation, involving exchange of skills and technologies to enable developing countries to assist each other. On this issue, confrontation took place between Tanzania's President Nyerere and Mrs. Gandhi, as Nyerere argued for a "share-the-poverty" approach and Mrs. Gandhi emphasized scientific cooperation. The conference ended with the agreement to establish a special agency, available to developing countries, which will carry out engineering and technical feasibility studies for projects in the developing countries. The conference also agreed to establish a special science and technology center in New Delhi, to make available to Third World nations the proceeds from advancements in these areas, and a conference will be held in New Delhi in May to establish this institute.

Economic Diplomacy

Hormats to push free zones in India

Assistant Secretary of State for Economic Affairs Robert Hormats will urge the Indian government to establish labor-intensive free-enterprise zones such as those now being set up on the coast of mainland China.

Hormats is to attend an Indo-U.S. Economic and Commercial Subcommission meeting in New Delhi on Feb. 28, where he will seek agreement on the zones from Indira Gandhi's administration. The zones would house low-wage foreign-dominated businesses.

World Bank President A. W. Clausen, during a recent trip to India, announced drastic cuts in India's eligibility for low-interest loans from the International Development Agency. This will force the Indian government to borrow at a high interest rate from the volatile commercial market.

Briefly

- **"THE PRESIDENT** is sympathetic with Europe right now," is the way one Washington observer explained the sudden postponement and possible cancellation of Undersecretary of State James Buckley's planned trip to the continent, adding that Reagan has most likely ruled out any unilateral attempt to halt or delay the Soviet-European natural-gas pipeline project. Buckley et al. were set to make one more attempt to kill the project and order Europe to tighten economic sanctions against Poland and the U.S.S.R.

- **THE UNITED STATES** and the European Community will probably propose discontinuing the supply of export-import bank loans among developed countries at a meeting of the member nations of the Organization for Economic Cooperation and Development opening in Paris March 10, Japan's *Osahi Shimbun* quoted government sources as disclosing. This is apparently aimed at not only lessening governments' financial burdens by reducing subsidies for ex-im bank loans but stemming the influx of Japanese goods to other advanced countries on the strength of its export credits with lower interest rates.

- **"ECONOMISTS,"** reads the verbatim text of a Feb. 18 *New York Times* article, "say that the huge decline in January could establish a base for somewhat better production in February, particularly in the industries with the poorest records."

- **PANAM,** American and TWA are reportedly trying to sell their late model 707s to the Department of Defense. With the 25 percent flight cutback by April just about on course, the airlines have excess 707s, which according to the experts, make excellent high-altitude tankers and troop carriers. TWA is reported close to a deal to sell "up to 39" model 131-B 707s.

Wharton and the IMF plan to give Mexico the Iran treatment

by Dennis Small, Latin America Editor

Mexico, the fastest-growing economy in the developing sector, was finally cracked this week by an international campaign of vicious economic warfare spearheaded by the International Monetary Fund (IMF) and the Swiss and British banking interests behind the IMF. After a months-long campaign of provoked capital flight, monetary speculation, and denial of credit, Mexico was forced to devalue its currency, the peso, by 30 percent, and adopt a set of austerity measures.

"This was just the right thing to do," an IMF official exulted to *EIR*.

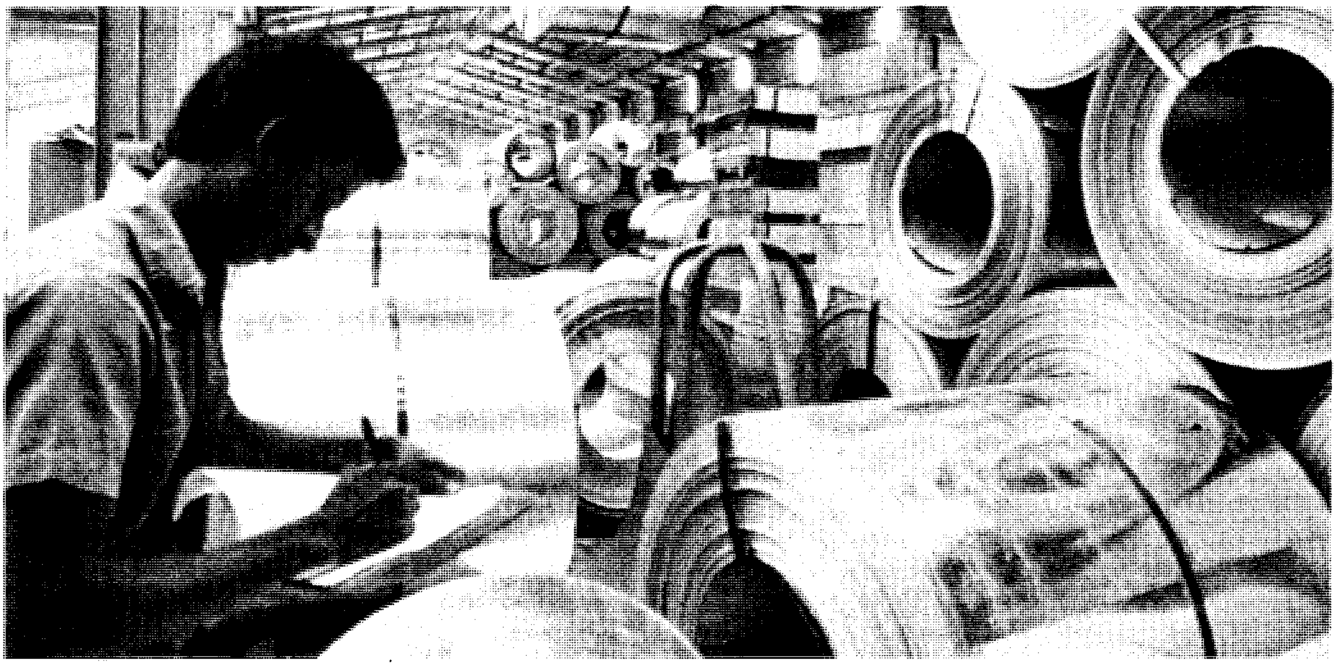
The immediate effect of these steps will be:

- to reduce Mexico's annual GNP growth rate from 8 to 5 percent or less;
- to sharply scale down the government's ambitious industrialization projects;
- to bankrupt an important segment of the Mexican private sector, which will now be unable to pay off its large dollar-denominated foreign debt; and
- to cut Mexico's vital capital-goods and other high-technology imports on a scale still to be determined.

Since the United States is Mexico's principal trading partner, Americans will also suffer from the Mexican devaluation, as the huge market for U.S. exports south of the border begins to dry up.

Every major Third World country—including Nigeria, Brazil, Tanzania, Argentina, and others—is going to be strangled financially over the course of 1982, according to bankers who forthrightly insist to *EIR* that there will simply be no money available for debt rollover. Mexico is a chief target because of its leadership within the Third World, and because of its special relationship with the United States, which contains the potential for an industrial-growth partnership.

Mexico is a country with a long tradition of commitment to nation-building, and it has a fundamentally sound economy. It has been set back by the latest developments, but it has by no means been felled. That would require shattering the country's political institutions as in Iran, which is exactly what is being prepared in four principal ways:



Courtesy of Imagenes de Mexico

Galvanized sheets for industry and construction being produced by an Alfa subsidiary: technological growth is the target.

1) **Another devaluation.** Currency speculators in Chicago and elsewhere are "predicting" a further collapse of the peso, by as much as an additional 25 percent. Sagging world oil prices and the likely leap in Mexico's inflation from 30 to 50 percent (itself a result of last week's devaluation!), are cited as causes. In reality, the danger arises more from a threatened second run against the peso.

2) **Trade war with the United States.** Both Commerce and State Department officials are forecasting "a rocky road ahead" on this account. The United States is threatening to slap on formidable countervailing duties against many Mexican exports.

3) **Central American instability.** According to U.S. press reports, up to 2,000 Guatemalans per week, immiserated and terrorized refugees, are entering southern Mexico. With all of Central America on a short fuse for explosion, Mexico is being severely pressured on this front.

4) **Fracturing the ruling PRI party.** The key to Mexico's stability is its long-standing institutions, like the PRI. There is a strong push by the environmentalist movement to turn the mass-based PRI into a European-style "Green" party. If this occurs, it will mean the party's disintegration. (See Dateline Mexico, page 59.)

British and Swiss banking interests have placed the execution of their "Iranization" project in the hands of the Wharton School, the chief exponents of reduced rates of economic growth for Mexico, and the unsavory British intelligence outfit called Probe, International. Probe, which is populated by "spooks" expert in destabilization, was instrumental in the overthrow of the Shah of Iran. Its board includes such experts in subversion as Lord Caradon, J. Bowyer Bell, and William Colby.

Probe signaled the final offensive against the Mexican peso in a Feb. 3 article planted in the *Hartford Courant* and the *Miami Herald,* in which they warned that high-level Mexican officials were taking capital out of the country, and adduced this as proof that the peso was totally unstable.

A rumor campaign was launched inside Mexico on the basis of this article, and others like it in the *Journal of Commerce* and the *Wall Street Journal,* and over the past few weeks an estimated $4 billion in capital fled the country. The final twist of the knife was performed by the Feb. 11 issue of the influential *Neue Zürcher Zeitung,* which reported authoritatively that Mexico "will encounter difficulties" contracting new loans in 1982.

An honest, but defeated, Mexican President explained these developments: "The peso was assaulted from inside and outside the country."

An alternative to devaluation was broadly circulated by U.S. economist Lyndon H. LaRouche and his co-thinkers in Mexico: slap on strict foreign exchange controls; quickly reduce domestic interest rates to accelerate industrial growth; and nationalize any private banks in the country that tried to sabotage these steps.

But López Portillo capitulated to the blackmail and pressure from the IMF group, and explicitly ruled out the LaRouche option: "Because of the characteristics of our country, because of the fundamental freedoms under which we live, and because of our geographic situation [proximity to the United States—D.S.], we could not nor should we employ foreign exchange controls."

Mexico's current financial situation: new dangers and potential solutions

by David Goldman, Economics Editor

How severe the consequences of the present devaluation will be for Mexican private companies with large dollar-denominated debts is still not fully recognized; their prospects for the next six months are frankly grim. This principal weakness of the Mexican credit structure, the result of two years of "dollarization," rules out any possibility of economic stabilization in the short run, or even medium-term stabilization of a freely floating Mexican peso, unless certain rigorous measures are taken.

The issue now is not whether a private-sector shake-out will occur, or whether, indeed, Mexico will impose exchange controls during the course of the present year, but on whose terms they will occur. On any count the devaluation is a terrible blow to the economy: the extraordinary size of the devaluation (when so-called "purchasing parity" of the Mexican peso would argue for at most a 10-15 percent devaluation) was dictated by overt financial blackmail from the country's creditors' consortium. As the *Neue Zürcher Zeitung* announced Feb. 11, the view in banking circles vis-à-vis Mexico had shifted drastically, and the Mexican request for more than $12 billion in new loans during 1982 had been turned down. Rather, the banks told Mexico to cut its currency to the point that Mexican assets were undervalued relative to international prices, to attract a flow of investment and tourism.

That foreign investors, particularly the Geneva, Zurich, and Paris private bankers, are eyeing Mexico with the delicacy of vultures was made public by the spectacular rise of the Mexican stock-market index on Feb. 19—by the precise amount of the previous day's 28 percent devaluation. (It nonetheless crashed on Feb. 25.) The perspective among European investors, who have always had a special channel into the Mexican market through the Franco-Swiss-owned Banamex commercial bank, is that the devaluation will roll the private sector up like a carpet, leaving them free to choose which of the shattered remnants of the Mexican economy they might wish to buy.

On the face of things, Banamex, whose origins in Mexico go back to the Hapsburg occupation of the 1860s, seems well-positioned to marshal exactly this sort of operation, to "dictate the value of the peso," as one of its Mexico City officers said. The private sector owes $21 billion of Mexico's total foreign debt of about $70 billion, most of it to American banks, the principal dollar lenders to the private sector. The annual interest charge on such debt is about $3.7 billion, or roughly the same as the 1981 total non-oil exports of the entire country, which are a good approximation of the dollar earnings of the private sector. In other words, the private sector's interest cost alone is in excess of its dollar earnings, i.e., it is insolvent in dollar terms.

Last fall's near-bankruptcy of the giant Alfa group in Monterrey, requiring a $600 million expenditure (secured by Alfa equity) on the part of the Mexican government, had been the first rock in an avalanche except for quick Mexican government action; but the government's lack of access to foreign financial resources makes it difficult to repeat. The *Wall Street Journal* Feb. 22 suggested that 36 private companies would probably not survive, but the list could be much larger.

This danger has been evident for some time. On June 30, 1981, I wrote, "If the country's economic planners fail to carry out the directive of President José López Portillo—to deal with inflation by enhancing output—there will be trouble not much later than the beginning of 1982," and "Under a worst-case scenario, Mexican inflation could double by the end of 1982." With the devaluation, inflation will certainly rise from the present 30 percent level to 50 percent or higher.

In memoranda to Mexican private clients, *EIR* had urged the adoption of foreign-exchange controls backed by a Gaullist policy of nationalization of private-sector financial institutions who failed to cooperate. Now every sophisticated observer concedes that a variant of this approach is inevitable. Since the private sector may only obtain foreign exchange by exporting, or by exchanging pesos for dollars, and since they now exchange at a 30 percent disadvantage, another wave of peso-selling against the dollar is built into the present, regrettable devaluation. At this point, as both the *Frankfurter*

Allgemeine Zeitung and the *Neue Zürcher Zeitung* made their readers aware Feb. 19, no Mexican government will have any choice but controls. Some prominent Mexican private-sector institutions expect this to coincide with a European movement toward exchange controls, fitting into an unsettled global context.

Should the Mexican government wait for a second major crisis before taking such action after the fact, Mexico will revert to a status it shook off a century ago, with the fiduciary descendants of the Hapsburgs whom Benito Juárez ejected firmly in command. Since this element has never been eliminated from powerful positions inside Mexico, as President López Portillo warned elliptically in a Feb. 19 speech, the blackmail of the foreign creditors was supplemented by what López Portillo called "forces from inside as well as outside." This helps to explain why a full 90 percent of all new deposits in the Mexican banking system during January came in as dollars.

However, although great damage has been done, the situation may yet be recouped through bold, de Gaulle-like action. The attrition of the private sector, which grew as a ramshackle import-substitution producer of second-rate consumer goods, need not be a bad thing. One way or another the Mexican government will be left with a great deal of equity on its hands; if it uses this power to transform the private sector toward a technology-based capital-goods producer, Mexico may actually gain from the private sector's misery. In this regard Mexico's developing relations with Japan, which has the world's best record in aiding developing nations to build profitable and efficient heavy industry, may be the crucial factor.

As I argued in the cited June 30 commentary, the basic solution to Mexico's credit problem is so accessible as to make its avoidance a subject of great frustration. To much too great an extent, investment among leading Mexican private sector concerns has been oriented towards credit-based acquisitions of existing industrial capacity, rather than construction of new.

While the steel, petrochemical, and oil-producing sectors have, with substantial government subsidies, shown rates of growth of over 30 percent per year since 1978, the balance of the economy, especially agricultural production and food processing, has lagged well under the average 8 percent growth rate—leading to a shortage of basic items. Reorganization of the private sector under crisis conditions is not the best course, but one that could well ultimately solve these problems.

In this context a combination of exchange controls and import restrictions on luxury goods could easily save more than the private sector's present $3.7 billion annual interest bill, which is to say that the Mexican government, with the right policies, could eliminate the present financial crisis almost overnight.

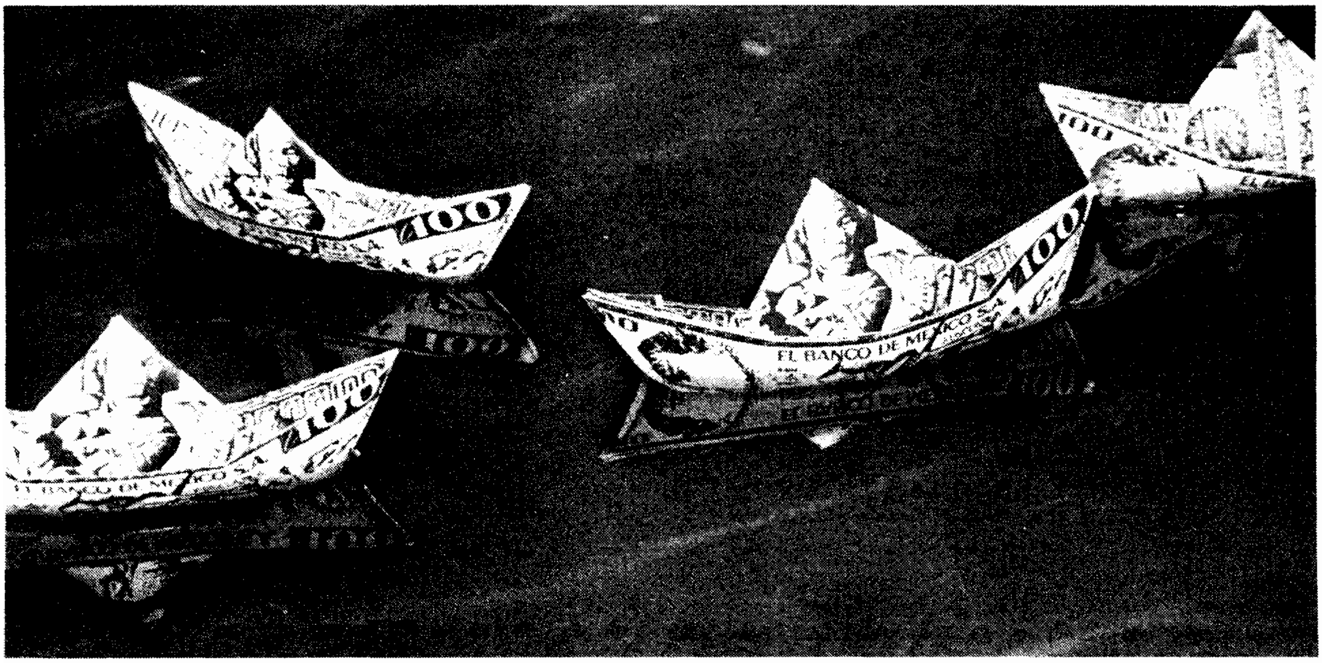
President López Portillo addresses army on peso

President José López Portillo made the following comments on the Mexican peso devaluation at a breakfast in honor of the Mexican Armed Forces Feb. 19, 1982. The presidential press office called attention to them as his only public statement on the topic.

In a country such as ours, it is vital that we make up our minds once and for all and prove to ourselves that we are capable of providing work to all Mexicans. And this has been, is, and will be the primary effort of our administration. Thus, of course, the distance between inflation in the U.S. and ours has grown, the Mexican rate surpassing the North American; it necessarily affects our currency. I declare to you that, under my total and exclusive responsibility, we made every effort to reduce that distance. We raised tariffs and revived licenses. To promote exports we stimulated them with subsidies and fostered them to a maximum through credit facilities. Everything we could do, we did. But because of the characteristics of our country, because of the fundamental freedoms under which we live and because of our geographic situation, we could not and should not control exchange rates. . . .

From Guadalajara I issued an appeal to our sense of patriotism and national responsibility. The policy of protection that we had formulated, was not understood; it did not have time to function fully for many reasons, some legitimate . . . some due to personal ambitions, and others which perhaps suffered from persecution delusions. This week the Bank of Mexico suffered real assaults against its reserves.

And, gentlemen, when I warned that our reserves ran the risk of running out in just a few days, I made the painful decision in the solitude of my office at Los Pinos to take the Bank of Mexico off the monetary market so that we would not again undergo what happened in 1976, a year in which we were forced to take a similar measure but without reserves in the bank; when we were forced, in order to survive in the international financial community, to resort to agreements with the International Monetary Fund and its intervention in our economic decision-making.



Carlos de Hoyos/NSIPS

Mexico's Economic Adjustment Program

On Friday, Feb. 19, a day and a half after the peso was cut loose from support by the Bank of Mexico, Finance Minister David Ibarra and Planning and Budget Minister Ramón Aguirre called a press conference to announce an eight-point "Action Program" of adjustments in all areas of Mexican economic policy.

Ibarra termed the packet "drastic, painful measures," a "program of the strictest financial and budgetary austerity." The official growth target for 1982 was reset at 4.5 to 5.0 percent, down from the 7.0 percent announced by the government in November 1981. Job-creation goals were similarly scaled down from 5 percent to 3-4 percent.

The eight points are:

1) **Exchange rate:** The peso will be allowed to find its "objective" level. Free exchange of the peso is inviolable. "Let us not echo rumors of exchange controls or freezing of dollar accounts."

2) **Federal budget:** A three percent cut in previously mandated 1982 levels, a reduction of roughly $3 billion. According to some glosses, Ibarra stated the funds thus freed up will go into debt service.

3) **Financial policy:** a) "competitively" high interest rates will remain in effect; b) those companies, both public and private, which contracted dollar debt in "good faith" and now face repayment problems, "will get help" from the government, including provisions for tax write-offs on 1982 returns; c) a seventh "petrobond" issue will go on sale March 1; d) a new form of bond will be issued, with a 6 percent guaranteed return over the consumer price index.

4) **Wages:** No emergency wage compensation, but adjustments "as soon as possible" as the effects of the devaluation are felt.

5) **Foreign trade:** Further tightening of restrictions on luxury-goods imports. Easing of some import curbs on items deemed basic for consumption. For exporters: a "flexible system of slippage" of the peso to keep exports competitive, plus "guarantees against any differential which may arise between external and internal inflation." (It is not clear if this implies maintaining the kind of export subsidy system under attack in U.S. countervailing duties cases.)

6) **Prices:** Some extension of price controls on basic items. No major new programs.

7) **International financial policy:** Continued full participation in international financial institutions; Mexico will meet all obligations to international creditors, public and private.

8) **Border action:** A program to move more Mexican-produced consumer goods into the northern border region which, because of inadequate Mexican production and transport, has become dependent on U.S. supply.

Monterrey Group digs its own grave?

by Peter Ennis from Monterrey

A visitor to Mexico's private-sector stronghold, Monterrey, cannot help but be struck by the huge discrepancy between the Monterrey Group's claims to "intellectual prowess," "efficiency," and "independence," and the sheer burro-headedness with which it approached Mexico's ongoing economic crisis. Reciting the gospel according to Milton Friedman, virtually every leader of the city's interlocking business conglomerates lined up against President José López Portillo and advocated the very devaluation of the peso that has dramatically deepened the financial crisis of the nation's private sector! Indeed, it is now a very big question whether the Monterrey Group can survive the effects of this devaluation.

Monterrey is a city undergoing a profound intellectual as well as economic crisis, and the leaders of the business conglomerates are by no means united behind a strategy to deal with that crisis. Most important is the growing, painful recognition that the policies of Milton Friedman have completely failed. The evidence is so powerful of the disastrous effect U.S. interest rates have had on Mexico's highly indebted private sector that many of these Friedman disciples are now "taking exception" to this aspect of the "Friedman formula."

Secondly, the financial crisis which forced the large Alfa Group to go to the government for help shook the foundations of Monterrey. Alfa is the center of the city's private sector, the "rock of stability" looked to for direction by the other business groupings. Not only did Alfa lay off thousands of employees, thus calling into question the private sector's cultivated image of "guardians" of the city's population, but Alfa's new status as "hostage" to the "benevolence" of the distrusted government in Mexico City dispelled the Monterrey Group's aura of "invincibility."

Finally, many business leaders in Monterrey are genuinely perplexed by the hostile attitude toward Mexico, especially on trade matters, emanating from Washington. Traditionally, private-sector leaders in Monterrey argue that the tensions in U.S.-Mexico relations are the fault of Mexico City, and that Monterrey can be "insulated" from the effects of such tension because of the many friends the Group has north of the border. This attitude is now being questioned throughout the city.

It must also be noted that President López Portillo has significantly factionalized the Group, with forces typified by Alfa's Bernardo Garza Sada and Protexa's Humberto Lobo more open to cooperation with the government in Mexico City, while "hardliners" such as Cydsa's Andrés Marcelo Sada are adamant in maintaining the Group's virtual state of war with the central government.

The devaluation

This was the environment in Monterrey when the pressure for devaluation, fueled by well-organized capital flight from Mexico, escalated.

Extensive discussions with officials from many of the conglomerates in Monterrey revealed that, in fact, there was agreement less on the "desirability" of a devaluation of the peso, than on the "inevitability" of devaluation. There was *almost unanimous* opposition to the enactment of exchange controls in the country—the only measure that could have prevented the disastrous devaluation.

The Alfa Group was most opposed to a devaluation, for the simple reason that the firm is so heavily indebted in dollars that a devaluation would probably shut it down. Moreover, Alfa has a team desperately trying to forecast the likely trend of American interest rates, as its officials insist that the Volcker measures are the single biggest cause of the firm's continuing difficulties.

Yet Alfa officials were among those that cited the "inevitability" of devaluation. In fact, one gets the impression that Alfa is a firm in the proverbial "bunker," waiting for the next disaster to strike and refusing to take actions, such as proposing exchange controls, which could improve their situation.

This paralysis of the "moderates" in Monterrey left the field open to the "hardliners" led by Cydsa, who openly advocated devaluation. In fact, the day before the devaluation, the head of the National Confederation of Employers (Coparmex), José Luis Coindreau, forecast with uncanny accuracy what would occur in Mexico economically. Coindreau, who comes from Monterrey and was there when he made this announcement, said that Mexico had to choose between, on the one hand, continued 8 percent growth, higher debt, "unbearable" pressures for devaluation, higher inflation, all of which are "undesirable," and on the other, less economic growth, slower growth in employment, and greater devaluations of the peso. Coindreau also attacked "technocratic trilateralism, which puts forward technology as the route to a solution," repeating a formula from the infamous January "Atalaya" meeting of Mexican and European conspirators called to plan the destabilization of the Mexican government. Both Coindreau and Cydsa's Marcelo Sada were among the organizers of that meeting.

Refugee influx adds to Mexico's problem

by Timothy Rush

Mexico's southern border with Guatemala has become a war zone of the spreading Central American conflagration. The pressure of dealing with this situation—particularly the waves of refugees it is generating—is one of the gravest problems Mexico faces.

Last summer, the first large group of Guatemalans arrived on the Mexican border, some 3-4,000 of them. Mexico reviewed their cases and decided they did not qualify as refugees, and repatriated them to Guatemala.

Today, according to U.S. press reports, 2,000 Guatemalans are showing up at the border *every week*. And now, because of international pressures from human-rights groups, Mexico is finding it increasingly hard to return them. Some 120,000 refugees are currently estimated to be scattered around the southern part of Mexico, primarily from Guatemala and El Salvador.

The original border crossings last summer were in response to increased repression and isolated massacres carried out by Guatemalan army patrols in the overwhelmingly Indian region northwest of Guatemala City bordering Mexico's Chiapas state. In the course of the year, the mutually reinforcing activity of the army, of right-wing death squads, and the Jesuit-directed insurgency movement, led to the deaths of an estimated 13,500—equal to the death count in El Salvador.

Then in January, the army made a qualitative shift. Fully a third of the army was deployed in "pacification" sweeps through the Indian highlands. Entire villages were terrorized and in some cases large portions of the population massacred. U.S. press reports in late February carried eyewitness accounts of Guatemalan military helicopters strafing populated villages along the border, driving the inhabitants into Mexico to seek refuge.

These Indian areas are among the most conservative in Latin America. The scorched-earth policy being followed by the Guatemalan military *is the only policy that could drive the region into sympathy for or active participation in guerrilla activity.*

Why is the Guatemalan military deliberately creating insurgency? One answer is the streams of refugees pouring over the border into Mexico. Since Henry Kissinger threatened Mexico three years ago with the spillover effect of the Central American bloodbath, in order to abort Mexico's drive to become a modern, industrialized nation, complicit factions in the Guatemalan military have set about to do just that. At this point scenarios must be taken seriously which point to the possibility of Guatemalan advanced-design jets bombing Mexico's oil fields and hydroelectric dams, almost all concentrated a few hundred kilometers over the border in southern Mexico.

The other answer is a specific policy of depopulation, epitomized by the statements and actions of Guatemala's most notorious butcher, army commander Benedicto Lucas García. Benedicto, the brother of President Romeo Lucas García, has been identified by knowledgeable observers as an asset of United Brands Company in the region. He received his early training with OAS fascist terrorists in Algeria. Perhaps because of the large flow of Israeli weapons into the Guatemalan army, he views "Israel as an example to our soldiers."

Benedicto Lucas García argues simply that the population itself is the enemy. The core unit of the guerrilla forces is the "nuclear family," he explained to correspondents in January. "The father does the fighting, the mother provides logistical support, and the children make the bombs." The army's strategy, therefore, is mass extermination and mass relocation.

The López Portillo plan

The López Portillo proposal presented before a mass rally in Managua, addressed specifically "three knots of conflict," El Salvador, Nicaragua, and U.S.-Cuba relations, in an impassioned, last-minute appeal for all parties to avoid what he termed a "continental convulsion." Guatemala's intimate connection to the events further south was clearly on his mind.

Speaking to "this people, the region . . . and my good friends in the United States," he shed any hesitance about direct Mexican involvement in arranging what he called "separate but converging" channels of negotiation: "we emphatically offer the possibility of Mexico's undertaking a more active role in the region." The Mexican President promised Washington "Mexico's guarantee" that no vital U.S. interests would be harmed by Mexican-backed negotiations for an end to the fighting in El Salvador. "Between elections without negotiations and negotiations without elections," he stated, "there no doubt exists a compromise."

On Nicaragua, López Portillo offered a three-point program: 1) that the U.S. cease all threats and use of force directed against the Sandinista government; 2) that Nicaragua begin reductions in its own arms build-up at the same time the U.S. withdraws support for invasion forces of Nicaraguan exiles being trained in Florida and Honduras; and 3) that a "system of non-aggression pacts" be set up between Nicaragua, the U.S., Honduras, and Costa Rica.

Probe International: the spooks who launched the devaluation campaign

by Timothy Rush

President José López Portillo, in his address to the Fifth Meeting of the Republic, Feb. 5, 1982, in Guadalajara, Jalisco, denounced "hidden foreign interests" who "are coordinating [efforts] to force a change in our monetary policies." He was referring to rumor campaigns and international press manipulation designed to force a sharp devaluation of the Mexican peso and foster a withdrawal of financing and investment from Mexico. On a previous occasion, the President referred to these campaigns as "information terrorism."

The following is a fact sheet, prepared by *EIR* on one of the dirtiest components of the foreign operations denounced by President López Portillo. This is the U.S.-based private intelligence unit called Probe International, headed by Benjamin Weiner.

Benjamin Weiner called particular attention to his activities one week before López Portillo's speech by notifying a series of Connecticut newspapers that Mexico City Mayor Carlos Hank González owned a million-dollar home in New Canaan, Connecticut. Carlos Hank González's connections to dubious business dealings are a matter of record, and lead into the Italian-based masterminds of flight capital and drug trafficking arrested in the Propaganda-2 (P-2) Freemasonic lodge investigations. But Weiner put a different twist on the story in his press release, asking if Hank González's move did not mean that Mexico City had become "untenable and potentially dangerous. Is there an implicit warning or signal here for the U.S. business community in Mexico?"

Through Weiner's direct efforts, the story appeared on page one in the *Hartford Courant* Feb. 3. Weiner is prominently cited in the story, stating that Hank's Connecticut home "is politically important. When you have the mayor of what may be the world's largest city raising his family in another nation, you wonder—is this some indication of serious political or social problems in the home country?" The article proceeds to describe Hank González as a "close political ally of President José López Portillo," a slanderous effort to implicate the President—who is widely known to be an enemy of the mayor—in Hank González's dealings.

In coordination with Weiner, the *Hartford Courant* put the story on the national wire of its parent company, the Times-Mirror Corporation of Los Angeles. From there it was picked up and printed on page one of the *Miami Herald,* also Feb. 3, 1982, a location guaranteed to make it common knowledge throughout the *Herald*'s extensive Latin American readership.

Probe International is a private intelligence unit whose public activities involve providing risk-analysis assessments to multinational corporations. It was founded in 1970 by **Benjamin Weiner.**

In addition to consulting for multinational corporations, Probe International specializes in sponsoring up to a half-dozen exclusive seminars for business executives each year. Some of the titles of these conferences, barred to the press, have been "Political Realities and U.S. Business Abroad"; "Eurocommunism: The Impact on France, Italy, Spain;" "U.S. Business and the Middle East"; "Political Violence Abroad"; and "Religion, Politics and U.S. Business Abroad." Weiner's clients reportedly include several major oil companies, Rockwell International, McGraw Edison, and Foremost-McKesson, Incorporated.

Who is Benjamin Weiner?

Benjamin Weiner, president of Probe International, began his career with the U.S. Foreign Service in 1956. He served in Penang, Malaysia, 1956-58, working closely with British officials during the transition to Malaysian independence from status as a Crown colony (1957). He was assigned to Berne, Switzerland, 1969-to-71, and became special assistant to the Office of Deputy Undersecretary of State for Administration, 1963-66. In 1966, he left formal affiliation with the State Department.

In addition to the more formal programs of Probe International, Weiner issues special memos to selected clients and contacts on "what he calls his ideas and thoughts on world events," according to a Feb. 7, 1982 profile in the *Hartford Courant.* These memos also reach a group of press contacts whom he has cultivated over a number of years. **Neil Ulman,** foreign editor of the *Wall Street Journal,* states that he has worked with Weiner since the founding of Probe. Sources indicate a possible connection with the Times-Mirror Corporation, owner of the *Los Angeles Times* and *Hartford Courant.*

Weiner is known as a "spook's spook." Because of his own past connections to U.S. intelligence, and ongoing close association with former Central Intelligence Agency director **William E. Colby,** Weiner is often believed to be an operative of a faction of the CIA. *Barron's* magazine noted in 1977: "Probe's research is in some respects more proprietary than the Central Intelligence Agency's."

However, Weiner's own associations and loyalties place him much closer to British intelligence and that faction of U.S. intelligence which functions as an adjunct of British intelligence.

Probe International's specialty is supplying scare stories regarding targeted regions of the world. *Barron's* notes that Weiner is "little schooled in economics," but "regularly harrows clients with predictions that the world is growing more violent, more fragmented and generally less hospitable to capital." In Weiner's own words, "It's a gloomy picture we get across."

The pool of speakers whom Weiner regularly features at his conferences, and some members of his board of advisers, are among the top-level controllers of the political unrest which he predicts. Particularly noteworthy in this regard are former U.S. Attorney General **Ramsey Clark** and British intelligence's **Lord Caradon.**

Weiner's first area of specialty when he founded Probe International was U.S.-China relations. In 1973, he began intense work on Quebec separatism. Starting in 1976, his chief focus shifted to Middle East political instability, combined in recent years with work on the Balkans. In 1979, he began advising clients on the importance of Latin American "liberation theology" as a movement capable of reproducing the revolutionary effects of Islamic fundamentalism on Iran.

Dovetailing with one of the densest areas of British intelligence activity, Weiner has made the relationship of politics and religious movements a specialty of Probe's intelligence. At the June 1979 Probe seminar entitled "Religion, politics and U.S. business abroad," one of the panels was specifically dedicated to "Industrialization and religious activism. How the frustrations of industrialization fuel fundamentalist movements."

Weiner maintains an emphasis on global terrorism. One of his closest associates is **J. Bowyer Bell,** formerly a senior research associate, Institute of War and Peace Studies, Columbia University. Bell is one of a group of experts on terrorism who misinform corporate officers and government officials that terrorism is a "sociological phenomenon" and therefore cannot be eliminated. Their joint philosophy on terrorism was summed up by Bell: "In the end there is no solution."

Bell is on the Board of Advisers of Probe International, whose other members include:

- **J. Bowyer Bell.**
- **Lord Caradon** (Hugh Foot), viewed by specialists as among the most powerful British intelligence figures dealing with the Middle East. Caradon served with the British Colonial Office in Palestine, 1929-42, was Colonial Secretary in Cyprus, 1943-45; and governor and commander-in-chief, Cyprus, 1957-60. He was British ambassador to the United Nations and Minister of State for Foreign and Commonwealth Affairs, 1964-70, during which time he authored U.N. Resolution #242.

Together with his brother, Labour Party leader Michael Foot, Caradon helps run the Socialist International component of British intelligence operations, coordinated with the Bertrand Russell Peace Foundation (Russell Tribunal). Caradon is spokesman for the Center for the Advancement of Arab-British Understanding (CAABU); a prime mover in Islam and the West, the liaison agency between the Club of Rome and the Muslim Brotherhood.

Lord Caradon served as **Colonial Secretary to Jamaica** from 1945-47, the period that the New York office of the British wartime Special Operations Executive (SOE), headed by **Sir William Stephenson,** redeployed as a unit under private business cover, to establish the Tryall Compound at Montego Bay. Tryall was the official address for Stephenson's original corporate front established in 1946, the World Commerce Corporation. The World Commerce Corporation then merged into the larger complex of corporations established by SOE's Stephenson and the Canadian who ran the FBI's Division Five during World War II, Louis Mortimer Bloomfield: the Centro Mondiale Commerciale of Italy and the Permanent Industrial Expositions **(Permindex),** founded in 1957. Permindex's French office was shut down by French security police when it was implicated in repeated assassination attempts on President de Gaulle; it was similarly at the center of New Orleans District Attorney James Garrison's investigation into the Kennedy assassination. At least one authority places a key planning session for the Kennedy assassination at the Tryall Compound.

After helping install Stephenson on Jamaica, 1945-47, Lord Caradon returned to the island as Captain-General and Governor-in-chief from 1951-57, the years leading to the formal incorporation of Permindex as the "Murder, Inc." wing of the SOE apparatus.

In the late 1960s, Lord Caradon was a founding member of Gen. William Draper's **Draper Fund** (now **Population Crisis Committee**). The Draper Fund/Population Crisis Committee is a core neo-Malthusian planning agency, connected to NATO and the Club of Rome, dedicated to genocide in the Third World under the rubric of "reducing population pressures." Caradon is currently head of the International Board of the **Population Institute.** The Population Institute funded the writing and production of soap operas in Mexico, in collaboration with Mexico's **Televisa,** which applied sophisticated pychological conditioning techniques to create sentiment for population reduction among the Mexican population. The Population Institute/Televisa project is touted by the Draper circles as the model generally for brainwashing in the Third World. Caradon spoke at at least five major Probe International seminars in the 1977-80 period.

• **L. Dean Brown.** U.S. Ambassador to Jordan during the period of the "Black September" massacre of PLO cadre; he was later appointed President Ford's special envoy to mediate the 1975 Lebanon crisis. Known in intelligence circles as a personal protégé of Lord Caradon, Brown currently heads the Middle East Institute in Washington, D.C., which maintains close ties to British intelligence. The Middle East Institute cosponsored with Probe the 1979 seminar, "Religion, politics and U.S. business abroad." Brown was a speaker at Probe seminars on a regular basis starting in 1977.

• **William E. Colby** (left Probe International board of advisers in 1981). Head of the CIA, 1973-76; Colby currently heads a Washington, D.C.-based risk analysis office, International Business Government Counsellors, Inc. He played a particularly significant role in directing U.S. involvement in Vietnam. Colby was first secretary of the U.S. Saigon embassy, 1959-62; CIA chief, Far Eastern division, 1962-67; and director of civilian operations and rural development support, Saigon, 1968-71. It was during this last period that the **strategic hamlet** concentration camp policy reached its height.

• **Lucius D. Battle.** Chairman of the Johns Hopkins Foreign Policy Institute. Battle was a former ambassador to Egypt, and head of **Islam and the Year 2000 Project,** involving top-level **Muslim Brotherhood** networks.

• **Otto Dax.** Hungarian born, recently retired chief of U.S. operations for West Germany's **Siemens Corporation.** Siemens, which operates a major private intelligence capability, is known within European industrialist circles for operations against nuclear energy from within the nuclear industry. Dax is in close contact with **Armin Mohler,** the director of the **Siemens Foundation.** Mohler, who served in the Nazi SS, today remains an unabashed apologist for fascist programs and ideology.

• **Elmo R. Zumwalt, Jr.** Former chief of U.S. naval operations. He is a leading hawk linked with **Committee for the Free World** circles. In the Navy, Zumwalt led efforts to destroy the traditionalist wing of the service, and introduce "group dynamics" leadership methods based on the work of the Tavistock Institute, and the psychological warfare division of British intelligence.

• **Edmund A. Gullion.** Dean Emeritus of the Fletcher School of Law and Diplomacy at Tufts Univeristy, Somerville, Massachusetts.

• **Benjamin O. Davis, Jr.** Retired Air Force general.

Case study: Mexico

What Iran and the Middle East were to Probe International five years ago, Mexico is today. Callers to Probe headquarters today are told: *"We no longer do Middle East work. We are concentrating on Latin America. That's all we do these days."*

The transition period was 1979-80, when Probe began to warn clients that "Latin America is next" for the Iran treatment. This was the message of Probe's June 1979 seminar, "Religion, politics and U.S. business abroad." The 12 agenda items were roughly evenly divided between the role of Muslim fundamentalism in the Middle East and radical church movements in Latin America, both the Jesuit-run Theology of Liberation movement and the co-thinking Protestant operations linked to the World Council of Churches.

Those meeting behind closed doors included, from the Middle East side of Weiner's work, **Lord Caradon, William Bijlefeld, L. Dean Brown, Isma'il al Faruqi,** and **Colin W. Williams.** From the Latin American side: **Keith Bridston,** executive director, U.S. Conference for the World Council of Churches; **Father Joséph A. O'Hare, S.J.,** editor-in-chief, *America* (official publication of the Jesuit order in the United States); and **Philip Scharper,** editor-in-chief, Orbis Books, Maryknoll Fathers. Spanning the two groups is Ramsey Clark.

In an early 1980 interview with Weiner, the *New York Post* (Jan. 8, 1980) promoted Weiner as the man who "accurately forecast" both the Iranian Revolution and the Soviet occupation of Afghanistan. "Now he's telling his corporate clients that a parallel revolutionary situation is developing within the Catholic hierarchy in certain Latin American countries."

Mexico is without a doubt the primary focus of Weiner's current work. A risk analyst collaborating with Weiner's seminar program states that "Weiner's favorite theme is that Mexico is down the tubes." The refrain: "Mexico is the new Iran."

At a late October 1981 Probe seminar on Mexico held in Atlanta, "a checklist submitted by Mr. Weiner illustrated some remarkable similarities between Iran in 1976 and Mexico in 1981," wrote the *Journal of Commerce* (Nov. 2, 1981). "Although Mexico does not have a large number of visibly alienated students nor has it spent huge sums on military expenditures, at least not yet, as did Iran, Mr. Weiner noted that the revolution swept through Iran even though it did not suffer from high unemployment or trade deficits. Mexico does, he said. . . . The major underlying cause behind these upheavals are separatism, religion and food. In the case of Mexico, its greatest sore point is the country's inability to feed itself."

This is the context for Weiner's issuance of a press release on the Connecticut home of Carlos Hank González.

The Mexico activities of William Colby and Ramsey Clark, both long-time Weiner collaborators, indicate strong affinities with Weiner's work.

Colby is a fanatic population-reduction advocate whose special target is Mexico. In an August 1979 article in *San Diego Magazine,* Colby wrote:

"An intelligence report which clearly indicated an invading force of many millions immediately off our shores, threatening turmoil and disruption of the lives of our citizens and physical destruction of our urban areas, would . . . cause immediate emergency action by our national leadership. In fact, all of these threats stand starkly before us, but most Americans have scarcely noticed the threat. . . . The reason for our lack of interest is that the forces off our shores are economic and social rather than military. The population of Mexico today is about 65 million [and] is confidently predicted to at least double by the end of the century."

Colby has stated that it would be futile to attempt to seal the U.S.-Mexico border because "there aren't enough bullets to go around."

Starting in early 1980, Colby discussed with Weiner an in-depth study on the U.S.-Mexico border and immigration flows. Weiner reported to interviewers at the time that the study "will predict what will happen if the United States decides to go ahead with shutting down the border."

Starting in the fall of 1981, according to a *New York Times* profile (Oct. 29, 1981), Colby's principal advice to clients on Mexico was: *"Expect a devaluation of Mexico's currency before next year's general elections."*

Ramsey Clark's shift from Iran to Mexico was simultaneous with Weiner's, in the winter of 1979-80. On Feb. 7, 1980, he co-chaired a panel of the PEN International writers club in New York convened to examine human rights violations in Latin America. A theme of the conference was that Mexican human rights violations were parallel to those of the Shah in Iran.

In an interview shortly thereafter, Clark stated that "the first thing that comes to my mind in thinking about Mexico is the example of Iran. Iran is the perfect case study on how oil revenues caused a disaster by pushing industrialization. . . . What has to be questioned is the desirability of industrial expansion, especially in a country with the cultural tradition of Mexico. The Mexico government is in fact highly aristocratic. And once you have that, and once you add rapid urbanization, popular resentment and chaos begin, and you have a revolution."

Clark is currently commuting between the United States, Central America, and Mexico, in public support of the Jesuit and Socialist International-directed forces in the Central American bloodbath.

Wharton School Mexico must halt

by Kathy Burdman

"In Mexico City, the growth of the city and the population altogether is mushrooming out of control. . . . We must forcibly introduce contraction, reverse the process where the population is growing out of bounds.

"It's already 14 million, which is ridiculous for any city! Why, if it keeps growing at this rate, it's going to be over 40 million by the year 2000. This city can't support even 14 million, let alone twice that number. It's an impending population catastrophe."

Is this the voice of Dr. Aurelio Peccei of the Club of Rome? Or is it some radical Mexican leftist?

No, this is the quiet voice of Dr. Russell Ackoff, Professor of Social Systems Science and Director Emeritus of the Busch Center at the Wharton School of Finance and Commerce of the University of Pennsylvania. The Wharton School, the world's largest business school with nearly 4,000 students and 200 faculty, has trained many of the professional managers running the world economy today, from the United Nations and the International Monetary Fund to the U.S. government, and major corporations. It has also trained a great many managers of Mexican private corporations, and some in government.

But, contrary to what is expected of a business school, Wharton is training managers to *overthrow* the current Western system of capitalist-based industrial growth and technological progress, and implement a zero-growth new world order based on the policies of Parson Malthus.

Wharton's Busch center, headed by Dr. Ackoff, and the Wharton Econometric Model, run by Nobel Laureate Dr. Lawrence Klein, sell their advice in Mexico as "sound business practice." In fact, their economics and computer-based econometrics sell only one thing: policies of economic contraction deliberately designed to kill upwards of 20 million Mexicans over the next decade.

The quiet Dr. Ackoff, in an interview with a European journalist below, for example, details his plan to ship 7 million people out of Mexico City, and prevent another 26 million from entering or being born in the city during the next 18 years. This is to be done by first "forcibly" removing all industry from the city, shutting down factories, and creating mass unemployment. Secondly, Ackoff advises dismantling the Mexican federal government

operatives say development

itself, which would alone remove 45 percent of the city's population.

Ackoff's urban plan for Mexico's capital is called the "International City Project." It was commissioned by Carlos Morán, Director General of the Mexican Ministry of Housing and Public Works SAHOP (Secretaría de Asentamientos Humanos y Obras Públicas) in 1978, and submitted as a formal government plan to SAHOP, to the Mayor of Mexico City, Hank González, and to President López Portillo's office.

Just who is behind Wharton, and how did it get into a position in Mexico to even hint at such a proposal?

Mexico: the next Iran?

The Wharton School is the major outpost in North America for the Tavistock Institute in England, the leading psychological warfare bureau for the British oligarchy and heir to the policies of Parson Malthus. Since 1970, key Wharton centers have been personally run by Dr. Eric Trist, Knight Order of the British Empire, who was chairman of Tavistock for 15 years before moving to Wharton in Philadelphia.

Trist, now retired Chairman Emeritus of Wharton's Management and Behavioral Sciences Center, was one of the brains behind the zero-growth population-control movement from the early 1950s. He has spent his career developing training programs to sell Malthusian policies to government and business managers, and helped train many of the founders of the Club of Rome.

In particular Trist insisted that "excess" population growth in the Third World would be a major source of "world tension" by 1960. Trist and Ackoff identified populous Third World countries such as Iran and Mexico for devastation, and Ackoff was actually deployed to Iran during 1977-79 to begin training Muslim fundamentalist groups in what eventually became the ideology of Ayatollah Khomeini's fanaticism. The major economic accomplishment of Khomeini's Iran has been to empty the city of Teheran of industry, drastically reduce its population, and throw Iran's economy back to the 14th century.

Mexico has been targeted by Wharton for the Iran treatment for some time, starting with the innocuous-seeming entry of Nobel Laureate Dr. Lawrence Klein into the country with his computer econometric model, "Diemex," during the early 1970s. It was Klein and computer econometrics that began the first "soft" presentation of zero-growth ideology in Mexico. The Diemex model was "cooked" to purport to prove the insane idea that high-growth policies would inevitably harm Mexico by causing inflation and raising income disparities. (See *EIR*, Feb. 10, 1981.)

And in 1976 Dr. Ackoff began sending into Mexico a series of secret planning documents which called for a radical reorganization of Mexican society. The first paper, "Some Observations and Reflections on Mexican Development" dated Nov. 1, 1976, "created such a stir that the Mexican government revoked my entry rights, for a time," Ackoff told a reporter recently.

In it, the racialist Ackoff announced that Mexico should stop importing Western machinery to develop its economy, and concentrate instead on "cultural development," especially use of Indian and other backward art and music. "Development is not a condition defined by wealth," he wrote, "It is a condition defined by what people can do with whatever they have." This is simply Ayatollah fundamentalism, in Mexican dress.

In a recent interview, not excerpted below, Ackoff not only repeated this call for Iran-style "cultural" development, but admitted he was calling for a "primitive communist state" in Mexico. "Capitalism has never worked in the Third World, you know," he said. "You either get mass poverty, or violence." He advocated establishment of communism in Mexico, "which can better mobilize the national culture and will."

Ackoff has also had much experience training terrorists. It was he who in 1967 created the "Mantua Project" in Philadelphia, a black ghetto "cultural program" which produced the "MOVE" cult now responsible for the murder of several Philadelphia policemen. One of Ackoff's graduate students who worked on the Mantua Project, a Mexican named Miguel Szekely, is now replicating the experiment in Mexican villages in the Western state of Nayarit, Ackoff stated. In his 1976 paper, Ackoff called for "more organized and coordinated peasant agitation" against the government.

After 15 years of pouring such ideas into Mexico, Ackoff and Lawrence Klein now claim influence. Klein brags he is bringing the entire economic planner elite of the incoming De la Madrid administration up to Wharton for training in economic modeling and planning early this year. He claims to have trained many of these men, led by one Rogelio Montemayor, a Wharton graduate in computer econometrics.

Klein revealed that he has written a new "policy-planning" computer model to "run" the Diemex model, which will enforce zero growth as a policy in Mexico. This new "optimal control" model can even be used to enforce policies of population reduction, he states.

Wharton's Russell Ackoff demands decentralization and contraction

The following interview with Dr. Russell Ackoff, Chairman Emeritus of the Wharton School's Busch Center for Social Systems Science, was conducted on Dec. 12, 1981. Dr. Ackoff founded the Busch Center and, having worked at the Tavistock Institute in England for over a decade, serves as a member of the editorial board of Human Relations, *Tavistock's magazine.*

Q: You directed a coordinated project for Mexico City.
A: Yes, Mexico City was deeply concerned with the deteriorating quality of life, extreme congestion, and it all stemmed from excess population. They simply could not maintain such a population on their limited and shrinking resources, such as the depletion of the water supply. The major problem was how to stop the growth of the city and the population altogether, which was mushrooming out of control, and to begin to induce a real *contraction* of the city and the population there.

The problem in Mexico City was much worse than the one we faced in Philadelphia. Philadelphia is already becoming a post-industrial city. It is already contracting nicely by itself, it is already shrinking. In Mexico City we had the opposite problem: we had to forcibly induce contraction in a situation where the population is growing out of bounds. It's already 14 million, which is ridiculous for any city, and it won't stop. Why, if it keeps growing at this rate it's going to be over 35 to 40 million by the year 2000. Now this city can't even support 14 million, let alone twice that number. This is an impending population catastrophe.

Q: How many people can the city support?
A: It ought to come down to half of that at least, no more than 7 million. That's still a lot, of course but I suppose the infrastructure can be stretched to handle it.

Q: What did you propose to do to induce contraction of the city?
A: We made a number of proposals. First and foremost, we proposed to move the federal government out of the city altogether. That would get rid of a lot of population right there; about 45 percent of the city is employed by the federal government. The government also ought to be dispersed for *political* reasons.

Q: You mean this should be done to reduce the power of the central state?
A: Certainly, the city is too much of a center and the federal government responds too much to the city as a political power base, which in turn gives the federal government too much power. The government should be dispersed to get a more equitable distribution of wealth throughout Mexico, which would decentralize the power base of the Federal government, and force it to respond to the needs of the local areas.

The federal government concentrates on national policy too much. It needs to spend its resources on the regions. So, for example, we proposed they find the worst state with the most backward educational system, and disperse the Ministry of Education out there. Find the most backward state agriculturally, and decentralize the Ministry of Agriculture there.

Q: You mean, take the central government apart?
A: Certainly. Put the ministries out where the problems are, force them to redistribute the wealth and power. Then the other major proposal we made was to prohibit all further industrial development in Mexico City whatsoever, to forbid any new factories from being built, and instead to reverse this and to force industry already there to move out of the city and disperse itself. The Banco de Mexico [central bank] has lead the charge, they've already moved out of the city, they're aware of our advice.

Q: You say "force" industry out? How would this be done?
A: First thing to be done is to make it unprofitable for industry to be in the city, using the free market. For example, if Mexico were to charge the true cost of infrastructure to industry, which is heavily subsidized by the state, they couldn't afford to stay at all. Charge them the true cost of water, of power, of transport. That would mean doubling or tripling, at least, the prices of all these services.

Then we give tax breaks on land costs and to people who move out of the city to build factories.

Third, we move education and culture out of the city. The problem is that Mexico City is the educational and cultural center, where people and companies like to be because there is a high quality of life. We have to move education and culture out of the city, forget the city and develop it elsewhere. We have to reverse the process of education and culture, it's too centralized.

We wrote the plan and submitted it to the Minister of SAHOP and President Portillo's office, as well as to the mayor, Hank Gómez.

Q: Don't you mean Hank González?
A: As I recall, his name was Gómez. I directed the study. Now it's in the hands of SAHOP and the mayor.

Q: What else did you propose?
A: We also proposed decentralizing the Mexico City government, moving city agencies into sectors and neighborhoods, and decentralization of services.

Then we proposed not to build the huge transportation plan which the mayor had to extend the subways and to build huge new streets and highways. We told him not to build them, that it would cause a terrible increase in congestion which was already intolerable. Building more transportation just brings more people into the city, exactly the wrong thing. If, for example, there were no airplanes from New York to Paris, no one would ever hardly go to Paris.

But Hank went ahead and built it anyway, he said he liked our ideas, but he was already committed to the politicos.

But now they're beginning to see we were right, since things have only gotten worse and the subway system doesn't even work that well.

Q: How has your plan been accepted, otherwise?
A: The results are mixed, and slow. Hank is very supportive and he has a good deal of influence in the national government. He's a spokesman for these ideas in the President's cabinet. He likes most of it, but he feels that some of our ideas are simply politically unfeasible.

Q: What is the status of your project now?
A: Well, Mexicans are finally beginning to realize that there are limits to growth, I hope, but it's too slow.

Q: What more needs to happen to change government thinking?
A: Probably a catastrophe. The Mexican government is far too stable. They refuse to introduce major change, and as a result they're going to get a social explosion. There is going to be a social disaster of some horrible magnitude from the terrible maldistribution of wealth in Mexico.

Q: Do you mean similar to Iran?
A: Mexico is different, but the population pressures building up in the poorer regions will converge on the government somehow. They have one more Presidency to stop it. We'll have to see what the next President does.

A: "We wrote the plan and submitted it to the mayor [of Mexico City], Hank Gomez."

Q: Don't you mean Hank Gonzalez?

A: As I recall, his name was Gomez. I directed the study, Hank is very supportive and he has a good deal of influence in the national government.

—From an interview with
Dr. Russell Ackoff of the
Wharton School

Excerpts from a journalist's Jan. 30 interview with Dr. Ackoff:

Q: Is there a way to use culture to develop Mexico and the LDCs generally?
A: Yes, if you mean native culture. That's the highest form of culture there is. What do they need Western culture for? Everybody sings and plays music in Mexico, and paints and does pottery and woodwork. The culture's pervaded by art. It's only when you industrialize that you start to kill art. . . . What good would it do to expose them to Picasso? Mexico's got Rivera, Siqueiros, Covarrubias, what the hell do they need Picasso for?

Q: What about Leonardo?
A: Why do they need Leonardo? They've got some of the greatest architecture, the greatest muralists, marvelous musicians, unbelievable arts and crafts all over the

place, why in the world, of all the things they need from the developed world, would they go get something they've got plenty of, and usually of a superior quality?

Q: Your concept of cultural change as opposed to sheer, brute growth seems to me to be a fundamental redefinition of the same problems formulated in *Limits to Growth* and the other early works of the Club of Rome.
A: Yes, we make a fundamental distinction between develoment and growth. They're not the same thing and they're not even necessarily connected. You can grow without development, and you can develop without growth. We use the concept of development, one of the most important aspects of which is culture. . . .

The mad efforts of many developing countries, among which is Mexico, to acquire the latest technology and use it the way we do, is a *technological obstruction.* They don't need the technology, they don't know how to use it, but they spend huge amounts on getting it. I don't know of any country in the world that misuses computers and has more of them than Mexico . . . terrible misuse of resources and people. And what they don't have is enough appropriate technology. They have a lot of inappropriate technology. . . .

Mexico for example is tremendously developed aesthetically. India—incredible poverty, incredible ignorance. But unbelievable beauty. We look at the undeveloped natives and we usually say, "What's the point of developing them, they're happy!" They have quite a good quality of life, and a terrible standard of living. But in our country we said that the only way to better life is to increase the standard of living. But what we've begun to learn—and this is the point of books like *Small Is Beautiful* and to a certain extent implied by Forrester [Club of Rome]. There is obviously a point beyond which increased standard of living begins to destroy quality of life.

INTERVIEW

Klein intends to depopulate Mexico

Excerpts follow from a reporter's Jan. 22 interview with Nobel laureate Lawrence Klein, father of the Wharton School's econometric models.

Q: How does someone like the government of Mexico take what you do and use it within the overall futures planning capability, like what Russ Ackoff is trying in Mexico?
A: I'll tell you what we're trying to do in Mexico. Our original project in Mexico started in 1969, we've been there over 12 years, and we have over 100 users.

Q: This is Diemex you're talking about?
A: Dee-Ah-Mex, yes. It originally had only a short-term forecast, but then we made 10-year projections with the emphasis on short-term policy. Now, there are two things in Mexico that we've been considering. One is that we trained a team from Pemex, who built an energy-sector model for Mexico; we trained them here and then they go back and do their own thing. Pemex trainees were here, and we helped them put up an energy-sector model.

And now the new government, incoming De la Madrid, has as his chief economic adviser one of our close students, Rogelio Montemayor, and we're in close touch with them, and there is a tentative project now to have a team come here from Mexico and go over our techniques of applying methods of optimal-control engineering.

Q: This is the for the whole government, or just Pemex?
A: No, no, this is for the whole government. The Pemex thing is done; they keep it running. Montemayor is an adviser to De la Madrid in his present ministry, and when De la Madrid becomes president, next year, he'll probably have Montemayor closely advising him. We've been in touch with them and I think a team is coming here soon to study applicational techniques of optimal controls.

The technique is to establish a super-function called a "welfare function" or a "gain function" which will have targets in it: growth targets, inflation targets, balance of payments targets, debt targets, and so on. We will then minimize the distance between actual economic performances generated by our model [Diemex] and the target values [i.e. the new policy judgements made by the super-model] over the path of the next 10 years or so. We want to have an intensive investigation here of these optimality problems, in connection with our Mexican model [Diemex] in training the planning team of the next government.

You see, an optimal control model—here is the model: F (Y,X,Z,O) is Diemex; Loss (Y-Z*, Z-Z*) is the optimal-control model. These F(Y)s are targets for growth or whatever; these F(X)s are other variables in the system, things that are part of the system but not yet current. These F(Z)s are instruments of policy like oil sales, taxes, monetary policy, etc; and these F(O)s are coefficients.

Now we set up a loss function Y-Y*, Z-Z* and these are the optimal settings of the growth targets and the instruments. And these are to be a minimum [i.e., they are to minimize the divergence between the Ys such as GNP growth they want, and the Y* which Diemex will actually predict; they seek to minimize the difference Y-Y*, Z-Z*]. We've designed Diemex for this setup.

We then ask the [Mexican] government to state their preferences. How badly they want to avoid inflation, how much they want to achieve growth—their trade-off between growth and inflation [i.e., Klein sets up a series of "critical choices," of two bad policies, "low growth and low inflation" versus "high growth and high inflation"].

Q: How do they know what they have to trade off? So much unemployment will give them so much dis-inflation?
A: Well, they have to tell us something about the intensity of their feeling for wanting to hold down prices at the same time, knowing they can't do both. Y-Y* is symbolic of lots of choices.

Q: So if Y(1)-Y(1)* were growth, and Y(2)-Y(2)* were inflation, then they would have to say "We want our delta [divergence] for the first one to vary a lot, [i.e., let the growth fall if it has to] but we really want inflation down, we want Y2 to have very small divergence?
A: Yes, exactly—they must give us weights. And a guy like Montemayor and his associates will find that a meaningful problem and can give us that.

So then what we're going to do is to train them on computer techniques for handling these problems. First, for setting up the Diemex model in this mode, then for carrying out the optimization. Now, this has already been done for dissertations here; we have one done by Oscar Ruffant. He studied Mexico here, he is at the Interamerican Development Bank now.

Q: So then after you've trained this group, you're going to have the equivalent of [in the United States] when [Budget Director] Stockman and [Council of Economic Advisers head] Murray Weidenbaum sit down together?
A: Yes.

Q: And they will use Diemex and this second thing as a government model?
A: Probably. You see, in all the Latin countries, they have plans and they talk. There's often a gap.

Q: What will it mean for growth in Mexico?
A: My guess is that in the end they will probably recommend some policies that will be rather conservative, that won't say "Go hell for broke to grow." Because it would generate big inflation and balance-of-payments difficulties and probably social disturbances. I've often said, in a very casual sense in interviews in Mexico, that they should avoid the Iranian kind of development.

They can't say, "Now we have a lot of oil money, we're going to eliminate poverty in Mexico, and make everybody well off;" then they're going to generate a very big inflation. They're going to generate such a big social transformation particularly on income distribution, that they're going to get a lot of instability.

Q: What about the population problem?
A: Well, there are two possibilities. One is that we just try and predict what the population path would be, and the other is we'd try to suggest to authorities about ways of achieving population limitation.

Q: I think with a model like this, you could make a very strong case for a radical change in the population policies in some of these countries.
A: Oh yes, that's not always easy. . . .

Q: That's the beauty of this, doesn't it [population] fall in like any other factor when you have something like this?
A: Yeah. . . . Yes, well, the Diemex model now does not have a big demographic component. But when we get into this kind of planning, that would be discovered to be an item of high priority, to introduce a demographic module into the system.

Q: Do you have any idea of an optimum population. . . .
A: Oh, yes. I think we'd like to shave a point off the growth rate. I think it's been growing at 3 percent, we'd get 3 percent down to 2 percent. That's just a guess.

Q: You said the second part is make some recommendations how . . . presumably birth control won't be enough.
A: Yes, broad things like education and letting women in the labor force . . . that cuts down childbearing.

EIR conference bursts intelligence myths

by Donald Baier

A two-day conference in Washington, D.C. Feb. 17-18 sponsored by the *Executive Intelligence Review,* laid waste to some of the most cherished myths of the U.S. capital's official circles. Titled "Strategic Perspectives for 1982," and featuring presentations by *EIR* founder and contributing editor Lyndon H. LaRouche, Jr., the conference began by thoroughly discrediting the view frequently articulated by Zbigniew Brzezinski and reiterated by Secretary of State Alexander Haig: "We're dealing with an historic erosion of the Marxist-Leninist empire established by the Soviet Union."

Not only is the Soviet Union not falling apart, said LaRouche and his associates, but the Warsaw Pact nations are for better situated militarily and economically than the United States to respond to a spring-summer period of crisis that promises to be the most dangerous in the 20th century.

Fusion Energy Foundation Research Director Uwe Parpart and *EIR* Soviet Affairs Editor Rachel Douglas provided detailed documentary proof that the U.S.S.R. is outproducing the United States in such essential categories of a modern industrial economy as steel and machine tools, and widening a nearly 2 to 1 advantage in educating scientists and engineers. Moreover, developments in Poland had forced the Russian leadership toward correcting its past errors in economic management of the Liberman "decentralization" variety.

Illustrating with maps and charts the scope of the Soviet Union's ambitious Siberian development program and the six natural-gas pipelines which will supply new energy to the entire European continent, Rachel Douglas reported that Soviet President Leonid Brezhnev had already ordered the military-scientific sector of the Soviet economy, the grouping most committed to Siberian-style injections of high technology and massive infrastructural development, to take greater responsibility for improving the Soviet economy.

Parpart also revealed that the decline in Soviet productivity during the past five years, which Washington analysts are gloating over, has been due first of all to a sharp increase in Soviet military spending, to the level of approximately $95 billion, or 50 percent higher than present U.S. Defense Intelligence Agency estimates. Otherwise, said Parpart, the decline in Soviet economic performance is mainly due to the effect of worldwide depression, and secondarily to wholly correctable management failure. Those who see the Soviet people as unwilling to make the sacrifices associated with the pressures of an arms race and susceptible to being "spent into submission" by the United States have, he said, forgotten the World War II lessons of Leningrad where half the population died but resistance was unbroken.

Deliberately provoked strategic crises

In his keynote address Feb. 17 LaRouche warned that beginning in April or May, the United States will experience a series of deliberately provoked and overlapping crises in various trouble spots, including China and Southeast Asia; the Indian subcontinent; Central America; Greece, Turkey, and the Eastern Mediterranean; Albania, Yugoslavia, and the Balkans; and Iran. All of these have the potential to develop rapidly into flashpoints of confrontation with the Soviet Union, he said, and the cumulative repercussions of any two or three will be likely, if not cooled out, to pose a more serious threat to the existence of human life on the planet than the famous Cuban Missile Crisis of 1962.

The chief problem, said LaRouche, is not the objective danger of any particular situation, but the obsessive delusions of U.S. policymakers. As an example, he cited a current proposal to create a U.S.-led China-Japan-Korea-Southeast Asia "Co-Prosperity Sphere," based on the extraction of offshore China oil reserves, at the same time that mainland China is undergoing a classic oligarchical, dynastic collapse.

Another such foolish project, was the general destabilization of the East bloc. This has now backfired, said LaRouche, to the point where some of the leading think tanks earlier forecasting a precipate "crumbling from within" of the Soviet bloc are now assigning it at least 10 to 15 years of stability, while the United States is headed for collapse. The danger is that a paranoid "Fortress America" and "Fortress Russia" may stumble into a strategic miscalculation producing general war.

Neither Reagan nor 'Team B' policies workable

Present U.S. policy tracks for dealing with this crisis situation will guarantee a total strategic humiliation for the United States, Parpart, his associate Dr. Steven Bardwell of FEF, and *EIR* Economics Editor David Goldman demonstrated the next day. With the aid of the LaRouche-Riemann computer model, the only econometric method to correctly forecast the past two years' collapse under Volcker, they showed that the present Reagan administration budget will neither slow the collapse nor provide the nation with an adequate defense capability. The so-called Team B or Fortress America alternative, a doubling of the U.S. military budget for an augmented conventional forces buildup and a more-of-the-same strategic weapons accumulation, would, they proved, produce a temporary spurt in the economy, then send it plunging back into negative growth rates within 18 months.

The U.S. economy is too far gone to absorb a "guns, not butter" buildup, they concluded: only hundreds of billions of dollars' investment in high-technology fields like plasma physics and industrial infrastructure like nuclear energy plants and the NAWAPA water development project to divert water from Alaska to the U.S. Southwest can produce the sharp increases in the productivity of American industry and agriculture needed to support a serious military effort. Bardwell demonstrated that there was nearly a one-to-one correlation between such infrastructural investment and increases in economic productivity during past periods, a dramatic refutation of the usual vague mumbo jumbo attributing magic powers to "capital investment."

Concluding the conference, on the afternoon of Feb. 18, LaRouche warned that the present policy of Federal Reserve Chairman Paul Volcker "will take the United States past a point of no return. . . . If the financial blowout that the Federal Reserve has lined up for the April-May period takes place, the depression may not be reversible. Remember that in the 1930s, business loans went for 2 percent—but the banks couldn't find anyone left to lend to. In particular, LaRouche added, the farm sector—which will have lost 1 million farms under Volcker during the past three years—is in grave danger. "The idea of a food embargo is ridiculous," he said "We are closer to embargoing our own groceries."

Far from regulating the money supply, LaRouche explained, the Volcker policy has turned the United States over to the so-called Eurodollar market, based in London, Switzerland, Singapore, the Cayman Islands, and the Netherlands Antilles. He said, "The United States is not owned by its own citizens, but has become a gigantic tax farm."

The present problem, he said, is that a check written against a bank in the Cayman Islands—with no reserves to back it up—is honored in the U.S. banking system as if it were comparable to an obligation of an American bank fully backed by the required reserves imposed by bank regulation.

The only solution, LaRouche concluded, is a combination of a gold-reserve monetary system, and regulated banking. He attacked the proposals circulating before the President's Gold Commission as "a farce," based on the failed British gold-exchange system, which depends on gold "cover" for currency circulation. What is required, LaRouche said, is simply a gold price of $500 an ounce, approximately the parity price for producing new gold supplies, and the settlement of current balances between industrial nations in gold. With banking regulation to keep unbacked Eurodollars out of the U.S. economy, this measure would wipe out the greatest part of U.S. inflation.

Then, said LaRouche, by making gold-backed Treasury credits available at preferential low interest rates of no more than 4 percent for participation in private bank lending solely for hard-commodity goods production and infrastructural development, the U.S. economy could be shifted away from its present 2 to 1 ratio of overhead to real production to the reverse ratio enjoyed at the end of World War II.

During the two-day conference LaRouche and his associates were heard by representatives from more than 40 of the world's governments, but only a handful of officials from the U.S. State and Defense Departments were permitted to attend. The rest, according to those who regretfully informed conference organizers of their inability to attend, were ordered to cancel their reservations by their superiors.

Egypt rallied for economic growth

by Judith Wyer

The ruling National Democratic Party under Egyptian President Hosni Mubarak convened a three-day conference Feb. 12 to establish a new direction in Egypt's economic policy. The conference began the day after Mubarak returned from a five-nation U.S. and European tour in which he sought new commitments to aid Egypt's economic development. Since he took power in October, Mubarak has repeatedly stressed that economic policy would be his prime focus.

The closed-door meeting was the first such parley involving the spectrum of Egypt's political elites to discuss economics since the days of Egyptian revolutionary leader Gamal Abdul Nasser. It produced the strongest signal yet that Mubarak intends to depart from the posture taken by his predecessor, Anwar Sadat.

Economic shakeup

Last month Mubarak replaced every cabinet minister responsible for economic policy and planning as a first step toward eliminating the "excesses" of the Open Door policy which Sadat initiated in 1974 to invite badly needed foreign investment into Egypt. The issue of limiting foreign investment to areas Mubarak has defined as "productive sectors," in order to raise the standard of living of the impoverished Egyptian population, was the primary theme of the conference.

The rapporteur of the conference, Abrahim Hilmi Abdel Rahman, issued a statement to the press at the conference's close affirming the need to reform Sadat's Open Door policy: "The conference was called for correcting certain trends in the Open Door policy in order to concentrate more on the implementation of the productive projects rather than the consumer projects, bolster the activities of the Egyptian and foreign private sectors in accordance with the development plans of Egypt. . . ."

The repeated emphasis on limiting the burgeoning consumer market in luxury imports in Egypt directly relates to the activities of the unregulated free zones and offshore banking units which have fostered a wave of drug trafficking and hot-money flows in and out of Egypt. This is the side of the Open Door policy which is considered "excessive."

Drug crackdown

In mid-February Mubarak's three-month-old anti-corruption campaign put a third parliamentarian behind bars. Mahmoud Suleiman Osman was sentenced to 15 years following a seizure of five-and-a-half tons of hashish on his property near Alexandria. The sentence came as a result of investigations which evolved from the December corruption trial of parliamentarian Rashid Osman (who is no relation). Rashid Osman was found to have operated a private port east of Alexandria where hashish was transshipped from Lebanon into and through Egypt to Europe.

Washington sources report that the free-trade zones have become havens for illegal drug trade. Mubarak, according to Egyptian diplomatic sources, is determined to shut down the drug trade and purge the zones of organized crime; he has anounced that any business operating within a free zone must show proof of producing something vital to Egypt.

At the same time that Mahmoud Suleiman Osman was sentenced, a parliamentary committee has announced an investigation of Egypt's largest free trade zone at Port Said, east of Alexandria. Parliamentary sources report that Port Said has become Egypt's top smuggling center, costing the government millions in lost tariffs, not to mention the illegal drugs that pass through.

Putting Egyptians to work

An Egyptian diplomat told *EIR* in late February that the conference resolved to solve the growing unemployment problem through a massive job training program, using Egypt's military. The diplomat said that Mubarak wants to create as many as 400,000 new jobs; primarily through 1) increased agricultural output to be underwritten by an aggressive land reclamation scheme; and 2) a plan for construction of 150,000 new housing units in Egypt to help relieve the country's extreme housing shortage.

With a population growing at a rate of over 100,000 a month, Mubarak must raise standards of living or accede to demands from the powerful local office of the U.S. Agency for International Development (AID). AID is demanding that Mubarak enforce an unpopular and unnecessary program of population reduction.

During Mubarak's speech to the conference, he noted the need to reduce Egypt's population, but how serious he is remains to be seen. Both former presidents Nasser and Sadat paid lip service to population-control policies without enforcing them, simply to ensure that American development aid to Egypt continued to flow.

Pope on trail of organized crime?

John Paul II's focus on nation-building policies for Africa targets Malthusian faction in Nigeria.

Pope John Paul II's just-completed visit to Africa, his second to the continent and his first trip abroad since the assassination attempt against him last May, follows a period of extensive revelations in Italy concerning the connections between organized crime and the terrorist Red Brigades. *EIR* has documented that the flight-capital, narcotics, and assassination networks of Licio Gelli's P-2 Masonic lodge extend not only into northern Africa, through Libya, but worldwide. They are used as political instruments of a Malthusian policy—a policy of wrecking nation-states and enforcing backwardness.

The question that arises in my mind is this: Was the Pope in his trip to Africa targetting the African end of this network? Judging from the Pope's focus in Nigeria, Africa's largest nation, and in the other nations on his four-nation, eight-day trip—motivating the populations, regardless of their religious affiliation, not to focus on self-interest or local loyalties, but on making the moral commitment necessary to build a sovereign, developing nation—the answer is yes.

And judging from the fact that an assassination operation targeting Nigerian President Shagari was defused shortly before the Pope arrived in Nigeria, it would appear that the Malthusian oligarchy and its hit-men have drawn the same conclusion. The intersection of the Pope's nation-building offensive in Africa with the development goals of the Shagari government could reduce the sabotage capability in Nigeria and elsewhere.

Before the announcement of the plot by his office, Shagari was rumored to be on an assassination hit list, along with West German Chancellor Helmut Schmidt, Egyptian President Hosni Mubarak, and Iraqi President Saddam Hussein, all proponents of peace through economic development.

President Shagari's office issued a statement published in the Feb. 19 Nigerian press concerning Alhaji Bukar Mandara, a Nigerian trader originally from the northeastern part of the country—an area in which certain local officials collaborated with the Libyan strongman Muammar Qaddafi's invasion of Chad in December 1980, against the will of the central government. Bukar Mandara, an army officer, and a number of soldiers had been arrested and charged with "conspiring to commit a felony by the incitement of soldiers to commit a mutinous act."

Bukar Mandara reportedly handed the soldiers large sums of money to overthrow the government. Illiterate and unsophisticated, according to my sources, the trader was bitter over the civilian government's withdrawal of contracts he had obtained from the previous military government.

There is no disenchanted group or ideological faction sufficiently organized to successfully carry out a coup in a country as big as Nigeria. The operation is the assassination of Shagari himself, with the coup attempt merely the cover behind which to manipulate the assassins.

A similar operation, under the guise of a coup attempt, was run against the competent and well-regarded military head of Nigeria, Murtala Mohammed, in the mid-1970s. At that time the assassin sought refuge in the British embassy when it became apparent that no coup was taking place.

The Pope was given an enthusiastic welcome throughout Nigeria, even though only 8 percent of the population is Catholic. One million people attended the mass he conducted at Onitsha, in the Catholic eastern region. In the Moslem North, 500,000 filled the stadium in Kaduna a few days later, in a state where less than 2 percent of the population is Catholic.

In Kaduna, John Paul II made an ecumenical appeal to unite the nation for development: "We can collaborate in the promotion of justice, peace, and development. It is my earnest hope that our solidarity of brotherhood, under God, will truly enhance the future of Nigeria and all Africa."

This ecumenical appeal to unite the nation hits directly at a major component of the subversive capability in the country: the numerous cults that have been created by institutions such as the Tavistock Institute in Britain to divide Nigeria. Animist, as well as Moslem and Christian fundamentalist cults, and various syncretic combinations of these, have been used to create difficulties for the government, and impede the mobilization of the population to build the nation-state.

Assad besieged

Syria's military has no confidence in him, and the active opposition is broadening fast.

Several weeks after the start of the Syrian rebellion in Hama, President Hafez Assad ordered the air force to carry out a strike against positions in the town held by armed opposition forces. But the pilots, streaking over their target, dropped their explosives instead on the government's own Special Forces commanded by the President's gangster brother, Col. Rifaat Assad.

That incident indicates that the Hama rebellion has caused the Assad brothers to lose control of their last remaining prop: Syria's armed forces. According to Middle East intelligence sources, Assad can hope to cling to power only for a few short months.

From accounts appearing in the Western press, it would seem as if the rebellion against the unpopular Syrian leader is led by Islamic fundamentalists and their Muslim Brotherhood secret society. The *New York Times* and CBS-TV report (without having managed to filter any reporters anywhere near Hama) that "Muslim cries ring from the minarets" of the Syrian city in rebellion.

Reality is far different, and more complex.

The uprising in Hama began in the wake of an attempted coup d'état by Syrian army and air force officers this January. Tipped off by the CIA and the Mossad, Assad rounded up hundreds of plotters and executed 120 officers.

At the end of January, a number of the anti-Assad military men fled into Hama and defied Damascus to arrest them. On Feb. 1, Assad ordered the Special Forces to Hama, but the entire town resisted the "Rifaat brigades." By late February, the town was still holding out successfully against brutal assault.

That an entire Syrian city could hold out against unrelenting force is a signal that the loose opposition coaliton resisting Assad has managed to win the loyalty of broad sections of the Syrian population. At least eight different party factions make up the opposition forces in Syria. According to Arab sources, these factions have established a council inside Syria to coordinate their actions and make plans for a coalition government after the fall of the Assad brothers.

Among the coalition partners are:

- three separate Baath Party factions, one pro-Iraqi, one loyal to jailed ex-President Shalah Jadid, and one comprised of Alawite sect members called the "Free Officers";
- a new Marxist organization made up of ex-Baathists, Nasserists, and former Communists;
- the so-called Riad Turk faction of Communist Party dissidents; and
- the Islamic Front, a hodgepodge of at least five different Muslim organizations, each styling itself to be part of the Muslim Brotherhood.

The Syrian general staff and military leadership, while thus far still undecided on the resistance, are reportedly becoming increasingly convinced that the Assad family is no longer capable of ruling Syria. The generals, it is said, are beginning to splinter along the lines of their previous loyalties to one or another of the opposition groups.

Another important factor is the position of the extremely secretive and very powerful council of the religious leadership of the Alawite sect.

The Syrian Alawites, a small minority of the population, are enormously influential under the rule of Assad and his allies, who are almost exclusively Alawite. Until now, Assad and company have tried to portray the rebels as sectarians opposed to the Alawite influence in Damascus. But, in the recent fighting, there are many signs that the Alawites have joined the rebels in increasing numbers.

At present, it is not certain that the Alawite leadership, made up of the impenetrable closed circle of sages in the Latakia region of northwest Syria, has decided to move against Assad. If they do, then nothing can prop him up.

As *EIR* is about to document in depth, the touchstone for the anti-Assad coalition is the perception that Assad and his brothers have become mere instruments of the organized crime mafia internationally. With hundreds of millions in Swiss banks and a reputed drug-smuggling empire, the Assads have been called the "Somozas of the Middle East." Certainly, they are giving every sign that they intend to go down in a blaze of gunfire that would warm the heart of Al Capone.

Dateline Mexico by Josefina Menéndez

The 'greening' of the PRI

Evironmentalism has made inroads into the camp of the presidential successor, Miguel de la Madrid.

Last week I reported on the impetus that nuclear-energy development received in Mexico with the Feb. 15 announcement that a nuclear test center will be built in the state of Sonora. Governor Ocaña and Nuclear Institute head Dalmau Acosta made the good news public, and promised continuity of the nation's overall nuclear project (an ambitious 20 gigawatts by the year 2000) into the 1982-88 administration of Miguel de la Madrid.

But is continuity assured?

The pro-nuclear crowd is not invulnerable inside the ruling PRI party, nor in the powerful inner circle of advisers around De la Madrid. In fact, on Feb. 13, just two days before the Sonora announcement, the PRI think tank IEPES held a major national campaign meeting with candidate De la Madrid in the oil-producing state of Campeche, whose theme was the defense of the ecology from the "assaults" of modern industry.

If Ralph Nader had been master of ceremonies he couldn't have created a "greener" political environment.

The organizer of the event was Carlos Salinas de Gortari, a kind of Mexican Ralph Nader—with the difference that Salinas wields the great power of being one of candidate De la Madrid's most trusted advisers, and the head of the IEPES think tank.

The 33-year-old Harvard-trained Salinas set the tone of the gathering from the outset. "What good is it for a mother to have a job, if her son is nursed with DDT-contaminated milk? Or what good is it for a worker to have a permanent job, if the water he drinks when he goes home contains lead and mercury, that cause irreversible mental damage?"

Picking up the battle cry of Mexico's anti-progress left, Salinas blamed Pemex for exploiting the environment by developing Mexico's oil too rapidly. "Perhaps we should cut a few points off the growth rates of certain sectors, such as petroleum, whose disorderly growth causes damage to the ecology and to the quality of life."

Salinas closed by calling on the PRI to take up the banner of environmentalism, and to make it for the first time in the party's history a central plank in its electoral platform. He was seconded by the entire high command of Mexico's environmentalist movement, who had been invited to the gathering to voice their views.

Fernando Césarman, one of the founders of the Mexican ecology movement and the man who coined the phrase "ecocide," gave his blessing. Arturo Gómez Pompa proposed that specific legislation be adopted to defend the environment. And Manuel López Portillo, the President's cousin who is the Subsecretary for Environmental Improvement in the Health Ministry, also spoke. He is known in Mexico as one of the strongest proponents of population reduction, and for endorsing and distributing the Carter administration's genocidal *Global 2000 Report*.

Candidate De la Madrid replied by opening the door wide to the environmentalist cause. "We cannot accept the responsibility of bequeathing our children a garbage heap for a country," the candidate declared. "We Mexicans are gradually poisoning ourselves."

One journalist subsequently reported that De la Madrid had actually been moved by Salinas's grandstand hysteria: "I was frightened by the fact that even mother's milk is contaminated by insecticides," the PRI candidate is reported to have said.

Whether or not De la Madrid actually uttered these words, the fact of the matter is that the entire Mexican ecology movement received a bright green light from the IEPES gathering, and has stepped up its organizing since then.

As the leftist columnist Granados Chapa put it: "Yesterday the PRI took its first formal step to convert itself into a Green Party.

Mexico's "greenies" were further encouraged by remarks made four days later by De la Madrid at another IEPES symposium, in which he repeated his earlier statements in favor of reducing Mexico's rate of population growth.

"Demographic policy is now an accepted national demand, and its is indispensable that Mexican society, through the state, establish criteria for modulating population growth." De la Madrid went so far as to call for "popular consultation" on the possibility of legalizing abortions in Mexico.

International Intelligence

Saudi economic warfare against Iran's mullahs?

With only $600 million left in reserves to pay for both imports and arms for its war against Iraq, Iran has seen its oil sales undercut by Saudi Arabia, according to OPEC-linked sources. Even though Iran lowered its oil price by $4 a barrel, it cannot compete with Saudi Arabia for badly needed sales; because Iran is a war zone it costs an additional $6 per barrel in insurance costs to contract Iranian oil.

Saudi Arabia, which continues to keep its oil output at a maximum, is coordinating production policy with Iraq. Britain, which recently cut its own petroleum output, is in turn pressuring the Saudis to join in firming up world prices, and is supporting Iranian plans to move militarily against Kuwait.

Iran plans attack on Gulf emirates

EIR intelligence analysts evaluate an Iranian attack on one of the Arab oil-producing emirates of the Persian Gulf to be highly probable. Our reports include those of Arab diplomatic sources returned from the Iran-Iraq war front: "Iran is hurting badly in the war," say sources, "and there is every likelihood that Khomeini will try to blow up the Gulf and thus attract the attention of the superpowers, since this is the only way that he can salvage his position in the war."

Domestically, all sources concur, Iran continues to fragment, is economically bankrupt, and while it can barely continue warfare against Iraq, Islamic leaders fear that an idle military would stage a coup d'état.

Kuwait is a likely target, according to Prof. Shaul Bakhash, a confidant of British intelligence specialist Bernard Lewis, now stationed at Princeton. Iranian bombs in the last 12 months have knocked out Kuwaiti oil pipeline pumping installations. Kuwait expects an Iranian attack, say Lebanese sources, and is already lining up support from other Arab states and Western allies.

The *Wall Street Journal*'s lead item, mooting Iran and the Persian Gulf as a prospective center for U.S.-Soviet confrontation, appeared Feb. 24, indicating that U.S. State Department sources may be encouraging such an Iranian adventure at this time. The *Journal* quotes Eugene Rostow, State Department official, saying "the Soviet pause for appraisal of this administration is over, and we're going to be tested. I believe Iran is the place we're going to be tested."

NATO exercises on 'crisis response'

NATO, which is still formally restricted to the European theater, will conduct major naval and air exercises this month in the Gulf of Mexico and the Straits of Florida, coming perilously close to the Cuban mainland. The 10-day exercises will begin March 8, and cover waters known to be patrolled by both Cuban and Cuban-based Soviet shipping.

"Safe Pass" will involve 28 ships and 80 aircraft from six nations. Reagan administration sources indicate that the exercise will show NATO's commitment to protect vital shipping lanes in the Caribbean and Gulf from potential attack. This, according to the Defense Department and NATO command, is a vital part of "crisis-response capabilities" which Cuba might threaten.

Bronfman clashes with Israeli ambassador

A Paris conference of the World Jewish Congress (WJC) Feb. 20-21 became the scene of heated exchanges between WJC president Edgar Bronfman and Meir Rosenne, Israel's ambassador to France. Bronfman attacked the policies of Menachem Begin as extremist, calling Israel's international position "in decline" and demanding a "new cooperation."

"Israel cannot be solely an armed fortress with Jewish outposts in some 60 countries around the world. Israel has to speak to us and to listen to us if aid is to be continued," stated Bronfman. Rosenne replied arrogantly: "Send dollars, that's fine, insofar as it serves you Jews in affirming your identity, but the fate of Israel will be decided in Jerusalem. Israel is not a sub-state. It has paid for its independence. Thus, to express oneself on these matters, it is necessary to be an Israeli."

Bronfman objected to Begin's use of the libelous device of calling anyone who opposed his policies "anti-Semitic." He stressed that terrorism is on the rise, not anti-Semitism—Jews are simply sometimes the target of terror. There is not a single country in the world, including in the East bloc, that is properly classified as anti-Semitic. Bronfman also asserted that a Jew's primary loyalty is not to Israel, but to his respective country.

Zionist leader warns of war

Nahum Goldmann, former head of the World Zionist Organization, delivered a press statement in Bonn Feb. 17 describing the situation in the Middle East as similar to that preceding the 1967 war, and blaming Israeli Premier Menachem Begin. Goldmann also cited U.S. Secretary of Defense Caspar Weinberger's "careless declarations of intention to arm Israel's neighbor Jordan," as exacerbating the war-danger.

Goldmann said that despite Washington and Israel's actions, the area is not hopeless, since the majority of Arabs and Israelis still want peace. He is working with European leaders including Chancellor Schmidt, Austria's Bruno Kreisky, and others to establish a peace dialogue based on a proposal to internationalize East Jerusalem, annexed by Israel last year. "Internationalization" would give back access to religious shrines to all faiths, including Muslims.

Goldmann added that he is attempting to develop Soviet contacts and support to further his peace efforts.

Soviet military chief draws 1930s parallel

The Chief of the U.S.S.R.'s General Staff, Nikolai Ogarkov, delivered a speech on Soviet television Feb. 23 in which he declared that Washington's policies constitute a "material preparation for a new war," comparing the current conjuncture to Nazi Germany's war preparations in the 1930s. He warned "narrow-minded people" in the United States that a U.S. attack on the U.S.S.R. would bring the same "cruel end which Nazi Germany" underwent.

His address, which constitutes one of the hardest-hitting commentaries to date from a senior Soviet leader, continued by stressing that the Soviets are accelerating the process of economic integration in order to prepare the economy for conflict. This, he said, would be undertaken on the model of the state defense committee under Stalin.

Pope calls terrorism 'international conspiracy'

Pope John Paul II, on the occasion of an international conference on terrorism in Rome Feb. 18, placed the full authority of the Vatican behind Italian judiciary investigations when he specifically denounced terrorism as the instrument of an international conspiracy. The conference, representing Christian Democratic parties from throughout Europe, began with a reading of the Pope's statement.

Dramatically contrasting with "sociological phenomenon" descriptions, John Paul stated: "These acts of terrorism are not limited to any one country. They are rather the fruits of an insidious network with international aims and plots." "Pope Denounces Terrorism as International Conspiracy" was a typical headline in Italian press the following day.

Italian authorities have recently arrested, indicted, or sought discovery against not only gun-carrying Red Brigade members, but Swiss bankers, respected university professors, socialist-linked trade unionists, and offspring of ancient and wealthy titled families in Italy. They have implicated not only drug-smuggling Sicilian mafia groups, but foreign secret services including above all the Israeli Mossad. Implicated or under investigation are Michael Ledeen, an adviser to the U.S. Secretary of State on "terrorist affairs," and the Duke of Kent, the English Queen's cousin, and head of the Scottish Rite Freemasons.

Is it possible, asked the Pope in his statement, that "the recrudescence of injustices . . . could be what incites such violent reactions." On the contrary he answered, it is "an efficient psychological weapon" enjoying "cooperation of the mass media."

Trudeau opponent wins in Alberta

Oil man Gordon Kesler, head of the Western Canada Concept party, won an upset victory in Canadian by-elections in Olds-Dindsbury, Alberta Feb. 19. Kesler is a bitter opponent of federal premier Pierre Elliot Trudeau's proposal to repatriate the British North America Act and add a "human rights" bill to make a "new constitution" for Canada.

The "human rights" portion of the synthetic package would appear to prepare the way for Canada to be ruled by a "crisis management" government.

Kesler took 42 percent of the vote in opposing Trudeau as a "socialist conspirator." The new constitution "does not guarantee the right of private property," he declared. Indeed, nowhere in it is there any explicit protection of private property rights.

Three days after the election, Trudeau's only answer to the charges called Kesler guilty of "hateful propaganda."

Briefly

- **DER SPIEGEL** magazine, the voice of British intelligence in West Germany, has leaped to the support of an idea now totally discredited by Italian authorities: "Young people commit terrorist acts . . . spontaneously because they find living conditions unbearable." Attacking the Italians for proving terrorism to be a unified international conspiracy, *Der Spiegel* insultingly observes that "the big terrorist acts, if for no other reason than their perfect logistics, were totally atypical for Italians."

- **KUWAIT** has declared French Foreign Minister Claude Cheysson "persona non grata" in their country. The United Arab Emirate press denounced French President Mitterrand's representative, saying that France "is favorable to the Arab cause when the head of its diplomacy visits the emirates, and unfavorable when he goes to Israel." The foreign affairs ministry also denounced what it termed "French confusion."

- **REUTERS** issued a news bulletin Feb. 24 which we reprint in its entirety: "The British government said today that it would legalize homosexuality in Northern Ireland, bringing the province into line with the rest of Britain."

- **VATICAN** officials continued their crackdown on the Jesuit order with a demand that Father César Jérez, Jesuit superior for Central America, immediately resign. The demand was issued by Father Paolo Dezza, an intervenor into the order for Pope John Paul II. Dezza is now leading a meeting of Jesuit provincial leaders in Rome, and wants Jérez replaced with a leader "capable of dialogue with the local hierarchies." The Jesuits, as in El Salvador, have generally acted to promote wars in Central America.

Italian press links Abscam to Mafia and Red Brigades

by Linda de Hoyos

Evidence continues to mount that the Justice Department Abscam apparatus that carried out the frame-up of Sen. Harrison Williams is up to its neck in organized crime, including the international drug traffic.

As Senate hearings approached on the proposed expulsion of the New Jersey Democrat, an article published by the Italian press agency La Repubblica in Rome on Feb. 23 stated that the Justice Department's Thomas Puccio, chief Abscam prosecutor against Senator Williams, is rumored to have received in the mid-1970s "the modest sum of $16 million in one of his numerous trips to Sicily in exchange for shutting his eyes to the trafficking of drugs between Palermo [Sicily] and New York."

The rumors are given credibility by Puccio's manifest lack of attention to the drug trade within his jurisdiction, La Repubblica pointed out. The news service, which is received by most Italian government officials and business executives, carries the report, first published in *EIR* on Feb. 16, that Puccio is a "good friend" of Michele Papa, the man who mediated the link between Billy Carter and Qaddafi, and who is known to be one of the kingpins of the Italian Mafia.

The revelations concering Puccio may shed light on the agenda of meetings reported by one intelligence source to have taken place recently between Puccio and U.S. Ambassador to Italy Maxwell Rabb. The ambassador is known to have links to organized crime through his former position on the board of directors of the Airport Hotel Corporation, a company associated with Meyer Lansky, which is now being bought up by Lansky's Resorts International. Rabb is also a former member of the board of the Sterling National Bank and Trust Company, currently being sued by the Italian government for abetting the unsavory Michele Sindona's looting of the now-defunct Banca Privata Italiana.

Italian investigators have found that the Red Brigades terrorists who kidnapped NATO Gen. James Dozier functions as one entity with the drug-running Italian Mafia, which funnels drug revenue to the Red Brigades. The indictment of 75 Mafia bosses in Palermo on Jan. 22 for heroin trafficking into the United States was essential to cracking the Dozier case, according to Italian authorities.

The Italian investigation has also shown that the controllers of terrorism who select its targets are not indigenous to Italy, but center in the illegal Freemasonic lodge Propaganda-2, which is linked to Alexander Haig and the Club of Rome's Aurelio Peccei, among others.

The FBI and the Red Brigades

To date, the U.S. Justice Department has stonewalled on following up any one of the leads from Italy into the controllers of the narcotics business in the United States. The revelations now flooding from Italy on the connections between international organized crime and the Abscam apparatus within the Justice Department go a long way toward explaining this passivity. That apparatus is centered in the Department's Federal Bureau of Investigation.

According to new information from Italy, the FBI, whose jurisdiction is restricted to the United States, was active in infiltrating the Red Brigades in Italy. The revelations came in the Feb. 22 issue of the Rome daily *Paese Sera,* which reported that an Italian national, Salvatore Crisafi, says that he was jailed in the United States on rape charges through the connivance of the FBI when he refused to infiltrate the Red Brigades for the Bureau. Although the FBI has admitted that the Crisafi case concerns "a counterespionage question abroad," it has refused on "grounds of national security" to discuss any material pertaining to the case.

According to Crisafi, through the FBI he came into contact with associates of John Connally's Citizens' Alliance for Mediterranean Freedom (CAMF). Crisafi states that CAMF was then in the midst of plotting to destabilize the quondam Italian government and set up a separate Sicilian state; the Red Brigades were to have played a major role in the operation. The goal was to prevent a Christian Democratic governmental alliance with the Communist Party, an alliance favored by proponents of industrial growth in both parties, and to achieve Propaganda-2's goal of dismantling the republic.

As charged in the 1979 trial of drug financier Michele Sindona, this plot had the participation of Alexander Haig, then NATO commander, and Thomas Puccio's "good friend" Michele Papa.

The Weinberg charges

The Crisafi involvement with the FBI took place in 1974-75. This is also the period when Mel Weinberg, the sting man who appears to have run much of the entrapment operation against Senator Williams, was helping to finance the Red Brigades through London Investors, an entity that is part of the Meyer Lansky drug-money empire. Weinberg admitted his funding role in Robert Greene's biography of the Justice Department employee, *The Sting Man.*

The credibility of the Federal Witness Protection Program's "star witness" against the Senator, a 23-year veteran of the nation's highest law-making body, has already been severely damaged by evidence entered in court by his estranged wife, Marie Weinberg, who was found dead in her home on Jan. 26. Mrs. Weinberg charged that her husband had committed perjury in his testimony against Williams, and that he had bribed FBI agents. On Feb. 24 the latter charge was substantiated by affidavits from FBI agents John Good and Anthony Amoroso, who both worked on the case against Williams, stating that they had "bought" furniture and clothing, including fur coats, from Weinberg, and accepted money from him. Prosecutor Puccio termed their statements and Mrs. Weinberg's charges as beside the point.

On Feb. 24, those charges were also dismissed as "irrelevant" in Washington, D.C. by the Justice Department, in the case of Rep. Richard Kelly of Florida, another U.S. congressman victimized by Abscam. Kelly had demanded that Federal Court Judge Richard Bryant reopen his case based on Mrs. Weinberg's evidence of gross Justice Department misconduct in the Abscam operation.

La Repubblica on Thomas Puccio and heroin trade

The following news wire was released on Feb. 23 by the Rome-based La Repubblica press agency. La Repubblica press agency is an influential Italian wire service that circulates daily to all government circles in Italy, including all parliamentarians, cabinet officials and the Vatican. The wire had the headline: The prosecution witness financed the Red Brigades; A Watergate case in the Washington Senate—does Sicilian Mafia control sections of American justice system?

In Uniondale, in the State of New York, Federal Judge George C. Pratt sentenced Senator Harrison Williams, New Jersey Democrat, to three years in jail and a $50,000 fine for having had the "intention" of taking a bribe from a false sheik. This is a complex story for an Italian audience, one which has been totally ignored here, although in the United States, it has for months filled the pages of the major press. The issue is a new wave of scandals termed "Abscam" (Arab scam), except that the Arabs are not at all involved.

Toward the end of the 1970s some agents of the FBI, the American federal police, disguised themselves as Arab sheiks and approached various American Congressmen and Senators to offer them money in exchange for favors. The conversations between the presumed sheiks and the designated victim were accurately guided and taped. After a while, particularly from the beginning of the electoral campaign of January 1980, the FBI started making public all its investigations; a chief prosecutor, Thomas Puccio, was utilizing the proofs that had been artificially collected by the FBI in order to launch denunciations to which the press gave ample coverage in a gigantic lynching campaign.

The case of Senator Williams has this peculiarity: Williams never accepted monies from the sheik-agents. After his indictment, Williams denounced Thomas Puccio and witness Mel Weinberg, demanding $20 million in damages. In coming days there will be a vote in the Senate to decide whether or not to expel Senator Williams. If the Senate were to vote for the expulsion of Williams, accepting the ruling of Judge Pratt which is not based on factual proofs, this would signify the end of the American legal system and would give the green light to a series of "Watergates" in the Abscam mode which, within a short time, would overturn the American political system and succeed where Hinkley had failed with his method of violence: it would cut the President in half, to make room for the return of Kissinger and the Trilateral Commission to the summit of American power.

But let us turn to the identities of the individuals involved, such as Thomas Puccio. He is the prosecutor responsible for the Eastern District of the State of New York where Kennedy Airport is located, through which passes the largest portion of drugs arriving from Palermo. . . . Over the years, innumerable drug smugglers coming from Sicily have passed unarrested [through this airport]. It was in the course of following this line of investigation that Boris Giuliano and Judge Costa were killed. The Sicilian traffickers evidently enjoy high-level protection at the New York airport. Is it possible that the Italo-American Puccio knew nothing of this? Furthermore, Puccio was himself at various times on the verge of being investigated by the Drug Enforcement Agency, the American anti-drug police, but was always able to avoid it.

The DeFeo Report of the U.S. Justice Department which appeared in 1975 points to Puccio as an individual linked to drug traffickers. But Puccio has always been cleared of these accusations—the last time by Michael Shaheen, an official of the Justice Department who gained notoriety in early 1981 when he cleared Billy Carter of the accusation of having taken hundreds of thousands of dollars from [Libyan President Muammar] Qaddafi in exchange for illegal procurement of weapons. As will be recalled, the mediation between Carter and Qaddafi was carried out by the attorney, Michele Papa, head of the Sicilian-Libyan Friendship Society, accused of being part of a Sicilian independence movement as well as of the Mafia.

But this is not the only connection between Puccio and Mafia circles. If one were to ask Michele Papa about Puccio, he would answer as if Puccio were his old friend. In the United States, there are persistent rumors that Puccio in the mid-1970s received the modest sum of $16 million in one of his numerous trips to Sicily in exchange for shutting his eyes to the trafficking of drugs between Palermo and New York. Then there is the case of Weinberg, the key witness on whose testimony the case against Williams is based. Weinberg's wife has revealed on the ABC television network that her husband is an agent paid by the FBI to testify to whatever the FBI wants. Two days later, she was found dead in her home and the documents proving her husband's guilt had disappeared. The FBI ruled that it was a case of suicide.

There is a book in the United States entitled *The Sting Man*, written by Robert W. Greene, which deals with a romanticized version of the life of Weinberg. Among other things it recounts that Weinberg financed the Red Brigades . . . shortly before the kidnapping of [former Italian Prime Minister] Aldo Moro. If some light were thrown on the Puccio and Weinberg case against Williams, perhaps not only would a threat to American institutions be stopped, but also some light might be thrown on the Sicilian-American drug Mafia and the connections of this with Italian terrorism.

Paese Sera on the FBI and Italian terrorists

The following was printed in the Rome daily newspaper, Paese Sera, *Feb. 22, 1982, under the headline: The shadow of the CIA over the case of an Italian in an American prison. Salvatore Crisafi maintains he is a victim of a plot. A woman proposed to him to infiltrate the Red Brigades, by John Cappelli.*

On the 21st of April, after spending nearly seven years in jail and many being the subject of contradictory documents involving the FBI and the Red brigades, Salvatore Crisafi will be released from prison. . . .

Accused in Washington of "carnal violence," Crisafi still maintains that the case was the result of a contrived plot against him. He had refused repeated requests on the part of [a mysterious American, Gloria Donovan] to infiltrate the Red Brigades, but through her had come to know of operations involving the kidnapping of Gianni Agnelli and Angelo Rizzoli. So it was an easy matter to orchestrate his love story with the two girls in the American capital, who then screamed of rape—he recounts—and he was handed a very heavy sentence to take him out of circulation for several years.

Salvatore Crisafi—who in Italy has a wife and children—had wanted to document, with facts, his version of the story. The presentation of his evidence, however, was not only not accepted, and ruled as extraneous by the court, it also turned out to be impractical because the FBI refused—citing reasons of state—to bring forward anything from their archives on the case.

On April 16, 1980, court case number 79-2909, the document number 105-310905, respecting Crisafi, was taken away from Crisafi because "its non-authorized release could harm national security." Although the four pages of documentation—which we have seen—were withdrawn in their totality, the accompanying letter to the prosecutor signed by special agent Gary Stoops confirms that the secret material in the dossier "deals in a specific manner with the objective of a counterespionage operation abroad; in effect, a specific spying operation. Given the specific details of the information, a detailed description could lead to the discovery of the spy operation as such." This is what the FBI had to say. Crisafi himself refuses to go beyond indicating the role for which Gloria Donovan wanted to recruit him and the never-explained trips to Eastern Europe and the Middle East.

Crisafi's mental stability was questioned by the prison authorities because of his difficulties with the other prisoners, which the authorities attributed to psychological problems. "Nonsense," Crisafi replies, putting forward a detailed documentation of the abuses which he has suffered . . . citing incidents indicating the desire to have him assassinated.

On August 7, 1981, the resident psychiatrist of Lewisburg penitentiary in Pennsylvania formally impeded Crisafi's transfer to the prison hospital of Springfield, Missouri—where Sindona is being held—certifying him sound of mind.

. . . [One of the women of whose rape he was accused was Miss Nancy Osborne]. In 1979, she was a political adviser (at the time of the presumed crime) to Senator Walter Huddlestone, one of the most noted pro-CIA legislators in the Senate. The other girl involved in the case, Cynthia Kean, worked in the press office of Exxon. In order to document his contacts with Gloria Donovan, the alledged recruiter of soldiers of fortune and spies, Crisafi submitted the names of individuals which they had jointly met at the American Legion Club in Paris, or who knew her for her frequent trips to Rome. Among these individuals was the Rome lawyer Paolo Pisano ("To whom I was supposed to turn when I had any problems with the law in Italy", says Crisafi). Others were Anthony Marinelli of Washington, "Friend of John Connally and actively involved in the Italian political situation at that time (1974-1975), and David Mazzarella and James Long of the *Daily American.*

It should be recalled that John Connally, in the period 1974-1976, was the promoter of the organization "Citizens' Alliance for Mediterranean Freedom" with offices in Washington, New York and Rome, and that he had among his objectives the defeat of the Communists in Italy as well as a future secession of Sicily—a separatist project that was strangely revived by Sindona in 1979.

Crisafi may be involved in a spy network at a low level . . . but a depth examination of his case—which earned him an extremely harsh sentence of 21 years—could help in unraveling this as well as other knots.

Senator Williams: 'let us pursue the real criminals'

Harrison Williams, Democratic Senator from New Jersey, asked Warren J. Hamerman, Chairman of the National Democratic Policy Committee, to read for him a statement at the National Democratic Policy Committee's event on Feb. 19 in Washington, D.C. Excerpts follow:

I am standing and will always stand side by side with Lyndon LaRouche in our important and noble fight to restore the bedrock principles of constitutional justice to our nation.

I have recently thought about the great Italian poet Dante who knew, after he was politically targeted and framed in his native Florence long ago, that he would one day receive full exoneration and respect for his courage in continuing to fight against evil and wrongdoing in government. I am encouraged from day to day with the same certain knowledge of eventual vindication. . .

I have drawn courage from the countless citizens in every part of this land—the ordinary American citizens whom I have dedicated 23 years in the United States Senate to serving—for their encouraging response to our cause. I have been especially excited by the work of our allies in Western Europe who have brought this case to the forefront of concern of European citizens and governments. . . .

We must restore to our judicial system the goal of preventing crime, not manufacturing crime.

At the very beginning of the Abscam affair two years ago. . . as I looked out of my house and saw a barricade of media—who received leaks from the Department of Justice before I myself was accused of any crime—I knew then that the first principle of American justice was being turned on its head. That first principle of justice is that a man is innocent until proven guilty. . . .

Our nation is in a great crisis. We are threatened by the twin evils of economic depression and police-state methods being consolidated in government. . . . It has always amazed me that those who are doing the most damage in drug trafficking, and making the most money, those major people at the top of the pinnacle who are the importers and the basic distributors of drugs, seem to be getting away scot-free. . . .

The economic front of our nation demands the most active concern. I believe that the entire American people should subscribe, as I do, to the brilliant, full economic growth program which Lyn LaRouche has dedicated his life to bringing about, even though there are certain details of the plan on which I may differ.

In addition to my fight against Abscam, I will be devoting my Senate energies to undoing the conditions of economic collapse which the high interest rates of Paul Volcker have triggered. Towards this end, I wish to take the opportunity this evening to announce that I will be joining the initiative of my colleague Sen. John Melcher in sponsoring a Senate resolution mandating the lowering of interest rates and the restoration of realistic and effective credit for economic growth. . . .

Civiletti: no answer to EIR accusations

The following letter from Terrence Adamson, attorney for former Attorney General Benjamin R. Civiletti, was made available to EIR *by its recipient, Warren J. Hamerman, Chairman of the National Democratic Policy Committee (NDPC).*

Hamsell, Post, Brandon & Dorsey
Washington, D.C.
February 10, 1982
Dear Mr. Hamerman:

I am writing as attorney for Benjamin R. Civiletti in response to your letter to him of January 6, 1982. The article you sent and apparently published is false, defamatory, malicious, and injurious to Mr. Civiletti's reputation. We object to your publication of it and demand moreover that you give a complete and full retraction of any publication you have given it.

We have no intention in engaging in a debate with you or anyone else who publishes with such reckless disregard for the truth. The only assumption you should make from this response is that your publication or any other similar false and defamatory publication will subject you to any and all possible legal redress.

Terrence Adamson
Attorney for Benjamin Civiletti

Mr. Hamerman had forwarded to Mr. Civiletti on Jan. 6 a copy of an article he had written for the Jan. 5 issue of *EIR* entitled "The Legacy of Civiletti Still Hangs Over Justice." In his review of Civiletti's tenure at Justice in 1979-81, Mr. Hamerman documented a series of pardons granted to terrorists and their supporters; failure to investigate Muslim fundamentalist assassinations in the United States, and coverup of the scope of the Carter administration's links to Libyan illicit activities; and the systematic use of convicted felons and "trial by press" in Abscam and Brilab to frame up perceived opponents of the Carter administration.

Mr. Hamerman requested Mr. Civiletti's comments on his documentation.

EIR's editors note that Mr. Civiletti has failed to respond to the evidence of his release of, and cancellation of charges against, and refusal to investigate terrorists and assassins, at the same time that the Justice Department was transformed under his tenure into political police.

The Club of Rome complains that LaRouche intends to destroy it

EIR founder Lyndon H. LaRouche, Jr. released on Feb. 24 a communication addressed to him by attorneys for the Club of Rome. In a news bulletin accompanying the release, he stated, "I affirm here and now, that according to the standards of international law set forth by U.S. Justice Robert Jackson for the Nuremberg War Crimes Proceedings, the Club of Rome is an outlaw association, an international conspiracy whose principals 'know or should have known' that its advocacies would represent in practice of nations genocide on a scale as much as one hundred times greater than the genocide perpetrated by the Nazi regime. I also affirm that numerous officials of our federal government, including Club of Rome member [Sen.] Claiborne Pell [D-R.I.], fall under the categories of persons guilty of complicity in perpetrating crimes against humanity."

The Club of Rome, founded in 1967 by personnel associated with NATO and NATO's policy planning civilian counterpart, the Organization for Economic Cooperation and Development (OCED), advocates population reduction, and intensification of the economic backwardness and constraints on technologically advanced agro-industrial investments which have already condemned millions in the so-called Third World to misery and death.

Mr. LaRouche is a leading official of, or contributed to the founding of, the organizations cited in the letter from the Club of Rome's attorney. Excerpts from that letter, and the text of his reply, follow.

A memorandum from the Club of Rome's lawyer

February 23, 1982

Re: The Club of Rome; the U.S. Association for The Club of Rome; Aurelio Peccei

Dear Mr. LaRouche:

This firm has been retained by The Club of Rome ("COR"), the U.S. Association for The Club of Rome ("USA/COR"), and Aurelio Peccei in regard to a two-year pattern of harassment and defamation apparently perpetrated by you and a number of individuals and organizations closely connected with you. . . .

1) Background. For almost two years, you and the printing presses you apparently control have directed a stream of abuse and invective toward our clients and those with whom they associate and wish to associate. Our opinion is that many of your statements constitute legally actionable defamation under the laws of New York, the District of Columbia, Maryland and Virginia, as well as other jurisdictions in which National Caucus of Labor Committees leaflets, *Fusion* magazine, *Executive Intelligence Review, New Solidarity* newspaper, Citizens for LaRouche and National Democratic Policy Committee documents, and other materials produced by you have been published or disseminated.

Furthermore, you appear to have conspired and acted systematically to disrupt COR and USA/COR meetings and events by harassing participants, shouting vilifications and insults, and otherwise behaving maliciously to inflict injury upon our clients and their associates. Our opinion is that your actions consitute a conspiracy to deprive our clients of federally protected rights and, as well, as tortious.

In the paragraphs which follow we summarize our major areas of concern and the legal actions, civil and criminal, which they invite.

2) Malicious Intent to Injure and Disrupt. Your goal does not appear to be simply engaging in healthy, albeit aggressive, debate with our clients. Rather, you have indicated time and again that you seek to destroy The Club of Rome and its affiliates and that you are prepared to utilize apparently unlawful means toward that objective. As stated in a 1980 Citizens for LaRouche leaflet, you seek to "[s] tamp out The Club of Rome!" *See,* also, "Stamp Out the Aquarian Conspiracy" issued by Citizens for LaRouche, June, 1980, p. 5.

In a December 8, 1981 issue of *Executive Intelligence Review* ("*EIR*"), a November 22 "statement" attributed to Lyndon H. LaRouche, Jr. urges the audience to "[d]eclare war against all Malthusian, pro-genocide entities such as the Club of Rome" and states that you wish to "crush" that organization. This suggests that your malicious intentions have not abated since May of 1980 when your publication *New Solidarity* stated under the headline "LaRouche Campaign Team Confronts Club of Rome at United Nations" that a COR conference "was largely destabilized by a crack team of organizers from Citizens for LaRouche" via, *inter alia,* "targeted first hand encounters with the conference controllers" and a systematic pattern of "attacks" on conference organizers and participants.*

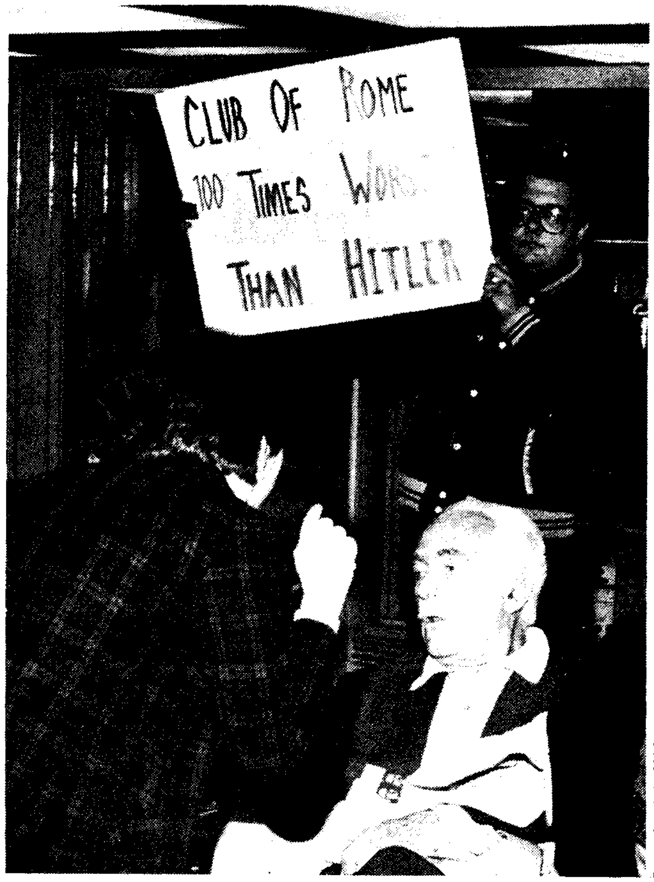
Let us be clear; our clients do not dispute your right to disagree with them and their views in law abiding fashion and to express yourself strongly. Rather, we must insist that malicious and otherwise unlawful actions intended to disrupt and injure The Club of Rome, USA/COR, their private events and public assemblies (all of which involve First Amendment protected activities) cannot and will not be tolerated.

3) **Defamation.** As you must be aware, even publicly visible organizations and individuals like our clients can secure legal redress for maliciously intended and uttered defamatory remarks, both written (libel) and oral (slander). Yet your constant barrage of outrageous defamation over the past two years shows no signs of abating.

You personally delivered remarks to a Fusion Energy Foundation conference in Washington only last week in which you called The Club of Rome "Nazis" (February 19, 1982). One month earlier, at New York's Kennedy Airport, you picketed and distributed leaflets charging that COR is *"100 times worse than Hitler"* and that Mr. Peccei is a "cannibal" who "should not be allowed to enter the United States" (International Caucus of Labor Committees leaflets).

On January 5, 1982 at the American Academy for the Advancement of Science conference in Washington, D.C., Fusion Energy Foundation leaflets described the *Limits to Growth,* a COR sponsored study, as a "deliberate Malthusian fraud . . . cheerfully admitted to be by its own sponsor, Club of Rome head Aurelio Peccei!" You must know that Mr. Peccei made no such admission and the study, no matter how much you disagree with it, is not a deliberate fraud.

*It is noteworthy that the co-author of that article, Mark Burdman, also was the author of an anti-Club of Rome diatribe in *Fusion* magazine (September 1980) and was described at the foot of that article as "a counter-intelligence expert for the *Executive Intelligence Review* [who] has done extensive research on the Aquarian Conspiracy and its destruction of U.S. scientific capabilities." These inter-connections suggest that the above-quoted statements are not the product of a disinterested journalistic observer but, rather, or a member of your communications team.



Stuart Lewis/NSIPS

National Democratic Policy Committee antagonists met Aurelio Peccei at Kennedy Airport in New York on Jan. 16.

A November 22, 1981 statement attributed to you personally and reprinted in the December 8, 1981 *EIR* describes COR as a "creation of the OCED organization attached to NATO . . . and the British SIS-controlled Islam and West complex . . . working on behalf of a genocidal, Malthusian world-order" and a "pro-genocide entit[y].* As I am sure you are aware, the Club of Rome was neither created nor has it ever been controlled by NATO and in no way advocates genocide. . . .

Let us conclude this summary of recent apparent defamations with the following description from a December 8, 1981 article in your *EIR* (p. 52)—"U.S. Club of Rome plots an organizing take-off"—which, insofar as the following quotation is concerned, we believe accurately describes an event which took place at USA/COR's November 17-19, 1981 meeting:

> [A] representative of former Democratic presidential pre-candidate Lyndon LaRouche walked up to the microphone and announced, "I am indicting everyone here in this room under the Nuremburg statutes for crimes against humanity 100 times worse than Hitler. You are all murderers and genocidalists."

In summary, during the past two years you repeatedly have characterized our clients as "kooks," "genocidal," "cannibals," (and once in a May 1980 Citizens for LaRouche handout Mr Peccei was called a "atavistic cannibal"), employers of "Gestapo storm trooper tactics," "a creation of NATO intelligence," practitioners of "deliberate ... fraud," "body snatchers," "brainwash[ers]," a "monstrosity" and, to repeat a particularly detestable phrase you apparently favor, "100 times worse than Hitler."

Needless to say the above characterizations are intended to hold their targets to ridicule, vilification and disrepute and are patently false and must be known to you as such. Apparently, they were published in furtherance of a malicious conspiracy to injure and destroy our clients. Given the clear and abundant evidence of your ill will and malicious intentions toward our clients, we believe that (1) your comments do not fall within the judicial "fair comment" defense and (2) there is no defense available under First Amendment doctrine initially enunciated by the United States Supreme Court in *New York Times* v. *Sullivan,* 376 U.S. 254 (1964).

4) Harassment, Unlawful Interference with Plaintiffs Affairs, Intentional Infliction of Injury. Active harassment of our clients' conferences, meetings, and events by you began with the May 8-9, 1980 conference at the United Nations in New York City jointly sponsored by COR and the United Nations Institute for Training & Research. Your picketing and leafleting outside the UN, except to the extent that conference participants were assaulted or threatened or defamations were uttered, were constitutionally protected modes of communication. However, attempting to hand out leaflets inside the conference and shouting insults and disruptive remarks which led to your removal from the premises by UN police authorities plainly overstepped the legal bounds.

Similar behavior has taken place at other events of our clients, including the May 28, 1980 USA/COR Membership Conference at Marymount College in Arlington, Virginia (disruptive pickets were expelled from the campus) and the November 17-18, 1981 USA/COR Membership meeting at the 4-H Center in Chevy Chase, Maryland. The latter was infiltrated by your supporters who, according to a December 8, 1981 article in *EIR*— "U.S. Club of Rome plots an organizing take-off", uttered defamatory remarks and disrupted the meeting to the extent that "[p]andemonium broke out."...

Then again, when Mr. Peccei arrived at and departed from JFK Airport on January 16-17, 1982, your picketers hounded, abused and confronted him, in an apparent attempt to inflict emotional distress and interfere with his ability to travel freely. . . .

In the past our clients have been lenient, satisfying themselves with removal of your unlawful presence from their events, restoring order, and focusing on more serious matters. However, your pattern of harassment seems to be escalating and we no longer are prepared to forego efforts to fully enforce the pertinent laws, criminal and civil.

We have reviewed the federal and local laws applicable to the District of Columbia in general and the Smithsonian Institution in particular and are alerting the appropriate law enforcement authorities about your past conduct and the types of violations which would arise if you continue your pattern of harassment. . . .

We hope that you will see fit to conduct your affairs in a manner which does not violate any civil and criminal laws, including those alluded to above. Accordingly, we have chosen not to burden the courts with a request for preliminary injunctive relief prior to the March 2 event. Rather, we hereby put you on notice and, as noted above, have notified the appropriate law enforcement officials.

Furthermore, to assure that any disruptive or otherwise unlawful acts are graphically recorded, our clients' activities next week, including the March 2 conference, will be videotaped, photographed, and otherwise observed by appropriate security and police authorities.

In brief, we expect that your future activities, including those on and around March 2, will provide no occasion for our clients to initiate legal proceedings or for the police to arrest or prosecute you. If you disappoint this expectation, rest assured that we are prepared to pursue the appropriate avenues for legal redress. . . .

Sincerely yours,
Asher & Schwartz
by Thomas R. Asher

LaRouche responds to Club of Rome message

Thomas R. Asher — Feb. 24, 1982
Asher & Schwartz
1232 Seventeenth Street N.W.
Washington, D.C. 20036
RE: *The Club of Rome/U.S. Association for the Club of Rome*

Dear Thomas Asher:

Your communication, dated February 23, 1982, is not an accurate representation of the whole matter it purports to embrace. Not only are the publications associated with me probably the most scrupulously accurate in known general circulation today, although often egregiously accurate; every representation known to me as made by myself or my associates respecting Mr.

Aurelio Peccei and the Club of Rome is accurate, and all characterizations of Peccei and the Club of Rome adduced from fact is well within the bounds of fair comment.

Perhaps you are too young to have experienced the shock so many Americans of my generation experienced, as the facts of the Nazi-directed genocide were exposed at the close of the last World War. Contrary to a popularized misrepresentation of that genocide circulating widely today, although perhaps as high as a million and a half Jews were killed by the Nazis directly and simply because of homicidal anti-semitic projects such as Goering's Green File project, the majority of the Jews, Gypsies, slavs, social-democrats, communists, and others killed by the slave-labor/death-camp system died as a result of Nazi versions of Malthusian doctrines of practice.

Since 1973, upon study of the *Limits to Growth* text sponsored by the Club of Rome, my associates and I have worked to stamp out the influence of the evil policy doctrines advocated by Aurelio Peccei and his Club of Rome associates. The reduction of the policies of the Club of Rome to practice among nations must surely mean genocide on a scale one hundred times or more greater than that which the Nazis perpetrated.

I admit that the public conscience of courts and public has much decayed in the United States since the time Justice Robert Jackson submitted his famous and noble opinion respecting international law to the Nuremberg proceedings. Today, even a significant number of political figures in the United States support or merely condone policies and practices of euthanasia identical with those for which the United States condemned Dr. Karl Brandt and others in the postwar Nuremberg proceedings at Nuremberg. So prominent public figures as George Ball and General Maxwell Taylor propose policies of population-reduction against Mexico and other nations, policies which can be accomplished in practice only by methods as evil or worse than those for which the Nuremberg proceedings condemned the Nazis. I admit that our legal practice and public conscience has degenerated in these and other connections during the recent decades, toward a pragmatic form of "value-free" notions of public policy, which denies the existence of any such higher moral authority over the laws of nations as Justice Jackson identified in connection with U.S.A. policy for the Nuremberg proceedings. Perhaps, indeed, such decay in public policy of practice signifies that we are a nation and people losing the very moral fitness to survive.

In fact, by reference to the standards of policy embedded in the Nuremberg proceedings, the Club of Rome is a conspiracy stubbornly dedicated to promoting policies which become genocide in practice of nations, and that conspiracy has repeatedly avowed its dedication to woo nations as well as supranational officials and other institutions into adopting such policies for practice. Therefore, by Nuremberg stipulations as to standards of evidence, your clients are guilty of crimes against humanity, as persons who "know or should know" that the practical consequences of the policies they advocate mean genocide potentially on a scale one hundred times greater than that perpetrated by the Nazi regime.

At present, the work of the Club of Rome represents a direct danger to the lives and other fundamental human rights of aged and ill in the United States, as well as threatening to make me, as a citizen of the United States, complicit as a citizen in mass murder of sections of populations in many parts of the world, should the Club of Rome succeed in its growing influence over official and other policy-makers and policy-influencers in this nation.

Evil as the work of Aurelio Peccei et al. have been, I believe in the possibility of redemption of the individual from evil ways and advocacies. I and my associates have frequently sought public debate with Peccei et al., to the purpose that we might not be guilty of failing to seek their redemption from evil ways through efforts to activate something decent within their own conscience. However, for the sake of the victims of Nazi genocide as well as the threatened hundreds of millions today, I can not regard the Club of Rome as anything but what has proven itself repeatedly to be a conspiracy dedicated to advocating policies whose clear consequences must be genocide one hundred times greater than that perpetrated by the Nazi regime.

Finally, thus far, your clients have emphatically refused debate on these issues of policy, a pattern of refusal which dates from no later than the FAO [Food and Agriculture Organization of the United Nations] conference [on population reduction] in Rome of 1974. Therefore, we have been obliged to confront them in debate on these grave issues by whatever alternative means were available to us. Your letter implies a willingness for civilized debate on your client's behalf which has never been manifest but on one recent occasion, a proposal by Peccei for a U.N.O. debate between himself and myself, an offer made recently at Kennedy International Airport.

Within the conditions required for my physical security as an endangered international public figure, I would readily accept Mr. Peccei's offer for a U.N.O.-sponsored setting for such a debate.

Sincerely yours,
Lyndon H. LaRouche, Jr.

P.S. Respecting documentation identifying fact and establishing "fair comment," your letter refers to publications in which the facts and inferences are more than adequately represented. It is not necessary to repeat the content of the equivalent of several volumes of evidence in a single item of correspondence.

NDPC session in Washington challenges Americans to regain control of policy

by Mary McCourt

At the conference on "Turning Back Volcker and the World Depression" in Washington, D.C. Feb. 19, internationally noted economist Lyndon H. LaRouche, Jr. and Helga Zepp-LaRouche, the Chairman of the pro-development European Labor Party in West Germany, unfolded for an audience of 350 members and guests of the National Democratic Policy Committee (NDPC) the political process that must take place in the United States to reverse economic disaster and danger of war: a rapid weaning of Americans from their dangerous passivity, cultivated by the American media, and an equally rapid growth in understanding of the international strategic situation.

'America's best ally'

Helga Zepp-LaRouche opened the NDPC conference Friday afternoon by naming those in the current U.S. administration who are plotting to topple the government of the best ally the United States has: West German Chancellor Helmut Schmidt. President Reagan himself recognizes the importance of Schmidt to the stability of Western Europe and world peace, but members of his administration—Defense Secretary Caspar Weinberger, Undersecretary of Defense for Policy Fred Iklé, and former National Security Adviser Richard Allen are in the thick of the plotting, she charged, along with Henry Kissinger and others.

"By naming them [in the nation's capital] perhaps we can deter them from their planned course of action." Mrs. LaRouche told her audience, which included NDPC members from the East Coast and Chicago and representatives from a number of foreign embassies.

Zepp-LaRouche's outline of the "topple Schmidt" operation pointed up the parallels to the wrecking campaign against American politicians and industry. For one thing, the German Marshall Fund, nominally a staunch supporter of NATO, is channeling money to the fascist "green" movement in West Germany which the "greenies" are using to stir up opposition to Schmidt's commitment to nuclear energy and the Atlantic Alliance.

Another way of directing the "peace" movement in Western Europe against Schmidt, she warned, is the possible speedup of the timetable for installing the Euromissiles on West German soil, and leaks about the sites of the missiles. Although not scheduled until 1983 (and Schmidt stresses that a second phase in the decision process could halt the Euromissiles if real progress is made in East-West disarmament talks), any acceleration in the timing could touch off riots and target the presence of U.S. troops in West Germany. West German institutions themselves would fall into jeopardy.

Finally, Schmidt's base in the labor unions is being hit with a media-run scandal campaign identical in method to the Abscam-Brilab frameups.

Nothing could be more bitterly ironical than the use of the "peace" movement—and the manipulation of Europeans' well-founded fears of nuclear war—against Helmut Schmidt. In fact, Zepp-LaRouche stressed to her mostly American audience, Schmidt is such an important taget because he has a sensuous understanding of how the economic breakdown of the 1930s led to war. "The dedication of leaders . . . like Schmidt or Brezhnev or the Pope . . . when they say we must avoid war . . . is nourished by the experience of having gone through this." He is not, Zepp-LaRouche emphasized, dreaming of becoming a communist; he understands that East-West economic cooperation is the key to war-avoidance.

To the visible shock of her listeners, she traced the developments in Germany during the 1930s that are now being repeated, step by step, in the United States. Fascism has nothing to do with so-called national characteristics, she said; it is an economic policy which led to the creation of a war economy; and it is a mass movement that wants to destroy science and progress. These now exist in America.

LaRouche: We hanged Nazis for this

That evening, the founder of the NDPC, Lyndon LaRouche, picked up the theme of Americans' responsibility to stop a global descent into fascism.

"Twenty years ago, Americans would never have tolerated the behavior of Paul Volcker . . . or of the scalawags protecting him—these people are committing crimes for which the U.S. government hanged Nazis at Nuremberg!" LaRouche stated.

Volcker is an "agent of foreign power, who deliberately set out to wreck the U.S. economy," LaRouche said. The NDPC's task is to build so powerful a political force in this nation that it can take over the Democratic Party from the anti-industry Harriman faction that has run it since the end of World War II.

Under Volcker's regime, the U.S. economy is now "turning inflation inward." Although some figures show a slowing of inflation, price inflation is actually being absorbed by cannibalization of the entire real economy—and this includes the American population.

It is only because Americans have become "too pragmatic, put up with too much" that they allow Volcker to commit treason against the continued existence of the United States, and allow "too many elected officials to take their orders from the *Washington Post* or the Brookings Institution."

The organizing process begun by the NDPC after the Carter debacle in the 1980 presidential election can reverse this process, he said. The NDPC is not simply building another political action committee, as Reagan did in 1976 to support his own election. "We are actually creating political institutions through which citizens will have an influence on the policy process. The question will stop being, 'Can I trust this guy LaRouche?' and will become, 'Can I trust myself to do the job?' "

NDPC chapters at a new take-off point

by Mary McCourt and David Wolinsky

Lyndon LaRouche's keynote at the first major conference of the National Democratic Policy Committee in the nation's capital Feb. 19 was a "showing of the flag" by the $1\frac{1}{2}$-year-old group, which announced plans to increase its membership tenfold, to 100,000, by the end of this year. Economic crisis has imparted renewed urgency to the NDPC and its constituency. In early February, LaRouche set the short-term goal of 500 NDPC local advisory chapters through the country. By Feb. 19, the NDPC's Chairman, Warren Hamerman,reported to the more than 300 participants in the Washington gathering that 91 chapters had already been formed.

The multi-candidate political action committee was founded by LaRouche, a contender for the 1980 Democratic presidential nomination, in September 1980 after the Democratic National Convention renominated Jimmy Carter and set itself on the course to the party's worst electoral defeat in the 20th century. LaRouche announced the NDPC's major target would be the Carter-nominated Federal Reserve Board Chairman Paul A. Volcker. Over the past 18 months, the battle against Volcker's credit strangulation policies and other assaults on the U.S. Constitution—especially the Abscam-Brilab crime-creating apparatus in the U.S. Justice Department—has drawn into the LaRouche group increasing numbers of mainstream Democrats who are horrified at the takeover of their party by zero-growth "Aquarians" like Democratic National Committee Chairman Charles Manatt and House Speaker Tip O'Neill.

LaRouche told the Washington audience that the onset of depression due to Volcker's continuing control of economic policies, and the assault on constitutional government that is coming to a head with the effort to expel Abscammed Senator Harrison Williams of New Jersey from the Senate (see page 50) have made it a matter of national survival for the NDPC to "organize the best forces in both parties . . . to pull together across the country. Then, we have to move in and *take over the Democratic Party.*"

The Trilateral Commission and Socialist International circles supporting Manatt are known to be concerned that the NDPC may fulfill its threat. The following survey of the fastest-growing U.S. political action committee indicates why:

- **California:** The NDPC has already consolidated 57 local chapters here, focused on former Regional Coordinator Will Wertz's campaign to get the Democratic nomination for U.S. Senator. Wertz is opposing incumbent Governor Jerry Brown, nationally known as a guru of the "post-industrial society."

Wertz has targeted Brown's ally, Tom Hayden, as the leader of the drive to turn the Democratic Party into an instrument of fascist policy (see *EIR*, Jan. 26, 1982.) Hayden's Campaign for Economic Democracy controls a quarter of the state's Democratic Party Central Committee. Wertz is counterposing the high-technology development potential of such programs as the NAWAPA project to bring water from Alaska for agricultural and industrial use, which would help maintain the state as a leader in both economic and population growth.

- **Washington State:** Ninety people founded the state chapter of the NDPC in a Seattle meeting Feb. 15, which was reported the next day in the *Seattle Times.* There are now 15 chapters in the state. Republican Rep. Sid Morrison met with the Chairman of the Yakima chapter after the NDPC's rating system for congressmen was explained to him. The "scorecard" uses four issues: 1) Volcker's high interest rates; 2) policies promoting genocide, such as the *Global 2000 Report* commissioned by the Carter administration; 3) drug trafficking and 4) organized crime, including the Justice Department's Abscam entrapment operation.

The NDPC here has led the defense of pro-nuclear former State Senate President Gordon Walgren, convicted in an FBI Abscam-style frame-up, drawing many of his most active supporters in the Democratic Party into NDPC ranks. Walgren, who won a legal fight to remain out of jail while he appeals his conviction, called on the audience to join the NDPC, which "alone has shown the ability to fight" the destruction of the party's pro-growth leadership. National Farm Organization State President Wendell Prater, and Galen Windsor, a nuclear fuel reprocessor, who have both joined the state Advisory Board of the NDPC, also spoke. Walgren also sent a message to the Feb. 19 rally calling the NDPC "the only national political organization that has recognized the need for forceful action in combatting the illegal and unconstitutional actions of the FBI and Justice Department".

• **New York:** Six chapters, including Rochester and Buffalo, have been formed here, following tours in the upstate area and on Long Island by Mel Klenetsky, candidate for Democratic nomination for the U.S. Senate seat currently held by Patrick Moynihan. Klenetsky was backed by the NDPC in a challenge to Ed Koch for the Democratic nomination for mayor of New York City in 1981. Klenetsky campaigned on a program to rescue New York from Koch's budgetary policies, which he compared to those of Nazi Finance Minister Hjalmar Schacht. Klenetsky is equally blunt about Moynihan, whom he has labeled a "public disgrace, an unabashed racist, and an early advocate of Global 2000 policies: 'benign neglect' for American cities."

The Bronx, New York advisory chapter is joining the campaign of the New York Anti-Drug Coalition calling for investigation of the director of the Lincoln Hospital gynecology department, Dr. Antonio Silva Iglesia, who is attempting to replicate in New York his "Puerto Rican experiment" responsible for sterilizing 20,000 women in Puerto Rico while he was Sub-Secretary for Health there for three years in the early 1970s.

• **New Jersey:** Five chapters are being formed in this state, where the NDPC has mobilized in the defense of Senator Williams. On Feb. 11, New Jersey labor leaders joined with the state NDPC to form the first national-level labor organization committed to destroying the Justice Department's Abscam operation, the National Labor Committee to Defend Harrison Williams. A press conference following the meeting in Atlantic City, New Jersey, was held by Robert Cericola of Teamsters local 331 and William Toland, President of International Brotherhood of Painters and Allied Trades local 144. Manatt's Democratic National Committee instructed party officials in the state to stay away from the meeting.

NDPC National Chairman Warren Hamerman addressed the New Jersey state-wide NDPC meeting in Elizabeth Feb. 22, which was attended by members and chapter heads. He told his audience that action must be taken because in the middle of a national crisis, a lame U.S. Senate may vote to commit suicide by expelling Harrison Williams. The meeting resolved to make its outrage against Abscam known to at least 10 percent of all the Democratic Party officials in the state, within a week, in a mobilization to prevent a Senate vote expelling Williams. Five new advisory chapters were formed.

• **Texas:** The Southwest is an expansion area for the NDPC. Its organizing is focused on the need for a NAWAPA-type water project to prevent another dust-bowl. LaRouche addressed the major NDPC Conference on Water from Alaska Feb. 27 in Houston. Tours of the region by Coordinator Nicholas Benton sparked the formation of chapters in Dallas, Albuquerque, New Mexico and Phoenix, Arizona. NDPC meetings held in Oklahoma and Kansas, also affected by the water development issue, resulted in a regional advisory chapter.

• **Illinois:** The NDPC is establishing four chapters in this state, and plans to endorse the congressional campaign of Sheila Jones, who is running in the 9th Congressional District. Although a member of the Democratic Party, Jones is running on the Anti-Drug Party ticket because, she declared when she announced her candidacy, the Chicago Democratic machine of Mayor Jane Byrne has been corrupted by illegal drug interests. Jones's opponent, 30-year incumbent Democratic Sidney Yates, is a favorite of the environmentalist Sierra Club.

• **Michigan:** The first NDPC advisory chapter here was founded in the auto city of Flint by moderate Democratic Party networks. Flint has one of the highest unemployment rates in the United States.

• **Pennsylvania:** The NDPC-supported gubernatorial candidate Steven Douglas began his first major campaign tour of the eastern part of the state Feb. 23. The head of the Montgomery County NDPC chapter represented Douglas at a 1,000-person Democratic Party candidates meeting held Feb. 21.

In Philadelphia, NDPC chapter head Bernard Salera has taken news of the official Italian investigations into terrorism and its links to the Propaganda-2 Masonic lodge and U.S. Scretary of State Alexander Haig—blacked out by the American media—to local Italian-American organizations.

• **Virginia:** Advisory chapters formed in Richmond and Waynesboro jointly sponsored an anti-Volcker resolution that was passed unanimously by the Rules Committee of the State Assembly in early February.

• **Washington, DC:** The Greater Washington NDPC chapter was founded Feb. 9 at a meeting which continued the campaign to block passage in the U.S. Congress of the pro-euthanasia Natural Death Act of 1981 for the District. The chapter initiated a move to impeach Washington Mayor Marion Barry for allowing the Natural Death Act to pass the City Council.

Congressional Closeup by Barbara Dreyfuss and Susan Kokinda

Congress says NASA cuts will hurt economy

In hearings Feb. 22 on their portion of the NASA FY 1983 budget request, members of the House Subcommittee on Space Science and Applications voiced their concern over the administration's proposed cuts. Subcommittee Chairman Ronnie Flippo (D-Ala.) declared that although he hoped the economy would revive itself, he was worried that if technology programs are now cut "we won't be in a position to take advantage of the economic recovery."

Similarly, ranking minority subcommittee member Harold Hollenbeck (R-N.J.) questioned the proposed elimination of NASA's program for an advanced-technology operational communications satellite. "These programs have tangible short-term payoffs," he stated. Hollenbeck reminded the NASA witnesses that the subcommittee had authorized $9 million in technology-transfer programs, "and now you're using it to phase out these activities."

Hollenbeck also sharply questioned whether the administration's assumption that the private sector will assume responsibility for technology transfer from NASA research was based on "speculation."

In reply, NASA witnesses Dr. Burton Edelson, associate administrator for space science and applications, and his deputy, Andrew Stofan, said that the cuts Hollenback mentioned were due to budgetary constraints and not NASA's evaluation that the programs should not be funded. The decision not to use the modified Centaur rocket for the Galileo mission to Jupiter, for example, Stofan said, was the result of "near-term budgetary problems." He stressed that NASA is preserving the options to reinstate these programs in 1984 if it is clear—as NASA thinks it will be—that government funding is necessary because the private sector cannot pick up the tab.

Rep. George Brown (D-Calif), a vocal NASA supporter, commented that all the members of the committee "understand the budgetary situation." However, he said, The cutbacks may inhibit the administration's own desires to stimulate economic development and global technology marketing." There are no indications yet whether the subcommittee will be able to add money to the NASA budget to reinstate these areas.

Polish debt hearing used for Europe-bashing

A Feb. 23 Senate Banking Committee hearing on the merits or demerits of forcing Poland to officially default on its debt, became a platform for several tirades against Western Europe. Senate Banking Committee Chairman Jake Garn (R-Utah) warned that "the Western European delusion of being able to continue to pursue a separate detente with the East while the United States foots the defense bill, cannot continue . . . with the current disunity in the Western Alliance, it is an open question as to which side has the most leverage on the current $73 billion owed by the East to the West. . . . Which bankruptcy will be shown: the bankruptcy of the Soviet system or the bankruptcy of the NATO alliance?"

Committee witnesses included State Department number-two man Lawrence Eagleburger, Treasury's Beryl Sprinkyl, and Lazard Frères's Felix Rohatyn. Rohatyn has a great deal of experience with governmental bankruptcies, having presided over New York City's. The witnesses and the committee member politely jousted over whether an official U.S. declaration of Polish default would "punish" the Poles and the Soviets more than the current state of de facto default. The administration tion spokesmen argued that under the current situation, some repayment of loans to U.S. institutions was occurring, while an official declaration of default would probably dry up that flow.

But behind the tactical disagreements, all participants agreed that credit from the West to the East must become an aspect of strategic leverage, a policy calculated to drive the United States and Western Europe further apart. Rohatyn called for western central banks to assume private bank debt to Poland at 50 percent of face value and to then assume all credit negotiations between West and East, subject to foreign policy objectives. As an alternative to central bank control of East-West loans, he further suggested licensing loans just as strategic materials exports are licensed.

Eagleburger assured Garn that the State Department was exploring "new mechanisms" for dealing with East-West credit and that he fully shared the goals of transforming credit into a strategic weapon.

Labor Committee reruns investigation of DoL

Senate Labor and Human Resources Committee Chairman Orrin Hatch (R-Utah) joined hands with Department of Labor Solicitor General Timothy Ryan in hearings Feb. 23 in an intensified investigation of the handling of pension funds by the Department of Labor (DoL). The Labor Department has been a favorite target of a rather questionable coterie of investigators over the years, who have charged that the DoL is "soft" on investigating organized crime connections to organized labor. The investigators have included Ted Kennedy's Walter Sheridan, with ties to Resorts International and Meyer Lansky, Senate Permanent Subcommittee on Investigations staffer Marty Steinberg, who has praised the Dope, Inc. colony of Hong Kong as a model of narcotics enforcement, and Hatch staffer Frank Silbey, whom sources have connected to the Israeli Mossad. Silbey, building on years-previous spadework by Sheridan and Steinberg, has resurrected an investigation of the Labor Department's handling of a case involving the Southern Nevada Culinary Worker's Union and Las Vegas casino owner Moe Schenker. The Feb. 23 and 24 hearings revolved around time-worn charges that Labor Department investigators "failed" to pursue or recommend criminal, rather than civil, litigation in this and other cases.

While observers who have followed these hearings felt caught in a summer rerun as Hatch pursued the Labor Department's handling of the investigations, one new element did arise: Solicitor General Timothy Ryan's testimony and announcement that he has ordered an internal investigation of the handling of 11 cases thus far and has discovered "allegations of serious improprieties" in DoL handling of two cases. Ryan, a former member of Carter Attorney General Benjamin Civiletti's law firm, has admitted to leaking information to PSI investigator Steinberg and has placed the DoL in full cooperation with congressional investigating committees during Labor Secretary Donovan's political paralysis as a result of the ongoing investigation of Donovan.

Hatch has promised that his investigation will continue.

Volcker 'not the problem' Ways and Means agrees

Testifying before the House Ways and Means Committee Feb. 23 on the state of the economy, Federal Reserve Board Chairman Paul Volcker found widespread rhetorical agreement from among members of Congress who agreed that pursuing a decrease in the Federal budget deficit is the single most important matter for restoring health to the U.S. economy. This Wall Street-originated line of argument was promoted by Democrats who had only months previously attacked high interest rates. Only Ways and Means Chairman Dan Rostenkowski attacked the high interest rates.

Rep. Cecil Heftel (D-Hi.), one of those who previously hit at high interest rates, this time promoted a "productivity-tax based incomes policy," and demanded that the country "go back to the drawing boards on a balanced Federal budget." Rep. Fortney Stark (D-Cal.) demanded and got an affirmative from Volcker as he insisted, "isn't stability [of interest rates], rather than rate itself—no matter how high—more important to long-term investment decisions?"

Rep. Russo established for the record that the Fed in the fall of 1979 changed its policy from one of controlling interest rates to controlling money supply, and that the result had been disaster. Rostenkoswki and his allies also tried to establish that there has been no historic relationships between federal deficits and interest rates.

In a related development, House Majority Leader Jim Wright (D-Tex.) attempted to address the problem of the Fed's usurious interest rate policies by calling for a tax on income derived from interest payments above 15 percent on any loan. Politically interesting for trying to take interest rates on, the proposal nonetheless reflects the economic policy weaknesses of the moderate Dems.

Outside of these few moderate Democrats, the only other attacks on Volcker came from the increasing politically panicked House Republicans. At the Ways and Means hearing, Rep. Bill Archer (R-Tex.) demanded of Volcker "How can we have the needed growth in the country with interest rates higher than inflation. . . . What price and what cost are we going to have to pay to wring inflation out of the economy? . . . Unemployment at 20 percent, interest rates at 30 percent. I think that would be Pyrrhic victory. One area we need to cut is the interest on our national debt."

National News

Wallop warned on toppling Germany's Schmidt

Senator Malcolm Wallop (R-Wyo.) has been formally warned to disassociate himself from the activities of an aide, Angelo Cordevilla, and either fire the individual or discipline him severely. Representatives of the National Democratic Policy Committee report that one of them spoke to Wallop's administrative assistant, William Smith, informing him that Codevilla's clearly unethical involvement in an international conspiracy to topple the government of West German Chancellor Helmut Schmidt was known, and that Codevilla himself had confided as much.

Wallop is Chairman of the Senate Ethics Committee.

Assistant Smith protested that the NDPC had not provided enough evidence to permit the Senator to take action against Cordevilla. The NDPC spokesman reported his reply: "It is not our job to monitor the ethics of your staff. Frankly, given the ease with which we came by this information, we find it difficult to believe that you and the Senator are not already very much aware of the activities of Mr. Cordevilla."

Joe Lisker challenged for Billygate coverup

In a statement issued Feb. 24 through the New York headquarters of the National Democratic Policy Committee, Lyndon LaRouche, former Democratic Party presidential candidate, denounced former Justice Department official Joseph Lisker as a "traitorous bastard" who "covered up the crimes of Billy Carter and Billygate."

Lisker is presently the majority counsel for the Senate Judiciary Subcommittee on Terrorism and Internal Security. Under the Carter administration, Lisker was the head of the Department of Justice's Foreign Agent Registration unit, a post out of which he blatantly covered up the criminal associations of Billy Carter.

"Lisker is a traitorous bastard who lied to the American people by covering up the crimes of Billy Carter during the affair known as Billygate. In that affair, the President and his brother sold out the United States to a group of Sicilian Mafia heroin traffickers and Libyan dictator Qaddafi. I know for a fact that Lisker was up to his neck in the affair from beginning to end and that he concealed certain crucial information that would have sent the President, his brother, Attorney General Civiletti, and others to jail, and would have broken the stranglehold of a drug and terror mob over the United States that to this day remains the greatest national security threat to all Americans."

Justice Department protects murderer?

An accused murderer thought to be employed in the FBI-administered "Federal Witness Protection Program" (FWPP) is now on trial in San Digeo, California for the murder of Richard Barrington Crake, a La Jolla lawyer and land developer.

Numerous FWPP employees, like Jimmy "the weasal" Fratiano, have been accused of murder and other crimes while under FBI supervision—Fratiano is known to have killed 11 people, 3 while working for the FBI. He has never been prosecuted.

The San Diego district attorney has refused to reveal the identity of the murder defendant there. The Justice Department refused to reveal the name of the same individual several years ago, when he sued the man he is now accused of murdering. At that earlier trial, Crake asked the defendant, called "Herman Martin," if he intended to order a physical attack on him. "Martin" replied: "With you, it would be a pleasure."

On May 12, 1981, Crake was found murdered. The perpetrator was an employee of "Martin's" insurance agency who pleaded guilty, and fingered "Martin" for ordering the killing and supplying the gun.

It is believed "Martin" is Herman Goldfarb, a Justice Department witness against New Jersey teamster official Anthony Provenzano in 1974. He has been employed by the FWPP since then. If guilty, his act would be the eighth murder by FBI employees in the last year alone.

Europe protests 'rider' against weapons trade

The European allies are up in arms over the U.S. State and Defense Departments belated "discovery" of a rider to the Defense Appropriations bill passed last December which threatens to cut off military trade between the U.S. and other NATO member-nations. The rider, inserted by GOP Senator Abnor of South Dakota, bars U.S. importation of any weapons system or munitions or components containing metals like titanium and cobalt. It was backed by Colt Industries, headed by David Margolis of the Schlumberger interests, a major Swiss banking-family interest.

Every NATO member-nation has protested the rider, which now has the effect of law. It would force the United States to cut off about $400 million in arms imports from Europe and elsewhere, or force those nations to re-tool their production of such weapons systems to meet the anti-metallic standards. The allies might retaliate by cancelling contracts for purchase of billions in U.S. weaponry.

Although the State and Defense Departments did not move to kill the rider when the bill came up, the administration is now officially committed to its repeal. However, it is known that many individuals in both departments of the government plan a "reorganization" or even elimination of the NATO alliance. Fred Iklé, Defense Under-secretary for Policy (and another Swiss-banking family spokesman) has proposed no U.S. trade with the allies if they persist in trading with the Soviets.

Enterprise Institute's volunteers running drugs

On Feb. 20, Philadelphia police arrested Hassan Fattah, security director of the "House of Umoja," for possession of marijuana, amphetamines, and other pills in undisclosed amounts. The Philadelphia cult-organization has been extensively funded by the American Enterprise Institute as a "model" agency for administering President Reagan's "volunteerism" programs and "free enterprise zones" in U.S. cities.

During a visit last fall, President Reagan met with the House of Umoja's leader, Falaka Fattah, mother of the arrested drug-pusher. In a statement made prior to her son's arrest, she said: "There are 80,000 unemployed youth in Philadelphia, and the only way they're surviving is by drugs. . . ."

"Enterprise zones," a program sold to the President by the nominally conservative American Enterprise Institute, are to be free of health, safety, minimum wage, customs, and other forms of government regulation. Such special zones in Egypt were recently found to contain vast warehouses of illegal drugs. Miami, where such a zone has existed for more than a year, is also known to be an entrepôt for drug-traffic as a result.

The House of Umoja is part of AEI's "mediating structures" program based on street gangs organized with the objective of taking police, fire, sanitation, and education services in such zones. Under the arrested Fattah, the cult now runs security for the 7-11 chain stores in Philadelphia. Umoja runs several "companies" with gang-employees, and has 12 more in planning stages. The Philadelphia Reserve Board is collaborating in the creation of an Umoja-operated chain of computer centers.

A November 1981 cover-story in *War on Drugs* magazine charged that "free enterprise zones" would give control of U.S. cities to international drug-pushers, and asked that the American Enterprise Institute be specifically investigated for ties to such interests.

Smithsonian co-sponsors Club of Rome meeting

The Club of Rome's March 1-3 conference in Washington, D.C., intended to promote the club's program of mass population reduction, is co-sponsored by the Smithsonian Institution, which is 70 percent funded by taxpayers' dollars through federal grants. Among the U.S. government figures who serve on the Smithsonian's Board of Regents are Supreme Court Chief Justice Warren Burger; Vice-President George Bush; Sens. Jake Garn, Barry Goldwater, and Henry Jackson; and Reps. Edward Beland, Silvio Conte, and Norman Mineta.

An aide to Senator Jackson, asked if it were usual for the Smithsonian to host a private group's conference, replied, "Oh, no, it's very difficult from private groups to get in. They [the Club of Rome] are there because the Secretary is co-sponsoring the conference, due to common pursuits and goals."

The Secretary of the Smithsonian is S. Dillon Ripley, who served with the OSS during the World War II, was active in the World Wildlife Fund in the 1960s and 1970s, taught at Yale for 18 years, and bears the title of Honorary Knight Commander of the Most Excellent Order of the British Empire.

In response to a remark that the institution's sponsorship of the Club of Rome violates its 1836 testamentary commitment "to promote knowledge among men," a Smithsonian representative said, "Well, it doesn't say good knowledge or true knowledge, just knowledge."

Briefly

- **UNION** labor will do a better job, concluded Houston Power & Lighting Company, centered in the nation's leading "right to work" state. The utility, which fired Brown & Root, the big non-union firm, hired fully unionized Ebasco Services to complete their South Texas Nuclear Project. Ebasco has experience in constructing 40 nuclear plants. Brown & Root failed to complete its South Texas assignment due to shoddy workmanship.

- **THE ASSOCIATION** of American Universities and the Defense Department have set up a new joint committee, chaired by Defense Undersecretary Richard DeLaurer, and Stanford University President Edward Kennedy, who said their purpose will be to find ways of restricting the distribution of scientific knowledge, "and to see if a way can be found to make restrictions acceptable."

- **DEAN FISHER,** a State Department spokesman, was asked by *EIR*'s Washington correspondent to comment on the fact that Secretary of State Alexander Haig and Assistant Secretary for Economics Robert Hormats share the views of the Club of Rome. Fisher replied, "So what!"

- **PAUL PADDOCK,** son of United Fruit Company employee William Paddock, a purported agronomist who once called for the death of 30 million Mexicans through sealing the U.S. border, has enthusiastically endorsed a Feb. 22 statement by Alexander Haig saying that U.S. intervention in El Salvador might be necessary to stop the flow of illegal immigrants into the United States. "We have to go in there full strength and really do some damage," said young Paddock; "otherwise we'll be overrun with refugees."

Editorial

Reshuffling the China Card

Certain Anglo-American banking and intelligence circles are proposing a new kind of China Card. They recognize that the old version—the use of a militarily strong China against the Soviet Union—has been made obsolete by Peking's military budget slashes and its decimation of industry.

Like the ruling Deng Xiaoping factions, the supporters abroad of the new China Card are prepared to write off China as an industrial or military power. Indeed, they are prepared to write off most of mainland China, except for certain coastal enclaves.

Instead, they hope to use the new Special Economic Zones emerging on China's coast as the center of a Pacific economic and political bloc encompassing the two Koreas, Taiwan, Japan, Malaysia, Indonesia, Singapore and Hong Kong. This bloc will huddle happily around the oil extraction in the South China Sea, the resources of the surrounding countries, and the sweatshop economies of Hong Kong, Singapore, and the Hong Kong-like Special Economic Zones in China. Supposedly this U.S.-led, China-centered bloc would suppress any nationalist tendencies among the nations of Southeast Asia while keeping the Soviets out of the region.

As *EIR* founder Lyndon LaRouche told a Washington, D.C. audience in February, this insane scheme will no more come to pass than the original China Card, but the stubborn pursuit of this policy by our nation's leaders could spell disaster.

The reason, as *EIR* will document fully in an upcoming Special Report, is that China is going through a classic "dynastic collapse" that will make the 1958-61 Great Leap Forward, in which some 20 million people died, seem mild by comparison. The notion that the coastal regions of China can remain immune from this collapse, or that the surrounding nations will join a China-centered bloc under such conditions, is ludicrous.

China faces this collapse because its current rulers are repeating the same policies which caused such catastrophes in centuries past. The term "communist" is completely without meaning in China—as would be the term "capitalist." The current regime holds the same ideology as its oligarchical forebears.

Foremost in this ideology is a hostility to urban-centered technological progress. The Deng faction—whose days in power are numbered—has in the last year drastically cut production of every item needed for industrialization: oil down 5 percent, steel down 5 percent, machine tools down 25 percent, power generating equipment down 65 percent! In a drive to prevent industrialized agriculture, they have cut tractor production by half and irrigation by an as yet undetermined amount in time of flood and drought—exactly the pattern of previous regimes.

This means China cannot support its population. For centuries China's population had never risen above 60 million. Instead its population rose and fell in dynastic cycles, each of which ended with the death of millions. This is beginning to happen again. As part of a campaign to reduce its population by 300 million by 2080, China is enforcing abortions and even murder of newborns under a one-child-per-couple law. The regime is about to cut the subsidies that keep 250 million from outright starvation.

The other nations of the area understand this process, even if U.S. leaders do not. This is why they are aghast at U.S. cooperation with Peking in trying to put Pol Pot back in power in Cambodia, at our plans to arm China, and at our attempt to subordinate their economies to a China-centered bloc.

These Southeast Asian nations remember very well that in the mid-19th century, the last time China faced a collapse as vast as it faces in the coming years, millions of Chinese refugees from the southern provinces ravaged countries to the South as far as Singapore. They fear this could be repeated.

There are even some people in the West who apparently see such an eventuality as the "final solution" to the Vietnam problem and the nationalism of Malaysia and Indonesia—the eventual third stage of the China Card. Everyone who indulges in such scenarios should know that those are the conditions that breed global war.