

# EIR

Executive Intelligence Review

March 16, 1982

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# EIR

## From the Managing Editor

**B**y the time you read this issue of *EIR*, the Senate will presumably have come to a decision in the case of the senior Senator from New Jersey, Harrison Williams. It is worth noting the statement on the Senate floor by one of Williams's fellow Democrats, Alan Cranston of California; although we do not agree with his proposal to censure Williams, we emphatically support his call for "a full Senate investigation of executive-branch misconduct" in Abscam.

Cranston declared: "I am sure all Senators share my deep concern about an undercover operation directed against the Senate by executive-branch prosecutors who unblinkingly asserted in an Oct. 2, 1981, government brief on this matter that 'undercover operatives do not need probably cause, or even reasonable suspicion, to commence an investigation.' Mind you, the so-called 'undercover operative' in question here is not the clean-cut, high-minded agent of 'This Is Your FBI' fame. Not at all. The operative here [Mel Weinberg] is one of the sleaziest crooks and con artists ever caught and convicted of a federal felony. He was then turned the government, to pursue and ensnare members of the Congress at a time when the government had no basis to suspect them of criminal wrongdoing or propensities. . . .

"It takes little imagination in light of the events of the last decade or so to conjure up a scenario whereby an executive branch . . . might target a member of Congress because of the member's anti-administration views and actions."

We also wish to report on *EIR*'s scrutiny of Malcolm Wallop, the Wyoming Republican who as Chairman of the Ethics Committee spearheaded the drive to expel Senator Williams. Wallop is the grandson of the Eighth Earl of Portsmouth, an agent of the Hudson's Bay Company, which attempted to cut off U.S. expansion to the Pacific. His maternal grandfather was Edward Small Moore, a director of Nabisco, American Can, and other Morgan-connected interests which established the Population Crisis Committee and the Anti-Defamation League, both conduits for British intelligence. Wallop's own activities, apart from the efforts of his aide to promote the ouster of West German Chancellor Helmut Schmidt, will be the subject of a forthcoming report in *EIR*.

*Susan Johnson*

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G. de Villiers/Syigma

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## Talk of capital controls mounts in Europe

by Laurent Murawiec, European Economics Editor

The failure of Ronald Reagan to understand the fundamental economic and strategic argument repeatedly brought to his attention by especially West German Chancellor Helmut Schmidt, that high interest rates are not only causal in an economic depression but also in strategic military weakness, is now forcing drastic reassessments of policy on the European side of the Atlantic.

Europe as a whole is up in arms—and down in the trough of recession. There is shared anger at the wicked policy of Paul Volcker and the blindness of the President of the United States. “Europeans have made it a habit to charge the Americans with everything that goes wrong; but this time, they’re right,” said one of the deans of European central banking this week.

As leading Europeans perceive that the U.S. economy has now crossed the threshold into depression, and threatens to draw the rest of the world with it, elementary notions of self-defense are invoked: contingency plans must be drawn up immediately, and their implementation accelerated. The European Community already counts more than 10 million unemployed. A further rise in U.S. interest rates, or the necessity to increase European rates to prevent massive, speculative capital outflows crossing the Atlantic in search of quick, dollar-denominated paper profit, could be the last straw for Europe’s stability.

### Consensus in summit meetings

The final communiqué of the Schmidt-Mitterrand summit meeting launched one more pressing appeal to

Ronald Reagan: “In this severe crisis of the world economy, it is necessary for our governments to intensify their consultations on economic policy matters. Our two governments consider *the revival of international cooperation to be a most urgent task*, especially in view of the growing unemployment. . . . The extremely high level of American interest rates has severe consequences for the West European economies. The French and the West German government will try to win the support of other partner countries in the European Community in order to master these problems” (emphasis added).

What European relations could do in case they failed to make a dent on official American views was being leaked “from German delegation sources,” the press reported: The EC countries would, in any form or shape, impose *exchange and capital controls* to protect themselves.

This received confirmation when Mitterrand flew to Rome for a state visit. In the press conference held jointly with Italy’s Premier Spadolini, the French President stated “our three countries [including Germany—L.M.] are in total agreement to take measures that would allow us to escape the consequences of high U.S. interest rates: cut our interest rates and take the guarantees that we could resist possible outflows of capital.”

The European Commission’s monetary committee has been instructed to draft proposals to that effect, which will be presented on March 15 to the EC’s finance ministers, passed on for approval to the Community’s heads of state and government at their March 29





Edward Heath

summit meeting.

That the principled "free-traders" of Europe should even consider the notion of exchange and capital controls is a striking description of the desperate mood that prevails here concerning U.S. economic, monetary, and financial developments. That West Germany's Chancellor Schmidt would entertain such thoughts is a measure of the gravity of the situation, and the hopelessly low level of his confidence in Ronald Reagan. To a large extent, at present, *Europe has no other alternative.*

### Enter Her Majesty's men

"Europe must act to insulate itself from the next shocks to world trade from a collapse of the dollar. . . . In the United States, the unprecedented overvaluation of the dollar caused by high interest rates and a loose fiscal policy is bound to damage growth and bring instabilities to the world's currencies. The determination of the U.S. authorities to avoid intervening on the markets to control the value of the dollar will make things worse. The European Community should insulate itself by selective use of exchange controls and greater supervision of the Eurocurrency markets," said Edward Heath, former British Prime Minister and *éminence grise* of the so-called Brandt Commission, in a major speech delivered at the annual Fulton, Missouri Lecture at Westminster College.

Edward Heath, in the circumstances of Britain in the last few years, would hardly utter half a sentence without the prior agreement of Foreign and Common-

wealth Secretary Lord Carrington, whose political asset he has been ever since the assumption of power by Margaret Thatcher.

The Carrington grouping, which runs Britain's foreign and international economic policy, has thus powerfully stepped into the total international vacuum created by Reagan's inability to respond to Schmidt's call. It is London which is now claiming that monetary-policy leadership which has fallen from the hands of the United States.

Carrington, who just paid a much-noticed visit to Schmidt's home town, Hamburg, and addressed the prestigious club of the local patricians, the Uebersee-Club, profusely praised the German Chancellor, who reciprocated in kind.

It is in that sense that one of Edward Heath's closest associates was justified in telling *EIR* that "the U.S. government has managed to bring Europe into a remarkable coalition of interests."

What is remarkable about it is that Schmidt, who always totally rejected any notion of Europe as an anti-American "Third Force," is now being driven by sheer "realism" into the said coalition of interests.

What would happen otherwise was graphically described by EC sources: The German government is undermined by recession, which weakens the coalition. . . . In France, Mitterrand must deliver on his promises, or else. . . . In Italy, the economic crisis is such that the very manageability of the country is at stake."

Schmidt himself told a meeting of his party that high unemployment throughout the West was directly caused by U.S. interest rates, as well as the whole downturn of the world economy, and that, at the upcoming July Paris summit of the "Big Seven" Western nations, the European leaders would try to force a reduction of world interest rates.

The battle will be severe on this continent between the likes of Schmidt, who still will try to bring Reagan on board for a policy of recovery starting with the laying off of Paul Volcker, and the "third force" advocates of an "independent Europe" who are already trying to impose their old project of a "European currency" challenging the dollar as a response to the crisis. The Sprinkels and Weidenbaums of Washington, who pour scorn on America's best allies and thus add insult to injury, are worsening the situation.

"Reagan's budget is extravagant—and Volcker's policy is suicidal. Interest rates must come down or else there is neither change to stop a blowout of the international credit markets, nor a depression spreading from the U.S. to the rest of the world," the already-cited senior central banking veteran said. There is indeed very little time left to do that, and avert the strategic disaster that a Euro-American split would represent.

## 'Volcker's policy is suicidal'

*The following statement to an EIR correspondent was made March 2 by a senior French monetary expert long associated with the Basel, Switzerland Bank for International Settlements.*

It is obvious that the financial markets are overloaded with loan demand. It started with trade deficits that kept on swelling—there was too much liberalization of trade, too much free trade. Whole sectors of industry are now being phased out for that reason. Then came the oil-price problem. Then, the financial deficits, balance of payments deficits, the huge requirements of the U.S. budget, and the financing requirements of both developed and developing countries.

Interest rates go up as a result of the fact that there is a shift from the national to the international markets. Since national markets are limited by restrictive monetary policies, people go to the international markets, which supposedly are unlimited in size. Unbalanced budget policies transfer the burden from the national to the international level.

The U.S. budget deficit is unthinkable crazy.

Excess demand for funds creates tension for interest rates. In turn, this creates defaults, for example, the East bloc, Latin America. And defaults will spread and develop further. Will there be bank failures? Right now, the authorities seem to have the situation under control. If the vast increase of interest rates does restore some balance to the markets, it is at the price of a depressive effect on investment. . . .

This creates a vicious circle. You need interest rates to be smaller than the marginal rate of productivity, short of which there is no investment. Since you cannot come back on all kinds of benefits and advantages earned by labor unions . . . less investment means more unemployment, more recession, higher interest rates. This is a cumulative process but it cannot go on indefinitely. It results in massive exacerbation of the economic crisis.

Too large a role has devolved on monetary policy. Of course, it has some anti-inflationary virtues. Look at the United Kingdom or the United States. But at an extravagant price! The point has come where people must wonder whether it is wise to pursue such policies. We have reached the limit of the efficacy of monetary policy.

And since no country can really take isolated initiatives, the key is in Washington. And there, it is the budget policy: more taxes, less borrowing.

Generally speaking, we need two things: First, we

have gone too far in the direction of free trade, with GATT and the whole post-war liberalization. I'm not referring to the European community, since most of us are in similar situations. But outside, the limits of free trade have been reached and crossed. As a result, Brussels is reviewing protectionist measures, and every country is taking protectionist measures, clandestinely.

The second thing is this: U.S. interest rates must come down. The deadlock of Volcker and Reagan, the chicken-and-egg situation of interest rates and deficits, must end. Reagan's budget proposal is extravagant.

Reagan must increase taxes. He cannot cut social spending, which he's already cut too much . . . nor the defense budget, which would be strategically dangerous. So more taxes. Of course, it could initially have deflationary effects. But in return, it would mean a lowering of the financial burden on the corporate sector.

I like Volcker personally. I think he's courageous and smart. But his policy is suicidal. It must stop.

Europeans have made it a habit of blaming Washington for whatever happens. Well, this time, they're right.

## 'Collapse is imminent'

*From an interview with a leading Swiss bank economist, Gerard Vila, on Feb. 27:*

**Q:** What do you expect the result of Federal Reserve monetary policy to be?

**A:** There is an obvious danger of soaring U.S. interest rates, which will aggravate the U.S. and the world recession. The only way to avoid that would be to increase taxes; that's the only thing that would work, but how can Reagan do that? Arithmetically, it is impossible that the Federal Reserve would respect the monetary targets that have been set, unless they accept idiotic interest rates, well upwards of 25 percent, which is impossible when unemployment is close to reaching two digits. So one link in the chain is going to have to give.

**Q:** What is your view on the American re-armament program?

**A:** The dose of de-industrialization that Volcker's policy is inflicting upon the United States is incredible, and I wonder how much longer that can go on. If you look at the defense industry, the situation is such that they will soon have to import nails and screws from Japan or Korea. Then the moment the Russians decide they've had enough, they take over Korea, and there goes the U.S. defense buildup. Now at the same time, the administration is insisting on the buildup. I agree with the



general aim of it all, that the United States should regain its military pre-eminence, but the means that are being applied are just laughable, miserable. Just think of the amazing import dependency of U.S. defense industry.

**A:** What will be the result, in your view?

**A:** The Americans are going to be compelled to change their policy. They will yield on monetary policy, they will slow down the defense buildup, and they will increase taxes. I'm told that there is going to be a massive wave of riots with the blacks this summer. Everything's ready for a complete collapse. There should have been at least 25 large-scale bankruptcies in the financial system already, had it not been for the fact that the Fed organizes one or two takeovers or mergers per week. This is the best recipe for the great historical type of collapse! That's exactly what was happening in Germany before 1931, before the banking crisis; they blurred the distinctions between various sectors of the financial structure, got the stronger to take over the weaker, absorb their losses—and then the whole system collapsed.

## 'Don't exaggerate danger'

*The following interview was conducted by EIR correspondent Mark Burdman March 2. Julian Amery is a Tory member of Parliament with extensive experience in China and the Balkans. Married to the daughter of former Conservative Prime Minister Harold Macmillan, he has written for the National Review and the Heritage Foundation in the United States.*

**Burdman:** Chancellor Schmidt, in an assessment we concur with, has argued that America's high interest rates are a crucial causal factor in the global economic decline and strategic dangers resulting. What is your assessment?

**Amery:** The President's budget in the United States calls for high interest rates. There doesn't appear to be a way of avoiding that dynamic. But many people I talk to think that interest rates will be coming down this year, and have the attitude of waiting and seeing a little bit. Interest rates might be coming down to 2-3 points above the rate of inflation, according to some economic people I met with yesterday. Some of the thinking involved is that the recession has hit bottom in Europe. With oil prices coming down and energy now cheaper, there is some hope for industrial recovery. There is some thinking too that the Reagan tax cut may boost investment in the States.

One must be cautious about exaggerating the importance of interest rates. Here in London, transactions are

taking place at the 13.5-to-14 percent range, which is tolerable relative to the rate of inflation. I think Schmidt is trying to explain to his domestic constituencies why there are 2 million unemployed in West Germany. There will be no avoiding some amount of high interest for a while as long as Reagan has to borrow money abroad to finance federal spending. We have to wait and see, and not exaggerate the matter.

**Burdman:** Concerning potential strategic crises, there is much worry over the combination of the Balkans and Cyprus. What is your view of these regions?

**Amery:** The Balkans are a very sensitive area. It's the gray area between NATO and the Warsaw Pact. Yugoslavia is the gray area; it belongs to no bloc, and Albania doesn't either. The Balkans game is being played by all concerned, in the sense that Moscow, for example, would very much like to see Yugoslavia brought back into the orbit of the Warsaw Pact. But I see no immediate crisis. The Kosovo affair appears to have somewhat receded into the background. Cyprus has become very worrisome with the recent efforts of the Papandreou government, but behind pushing for an international conference, what exactly can Papandreou do? He may want mediation from someone like Brandt, but these efforts don't always succeed, as can be seen from the results Olof Palme [former Socialist Prime Minister of Sweden] is having in the Gulf.

**Burdman:** Concerning the Gulf, what is your assessment of the Gulf states coordinating against the threat from Iran? It appears that Lord Carrington and Caspar Weinberger both think that advantage can be gained among these countries by playing them off against Iran, in terms of building some kind of new alliance among them.

**Amery:** The Gulf states are increasingly working together on internal security policies, and I view this as a positive, important step forward. My guess is that Weinberger's efforts are directed at supporting such trends.

## 'Europe needs own role'

*Below are excerpts from an interview with Simon May, international affairs adviser to Edward Heath, former Conservative Prime Minister of Great Britain. Mr. Heath is Chairman of the advisory council of IRIS, the world's largest private intelligence agency, incorporated last year in Washington, D.C. and scheduled to begin operations in June. He is also a prominent member of the World Bank-sponsored Brandt Commission. EIR's Mark Burdman con-*

*ducted the interview with Mr. May on March 2.*

**Burdman:** It was my impression that not much active success had been achieved in winning the Arab Gulf powers over to the Brandt Commission's perspective. Do you agree?

**May:** Not at all. The Arab countries are very closely associated with the Brandt Commission. One Brandt Commissioner, Hammad, is a very top official in Kuwait, and one of the most influential figures in the Arab world. Also Ted Heath and I have very close relations to the Saudis. Heath is personally close to the Saudi King and to Crown Prince Fahd, while I have lots of close contacts among lower-level princes, people in Saudi Arabia who are up-and-coming and becoming increasingly important. Heath had a number of long conversations with them, including contacts with them when they came to London. There's no doubt at all in my mind that they want to move with the Brandt Commission.

But the Saudis' problem is that they never take the initiative on their own, and they see the U.S. and the British blocking everything. But take the energy affiliate of the World Bank which the Commission is pushing. The Saudis and Cancún made it very clear that they support that affiliate very strongly, but they waited for an American initiative around this. My feeling is why should we wait for the United States? Why not have Germany, France, Canada, Japan, Saudi Arabia, and Kuwait act together? Also India is very, very key, and so is Nigeria from the south. Why wait for the U.S.? The total European GNP is equal in dollar terms to that of the United States, and we have vast Eurocurrency markets. Why not move on an energy affiliate, as well as a food institution, to create international mechanisms of food security?

Here I am talking about an economic operation within the context of the world monetary situation, unlike something like changing the IMF, which would indeed require the U.S. to participate. What I want is an operation within the framework of the international economy. The Saudis, Kuwaitis, and Emirates could go along with this, although the Saudis are admittedly the most nervous about giving up on the United States. My idea is to have a conference at which you have an empty chair labeled, "United States," a U.S. ghost in effect, to give solace and comfort to the Saudis. We should try all sorts of little tricks like that to give solace to the Saudis.

**Burdman:** Are you saying that U.S. economic policy, including the high interest rates, create the conditions necessitating independent European "third force" economic moves?

**May:** Very much so. But now you're taking it a little further, not just management of the system, but changing the parameters of the system, as opposed to an operation

within the parameters of the system. It is necessary to pursue the regional approach that you are referring to. We need a more evenly spread international system, with more of the labor being shared between U.S. and Europe. We need a European currency, not necessarily a separate currency, but perhaps a parallel currency. . . .

**Burdman:** Overall, you see the Volcker interest rates policy as a motivating catalyst toward regionalist European moves?

**May:** Absolutely. The Volcker high-interest policy makes the EMS and similar moves a more plausible target for Europe in the short term.

**Burdman:** How are you and Mr. Heath now viewing the strategic situation in the Mediterranean, Middle East, and Gulf region? Do you see immediate potential for crisis?

**May:** Well, certainly, the Aegean-Cyprus situation is coming to a boil. We in our office here are saying that no alternative exists but for the EC [European Community] to take an initiative on Cyprus at this point. There must be a senior figure appointed to do some shuttling. The EC in this situation is different from the U.S. and the Soviets. It can accomplish something. And Britain is the guarantor power, a fact which Papandreou is now using to get the British to exercise their leverage to get the EC to do something.

In the Middle East as such, my view is that the EC initiative is a lot of window-dressing. We don't have leverage with both sides. But on Cyprus, by contrast, political capital can be gained by the EC. The Cyprus issue is arousing a great deal of interest. Europe has ties into both camps of an historical and related nature. Europe has an available mix of carrots and sticks to use in this situation.

**Burdman:** Are you thinking in terms of some "European Third Force" being active in this crisis?

**May:** Exactly! This is an excellent example where Europe can act as a third force between the U.S. and the Soviets. You would have the British active as the guarantor power, while there would be a very effective division of labor, a division of abilities, throughout the rest of Europe. The United States, by contrast, is unpopular with both sides, with Turkey because of the arms embargoes. This is a Catch-22 situation for the United States. If it withholds arms, it arouses Turkish anger; if it sends arms, the Greeks get angry. By contrast, it is a classical area where the European division of labor should be exploited in the EC. Besides, we all know how important Cyprus is strategically for the whole Mideast region. It was my boss, Ed Heath, remember, who denied access to Nixon for the airlift to Israel in 1973. Heath thought at the time that he could keep the Arabs in the Western

camp by doing this. It was a signal to the Arabs that he acted this way. . . .

**Burdman:** Would you see Willy Brandt as the appropriate person to do the mediation?

**May:** I met Brandt in Kuwait after his year-end trip. I think there is a possibility of Brandt being brought in. There are also people in France who could be used. . . .

**Burdman:** Are there other conflicts that concern you in the area, say from Iran and the Gulf to Northern Africa?

**May:** I personally am very concerned with the Sahara question. I paid a visit there in 1981 at the behest of Polisario, and I met with the organization's president. The Moroccans have an enemy that is absolutely formidable, and I wasn't brainwashed to say that. I was terribly impressed by the Saharouis or whatever they call themselves. They have immense mastery of the whole area, they've been there for centuries, they have a great knowledge of the desert terrain. . . .

**Burdman:** Who is aiding them from the outside?

**May:** . . . Algeria supports them massively, and the whole Algerian people supports this policy. There is some talk of Libya, too, supporting the Polisario, but I have no proof of this.

**Burdman:** What about the Socialist International?

**May:** Oh, yes, them too. The Soviets may be supplying them with arms, likely through Libya or Algeria. From the Socialist International standpoint, the French are most active in support of Polisario. . . . In London, they don't have much governmental support, no foreign office person has met them, and we boycott them, which I think is quite wrong. They are a serious political force.

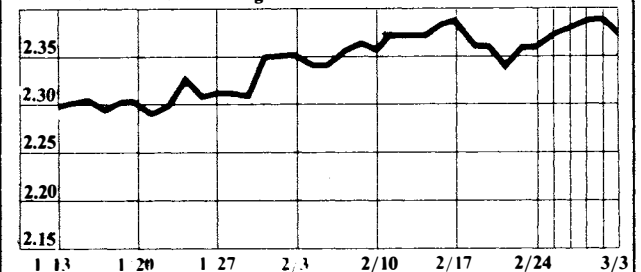
Because of the Polisario fighting, it has become difficult for the Moroccans to back down now, and it will become more difficult as time goes on. Twenty percent or more of the Moroccan budget is tied to the armed conflict, and hundreds of thousands of lives have been lost. Almost every Moroccan family has somebody who has died in the war. There is enormous scar-tissue throughout Morocco on this, and if Hassan backs down, people will start asking what was it all for, what have we done? So Hassan must go on fighting, he has no choice. Then, if a serious threat develops to his regime, there will be an internationalization of the crisis. The U.S. will come rushing in behind him. There are already signs that the U.S. is getting very worried, and so the trend toward internationalization is developing. . . . So, Cyprus and the Spanish Sahara are the two areas where Europe can play a third force role.

I'm cynical about such a possibility in the Middle East, where we have nothing to give the Arabs and no leverage with Israel.

## Currency Rates

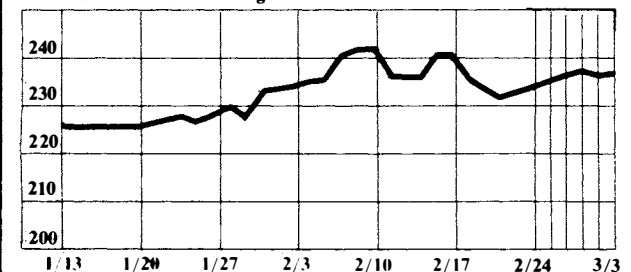
### The dollar in deutschemarks

New York late afternoon fixing



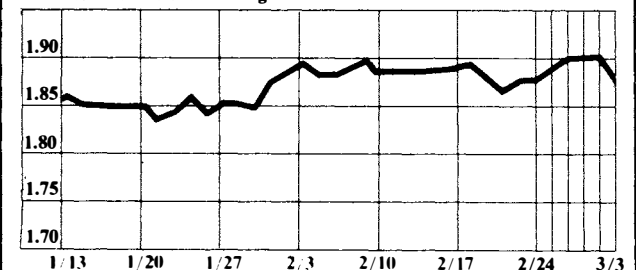
### The dollar in yen

New York late afternoon fixing



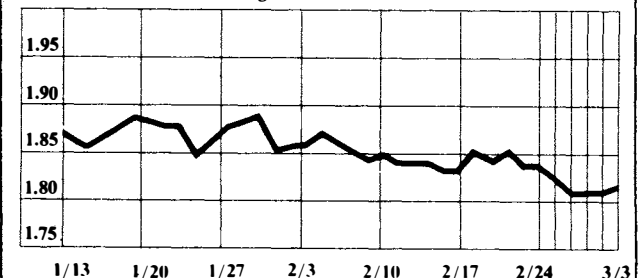
### The dollar in Swiss francs

New York late afternoon fixing



### The British pound in dollars

New York late afternoon fixing



# Wall Street wants to pull the banking plug

by Richard Freeman

The U.S. banking system, stretched to the limits of its own illiquidity, is now set to experience a new round of bankruptcies, which could send the entire American financial system up in smoke. All the important ratios of the banking system, from the so-called "illiquidity" ratio to the fixed interest charge ratio, are in the danger zone.

Now the *Wall Street Journal*, the most widely read business daily in America, comes along and recommends, in the name of "free-enterprise" banking competition, a plan that will guarantee the collapse of the banking system by shutting the doors on its most troubled entities.

## 'Close the bank'

The *Journal* states that the agencies responsible for insuring commercial banks (the Federal Deposit Insurance Corporation) and S&Ls (the Federal Savings and Loan Insurance Corporation) should stop insuring the deposits of the most troubled institutions. These agencies, says the *Journal*, "have been bailing out banks which have no business staying in business. . . . It's a habit they'll have to break if banking deregulation is ready to restore a level playing field to the financial industry."

The *Journal* continues: "And the next time a bank with a portfolio of unmatched maturities shows its face at a federal agency, the punishment ought to be swift and sure: Close the bank. . . ."

Perhaps, a reader might think, the *Wall Street Journal* is merely trying to improve the competitive position of the American banking system. Let us examine the consequences of the *Journal's* recommendations.

The U.S. corporate sector has borrowed up to its ears from the banks. These corporations are paying interest debt-service through the nose. Close the door on the troubled banks, and there will be an immediate calling-in of loans to corporations, which will send some of the latter into bankruptcy.

This jeopardizes hundreds of borderline financial lending institutions, which will suddenly have to get insurance coverage from the federal government to meet their bills. In other words, a chain reaction of bank failures will be touched off, and, according to the sly *Wall Street Journal*, the government should refuse "any bailouts."

The illiquidity of the American banking system is indisputable—and hardly a secret. The adjusted illiquidity ratio for the banking system is at an historic high.

This ratio is calculated by measuring a bank's loans and loan-like obligations against the bank's assets. That is, in the numerator, one places the loans of the bank, plus commercial paper. The growing volume of commercial-paper borrowing is backed by bank lines of credit, and thus qualifies as a bank loan obligation, which the bank would have to answer for in the event of crisis. In the denominator, there are the bank's assets, which includes loans as well as investments in securities, cash, etc.

At the start of 1976, the adjusted bank illiquidity ratio for the entire banking system stood at 73 percent. By the start of 1979, it stood at 78 percent. By late 1981, after Paul Volcker had been Fed Chairman for 30 months, the ratio was up to 86 percent. A dwindling share of banks's assets are now cash; instead they are in the form of loans whose value is becoming more and more dubious.

## Fixed-charge ratio

Another tool for describing the same problem is the banks' fixed-charge coverage ratio. This measures earnings before interest and taxes, divided by preferred dividends plus interest charges. As interest rates rise, pushing up the interest charge portion, the denominator gets large and the ratio falls.

In 1961 the ratio stood at 11.65. It declined steadily over the next 15 plus years, until in 1979 it was 6.20. But by the end of 1980 it had fallen to 5.01, and it is below 4.0 today. And the ratio of cash and equivalents to current liabilities fell to 0.15 in 1981, meaning that banks have 15 cents in cash to cover every dollar of their liabilities.

This sort of illiquid banking system cannot survive the cutting off of federal government insurance programs. The *Wall Street Journal*, whose principal allegiance is to Swiss-centered anti-growth financial circles, rather than to the United States, is deliberately courting a financial blow-out.

**Note from the editor:** The debasement index introduced in our Feb. 23 issue, which shows the combined rate of change of official U.S. inflation and industrial output, will appear monthly. *EIR* is in the course of preparing further monthly indices, including a measure of the real rate of U.S. unemployment. Also coming up are studies based on computer projections employing the LaRouche-Riemann econometric model, including a study of the Soviet economy and an examination of the historic correlation between industrial growth and investment in national infrastructure.

## Tindemans' stability plan

*Managing exchange rates and interest costs between the Japanese, the United States, and Europe.*

It went almost unreported in the U.S. media, but Belgian Foreign Minister Leo Tindemans met his Japanese counterpart Michio Watanabe in Tokyo March 3 to propose a three-way deal between Europe, Japan, and the United States to stabilize currencies and interest rates. Tindemans called for "a new international monetary system," because, as he warned, "confidence in the present one is ebbing rapidly."

As matters stand in Washington, where non-interventionist Beryl Sprinkel still holds sway over Treasury policy, Tindemans' plan has no apparent chance to succeed; but this does not erase the great importance of his initiative. Tindemans, in effect, is holding out the prospect of monetary crisis-avoidance to the United States, and the most accessible one Washington currently has available.

At present, Japan's reaction is cool; Watanabe, the Japanese wire service Jiji reported March 3, said that work on the plan would make no sense unless the United States showed an interest which has thus far not been evident. According to European Monetary Commission sources who preceded Tindemans in discussions with the Japanese, the latter point out that only West Germany has a position which inspires confidence among the European countries at the moment, and that matters of currency coordination were better discussed with

them than with the European group as a whole. In addition, the European sources said, Japan does not want to discuss monetary cooperation until Europe stops pressuring Japan over its export surplus with the European Community.

However, few Japanese leaders would have disagreed with the urgency with which Tindemans presented the case in a Tokyo statement March 4. The world political situation would deteriorate rapidly unless Europe, Japan, and the United States took joint action to bring down interest rates; in particular, he criticized the Japanese for failing to take a more prominent role in world affairs.

But because there is now such little hope for currency cooperation in the United States, the Japanese Finance Ministry sees no point in pressing the issue. As for a bilateral agreement with the Europeans, Japan would not consider such an affront to the United States until such time as the United States had already entered an irreversible financial crisis, and the Europeans demonstrated the guts to take really independent action.

Japan is rightly suspicious about the Edward Heath or François Mitterrand sort of "currency coordination," which boils down to controls on capital outflow. First, Europe's medium-term problem is not capital outflow, but a potential collapse of the dollar in the range of 30 to 40 percent—as Daiwa Securi-

ties has warned for some time now. Secondly, capital outflows from Europe as such are not the principal danger Europe faces, since they would be matched by European central-bank liquidation of Treasury securities in order to support European currencies. The danger is, rather, currency chaos and reduction in international trade.

There are two real possibilities apart from total dissolution of the monetary system. The first is a classic devaluation of the dollar, which has already been discussed (but only as a last-gasp possibility) among central banks; the United States would lower interest rates, and permit the dollar to fall, while the Europeans agreed to buy many of the dollars sold on the market. This action would reflate Europe (through capital inflows) and the United States (since the dollars ending up in European central banks would be converted into U.S. Treasury securities). To prevent such action from turning into a new round of monetary inflation, the central banks would have to peg currencies after the dollar had fallen perhaps 15 percent, and then back up the new parities with gold transfers when necessary.

Secondly, European controls might take effect after the dollar credit system had already entered a crisis; in this form they would be a means of maintaining some flows of trade financing where normal channels have been shut down. It would be naïve to imagine that Japan does not have such a fallback option at hand; it bought 200 tons of gold during 1981 for precisely such purposes.

Any other form of controls would only be an unstable interim measure.

## Nose dive for the airlines

*Between deregulation and interest rates, six of the largest carriers could crash by autumn.*

**I**t is possible that by autumn, as many as six of the nation's top air carriers could be in bankruptcy court. In 1981, only three of the top 10 airlines made profits (American, Delta, and Northwest), and one of these did so only because it sold off some of its assets. But high interest rates on top of the deregulation introduced in 1979, which has cut air traffic by some 12 to 15 percent, is now taking more out of the airlines every day than they can continue to sustain.

If one or two large airline companies were to go under, worried bankers would call in loans against others, and this could quickly lead to a wave of bankruptcies throughout the economy, such as has not been seen since the 1930s.

The problems of the airlines are mounting daily. Braniff Airlines, the eighth largest American line, announced March 2 that it will pay its workers only half pay for the week ending March 5, and hopes that it will have enough cash to pay the remainder the following week. Edward Daly, who owns the medium-sized World Airways, announced March 1 that, "I'm not running scared, but if I don't get relief I will be out of business. It might be a week or a month." World Airways laid off 2,500 workers Feb. 12.

The airline industry registered a net loss of \$350 million in 1981. But the airlines got \$389.6 million in capital gains in 1981 from selling

assets, including hotels, to raise cash. They also got \$165.7 million from the sale of tax loss credits to other companies; by rewriting pension provisions to delay payment into funds, they knocked \$59.3 million off pension costs. On top of this, the airlines wrung several hundred million dollars in concessions from its workforce. Without these measures the industry would have lost \$1 billion to \$1.2 billion in 1981. The airline's lobbying association, the Air Transport Association, reported at the end of February that the airlines will lose \$350 million during the first quarter of 1982 alone.

The combined effects of high interest rates and deregulation are demonstrably the cause for the airlines' demise, as *EIR* predicted in our Sept. 15, 1981 survey. For example, Tiger International's 1981 operating profit (i.e., before deduction for interest rates) was \$133 million, which was more than wiped out by Tiger's \$195 million in interest debt service for the year.

Deregulation, boosted as an injection of free-enterprise competitive vigor for the airlines by followers of quack economist Milton Friedman, has produced rigor mortis. Under deregulation, the regulated fares and pre-assigned routes have been ripped up. Every air carrier is "free" to fly wherever it may choose.

As a result, two state capitals—in Delaware and New Hampshire—

have no air service at all any longer, as well as 50 other cities. Nor has this lowered fares. From the third quarter of 1979 to the third quarter of 1981, air fares rose 60.7 percent.

However, while outlying routes have had fares jacked up, certain well-traveled routes have seen intense and suicidal episodes of price-cutting. For example, one-way coach fare from New York to Florida for February is \$77, while from coast to coast the fare is only \$148. But at these prices the airlines admit that to break even they would have to carry more passengers than there are seats.

Take the example of Pan American Airlines, the largest U.S. international airline, and overall, America's third-largest passenger carrier. Despite selling its profitable Intercontinental Hotel chain to Grand Metropolitan Hotel chain of Britain for \$348 million, Pan Am ran a \$20 million loss in 1981. And it is losing \$1 million per day in 1982, because while it needs to fill 71 percent of its flights to break even, it is flying with only 60 percent of its seats occupied.

In fact, the only reason why the banks have not moved in to foreclose on 6 of the top 20 airlines, according to one analyst, is that "the banks would end up repossessing planes, and they aren't worth anything in today's depressed market."

One direction the airlines are taking is to begin liquidating themselves into the military. TWA recently sold off 39 of its old 707s for use in troop transport. If this continues, the number of planes flying, and the number of airline companies running them, will be greatly reduced. The U.S. air transportation grid will be dissolved.



## A presidential initiative

*The first U.S. Agricultural Task Force is headed for Peru. Is its potential already aborted?*

At the October "North-South" summit in Cancún, Mexico, President Reagan spontaneously announced that the United States would initiate a new program of agricultural assistance, dispatching special agricultural task forces to Third World countries who requested them.

It was a good, fresh idea. American farmers have proven that they know how to make agriculture work. They are skilled problem-solvers—technically, scientifically, and business-wise. And they have a working knowledge of the "American System" economic policies (today we call it "parity," but our forefathers called it "protection") that laid the basis for U.S. agriculture's success. A task force led by American producers, including researchers and some agribusiness people, would be a welcome guest in any Third World nation, and one of the most productive contributions the United States could make to the developing sector.

As it happened, although the USDA worked up a set of recommendations for the program, the State Department's Agency for International Development (AID) made it clear from the outset that this was going to be their show.

AID has functioned as the center for foreign aid programs based on zero-growth and anti-technology dogmas. AID's new administrator, Peter McPherson, has sought to give the agency a cast of "free-

enterprise" dynamism that is the Reagan administration's byword. But the policy substance, as indicated in McPherson's recent suggestion to a congressional committee that food production in the Third World could be aided by having U.S. multinationals like Campbells Soup or General Foods contract for it, is the same old colonial cash-crop fare.

On Feb. 5, McPherson led a White House press conference announcing that the first Presidential Agricultural Task Force would be going to Peru. Clayton Yeutter, a man chosen only after "a careful search," said McPherson, would head the Task Force and help choose the other members. Yeutter, a former Undersecretary of Agriculture for International Trade and Commodity Programs, is currently president of the Chicago Mercantile Exchange. Joining McPherson and Yeutter was Peruvian Ambassador Fernando Schwalb.

The Peruvian task force, said McPherson, will go to Peru in late March to focus on four areas: long-term agricultural research priorities, the production and marketing system, how to accelerate private investment in agribusiness, and the structure of cooperative production of sugar and cotton along the coast.

At a simultaneous press conference at the government palace in Lima, Peruvian President Belaunde greeted the plan for the task force by stating his hopes that the "old

agrarian vocation," the "agrarian justice achieved in ancient Peru," would not be supplanted by the "enormous and alarming waste of mechanical energy and fuel" involved in advanced sector, high-yield food production! Belaunde, along with Chile's Pinochet and Jamaica's Seaga, is lionized by the Reagan administration for embracing private enterprise: that is, abandoning national control over the country's resources.

Ambassador Schwalb treated American reporters to the image of Peru's vegetable production—the potato and tomato were born there—but the economic reality of Peru is defined by the fact that Peru has more than \$10 billion in outstanding public and private debt and, under the dictates of the International Monetary Fund has been turned into the world's second largest supplier of cocaine. Production and marketing of nearly 200 tons of the deadly white powder annually employs 15 percent of the population. Peru supplies half of the cocaine that enters the United States, with a street value of \$40 billion, which nets Peru \$2 billion per year. Proposed 15-year "substitution" programs do not represent a serious attempt at eliminating the coca business.

One cannot pretend to contribute to Peru's agricultural development without wiping out narcotics. Beyond that, it is a straightforward matter of building a string of nuclear-powered desalination facilities along the coast to irrigate the arid coastal lands. With adequate credit and sufficient trained personnel to undertake serious education, the cooperative production units in this fertile area could more than double production.

## About infrastructure investment

*A Texas conference on water resource development points up some largely forgotten facts of economic health.*

I want to share some of the conclusions brought out at the Feb. 27 Houston, Texas national conference on "Water from Alaska." They are urgently timely for every one of us to digest as we face a congressional-White House "debate" about the wrong issue—the size of the federal deficit.

The conference, sponsored by the National Democratic Policy Committee, drew more than 100 citizens from across the Southwestern and Western United States to deliberate on the growing western water crisis. The concrete solution presented was built on the 1960s proposal by the Ralph M. Parsons Company, who are leading international experts in water project construction, known as the North American Water and Power Alliance (NAWAPA).

I want to focus attention here on a vital aspect of this kind of infrastructure development.

Frank Moss, former Senator from Utah, addressed the assembled group on his intense efforts some 15 years ago to get a far less costly NAWAPA built. We could today be enjoying the enormous fruits of one of the greatest engineering projects in history.

Addressing the major political problem as one of "timidity," Senator Moss emphasized: "We must make no little plans. We must strive to organize a national consensus based upon vision.

What was most clear to Moss

about NAWAPA is precisely the point about the qualitative value of infrastructure investment in water, transportation, and electricity for an economy's healthy growth. "NAWAPA today may cost us \$100 billion" the Utah Democrat emphasized. "It may cost \$200 billion. It may even cost \$300 billion. It doesn't matter. Our experience with every major water project has been that the initial capital costs of such a project are more than offset by the increased tax base and gains from the influx of industry and commerce to the region."

This is the heart of the matter. A federal tax dollar spent on a water infrastructure project such as NAWAPA is not the prodigal waste of taxpayer dollars claimed by hysterics from David Stockman's office or Interior Secretary James Watt. In fact, as the computerized econometric model of the U.S. economy developed by *EIR* shows, there has been a remarkable historic correlation between periods of rising absolute infrastructural investment and subsequent leaps in the real productivity of that economy.

The converse also holds, as a subsequent *EIR* feature will elaborate. The massive net disinvestment in infrastructure following the 1973-75 "oil shock" caused a devastating absolute loss in real productivity, which triggered the present catastrophic decline in our nation's economic base.

From this standpoint, I have an obvious but unspoken truth to lay before you. The United States pulled out of the 1930s Depression *not* because of investment in armaments buildup. It was able to make that remarkable commitment of men and material in the 1940-45 period precisely because the government public works "prime-the-pump" investment in the 1934-45 period was the most massive investment in hydroelectric projects, water transport, and related infrastructure ever undertaken by any American government: the Bonneville Power Administration, which made possible the world's most productive aluminum industry; the Grand Coulee and a myriad of other flood control and hydroelectric projects which laid the basis for the postwar economic boom in Texas, California, and the Northwest; the Tennessee Valley Authority; and so on.

Without this commitment to qualitative improvement in the type of infrastructure which "produces productivity", the prosperity of the 1950s would not have been possible. A similar infrastructural spin-off from the 1950s, the Eisenhower National Defense Highway System, and the early 1960s NASA Space Program, continued to improve the productivity of the transport and communications underpinnings of the economy until the politically motivated slow-down of NASA in the late 1960s.

This was the last major infrastructural improvement of the U.S. economy. From this standpoint, anyone who argues that this government, in the midst of the early phase of a new Great Depression, cannot "afford" to build NAWAPA or major nuclear capacity is a damnable fool or worse.

# Trade Review

by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
<b>NEW DEALS</b>			
\$59 mn.	Nigeria from Japan	Nigeria has contracted Taisei Corp and C. Itoh to develop 5,000 hectares of rice paddies in Lower Anambra region. Taisei, the first Japanese construction firm to move into the West African market, has also won contract worth \$37 mn. to build 246-room hotel in Nigeria's new capital of Suleja.	Despite oil price drop, Nigeria giving priority to food and to finishing capital.
	Nigeria from Holland/Japan	Unilever and Matsushita have tentatively agreed with Nigeria to set up large electrical manufacturing company. Deal conditional on Shagari govt. easing rules on foreign ownership.	Such changes expected.
\$300 mn.	Saudi Arabia from Italy	Oto Melara, the Italian weapons manufacturer, has sold the Saudis 200 missile-carrying armored personnel carriers armed with Emerson retractable anti-tank missiles and heavy machine guns.	
\$100 mn.	Italy/Libya	Calabrese Veicoli Industriali of Bari and the Libyan government will build a plant near Tripoli to turn out 10,000 parts per year for heavy industrial vehicles.	May help keep Qaddafi's tanks rolling.
\$239 mn.	Saudi Arabia from Japan/U.S.	Arab American Oil Co. ordered a natural gas separation and sweetening plant from Nippon Kokan. Stone and Webster Engineering is major subcontractor. The plant at Tanajib, 120 miles north of Al Jubail, will process 470,000 bpd of crude oil from the offshore Marjan field.	Includes gas-oil separators and units to remove salts, hydrogen sulfide, and carbonic acid gas, plus storage tanks.
\$81 mn.	Egypt from U.S.A.	AT&T International is supplying electronic switching exchanges for 173,000 new phone lines in Cairo and Alexandria. System has capacity to expand to 320,000 lines and includes operations and maintenance centers and training center.	U.S. State Department's AID helping with financing.
<b>UPDATE</b>			
	Guatemala/Ecuador from Mexico/Brazil/Venezuela	The state oil companies of Mexico, Brazil, and Venezuela are combining their skills to aid the less-developed countries of Latin America to find and exploit their oil and gas potentials. Formal structure of the trinational company being worked out, while surplus technological capabilities of Pemex, Petrobras, and Petroven beyond needs of their countries' domestic programs are being surveyed. It has been agreed that Guatemala and Ecuador will be first recipients of services of new joint venture, a rare example of South-South technological cooperation.	Headquarters will be in Jamaica, Brazilian officials report. Jamaica's "free-enterprise" narcotics oriented economic model clashes with role played by state oil companies in home countries. World Bank may have influenced HQ site selection.
	Singapore from Japan/Holland	Mitsui Petrochemical will withdraw from Singapore's planned ethylene oxide and ethylene glycol plant in which it had been partners with Singapore govt., Shell, Sumitomo Chemical, and others. Mitsui flaked off because it calculated Singapore's oil-based process out-competed by cheaper natural gas-based petrochemical production in U.S.A. and Canada. The Singapore project will be completed on schedule, without Mitsui.	The Mitsui group got badly burned in earlier Iranian and Chinese projects which collapsed; is instituting financial retrenchment.
<b>CANCELED DEALS</b>			
\$107 mn.	Poland from Japan	Polyester filament and staple fiber spinning factory with 40,000 tpy capacity, ordered by Poland in 1979 from Teijin and C. Itoh. Poland asked Japanese to postpone construction at end of 1980.	Japanese shipped and received payment for 1/3 of equipment.

# Business Briefs

## Banking

### Arab bank takeover closes Bert Lance scandal

A group of Arab financiers completed a four-year bid to take over the only multistate bank holding company in the Western half of the U.S., the Financial General Bankshares Inc. of Washington. The takeover was finalized with the approval of the New York State Banking Board.

The bid to take over the bank sparked the scandal in 1977 which led to the dismissal of the Carter Administration's budget director, Bert Lance. Through Carter's People-to-People Friendship Force established while he was governor of Georgia, Lance established high-level contacts with a group of Arab and Pakistani financiers. Headed by the former head of Saudi intelligence, Kamal Adham, this group of financiers was introduced to Lance by Occidental Oil chief Armand Hammer, a longstanding friend of Libyan dictator Muammar Qaddafi.

Lance arranged for these Arab financiers to buy up Financial General, and at the same time reached an agreement to sell his Georgia National Bank to the notorious Saudi financier Ghaith Pharaon. The group which Lance and later Billy Carter conducted business with has been exposed by *EIR* as collaborators of the fascist Italian Propaganda-2 Lodge in Italy.

## Industry

### U.S. economy is heading still lower

The chances that the U.S. will have an economic recovery before the summer have moved from slim to almost nonexistent.

New factory orders fell 1.2 percent in January, the Commerce Department reported March 4. The decrease brought orders to a seasonally adjusted \$157.59

billion. January orders for non-defense capital goods fell by 1.7 percent, and orders for non-durable goods fell 0.6 percent. The drop follows a December level of new factory orders that had originally been shown to have risen, but which has now been revised downward 0.3 percent.

Construction spending fell 1.5 percent in January to a seasonally adjusted \$231 billion annual rate, while the Big Three auto producers announced that in March they would cut production to a level 20 percent below that of last March. If that cut goes into effect, car production will be 1.1 million in the first quarter of 1982, which is 30 percent below the production level of last year.

With the prime lending rate firmly planted at 16.5 percent, and Fed chairman Volcker telling the National Press Club last week that he plans to "remain tight," the possibility of a recovery has evaporated.

## Foreign Exchange

### Capital controls trigger for monetary blowout?

Senior officials at some New York financial institutions warn that capital controls in Western Europe could be the signal for a blowout of the international monetary system. "I don't wish to sound dramatic," said the chief international economist for a top New York bank, "but it was the withdrawal of money out of the German banks by British and American investors that started the world collapse in 1931."

"At worst," the economist added, "such controls could set off a deflation. In the next three months, 30 percent of the S&L's in the United States will go bankrupt. If anyone attempts capital protectionism, it will bring on a general deflation. That doesn't mean that they won't do it; there is massive pressure for it, and everyone wants protection against the Federal Reserve. That's understandable; those guys are dangerous. Their problem is that they have never lived

though a monetary collapse. If you talk to them they say that they will just add reserves through the discount window. They don't appreciate that this would be pushing on a string, because the credit multiplier can shrink more rapidly than the Fed can add reserves. In a crisis investors will head for quality only. They are driven by a doctrinaire view of the world."

Characterizing proposals by the Council of Economic Advisers to use high interest rates to draw in capital from Europe to fund the Treasury deficit, the bank official added, "They're out of their tiny minds."

## News Media

### Press flaunts imminence of U.S. depression

In a host of recent articles appearing in major press from the *Wall Street Journal* to *Newsweek*, the danger of a full-fledged depression has received extensive coverage from the same sources who boosted Carter's, Volcker's and Stockman's policies, and have refrained from publicizing the U.S. liquidity crisis. On Sunday, Feb. 28, a *New York Times Magazine* feature and a full-page *Washington Post* analysis laid out the most complete account of how high interest rates and a debt structure skewed to the short-term have made a depression very likely.

John M. Berry, writing in the *Post* described the debt bubble that rivals, if not exceeds, that of the 1929 stock market. While stock-market margin requirements are much higher than they were in 1929, many other kinds of investments exist today that are at least as risky. Only 10 or even 5 percent margin is required for commodity contracts; the \$185 billion in money market funds could evaporate at a single shock to the investment markets; and the paper is entirely uninsured and unsecured.

Worse, Barry adds, is the prospect of an unexpected major corporate bankruptcy made almost inevitable by the badly deteri-

orated balance sheets of every company in the nation—hit by several years of Volcker's interest rates, which have replaced long-term, low-interest financing for investment with short term, high interest borrowings. Even one major bankruptcy (and many more than one can be anticipated) would potentially collapse the \$165 billion commercial paper market—which would jeopardize thousands of corporations' ability to maintain cash flow, and make every bank very wary of most corporate lending.

The *Times Magazine* article examined another aspect of the problem, the bankruptcy of supply-side economics, monetarism, and Keynesianism to deal with the crisis. The article pointed out that 15 years of stagflation have created a paradox: funds that ought to go for investment instead flow solely into the various short-term, high-liquidity, high-interest forms of speculation—vitiating all policies now on the table to stimulate new investment.

A major article in *Newsweek* amplified the same points. The *Wall Street Journal*, which first popularized supply-side economics, published an op-ed by Paul Craig Roberts, a leading supply-sider who recently left the Treasury, on how a depression is imminent because of overly restrictive Federal Reserve monetary policy and insufficient tax cuts.

Pervading all the articles is the impression that no one with present influence on policy has the faintest idea how to avert the catastrophe. One side benefit perhaps expected by the writers is to terrify employees into accepting wage cuts and austerity.

### Monetarism

## British recovery barrels into oblivion

An official at the British Embassy in Washington D.C. attempted March 3 to keep a stiff upper lip when asked about the recent dismal performance of the British economy. The British industrial

production index fell 1.5 percent in December, and is expected to have fallen in January and February as well. British unemployment is above three million, a level worse than that of the 1930s Depression.

British Prime Minister Margaret Thatcher had announced last summer that her more than two-year experiment in monetarist economics would produce an upturn in the economy by this winter.

When asked where the upturn was, the British official sputtered, "Well, the recovery has been proceeding since mid-1981, but very, very slowly." When questioned about why if the economy were recovering industrial production collapsed in December, the British official replied, "There was an awful lot of snow in December, which we're not used to, ha, ha, ha."

### Energy

## Japanese fund U.S. fusion-power research

The March issue of *Chemical and Engineering News* reports that the Japanese Ministry of Education, Science and Culture will provide about \$2 million per year for five years for the operation of the Rotating Target Neutron Source (RTNS-II) located at Lawrence Livermore National Laboratory in California. The Japanese contribution will amount to about half of the DOE facility's expected operating budget.

RTNS-II is the world's most intense source of fusion neutrons. Physicists use it to study the effect of intense neutron bombardment on materials in order to understand construction requirements for future fusion reactors.

RTNS-II is a tandem facility consisting of two accelerators and two target rooms. Since it came on line in 1978, because of budget limitations only one of the two systems has been used. The Japanese funds will allow both to be activated.

## Briefly

● **HENRY WALLICH**, Federal Reserve Board governor, in an article in the March 3 *Journal of Commerce* newspaper states that the U.S. banking system is counting a great number of loans to the Third World as performing which should be written off and provided for out of a loan-loss reserve.

● **TOM BOLAN**, a member of Mafia lawyer Roy Cohn's law firm, Saxe, Bacon, and Bolan, has been designated by the Reagan Administration as the new head of the Overseas Private Investment Corporation (OPIC). OPIC provides insurance, including risk insurance, for U.S. overseas investment. Bolan could make the directorship very lucrative for himself and his cronies. The announcement of the appointment is seen as a concession to the growing influence the Cohn crowd is exercising over key areas of the White House.

● **ROBERT GEORGINE**, U.S. building trades union president, has announced a program that will place \$500 million of union pension fund assets in risky "job-creating investments." The program will not make investments itself, but will "educate" pension fund trustees and fiduciaries of union plans about suitable projects. The 15 affiliated crafts have pension fund assets of \$15 billion.

● **BRAZIL** is seeking to avert a rescheduling of the \$1.5 billion owed it by its largest debtor, Poland. Brazil wants Poland's metallurgical coal and is willing to purchase ships from the country which—until its recent problems—was Brazil's best export customer in Eastern Europe. Brazil, which owes \$64 billion long-term and another \$8 billion short-term, lacks the liquidity needed for generosity.

## When will Deng's dynasty collapse?

by Richard Katz

China is crossing the threshold into the most violent era of political turmoil since the "ten terrible years" of Mao Tse Tung's Cultural Revolution.

Back in November 1980—as the Carter administration and Kissingerites in the Reagan camp joined in a chorus of praise for the new China of Deng Xiaoping—*EIR* wrote, "the myth will fail . . . the reality of China is not a future of stability and unity but of broad-scale instability and increasing tension within the leading circles of the Chinese leadership . . . The crucial factor is the economic strategy presently pursued by Deng: at best a short-term boost in living standards, a boost that will soon be undermined by the failure to improve the basic productivity of the Chinese economy. . . . At that point Deng's incapacity to actually eliminate the other centers of power in China . . . will assert itself. That point may come sooner than many expect."

Little more than a year later, that point has arrived. Abandoning his previous careful easing out of opponents, the 77-year-old Deng is now feverishly trying to purge all opponents. Any person or institution opposing Deng's pogroms against industry or his "de-Maoization" campaign is a target. In the first weeks of the purge that began in January, 1,000 top officials and army officers were ousted. 200,000 officials and upwards of 2 to 3 million party members (out of 39 million) are on the chopping block. Entire commissions (super-ministries) devoted to capital construction, energy, machine-building and agriculture will simply be dissolved. The army, a bastion of anti-Deng factions still committed to China's industrialization, has already had its personnel reduced by 800,000, a full 20 percent.

This purge cannot succeed. Should Deng survive long enough to push the purge as extensively as he plans, China may very well see once again the tank, jet, and infantry battles that marked the Cultural Revolution. Ten million people were killed in that power struggle. Rumors that Deng has already lost and been put on the shelf are premature at the time of this writing, but this is the most likely ultimate outcome.

If China's political crisis were the result of a simple power struggle, one might expect China to return to a phase of relative "stability and harmony" following some factional bloodletting. What makes the current factional





*Deng's adherence to 2,000-year-old labor-intensive methods has brought China to economic catastrophe.*

crisis more fundamental is that it intersects with, and arises out of, a profound economic and social crisis reminiscent of the cataclysmic "dynastic cycle" collapses China has experienced over the millennia.

Though, up to now, Deng has opposed Mao's method of constant political upheaval, he has made the disaster of Maoist economics even worse. Deng's factory shutdowns have caused absolute drops in the production of goods essential for industry and modern agriculture. At a time of severe floods and droughts, Deng has outlawed additional water control projects. Deng is now planning to cut the state's consumer subsidies, which have kept 250 million people on the level of mere malnutrition rather than starvation.

The Deng faction is quite aware that its policies make it impossible for China to support its population. Deng's answer is a steadfast commitment *to reduce China's population by 300 million by the middle of the next century.* This population reduction is to be carried out through the one-child per family law, and the regime does not shirk forced abortion or even murder to implement it.

Yet, just as in the case of the depopulation of Kampuchea under Peking-puppet dictator Pol Pot, the population drop in China is much more likely to occur in a chaotic whirlpool of famine, disease, and social breakdown, than as a result of disciplined "family planning." Peking estimates that 20 million people died in the 1958-61 famine caused by Mao's Great Leap Forward. The tally of the coming years could dwarf that.

Economic policies resulting in mass depopulation are the hallmark of the dynastic cycle collapses China experienced in previous eras. As then, the Chinese population

now is responding with resistance to the regime. For the first time since the 1976 rampage of the Gang of Four, workers' strikes have broken out. Mutinies have occurred among both veterans and active duty soldiers, including the formation of "secret armies." Reports of a wave of organized crime, drug-peddling, terrorism, looting of mines and factories, and prostitution now dominate the Chinese press. Sometimes Communist Party members lead the crime wave.

This social unrest has created alarm among both orthodox Communists and more rational civilian-military coalitions favoring heavy industry. Both are trying to stop Deng before his actions threaten the very basis of Communist rule. In turn, Deng is frantically trying to destroy them before the social rebellion against his policies gives his opponents the opportunity to remove him.

If Deng's opponents had a viable policy, the social crisis could be resolved simply with the ouster of Deng and his replacement by the heavy industry faction. However, as shown by the 1977-79 era under Hua Guofeng, it is not clear that they know how to manage China.

China faces a crisis as serious as any of the great social cataclysms of past centuries precisely because all factions of its leadership adhere to the same anti-technology, anti-urban ideology that marked virtually every previous regime. There is no clear alternative in the wings. The future seems to hold nothing but more misery for that unhappy land. One side effect is that the China Card, if it ever existed, is dead.

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*This special report was prepared with the indispensable collaboration of one of the world's leading China watchers.*

# War on industry propels China into famine and devolution

by Gregory F. Buhyoff and Richard Katz

The fact of China's dire economic crisis is denied by only two kinds of people: China Card fanatics who enjoy deluding themselves about what goes on inside the Middle Kingdom, and those global Malthusian forces such as the World Bank who view China's descent into industrial collapse and depopulation as a model for the rest of the developing sector.

China's present tragedy cannot be blamed simply on the decades of Maoist mismanagement and the traumas of the 1958-61 Great Leap Forward or the Cultural Revolution. The major continuing cause of China's economic woes is a deliberate campaign by the faction of party vice-chairman Deng Xiaoping to decimate heavy industry, to halt the modernization of agriculture, and to prevent the urbanization of the Chinese population.

Under the cloak of such slogans as "shifting from heavy to light industry," "increasing consumer goods," and "balancing the budget," Deng has deliberately cut the ground out from under the industrial and energy production China must have if it is to build its industrial base and modernize agriculture. Compare in Figure 1 the pattern in 1979, the last year of ousted party chairman Hua Guofeng's heavy industry program, with that of 1980-81 under Deng. Virtually every machinery, infrastructural and material component of real modernization has been decimated: oil down 5 percent, coal down 0.6 percent, power generating equipment down 65 percent, freight wagons down 17 percent, steel down 5 percent, machine tools down 25 percent, tractors down 45 percent.

Neither is China importing the capital goods and materials its industry needs. The reason Japanese and U.S. shipments to China have done so poorly over the past year is because China slashed its machinery and steel imports. Not counting wheat, U.S. exports to China fell by 15 percent in 1981. Other economic indicators are no better. Given cuts in wage bonuses and growing inflation, 1981's huge increases in consumer goods are not likely to be sustained. This is no mere retrenchment, but havoc.

China's rulers have made it absolutely clear that these directed cuts are not simply the unfortunate, unwanted

effects of a budget-tightening exercise. These cuts are the goal! The Dengists scorned warnings from military and civilian heavy industry factions during the summer that such cutbacks were endangering China's industrial and military future. They also disregarded the fact that the millions of layoffs were provoking illegal workers' strikes.

At the December 1981 meeting of the National People's Congress (NPC), China's nominal legislature, Vice-Premier Zhao Ziyang declared: "In heavy industry, which is now being readjusted, the year 1981 will witness a decrease of about 5 percent . . . *These cutbacks are necessary and rational* . . . With regard to enterprises whose products are in excess supply and of poor quality and whose consumption of energy and raw materials is too high . . . we should unhesitatingly apply the policy of *shutting them down, or suspending their operation, or amalgamating them with other enterprises, or switching to the manufacture of other products* . . . The number of small iron plants throughout the country has been cut from 446 to 276 . . . Factories and enterprises that fail to meet these requirements within a certain time limit must either *suspend production pending consolidation or close down* [emphasis added]."

## How to prevent industrialization

If we examine three areas of development without which there can be no industrialization—transport and energy infrastructure, education, and modern agriculture—there can be no doubt that the Dengists' plan is to prevent industrialization, to maintain China as a peasant country.

**Transportation and energy infrastructure:** Transportation bottlenecks are worsening in every sector of China's economy. Shaanxi Province Radio reported Jan. 13: "There are 338,000 tons of coal stockpiled at the Tongchuan Mining Bureau which cannot be shipped out . . . if the stockpile increases there will be danger of the pile coming into contact with power lines, which could cause a fire . . . At present, several hundred factories in Xian are desperately searching for coal, and the workers in some factories are idle because there is

Figure 1

## Deng's decimation of Chinese heavy industry, modern agriculture, and imports

Percent change in physical output from previous year

	1981	1980	1979
<b>Industry (total)*</b> .....	<b>4.0%</b>	<b>8.7%</b>	<b>8.5%</b>
<b>Heavy industry (total)</b> .....	<b>-5.0</b>	<b>1.4</b>	<b>7.7</b>
Oil .....	-4.7	-0.2	2.0
Coal .....	-0.6	-2.4	2.8
Electricity (kwhr.) .....	2.6	6.6	9.9
Steel .....	-4.6	8.5	8.5
Pig iron .....	-10.9	3.5	5.6
Cement .....	1.1	8.8	13.3
Machine tools .....	-25.0	-4.3	-23.5
Railroad freight cars .....	-17.0	-34.1	-5.4
Power generating equipment .....	-65.0	-32.5	28.4
Motor vehicles .....	-21.0	19.4	24.8
<b>Supports for modern agriculture</b>			
Chemical fertilizer .....	1.4	15.7	22.6
Tractors .....	-45.0	-22.2	10.5
<b>Light industry (total)</b> .....	<b>11.0</b>	<b>18.4</b>	<b>9.6</b>
Bicycles .....	31.0	29.0	18.1
Cotton yarn .....	7.8	11.4	10.5
Chemical fibers (textiles) .....	16.6	38.0	14.4
Watches .....	26.4	29.8	26.4
Radios .....	45.0	117.5	18.2
Sewing machines (consumer) .....	32.8	30.8	20.8
<b>Grain**</b> .....	<b>2.1</b>	<b>-4.0</b>	<b>9.0</b>

	Percent change in dollar-denominated trade value from previous year		
<b>Chinese trade</b> .....			
<b>Total exports</b> .....	<b>16.0%</b>	<b>43.0%</b>	<b>38.0%</b>
Exports to United States .....	72.0	83.0	100.0
Exports to Japan .....	23.0	48.0	45.0
<b>Total imports</b> .....	<b>20.0</b>	<b>35.0</b>	<b>40.0</b>
Imports from United States .....	-3.0	118.0	112.0
Imports from Japan .....	0.2	35.0	20.0



**Source:** Figures on industrial production are Chinese figures, compiled by the National Council for U.S.-China Trade in Washington, D.C. Grain figures are based on Chinese press reports. Trade figures are a combination of figures from U.S. Dept. of Commerce and Chinese figures for 1981 compiled by the National Council.

**Note:** *EIR* does not vouch for the reliability of the Chinese figures on industrial production or agriculture. Chinese figures are notably unreliable, because 1) China lacks sufficient statisticians; and 2) the Chinese government has admitted to fabricating figures in the past for political purposes.

\* The industrial figures are suspect. Following criticism of Deng's decimation of heavy industry, figures show astonishing "recovery" in very short time periods. For example, industry as a whole, down 1 percent for the year mid-1981, now shows a 4 percent rise; coal, down 2.6 percent mid-1981, shows only 0.6 percent drop. There may also be reason to doubt that the 1979 improvement was as great as the Hua Guofeng faction claims.

Despite such questionable figures, the overall trend of economic cutbacks under Deng is clear.

\*\* As discussed in the text, given the drought, flood and shrinkage of cultivated land, we have serious doubt that grain production actually increased in 1981.

no coal. . . . But nothing can be done because of the freight car shortage."

The same inability to transport goods exists in steel, cement, and finished products. But instead of trying to solve the transportation system's problems, the Dengists are using them as the pretext for cutting back production of needed industrial goods. Why else would Peking have cut, in 1980-81, the production of vitally needed freight cars by 50 percent, and in 1981, cut motor vehicle production by 21 percent?

Despite a critical shortage of delivered energy, Zhao insisted that, in addition to the appalling 65 percent cut

in power generating equipment in 1981, future energy production must proceed on the basis of existing capacity, not expansion. "We must go all out to reorganize and transform existing oil refineries and petrochemical enterprises," he told the December NPC meeting. "In exploiting coal we should lay stress on transforming and expanding existing coal mines now and in the near future."

Where new mines are to be opened, said Zhao, they "should mainly be small and medium-sized ones, involving smaller investments," (also far less efficient). Taking his inspiration from Mao's backyard steel-fur-

naces campaign, Zhao added: "Villages with water power resources should try to build small hydroelectric stations."

**Education and human resources:** China's greatest deficiency is not lack of material resources, but the dearth of trained management personnel, engineers and skilled workers. Every foreign businessman has heard horror stories of Chinese workers and managers unintentionally abusing modern equipment through lack of training, or of simply being unable to carry out modern industrial processes. The only answer is improving the cultural and material level of China's urban population. Yet, Zhao declares, China "must move away from the one-sided drive to get bigger percentages of students into higher education." Moreover, last year's much-vaunted increase of worker bonuses and consumer goods consumption was replaced at the end of 1981 with Zhao's insistence that, "the present practice of handing out bonuses indiscriminately must be sternly checked" and "the people's standard of living . . . cannot grow too fast . . . cannot run ahead of the growth of production," which, of course, is being cut back.

**Modern agriculture:** Every successful industrialization experience, from the United States itself to Japan and Korea, has demonstrated that there can be no modernization without the freeing of the population from the shackles of subsistence agriculture. Only modern agriculture with its high yield per manhour makes possible the growth in urban-rural ratios necessary for an industrial economy. Yet, the Dengists oppose both any increase in urban-rural ratios and the modern agriculture which makes these demographic changes possible. Shaanxi Radio on December 2 reminded listeners of government directives to reverse population movement to the cities: "Exercise strict control over the recruitment of workers from rural areas," the government demanded, because "there is a large number of people awaiting employment in urban areas . . . Some comrades do not understand this policy well enough and have raised doubts about it."

The basic components of modern agriculture are mechanization, chemical fertilizer, and irrigation and flood control. Yet, in addition to the drastic cutbacks in tractors and fertilizer cited above, China has all but abandoned its commitment to large-scale water projects. Last year, Peking decreed, "Costly large and medium-sized water projects begun a couple of years ago which will not yield results in the near future . . . should be stopped . . . No large or medium-sized water conservancy projects should be initiated in the next five years."

As far as other capital inputs go, Zhao told the National People's Congress: "The state will not be able to increase it [capital investment] by much. The growth

of agricultural production and other rural development will therefore continue to rely mainly on correct policies and on science . . . it will develop with *relatively little investment* and high economic returns . . . by combining the achievements of modern research with *China's fine tradition of intensive farming.*" [emphasis added]

### China's oligarchic tradition

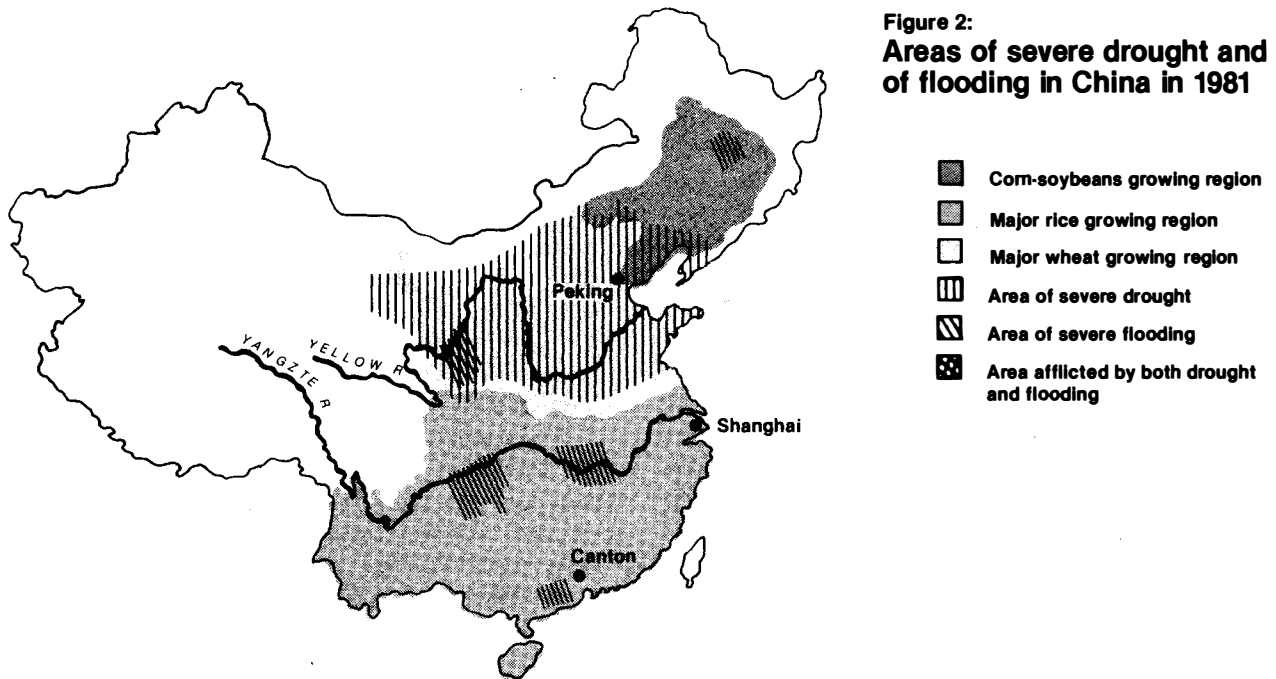
How can a government calling itself modern deliberately prevent every economic activity necessary to industrialization? The answer to this question lies in the fact that the Dengists, like Mao, are determined that China should always remain a peasant country. China's 80 percent to 20 percent peasant-urban ratio has not been allowed to change since the 1949 revolution. Decrees coming out of Peking show the regime expects the country to remain overwhelmingly peasant 100 years from now! On this fundamental issue, Deng is exactly correct when he insists that, despite opposition to Mao's political excesses, he is a devoted follower of Mao Tse-tung Thought.

The secret to Deng and Mao's visceral commitment to "peasant communism" is the truism that "the Chinese Communist Party is more Chinese than communist." In fact, outside of some peculiarities of ideology, the word "communist" has no meaning in China. The structure of Chinese society and the country's economy is no different under the so-called Communists than it has been for the past 2,000 years. China has remained an agrarian society, dependent upon a huge bureaucracy to organize sprawling irrigation and flood control projects by means of mass corvee (serf) labor. Without these projects, agriculture cannot exist in China. In the past, the central bureaucracy was called Confucian; now it is called communist.

Despite the changes from one dynasty to another over the centuries, the Chinese system has remained the same. The dynastic changes were brought about in huge social rebellions led by the ancient secret societies—the Triads, the Elder Brothers, etc.—which survived from dynasty to dynasty. The Communist Party is simply the latest form of these secret societies. Indeed, most of the early communist leaders and members, including Mao himself, were members or followers of the Elder Brothers society.

The curse of China, then as now, is that this oligarchical bureaucracy refused to allow the industrial urbanization that would have threatened their rule over a nation of virtual serfs. Cities were to remain administration centers, not hubs of production that radiate out and transform the surrounding country, as such cities were in the industrialization experience of Europe and Japan. Throughout the millennia, whenever such urbanizing political forces raised their heads in China, including the Japanese-supported New China movement of Sun Yat-sen, the mandarin oligarchs cut them off.

**Figure 2:  
Areas of severe drought and  
of flooding in China in 1981**



Over 90 percent of China's population inhabits the agricultural regions shown. Though sporadic flooding and drought occurred in many parts of China last year, only areas most severely hit are depicted. Approximately 250 million people were affected by natural disasters of one kind or another in China in 1981.

The extent of the drought in the fertile North China Plain, which is flaring up again after summer monsoons provided some respite, calls into question official claims of increased grain harvests last year. Sichuan, Shaanxi, and Heilongjiang provinces are still reeling from the effects of last summer's flooding. Guangdong, a major rice producing province in the south, suffered an overall drop in grain output due to flooding and crop disease, while in Shaanxi and Guangxi provinces grain production also dropped, according to official sources. In addition, China's total cultivated land fell 6 percent in 1981.

This system has repeatedly brought catastrophe to China, a repeat of which is threatened today. The refusal to change the social form, to urbanize, to modernize technology, has repeatedly created unnecessary population crises, leading to the deaths of millions. From approximately 200 B.C. to the beginning of the Ming dynasty in the 14th century, China's population never rose above 65 million; it simply expanded and contracted in cataclysmic dynastic cycles.

Agriculture and population increased at the beginning of the cycle as the new dynasty made reforms, invested in water control, and so forth. As diminishing returns set in due to lack of sustained technological advance, the Mandarins reduced investments in water-control, just as Deng has done, dooming agriculture.

The ensuing economic and social breakdown was marked by flood and famine, inflation, female infanticide, organized crime and brigandage, and mass recruitment by the ancient superstition-peddling secret societies—all patterns present in China today.

The culmination of the cycle was a shattering economic breakdown resulting in the death of millions. That final element is around the corner if the Dengists persist. Zhao's diktat against agricultural capital invest-

ment—not only against mechanization and fertilizer, but even water control projects—means not simply the preclusion of modern agriculture. Whether Zhao knows it or not, this is a prescription for genocide on a far vaster scale than anything Peking's puppets perpetrated in Kampuchea.

Due to Peking's refusal to industrialize agriculture, China has not been able to raise per capita grain output above 1958 levels, despite massive investments in water control and massive deforestation to create new land. Dropping the water projects now leaves China vulnerable to flood and drought at a time when vast deforestation has made such phenomena more likely.

A hint of the danger was seen in 1981, when, following 1980's 5 percent drop in grain output, China was hit by one of the worst episodes of flood and drought in its history, affecting 250 million people. In the wheat-growing north, drought ravaged the land. One quarter of the wells in the farmland around Peking went dry; factories in some cities had to cut production due to water shortages. In Hebei province, peasants survived on 1,600 calories a day as compared to a minimum requirement of 2,200 for women, and 3,000 for men.

Jesuit Father Vincent LeDany, the “dean of the China-watchers” in Hong Kong, described in the October 9 *China News Analysis* how the floods hit Sichuan, China’s most populous province. There were 87 large and medium-sized irrigation and flood control projects under construction in Sichuan in early 1981. Peking ordered 21 stopped or suspended altogether; another 21 were held up until they could be reviewed. No new projects were to be planned. Then the rains came.

By July 22, “83 counties were flooded, and this affected 10 million people, 90,000 village brigades and 51 cities and towns. 2.2 million houses were flooded, 1.3 million of them collapsed . . . 10 million mou of land (266,000 acres) were flooded, the crops being totally destroyed on 2 million mou; in state grain stores, 250,000 tons of grain had perished; 1754 factories were flooded; 753 persons had died . . . The railroads were cut for 10-20 days. 80 highways and 482 country roads had been washed away . . . 14,000 dams collapsed during the floods. . . .

“Three weeks after the disaster *Sichuan Daily* blamed local leaders who were expecting help from above, when they should know the State is in financial difficulties.” The rains continued for weeks after this report.

LeDany pointed out that one of the biggest reasons for the disaster was the deforestation of Sichuan, both to obtain firewood and to create more land on which to apply the same age-old farming technology. Forests which had covered 19 percent of Sichuan were reduced to 12 percent. The deforested areas were the hardest hit.

Sichuan’s experience was typical. The Dengist program means ecological holocaust.

### **Deng’s depopulation campaign**

Without industrializing agriculture, and the economy in general, there is no way China can support its population. On the other hand, China—which is less densely populated than many nations of Europe—faces no obstacles to supporting its population at a much higher living standard if it would only industrialize.

The Dengists know this, but rather than threaten the continuation of the ancient Chinese ideology and social structure through real modernization, they have committed themselves to lowering China’s population by 300 million people. At a February 1981 meeting, the Peking government committed itself to achieving this goal by the year 2080 by any means necessary. They arrived at the number by figuring out how many people China’s land, water resources, and so forth could support *if it was stipulated that China remained a majority peasant country for the next hundred years*. This they calculated at 650 to 700 million people.

The Dengists’ ostensible tool for achieving this reduction is a one-child-per-couple law. Peking has stopped at nothing to carry it out, including forced

abortions in the third trimester of pregnancy, denying food rations, schooling, and even medicine to second and third children; and jailing of “repeated violators,” according to the pro-Peking Hong Kong paper *Zheng Ming*. The *Asian Wall Street Journal* adds: “Though doctors aren’t supposed to perform abortions past the eighth month of pregnancy, they do, a Chinese source reports. ‘Every day hundreds of fetuses arrive at the morgue,’ he says. *A woman with an unauthorized pregnancy is likely to receive an injection from the hospital doctors before labor, resulting in a stillborn child or a baby so ill it dies in a few days*, the source adds. *There are even reports of infanticide in city hospitals with doctors killing babies immediately after birth if they are third children.*”

The south China newspaper *Nanfang Ribao* admitted last April that village women are murdering their own baby girls, committing the horror that always arises in China’s economic cataclysms. If parents could only have one child they wanted a boy. The corpses are deposited in front of local Communist headquarters.

Such measures have lowered China’s population growth to 1 percent, but long before they could produce negative growth, other demographic horrors will arise. Twenty years of one child per couple will create a massive labor shortage before the year 2000, precisely because Peking insists on labor-intensive forms of production. The ratio of old people to working age people will rise dramatically. The elderly then will not be able to be supported, and will have to be killed off just as the babies are now.

Long before this occurs, the lack of industrialized agriculture will have killed millions and tens of millions in famine and flood, just as Peking admits that 20 million died in the famine produced by Mao’s 1958-61 Great Leap Forward.

We see the hints of this already. Peking is now considering reducing the consumer subsidies, comprising one-third of the budget, which, according to the Agriculture Minister, prevent 250 million from crossing the borderline between malnutrition and starvation. Peking, however, insists the budget must be balanced. Mere rumors of a 30 percent food price hike caused hoarding of food all over China. Has Deng Xiaoping never heard of Poland?

Maintaining Deng’s anti-industry policy means holocaust. Trying to lower the population while doing it will simply bring the holocaust sooner. Whether Deng and his allies know it or not, they are bringing Pol Potism back home to China.

This process, far from horrifying certain forces in the West, has been held up by them as a model for the rest of the developing sector, and even the advanced sector. The 1981 annual report of the World Bank, an institution rivaling Peking in antagonism to Third World industrialization, hailed China’s population con-



trol program as a model. The World Bank report characterized the forced abortions, cutoffs of wages, food rationing, etc. as “disincentives that are mostly social—the community disapproves of those who do not conform to the birth planning policies.” A recent report of the World Bank-allied Brandt Commission on North-South relations exulted, “Those who have pursued such [birth control] programs vigorously have registered considerable success. China . . . has in the course of the 1970s reduced its rate of growth from 2.3 percent to little more than 1 percent. It aims at zero growth.”

Peking’s plan to cut subsidies is warmly endorsed by World Bank officials trying to make similar cutbacks a condition of loans to countries ranging from Indonesia to Egypt.

### **The industry faction speaks out**

By the middle of 1981, a coalition of civilian and military leaders which favors the development of China’s heavy industry warned that Deng was leading China down the path of destruction. The coalition is led on the civilian side by 75-year-old Party Vice-Chairman Li Xiannian, an economic expert who is one of the few officials not to be purged in the last 30 years; his military counterpart is 84-year-old Marshal Ye Jianying, a legendary commander from the revolutionary era and a member of the Politburo. Believing that China’s army buildup, overall national power, and role in the world depend on building up industry, they were shocked at Deng’s willful destruction of heavy industry. Moreover, they feared the effect on the entire regime’s stability of the peasant demonstrations and workers strikes produced by Deng’s layoffs, reduction of army budgets, etc. They were stunned by Deng’s 25 percent cutback in the military budget since 1979.

During the summer and fall of 1981, this faction began placing articles in magazines warning of the consequences of Deng’s folly. At the time they began speaking out, heavy industry had fallen 8.2 percent from 1980 levels, and industry overall was up only 0.2 percent.

Articles in the Shanghai-published *Shijie Jingji Dabao* reported that the heavy to light industry ratios had fallen to the 1965 level of 50-50 under Deng’s program, way below the ratios in industrialized counties such as Japan. While China could not achieve their ratios overnight, they said, the nation should not move in the opposite direction.

In the Aug. 24 issue, of *Shijie Jingji Dabao*, an article launched a direct attack on Deng’s entire economic and social policy: “Without giving priority to the development of heavy industry we will not be able to realize modernization. It is not right to focus our attention only on the initial economic result and ignore the development of heavy industry. We should like to ask: how many products can an enterprise produce by

hand, even if it is very well organized. Without the speedy development of heavy industry in our country, how can we then buy ‘modernization’ from abroad? . . . As the construction of heavy industry requires a long period, the economic result in the near future will naturally be not so good. However, this cannot be used as a reason for giving up the development of heavy industry, because from a longterm standpoint heavy industry determines the development and progress of the whole society. . . . To realize mechanization and electrification of agriculture, to bring all farmland under irrigation and to make extensive use of farm chemicals, priority must be given to the development of heavy industry.”

Others echoed the cry. The Anhui provincial central committee decreed: “No more retrenchment should be made in heavy industry. Coal . . . steel . . . chemical . . . should be pushed forward.”

It is far from clear that the Li Xiannian-Ye Jianying faction could manage China’s economic problems. This judgment is not simply based on their bungling of the economy when they were in power with Chairman Hua Guofeng in 1977-79. More important, as we have stressed before (see *EIR*, Jan. 13, 1981), this faction also believes that China should remain a peasant country. They propose that heavy industry be scattered on the communes. Right now, for example, one third of China’s steel and coal is produced in tiny commune-based mills and mines. However, their approach is certainly less outrightly genocidal than Deng’s.

Following the assault from his factional opponents, it first appeared that Deng might compromise with the Li-Ye faction. Vice-Premier Bo Yibo told the *Wall Street Journal* in September, “We should promote the development of heavy industry once more. Now we can see that light industry needs heavy industry to provide better and more advanced equipment.” *Peoples Daily*, the official Communist daily, added, “This mistake [previous “overemphasis” on heavy industry] doesn’t mean we should substantially downgrade the development of heavy industry.”

Whatever actually happened during those months, it is now clear that the Dengists were only maneuvering to cajole and delay the opposition. By the time of the National People’s Congress meeting in December, Premier Zhao totally reaffirmed the anti-industry pogrom, giving not even lip service to the opposition’s complaints. Zhao even had the gall to claim the cuts in heavy industry would ultimately help the latter by providing new demand from light industry. Zhao promised five more years of such “readjustment.”

The Li-Ye faction, however, did not buy this. The Communist Party leadership could not even agree among themselves on a Five-Year Plan they were scheduled to present to the Congress and none was presented. A month later, the purge was on.

# Why Deng may be the victim of his own purge attempt

by Gregory F. Buhyoff

Among our millions of party members and among the people as a whole, a relatively small number firmly believe that our country is definitely capable of producing order from chaos and prosperity from poverty . . . Most people hope for such a future but they have worries of various kinds . . . [There are] a relative few [who want] to overthrow the present system and leadership.

—*The People's Daily*, Feb. 11

The purge launched by Deng shortly following last December's meeting of the National People's Congress is by no means an indication of his faction's strength. It is a desperate pre-emptive move against the opposition which grows stronger by the day as China's economic and social fabric continues to unravel.

Contrary to the reams of newsprint fed the American public by his admirers in the pro-China-Card press, Deng Xiaoping has never been in complete control of affairs in China. Even the sacking of leading radicals at the fall 1980 Central Committee plenum and the subsequent trial of the Gang of Four could not have been accomplished without the help of powerful coalition partners with whom the Dengists are now at odds.

Up until recently, the Deng faction, which includes "readjustment" gurus Chen Yun and Zhao Ziyang as well as CCP chairman Hu Yaobang, managed to maintain preeminence in a tenuous factional alignment with conservative, heavy industry-oriented bureaucrats, military leaders, and moderate Maoists around vice-chairman Li Xiannian, Ye Jianying, and former party chairman Hua Guofeng. In fact, it was the latter group which made Deng's return to power possible in the first place. It was they who kept their vow to Chou En-lai to protect Deng from the wrath of the radicals immediately following Mao's death in 1976, they who arrested the Gang of Four, and they who eventually rehabilitated Deng at the July 1977 Central Committee Plenum.

But when Deng emerged on top at the December 1978 party plenum, the Dengists ignored objections from the conservatives and forged ahead with their "economic readjustment" deemphasizing heavy industry. More-

over, they stepped up attacks on major tenets of Maoist ideology as well as leading officials associated with the "oil faction," those in the bureaucracy who favor rapid industrialization using China's vast natural resources. These decisions led to the steady erosion of Deng's relationship with the conservative faction.

Although Deng achieved policy victories, at no time was his power unlimited. The delay of the 6th Central Committee plenum, the National People's Congress, and the yet-to-be held 12th Party Congress, betrayed the strong differences among the leaders over such issues as a new constitution, the question of Mao, and the new 5-year economic plan which was supposed to have been announced when the National People's Congress was finally held in December.

## 1981: Year of breakdown

Throughout 1981, the opposition was always able to make its voice heard in the official media. Though Deng succeeded in demoting Hua Guofeng from the party chairmanship at the July plenum, the victory was mitigated by Hua's retention as a vice-chairman, insisted upon by the conservatives, and by the fact that the overall compositional balance of the all-powerful politburo remained essentially the same.

As the year wore on and the economic and social consequences of the "readjustment" became manifest, Deng's marginal edge began to erode. In early summer, intense debate broke out in the provincial and specialized media revealing heated opposition to the regime's industry-wrecking austerity policies. By mid-August, following the release of alarming economic statistics amidst a nationwide crime wave, statements were made in the official media and by several senior officials suggesting that a compromise might be made on the economic question.

Any such speculation that the Deng faction was prepared to compromise or even rethink its economic policy was quashed at the December National People's Congress, where Premier Zhao Ziyang boldly declared that the current policy is sound and correct. And as if to anticipate large scale opposition to a continuation of

the program, Zhao announced that a major “streamlining” of the bureaucracy would take place soon—the first signal that Deng was gearing up for a purge. That such opposition was already considerable was evident in the fact that neither a draft for a new constitution nor a new five-year economic plan, two documents the Dengists boasted would be on the table before year’s end, could even be presented because of disagreements at the politburo level. With the opposition closing in, Deng counter-attacked with the purge.

Chinese students and scholars in the United States who are acutely aware of the potential for mass upheaval in China over the coming period were struck with fear by the waves of rumor and conjecture flowing out of Hong Kong and the region since mid-January. Official reports that Deng has already “retired to the second line” and assumed an advisory role sparked speculation that he had been deposed in a “bloodless coup” while rumors spoke of a Politburo meeting at which several erstwhile Deng loyalists defected, tipping the balance of power in favor of the opposition. Though such reports appear premature at this point, they underscore the widespread doubt among observers that Deng can succeed with the purge.

The day after a mid-February *London Times* article suggested that Deng may have been toppled, the Chinese embassy and consular offices in the United States were deluged by calls from frantic Chinese expatriates demanding the latest news on the situation in their homeland. Chinese officials are obliged to meet with groups of students in an effort to quell the panic, but have been unable to satisfactorily answer the students’ questions. Many students are expressing fear about returning to China.

### **Millions on the chopping block**

An estimated two to three million heads are scheduled to roll within the Communist Party, a figure that could increase dramatically as resistance to the purge intensifies. Resumed attacks on “helicopter promotions,” referring to the millions of cadre who were admitted to or promoted in the party during the Cultural Revolution, are a strong indication that this will be the case. An estimated half of the party’s 38 million members entered during that period.

The sheer numbers of the Maoist cadre poses a big problem for Deng. Unless he is able to purge a substantial number of them before the projected 12th Party Congress this year, it is by no means certain he will be able to control the new Central Committee to be elected at the Congress.

Deng’s successful maneuvering at the top of the party leadership, however, has done little to affect the factional situation at the middle and lower levels of the party and government where policy is actually carried out. If anything, the demotion of Mao’s chosen succes-

sor Hua Guofeng stirred up the beehive of Maoist elements who continue to brazenly countermand the dictates of the party leadership and even organize criminal activities to destabilize the regime. The Central Discipline Inspection Commission (CDIC), which monitors cadre behavior and has been assigned the task of determining who is to be purged, has encountered defiant resistance from cadre who team up to disrupt investigations in order to shield one another from attack. So large is the problem that in its last two issues, the CCP theoretical journal *Red Flag* has been forced to discount popular fears that the Gang of Four may rise again, a prospect that cannot be ruled out in the unpredictable days ahead.

The purge was kicked off by Deng himself during a mid-January trip to Guangdong province where he personally gave the boot to a leading official accused of directing a smuggling ring.

Deng has reportedly assigned top priority to those regions most infected with radicalism and corruption, Hebei province and Shanghai municipality, the latter formerly the base of operations for the Gang of Four and a tinderbox of high unemployment and a burgeoning crime problem. In Hebei, where a former provincial party leader has been the object of repeated propaganda attacks on Maoists precursing the purge, 50,000 teachers were declared “incompetent” and dismissed in one fell swoop in early February. According to the Hong Kong-affiliated New York Chinatown press, a special purge apparatus consisting of small CDIC cells has been set up in Shanghai to deal with the special problems there.

### **Resistance from industry faction, army**

The heavy-industry faction, which has substantial support from the armed forces, is a major obstacle to Deng’s economic program. This faction is led by party vice-chairman Li Xiannian, a former finance minister; Ye Jianying, the titular head of state whose base is in the military, and Hua Guofeng, who continues to enjoy the allegiance of heavy industry proponents and moderate Maoists alike. Yu Qiuli, a Politburo member and head of the State Energy Commission, was identified by *EIR* in 1980 as a member of the “oil faction” favoring rapid industrial exploitation of China’s natural resources.

The assault on pro-heavy industry bureaucrats is being conducted under the pretext of “streamlining” the bureaucracy and “retiring” elderly cadre. Admittedly, China’s bureaucracy is severely redundant with many incompetent officials throughout the ranks, but the nature of the housecleaning makes it clear that Deng has specifically targeted those individuals and institutions that are bastions of sentiment in favor of heavy industry. The four State Council Commissions in charge of capital construction, energy, agriculture, and ma-

chine-building are reportedly earmarked for dissolution, their duties, relegated in status under the auspices of other institutions.

Already six vice-ministers of the coal industry have been "retired." Two hundred and seventy-six officials of the 3rd Ministry of Machine Building followed seven of their leading officials, including two vice-ministers, in retiring from active duty. In Xinjiang, Heilongjiang, Guangdong, and Sichuan provinces, 1,000 top officials and low level military officers have been put out to pasture while the national newspaper *Worker's Daily* glorified a state-run enterprise that axed 8,000 of its 65,000 workers while allegedly raising efficiency 50 percent. The numbers continue to mount.

The military leaders' general disaffection with Deng stems from the current regime's decision to axe the military budget, its neglect of heavy industry which is seen as a prerequisite to modernization, and Deng's perceived irreverence for Mao. In some cases, sentiment against Deng has been exacerbated by personal grievances. Xu Shiyou, the general who saved Deng from the Gang of Four in 1976, is reportedly miffed that he was passed over for the job of defense minister, which was given for the first time to a civilian, Geng Biao, as part of Deng's efforts to depoliticize the army. In his move against the military, Deng has already demobilized some 800,000 troops or approximately 20 percent of the armed forces. But this total has been mostly peasant conscripts at the infantry level, and Deng has yet to go after the officer corps in a big way, a dangerous but necessary task if he is to gain control

over the military.

Deng is meanwhile merging and consolidating those commissions and ministries dealing with foreign investment of the kind associated with his "Special Economic Zone" (SEZ) experiments along the Chinese coast (see *EIR* Sept. 22, 1981). Modeled on Hong Kong, the SEZ experiments have become havens for foreign interests, mostly dope trade-connected Overseas Chinese who are making a killing exploiting the cheap coolie labor Deng has made available in the zones. The SEZ strategy, is slated for expansion into the old colonial bailiwicks of Shanghai and Tianjin, in keeping with Deng's plan to allow marginal development of the coast while letting the interior rot. Peking is even considering bids for resorts from Club Mediterranean, whose contribution to China's "Four Modernizations" will no doubt be questioned by Deng's opponents.

Since no one leaves his post in China without putting up a fight, resistance to the purge will definitely heighten as its victims increase. Though at one time the heavy industry types sided with Deng against the Gang of Four, politics can make strange bedfellows among differing factions when they are under assault from the same force.

Notwithstanding Deng's pledge to protect China from the kind of tumult experienced during the Cultural Revolution, he has now launched a political offensive that could hurl China into yet another fratricidal conflagration. Given the current economic crisis, such a political upheaval could result in genocide that dwarfs previous cataclysms in China.



**Li Xiannian**

76, Communist Party Vice-Chairman. Most important of anti-Deng triumvirate. . . . The economic expert, he was Finance Minister sporadically from late 1950s to early 1970s . . . joined Politburo in 1956 and one of few top officials never purged . . . part of Chou En-lai's bureaucratic faction since 1960s . . . sponsor of heavy-industry policy and military build-up . . . opposed Deng's close ties to United States. . . . does not share Mao Tse-tung's and Deng's intense anti-Sovietism.



**Marshal Ye Jianying**

84, Communist Party Vice-Chairman. Venerated leader of army faction which sees modern industry as base for military buildup . . . close to late Premier Chou En-lai since he served as latter's deputy in 1940s . . . *no* history of significant working relations with Soviets . . . under Chou En-lai's direction preserved life of Deng Xiaoping during Gang of Four pre-eminence . . . after 1976 death of Mao Tse-tung architect of arrest of Gang of Four and naming of Hua Guofeng as party chairman.



**Hua Guofeng**

62, Communist Party Chairman 1976-81. Demoted to Vice-Chairman, August 1981. Most ideological of anti-Deng triumvirate . . . more symbol than powerful leader in own right . . . owes meteoric rise to attachment to Mao's security apparatus in 1972 . . . named Acting Premier three months after Chou En-lai's death in 1976 at behest of Gang of Four, but agreed to their arrest in October 1976 . . . ran ambitious but poorly managed heavy-industry policy during height of power in 1977-79.

# Faced with unrest, can Peking rule?

by Gregory F. Buhyoff

“Today on the mainland there are many people who do not have faith in the Communist Party and socialism . . .”

—The Hong Kong communist monthly  
*Zheng Ming*, December 1981

The current turmoil in China is more than a struggle between rival factions within the Chinese Communist Party. At stake is the ability of the entire regime to hold onto the “hearts and minds” of a population increasingly disenchanted with its rule. The current relationship between the Chinese masses and the CCP is not unlike that which developed under previous dynasties when the emperor lost the “Mandate of Heaven” in the eyes of his subjects, and with it the right to rule. Ideology, be it Confucianism, Taoism, or Maoism, has always been what binds the Chinese masses to their rulers.

The Dengists, however, beginning in 1978, repudiated Mao’s “mind-over-matter” political spiritualism, claiming that they could better control the population through material incentives. Under such slogans as “seek truth from facts” and “emancipate the mind,” they argued that material reality, not politics, should henceforth propel the “Four Modernizations.” In line with this principle, the Dengists relegated politics to second place, and reoriented economic policies around *promises* of rising living standards. This about-face included the introduction of limited “free-market” arrangements in the countryside and promises of material incentives for increased production in the factories.

It was not until the spring of 1981, following the trial of the radical Maoist Gang of Four that the Dengists dared to take on Mao directly, launching the “de-Maoization” campaign out of their ideological think tank, the Academy of Social Sciences.

The campaign immediately provoked screams even from those within the leadership associated with the Deng faction who feared that tampering with the sacred name of Mao would unlock a Pandora’s box for the CCP. They recognized that the cult of Mao was the means by which the CCP maintained the fealty of the masses—its basis of legitimacy, whose toppling would leave an ideological vacuum. The esteemed veteran Gen.

Huang Kecheng, a leading official in the Discipline Inspection Commission, warned at the time, “Defaming and distorting Mao can only defame and distort the party and our socialist motherland. . . . What would take the place of Mao Zedong Thought if it were abandoned? Do they mean to call back Sun Yat-sen or Confucius? Do they mean to introduce into our country capitalist things from the West?”

Already in many parts of China the CCP is compelled to compete with age-old ideologies and practices which supposedly had been done away with long ago. Last year saw the re-emergence of the folk superstitions and secret-society ideology to which the predominantly peasant population has always turned in times of political and economic adversity. Their faith in the party leadership shaken, peasants in the countryside are turning en masse to fortune tellers, mediums, sorcery, and other superstitions, as well as organizing among themselves for mutual succor, a phenomena that has led to crime. Practices such as mercenary marriages, child-selling, prostitution, temple-building, drug smuggling, and organized crime have taken hold in many rural areas in open defiance of party dictates.

In Fujian province during the recent Lunar New Year festival, angry peasants rioted and ransacked the local party headquarters after officials tried to stop them from parading a statue of a Buddhist deity around town. This problem, the media noted, is not isolated. On Hainan Island, according to the official newspaper *Nanfang Ribao*, peasants from contending villages have engaged in pitched battles over land rights dating back to before the communist takeover in 1949! The same newspaper reported that pregnant women are enlisting the assistance of sorcerers to protect them from cadres assigned the task of enforcing the regimes’ “one-child-only” population reduction policy. The authority of previous landlords, and village monks, is on the increase, and such centuries-old secret societies as the Triads have come out of the woodwork with the breakdown of party authority on the local level.

Last year, China graduated its first batch of university graduates since the Cultural Revolution. However, few desire to work for the state, preferring rather to choose their own line of work. Students on campuses across the country are openly rejecting the official ideology of the state. According to first-hand reports, Communist Youth League-fielded candidates were trounced by non-party candidates in recent campus elections at several major universities in China. High unemployment and general pessimism about the future have made youth in urban areas prone to criminal activity, some of which is being manipulated by factional groups in the political struggle. In Tianjin, a major city in the north, the daily newspaper editorialized recently: “Juvenile crime is a major problem jeopardizing

ing social order. Young lawbreakers and criminals are not only saboteurs of social order, but they are also victims of the pernicious influence of the Gang of Four.”

The political purge, intersecting a period of ideological breakdown and economic collapse, has given rise to organized gangs, secret armies, and secret societies, which are engaged in activities ranging from terrorism to economic crimes. Some of these are the same age-old secret societies that appeared in every previous dynastic collapse and which helped form the early Communist party. The danger of the situation is heightened by the fact that many within the civilian population have retained arms and explosives that fell into their hands during the Cultural Revolution.

In late December, Shanghai radio warned: “Social order still remains rather unstable, and many complicated factors affecting public order still exist. It is necessary to make concerted efforts to strike at criminals, divide and demoralize gangs. . .” Sichuan provincial radio, referring to a situation common in many provinces, said in January: “In this struggle, we should make a smashing attack on the vicious criminals and severely punish those who are guilty of murder, arson, looting, rape, and bombing, and other criminal acts seriously disrupting social order.”

The party has found it difficult to command discipline because of the extent to which its *own cadres* are participating in the anarchy. In several highly publicized cases last year, cadre-led peasant armies of up to 1,500 raided and plundered state-owned enterprises, inflicting considerable losses to the state. A year-end Xinhua broadcast warned, “. . . this incident of looting and destroying state property in this colliery in Hunan has once again showed that some of our party organizations and many of our comrades fail to vigorously wage struggles against bourgeois individualism, anarchism, and erroneous trends in defiance of organizational discipline. The most important reason why such incidents *repeatedly occur* is the fact that the leadership of some party organizations is weak and lax and that serious tendencies prevail among some cadres [emphasis added].”

In industrial areas severely hit by Deng’s cutbacks, high unemployment has provoked labor unrest, demonstrations, and demands for Solidarity-style labor unions independent of the Communist Party. Strikes in the coal mines of Jilin province have broken out for the first time since the Cultural Revolution, while demobilized soldiers, discontent with government efforts to resettle them, have begun organizing groups to press their grievances. Last July in the coastal town of Meilü, in Guangdong province, 3,000 army veterans calling themselves the “Disillusioned Army” staged a three day violent uprising against government offices in the town

before they were put down by local troops. Small wonder that when U.S. Assistant Secretary of State John Holdridge sought Chinese support for a denunciation of martial law in Poland during a mid-January trip to Peking, he was told that China is in no position to support illegal unions and strikes in a communist country.

### Deng’s Hong Kong policy under fire

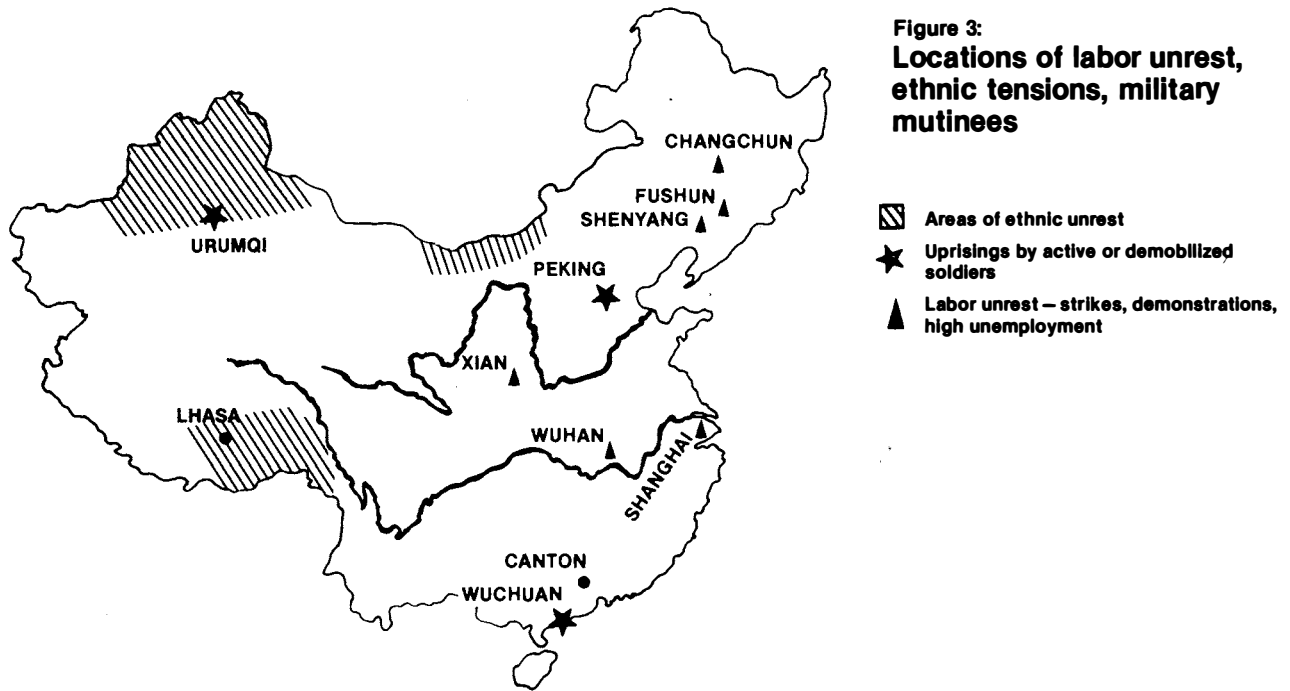
“Weakness and laxity” is not the only aspect of Dengist policy which has drawn fire from factional opponents for engendering an “unhealthy” ideological situation in the country. One of the foundations of Deng’s foreign policy, the intimate relationship with Hong Kong and the Overseas Chinese, is under attack for bringing “decadent bourgeois” ideology back into China. The *Nanfang Ribao*, which serves southern China, said recently: “Along with the implementation of special policies and flexible measures in our province and the establishment of the special economic zones, external economic activities have been developed. . . . Nevertheless, it is undeniable that there are some cadre who have been corrupted by bourgeois ideology and have done things in violation of party discipline . . . speculation, graft, embezzlement, collusion with foreigners, harming the public for private gain, giving and receiving bribes, smuggling, avoiding customs, asking for presents and illegally obtaining foreign money. What especially draws our attention is that recently some people have become bolder and bolder and their desires greater and greater.”

Premier Zhao was forced to address this issue at the December 1981 meeting of the National People’s Congress. “In recent years, our international contacts have sharply increased,” he said. “As a result of corrosion by the corrupt ideology and life-style of the foreign bourgeoisie, instances of abandonment of our national dignity have recurred in some places.”

Strong polemical debates in the official media on the regime’s relationship with Hong Kong have served to demonstrate the lines along which the leadership is divided. The *Peking Daily*, in a Dec. 3 attack on “those who seek nourishment from foreign lands,” pitted the “Peking School” of socialist morality against the “Shanghai School” of corruption, referring to the days when Shanghai was the center of imperialist presence in China, now supplanted by Hong Kong as a generating point of “decadent culture.” The newspaper editorialized: “As we are currently practicing an open door policy in regard to foreign countries we want to import new technology and absorb foreign capital. Undoubtedly we welcome contributions from the Hong Kong and Macao compatriots. However, we definitely do not want to import exotic dress, decadent music, rock and roll, dances, and obscene books and magazines; neither



**Figure 3:  
Locations of labor unrest,  
ethnic tensions, military  
mutinees**



High unemployment and disaffection with the Communist Party has incited workers to attempt the formation of Solidarity-style independent unions in Shaanxi province and in the important tri-city industrial area of Wuhan, and provoked demonstrations and labor unrest in Shanghai and in the industrial Northeast.

Tensions remain high between ethnic minorities and Hans in Xinjiang (Sinkiang), Xizang (Tibet) and Nei Menggu (Inner Mongolia), causing protest demonstrations.

Disaffection in army ranks has spawned mutinies by active and demobilized troops in several locations in China. In Xinjiang last summer company level troops stormed and occupied government offices in protest over an incident involving a local minority and a PLA soldier. According to usually reliable Hong Kong Communist press, an aborted uprising by PLA artillery units took place last winter just prior to the National People's Congress Standing Committee meeting which announced further cuts in the defense budget. In Guangdong, demobilized soldiers unhappy with government efforts to resettle them staged a three-day violent uprising against government and party last July.

do we want to import the hackneyed tune of bourgeois human nature, human rights, democracy and liberty. In short we must resist the corrosive capitalist 'civilization.'

### Will Peking rehabilitate Mao?

The regime is faced with the reality that where it promised economic incentives and a higher standard of living as a replacement for ideological rigidity, it now has neither. Ideological fetters dissolving and economic promises bankrupt, the Dengists have been left with no recourse but to revive some tenets of the Maoist ideology they had so recently repudiated. "Seeking truth from facts," the code phrase for subordinating politics to material concerns, is being heard less and less these days. Calls for "keeping politics in command," and the need to stress "self-reliance," are more prominent in the official media.

Most telling is the restoration, as an ideological reference, of the "Daqing model," after Mao's pet industrial project, renowned for its spirit of sacrifice and ideological orthodoxy. Since 1978, "Learn from

Daqing" had been repeatedly criticized for glorifying its "political achievement" while fraudulently covering up gross mismanagement and destruction of oil fields which Mao's "mind-over-matter" irrationalities wrought. Nonetheless, on Dec. 25 the Xinhua News Agency broadcast the contents of a Central Committee circular resurrecting "Daqing," since echoed by the provincial and local media.

The revival of this erstwhile ideological anathema is less a concession to factional opponents that it is a desperate realization by the regime that they have no substitute to offer, economic or otherwise, capable of maintaining social control. Despite his efforts to cut Mao down to size, Deng must still turn to the late chairman in order to rally the masses.

Whether Mao's discredited policies will wash with a population that has seen one failure after another, regardless of the faction that has produced them, remains to be seen. There is a possibility that whatever the outcome of the factional battles, the victors may well find themselves presiding over a party that no longer commands the allegiance of the masses.

# Deng: 'U.S.-China ties not so good'

by Richard Katz

Deng Xiaoping's less than exuberant evaluation of the alleged U.S.-China alliance during a late February meeting with an American businessman—"Sino-U.S. relations are not good"—is a masterpiece of understatement. The China Card, the illusion that China can be used by Washington as a political-military ally and asset against the U.S.S.R., is dead. To whatever extent it existed outside of State Department scenarios, it exists no longer.

In part, this is so because China will be so preoccupied with internal convulsions in the coming years that it will be unable to play an activist international role. In part, this is so because China is in no position to build up the military strength required by such a scheme. But the China Card is dead mostly because neither of the two leading factions in Peking agrees that China should be a pawn in Washington's geopolitical schemes. Deng's opponents have traditionally opposed the China Card, and Deng's faction no longer supports it, if it ever did.

Deng's opponents, while no great friends of the Soviet Union, have long doubted the wisdom of inviting a Soviet military attack for the dubious benefit of an alliance with forces they regard as "the imperialist Americans." Beginning last spring, this faction criticized Deng's American Card gambit through allegorical press attacks on previous Chinese leaders who "cherished [the] illusion . . . of 'using foreigners to check foreigners.' Those who advocated this failed to see the nature of the aggressors." Anti-Dengist party Vice-Chairman Li Xiannian made the attack more explicit in a January interview with the Italian Communist newspaper *L'Unita* in which he applied to the United States Deng's term of opprobrium for the Soviet Union: "The United States also practices hegemonism."

In contrast to Deng's "manipulate the barbarians" foreign strategy, the more conservative civilian-military coalition led by Lixiannian and Marshal Ye Jianyins places more confidence in building up a strong military through a strong industrial base. This strategy, they believe, will provide the foundation for China's national power and international role. They are thus aghast at Deng's decimation of industry and drastic cuts in the military budget. During the period of

economic-military buildup they espouse, they see no reason to provoke tension with the Soviets for the sake of a strategic relationship with Washington, though they are certainly interested in maintaining good economic ties to the United States.

Being more attuned to Maoist ideology than Deng, they are not comfortable cozying up to Henry Kissinger. They find it harder to square such a relationship with the ideological anti-imperialism they feel is needed at home to control the increasingly restive population.

A victory by Deng's opponents would not likely mean a renewed alliance with Moscow, however. The Li-Ye coalition is not part of the army and party factions linked to the Soviets during the revolutionary era and the 1950s. The Soviet-linked factions were decimated during the Cultural Revolution. The Li-Ye coalition, at least at the top levels, stems instead from the circles around the late Premier Chou En-lai, as, ironically, Deng does. However, they look back fondly on the 1950s as the best period of Chinese economic development. And as they do not share Mao and Deng's visceral hatred of the Soviet Union, they would likely be ready to restore more normalized state-to-state relations with the Soviets.

Moscow is not unaware of the changes going on in China and, according to a senior Soviet diplomat, believes the China-U.S. alliance is over. Moscow leaders have put out a number of feelers in recent weeks, believing that whatever faction emerges from the current power struggle will have to act more favorably toward the Soviet Union. Most notably Prime Minister Tikhonov offered renewed border talks and, at Soviet prodding, the French Communist Party sent a high level delegation to Peking for the first time in years, presumably to evaluate the situation.

Late last year, as Deng grew weaker on the home-front due to mounting economic and political turmoil, the Li-Ye coalition stepped up its attacks on Deng's foreign policy, particularly on the Taiwan issue. Deng was vulnerable to the charge that he was befriending America as the latter prepared to sell advanced jet fighters to Taiwan.

In early January, Li told Japan's Kyodo press that if the United States went ahead with the sale to Taiwan, then "all leading officials, including Premier Zhao Ziyang and *Deng Xiaoping would have to resign.*" (emphasis added) As shown by the later political tumult in China, the Taiwan issue indeed represents a serious threat against Deng's political life. In Jan. 27 hearings before the U.S. Senate, Deputy Secretary of State Walter Stoessel admitted that behind the Reagan administration's decision to give Taiwan arms only at current technological levels was "the danger of a rupture of relations with Peking . . . there was a development in late December which indicated we should move

forward more quickly [on denying advanced arms to Taiwan].”

### Deng's 'third force' foreign policy

Whatever illusions Washington cherished that this compromise would placate Peking were quickly shattered. Instead, Peking chose to harp on the fact that any arms at all were being sent to Taiwan. Relations have deteriorated ever since.

Washington was taken by surprise only because their evaluations had underestimated the strength of Deng's opponents and ignored the fact that the Taiwan issue merely symbolized larger underlying differences with all the factions in Peking, even Deng's.

While the Dengists may have temporarily seen an advantage in a close relationship with Washington, they have now dropped that approach in favor of a revival of Mao Tse Tung's "three worlds" theory, which pits the Third World (including China) plus the "second world" of Europe and Japan against the "first world" of the United States and Soviet Union. Deng himself believes China's future lies in a downfall of both superpowers. A year-end commentary by the official Xinhua news agency declared: "The United States and the Soviet Union belong to the same category. In the eyes of the other countries they are the superpowers and each is the other's number-one adversary."

The Chinese press, including that favorable to Deng, is now full of articles attacking the United States for "hegemonism" toward the Third World. Xinhua articles now habitually accuse "U.S.-backed troops" in El Salvador of "slaughtering" civilians, and of "suppressing national liberation struggles" across Latin America. At a recent meeting in India of 44 developing countries, in which high U.S. interest rates and credit cutoffs were the focus of attention, the Chinese delegate pointedly attacked the United States for obstructing Third World progress, and notably *omitted any attack on the Soviet Union*, an unprecedented omission in Chinese speeches in recent years.

Part of the reason for Deng's growing coldness to Washington is, as Deng told the above-cited American businessman, that the Dengists feel China can get by without U.S. economic assistance, particularly given its retrenchment.

More importantly, the Dengists feel the United States has shown itself to be a paper tiger. For one thing, Peking felt that Washington, not Moscow, lost the diplomatic war over Poland.

Article after article in the Chinese press reports the United States on the defensive and the Soviets on the offensive. "The United States is no longer what it was in the 1940s or 1950s . . ." says Xinhua. "In its contentions with the Soviets over the past year, the United States has not freed itself from its passive,

unfavorable position. The reason is its many weaknesses." Other articles add "The United States can no longer throw its weight around the world as in the 1950s . . . has lost control of the United Nations . . ." and so on. Premier Zhao Ziyang in a fall trip to North Korea accused the U.S. role in Korea of being "a major factor in the instability of Northeast Asia."

### Deng's Pacific economic basin strategy

In contrast to the Li-Ye coalition's reliance on industrial-military strength, the Dengists' foreign strategy is based on building up international networks of financial-political manipulation. The Dengists have virtually abandoned the interior of China in their economic program in order to build up Hong Kong-like "Special Economic Zones" (SEZ) on the coast. Peking has invited investments in these SEZs from both the West and the overseas Chinese who dominated the economies of Southeast Asia, as well as those who left the mainland in 1949. This hoped-for rapprochement is epitomized by the presence on the board of the Bank of China of Sir Y. K. Pao, a Shanghai banker who left in 1949 and who since has joined the boards of the opium-linked Hongkong and Shanghai Bank, the international board of Chase Manhattan Bank, and has been knighted by the Queen of England.

With aid from such multinational-oriented Anglo-American institutions as Chase Manhattan, Hong Shang, the Stanford Research Institute, etc., the Dengists hope to create a China-centered Pacific economic basin, centered on offshore oil and the raw materials of the region. No matter what illusions are cherished in London or elsewhere, the Chinese do not see themselves as the pawns of the West in this game, but as manipulating the financial-political elite of the West. For the meantime, they will cooperate with those Western forces who agree the bipolar world should be changed to a multipolar one.

Certain strategists in the United States have seen this development as a new kind of China Card to replace the now-obsolete military notion of China's role. They foresee a China-centered political-economic bloc that will suppress the industrial nationalism of countries such as Malaysia and Indonesia, keep the Soviets out of Asia, and isolate Vietnam. This scheme will no more succeed than the first version of the China Card. The reasons are: 1) that China's neighbors have no intention of tolerating Chinese hegemonism, having stated publicly that they fear China even more than the Soviet Union; 2) that China's coasts have never been immune from the kind of economic catastrophe China now faces as a result of Deng's war on industry policies; and 3) that the Deng faction is not likely to last long enough to carry out any such scheme.

In whatever version, the China Card is dead.

## 'The Iranization process is on schedule in Mexico'

by Lyndon H. LaRouche, Jr.

For nearly six years, I have been regularly updating my warnings to leading Mexican patriots, that the same U.S.-based forces which were responsible for the destruction of Iran are engaged in a master-plan for the "Iranization" of Mexico. Now, with developments of recent weeks, all the preconditions for a 1983 destruction of the Republic of Mexico have been successfully emplaced.

My first warning of the threat to Mexico came in 1975, following a visit of Willy Brandt to the Republic. The warning came, ironically, from official representatives of the government of Iran, who had acquired intelligence concerning this plot from U.N.O. circles. I caused this information to be made known through various channels, including my friends in Mexico, and participated in directing an investigation to determine what Socialist International and U.S.-based circles must be placed under special investigation in uncovering the enemies of Mexico and its people.

I next brought the plot against Mexico into the open on Nov. 1, 1976. In a half-hour, nationwide U.S. TV debate estimated to have reached over 20 million viewers that election eve, I warned that former Undersecretary of State George Ball was among the circle of evil plotters publicly committed to genocide against at least half the population of Mexico during the course of the medium term. Later, I personally updated my warnings to Mexican officials including former minister Reyes Heróles, and, together with my immediate associates, have worked for the effective defense of the sovereignty of the

Republic of Mexico in every place in the world I might exert some influence for this purpose.

Now, I fear, I have failed. I fear that Mexico will begin to be destroyed from within during the course of 1983, and that there remains no bastion of patriotic forces in Mexico with the combined knowledge, will, and objective power to mobilize effective resistance to what the friends of George Ball, Roy M. Cohn, and Henry Kissinger have now succeeded in putting into place. As Mexico falls, then the chaos in Mexico will spill into the United States, enraged Mexican-Americans and refugees from ruined Mexico reenforcing the command-centers of Hispanic terrorism around San Antonio, Galveston, Houston, Denver, and Los Angeles. The "population war" which United Brands, the Jesuits, the World Council of Churches, and Socialist International have created and are stimulating in Central America will become a genocidal "Thirty Years War" of homicide, hunger, epidemics and pestilences, boiling over the borders of ruined Mexico to lay waste to the southern borders of the United States.

Could the Republic of Mexico be saved from what the Socialist International, the Club of Rome, and the friends of Roy M. Cohn intend for 1983? Objectively, such a rescue is possible. What must be tested is whether the institutional system of Mexico, centered in the election-reform-undermined PRI, still has the subjective capacity to undertake the kind of leadership required? Stripped of the margin of financial leverage of Mexico's

petroleum-exports, and under monstrous financial and political pressures from the highest levels of Manhattan and Houston, do those institutions still possess the subjective qualities required to overcome such admittedly monstrous pressures of threatened "arm-breaking" and other penalties?

Can I perhaps aid in shocking some of my friends in Mexico into seeing at last the reality of what the allies of the Schlumberger-Neuflyze-Mallet oligarchic rentier-financier interests have immediately in store for Mexico?

Therefore, I have taken two steps of emergency action.

Attached to my memorandum are studies which compare the warnings and proposals of my friends with both actual developments and with the measures which my associates and I have recommended. The comparison proves that my warnings and recommendations have been correct on every critical point. Perhaps if my friends in Mexico examine this record in that form, comparing it with their own assumptions and policy-actions at corresponding points, they will draw a conclusion of great usefulness.

Secondly, in the remainder of this present memorandum I shall outline summarily the nature of the monstrous strategic crises now scheduled to begin to erupt by no later than the April-May period of this present year. I include in this report, summary evaluations of an important personal consideration which my friends in Mexico must take into account.

### **The strategic crisis**

As I warned first in October 1979, the Nazi-modeled austerity measures which President Carter's Paul A. Volcker introduced that month have now brought the United States into an accelerating depression, a depression which, unless stopped now, will be deeper, more prolonged, and more horribly devastating than the depression of the 1930s. Anyone who compares the analysis of this process published by myself and my associates with those of all other economic-analysis institutions must conclude that I am the only competent economist (together with my immediate collaborators) in the world during the recent period. Everyone else, especially including the Wharton School, Chase Econometrics, and the UNITAR-linked Cambridge group has been fully as incompetent as the publicly confessed drug-lobbyist Milton Friedman.

Through continuation of the wittingly genocidal "conditionalities" policies of the International Monetary Fund, the World Bank, and the Swiss bankers, the monetarist policies imposed upon the developing sector are already beginning to produce genocidal effects in terms of hunger, epidemics, pestilences, and homicidal by-products of desperation. If present austerity policies of the IMF are continued under depression-conditions,

the scale of deaths caused genocidally in the Third World will approach the billions of deaths demanded by the proposals of the genocidal association known as the Club of Rome.

The depression could be stopped now, but only if the President of the United States fired Paul A. Volcker, and the Congress and Executive forced down interest rates and created gold-reserve-based low-cost credit for loan-participation in credit extended to production of tangible agricultural and industrial goods and to certain crucial infrastructural projects. Unless the President and Congress of the United States take precisely such action, nothing can stop the present U.S. depression from exploding into a world depression worse than that of the 1930s. Anyone of influence who argues that this is not so is a dangerous fool.

This ongoing economic collapse is the general setting and added source of energy for the various strategically-crucial crises about to erupt beginning the April-May 1982 period.

The most obvious crisis otherwise facing the world is centered around Washington's manifest determination to negotiate nuclear-missile agreements in Europe only after nuclear-tipped versions of the Nazi V-1 and V-2 have begun to be put into place in the Federal Republic of Germany, Britain, and possibly Spain as well. This action is intended by its designers to force a crisis in relations between Western Europe and the United States, and to impel the United States to retreat to a "Fortress America" posture in the Western Hemisphere. This dangerous and foolish game is pregnant with the risk of a European replay of the 1962 Cuban Missile Crisis.

The second major crisis about to erupt is documented in the March 2, 1982 issue of the *Executive Intelligence Review*. Recently, the "black nobility" faction of Europe has linked the Nazi Ustashi forces of Croatia to the bandit-government of that troublesome Venetian colony and pseudo-nation known as Albania, preparing a concerted attack upon the very existence of Yugoslavia.

The third major crisis involves Greece, Cyprus, and Turkey. The Socialist government of Prime Minister Papandreu has set up a military coup d'état against itself, as *EIR* also details the leading features of this arrangement. With aid of the two sovereign British bases on Cyprus, a terrorist atrocity is intended to be unleashed, as if from nowhere, in Cyprus, creating the "bloody shirt" needed to worsen the already Papandreu-worsened relations with Turkey (Papandreu has demanded Turkish coastal waters for the Lesbians of Greece). This is the potential trigger for a monarchist military coup in Greece and the attempted overthrow of the present government of Turkey, and involves the Soviet Union through threats to the Soviet fleet's access

to the Mediterranean.

Defense Minister Sharon of Israel, the favorite candidate of Rapid America Corporation's reputed organized-crime figure, "Meshugannah" Riklis, is preparing early military adventures including an invasion of Lebanon, with genocide against the Palestinians there, a possible armored strike through the Jordan desert for the capture of Damascus, the assassination of King Hussein of Jordan, turning Jordan into an Israeli "Palestinian puppet-state," as Sharon has proposed. Sharon is also reported from a most-reliable source projecting an Israeli military assault upon the Saudi Arabian oil fields.

The British-intelligence puppet-sodomist, Ayatollah Ruhollah Khomeini, is reported nearing the end of his days of fouling the surface of this planet. A political vacuum is emerging in Israeli-controlled Iran. The Soviet Union will not permit the United States to enmesh a U.S.-armed client-state in Iran to succeed Khomeini. The United States is committed to keeping Soviet influence out of Iran. A prolonged crisis-point thus emerges now within Iran.

A sixth crisis centers upon Pakistan. The increasingly unpopular military dictatorship of General Ziaul Haq is threatened by a coup ordered by the 22 ruling oligarchical families of that country. Pakistan is being prepared for armed war with India. The British, working from London and Trieste, have delivered a nuclear "Islamic Bomb" to Pakistan, reportedly assembled with assistance from associates of Israel's Yuval Neeman. This bomb is announced to become operational by the end of April. Meanwhile, elements of the U.S. State Department have embraced the cause of a Sikh insurrection in India, part of a project for carving war-torn India into four separate nations and also carving up the present nation of Pakistan into several parts. If Pakistan accepts U.S. proposals to aid in the cause of a Sikh particularist insurrection in India, both Pakistan and India threaten to be destroyed as early as sometime this year or during 1983.

Meanwhile, Peking China is collapsing in a manner pre-figured over more than two thousand years of perpetual "dynastic" collapses in the hideous Yin-Yang process of rise and collapse intrinsic to the rural social policy inherited from Han dynasty book-burning. This means an inevitable collapse of Washington's always illusory "China Card," but a dying China portends dangerous adventures against its neighbors.

This brings us to the special case of Central America. The Jesuit Liberation Theologists, in concert with the Socialist International and the World Council of Churches, have been collaborating with the notorious, Houston-based "banana-republic multinational," United Brands, in preparing bloody destabilization of Central America, at the same time that the same forces

have been preparing the internal "Iranization" of Mexico from Houston, Texas and other oligarchical rentier-financier centers where the clients of Roy M. Cohn of New York and Acapulco are to be found. Roy M. Cohn and his cronies are complicit in an attempt to sodomize all of Mexico, with certain Houston-based interests influential in exerting relevant pressures upon frightened Mexican leaders.

The ugliest part of this process in Central America is the importation of Argentinian and other death-squad specialists into the region. These death-squads, biologically and politically connected to the fascist-socialist Propaganda 2 (P-2) Scottish Rite Freemasonic Lodge of Italy's Licio Gelli and his crony López Rega, commit atrocities which serve to recruit enraged members of families and friends of the victims into guerrilla units, while death-squad atrocities against anti-guerrilla population-centers heat up the rage of the guerrilla's opponents. Enter the Israeli drug and gun runners, operating in part out of Mexico, and through Costa Rica and Honduras, using plantation facilities owned by United Brands, and drugs which destory U.S. youth on the streets of New York provide the revenues to pay the Israeli Mafia gun-merchants for the guerrilla's arms.

My friends in Mexico City have but to trace out the financial and corporate directorate overlaps of United Brands and Schlumberger to prove to themselves what influences are pressuring the United States' government to "look the other way" where the real architects of war in Central America and destruction of Mexico are involved.

It is sometimes easier to blame Moscow, than for the United States government to admit that powerful financier networks intersecting Houston and Galveston, as well as Manhattan and Boston, might actually be the culprits. Naturally, Fidel Castro's foolish (perhaps desperation-inspired) dealings with the Socialist International and the Jesuits explain the reasons for Castro's follies in these matters, but follies they are, follies sufficient to give the pretext for an OAS-U.S.A. military intervention into Central America.

Those are but the highlights of the situation into which we are entering now. If the U.S. State Department and Fred Iklé of the Defense Department succeed in their present conspiring to overthrow Chancellor Helmut Schmidt of the Federal Republic of Germany, it is to be feared that the coming strategic showdown between Washington and Moscow will be a collision between two inalterable impasses. There is no political figure in Western Europe capable of approximating the indispensable role of Chancellor Schmidt under most-acute "crisis-management" circumstances.

### **My own role**

Precisely because I am the only visible candidate

actually qualified to be President of the United States, the Morgans, Moores, Harrimans, and Rockefellers will work to ensure that I never come close to receiving the Democratic Party nomination. If I were elected, I would probably be assassinated long before my inauguration. My enemies know me better than many among my friends.

If there is still a constitutional republic in the United States in 1984, and if the friends of the Moores and so forth have not succeeded in arranging my assassination before then, I shall most probably be a candidate for the Presidency that year. I have no personal ambition for that or any other political office; I know that there is no one else visible adequately qualified for the position at this juncture. Personally, I am more of the stuff of Plato and Augustine than of one briefly a head of government or state. I live more for the future generations' cause than for the present, but to reach the future, the world and nations must survive the present.

Toward nations, my policy is that of Friedrich Schiller, to be at once patriot of my own nation and also world-citizen. During the 14th and 15th centuries, the predecessors of my particular faction, including Dante Alighieri, Nicholas of Cusa, and Leonardo da Vinci, resolved that mankind's affairs must be ordered by dividing the human race into sovereign nationstate republics, each ordered internally by general assimilation of a common literate language, each a language as literate for its own nation as Dante Alighieri's *Commedia* is the measure of the power to think consciously among Italians, or Miguel Cervantes's *Don Quixote* a standard of literate speech and writing for Spanish. Each among my faction must be a patriot of his own nation, and yet the advancement of each other sovereign republic is essential to create the kind of community among nations most advantageous to each and every other republic.

In the case of Mexico, since Benito Juarez was of my faction, and since a republican heritage was reformed under the leadership of the great Obregon, the United States has on its southern border a nation with the established political heritage to become one among the noblest republics in the world. For that reason, I have adopted the cause of Mexico's progress as a truly sovereign republic as a matter of inalterable principle. I have conducted myself toward Mexico according to that policy. That shall remain my policy as long as I live, if the leading circles of Mexico itself do not fail my hopes for the future of their nation.

Leaders and people of Mexico, know this. Recent history has demonstrated that whoever is my enemy is also the enemy of your republic. I hope you must not belatedly discover that truth through the bloody future the friends of Roy M. Cohn have in store for Mexico now.

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## DOCUMENTATION

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# Past warnings and proposals

*The following are selected statements by Lyndon H. LaRouche, Jr. and his associates concerning Mexico over the past seven years. Criton Zoakos is EIR's Editor-in-Chief; David Goldman is Economics Editor; Richard Cohen is the EIR's Washington Bureau chief; Uwe Parpart is research director for the Fusion Energy Foundation; Marivilia Carrasco is the Secretary-General of the Mexican Labor Party, a co-thinker of LaRouche organizations around the world; and Cecilia Soto de Estévez is director of the Mexican Association for Fusion Energy.*

**Lyndon LaRouche, January 1975:** The stories in the American press that "foreigners" and immigrants take jobs away from this country's workers are nothing other than hysterical lies. The truth is that our country needs many more workers to be able to turn out huge quantities of farm tractors, to perfect advanced technologies, including those essential for using fusion energy, for building homes, schools and improving mass transit. . . .

**Lyndon LaRouche, nationally televised address, Nov. 1, 1976:** Carter's advisers . . . are resorting to methods of extreme austerity, auto-cannibalistic austerity, in the effort to squeeze out . . . sufficient wealth to roll over some of the bankrupt debt holdings of certain financial interests. These measures are bad enough in the advanced sector . . . but in the developing sector, these austerity measures mean genocide.

George Ball is very explicit on this in his book, *Diplomacy in an Over-Crowded World*. Ball proposes . . . what he calls triage. That is, we must decide what portion of the present world population must die, and manage food supplies and development in such a way. . . .

This is also the policy of William Paddock, whom Ball cites as an authority. . . . Ball illustrates his policy and Carter's policy by citing the case of Mexico. Ball endorses Paddock's proposal to reduce the population of Mexico, our neighbor, from 58 million to 28 million. He proposes to do this, and Paddock is very explicit on this, by methods used by Hitler . . . by a forced, labor-intensive, slave-labor system in which those no longer suitable for this process of slave labor will be allowed to die.



**Lyndon LaRouche, on the 'Paddock Plan,' Nov. 8, 1978:**

This plan is part of an intolerable escalation by the most reactionary sectors in the United States who, by completely sealing the border, seek to sabotage the Mexican government's forced-march industrialization programs, thereby pressuring Mexico to abandon its support for the European Monetary System and the credit advantages which it offers the Third World, especially for obtaining abroad the most advanced technologies. If I were President, we would tear down all the barriers. We can't have barriers among friends. The humanist leadership in Mexico should be our country's closest ally.

**Lyndon LaRouche, televised address, March 20, 1979:**

Obviously, we are one of the candidate industrial nations from which Mexico desires to . . . increase its purchase of capital goods. That means manufacturing, machine tools and equipment to modernize their agriculture. This means for the United States a potential of billions of dollars a year in new high-technology capital goods exports. But our government to date has refused to accept the Mexican offer. In fact, some representatives of our government have threatened the government of Mexico with destabilizing the country, and have held up the example of Iran, saying: "We will make another Iran of you, if you do not abandon this policy of trying to buy industrial goods from the United States, from France, and other industrialized countries for your development. We want to keep you poor. We want to keep you backward. We want your oil, but we don't want to permit you to use your oil sales as a way of developing your agriculture, of developing your own industry." That is the Brzezinski policy. That is the Schlesinger policy. That is the Carter policy.

**Criton Zoakos, *EIR*, July 1, 1980:** The current scenario for the destabilization of Mexico has been in existence for 15 to 18 years. The reader will be reminded that the case of the destabilization of the Shah of Iran was similarly the product of long-term planning. . . . The public signals for the eventual destabilization of Mexico were first issued by the Aspen Institute and the Rockefeller Foundation around 1973. During that year, Rockefeller-sponsored William Paddock, a close associate of George Ball, made a statement calling for the reduction of the Mexican population by 50 percent by the year 2000. During 1979 and 1980, Amnesty International, the International Association of Democratic Jurists and the P.E.N. Club started the international "human rights" propaganda cover on behalf of the Jesuit-run destabilization networks inside Mexico. The Society of Jesus is to Mexico what the Muslim Brotherhood is to Iran.

**Lyndon LaRouche, *EIR*, July 1, 1980:** Today forces allied to the Carter administration are in an advanced stage of

deployment of an "Iran Model" destabilization of Mexico. . . .

The psychological "Achilles heel" of the best forces of the Mexican government is that government's misguided toleration of the variety of "Aztec fundamentalism" associated with French fascist Jacques Soustelle, and with such "left-wing" accomplices as Octavio Paz—the García Márquezes of Mexico. Today, as during the Hapsburg genocide of the 16th century, it is Mexican Catholic Bishops' agents of the Jesuit Order who are in the forefront of promoting the pagan cult of "Aztecism" in Mexico. As long as the López Portillo government fails to confront Jesuit-orchestrated "Aztec fundamentalism," the government remains intrinsically more vulnerable to the operations around Ayatollah Méndez Arceo, Ayatollah Carlos Fuentes, et al., than was the Shah of Iran to the allies of Club of Rome genocidalist Bani-Sadr of Iran.

**Lyndon LaRouche, '1980 Draft Democratic Platform,'**

**July 1980:** Carter administration policy against Mexico is reflected in a notorious production of Zbigniew Brzezinski's group, known as Presidential Review Memorandum 41, a policy of forcing Mexico into perpetual underdevelopment and poverty of its people. PRM-41 is but the tip of the iceberg, so to speak. . . . In fact, Brzezinski's National Security Council is at the present moment working with the Acapulco-centered branch of the international drug-running interests to conduct an "Iran model" destabilization of Mexico, with the U.S. military occupation of large parts of Mexico, especially its oil-producing regions, in view as part of the genocidal end-result. . . .

Out of Texas, there is a massive gun-running into Mexico, to arm the "Iran model" insurrection in progress under Brzezinski's auspices. The guns that are run in are paid for largely with the drugs run into the United States in return.

**Uwe Parpart, from *El Heraldo de Mexico*, Sept. 19, 1980:**

The speaker began by refuting the recent Inter-American Development Bank report which warned that Mexico was growing too fast, which would result in more inflation. . . .

He said that inflation in Mexico comes from the economy not developing fast enough, especially the miserable pace of agricultural expansion. . . .

He warned, on the other hand, that following the advice of the IADB, the International Monetary Fund, or the World Bank would cause greater evils, since inflation would increase as a result of the slowdown of the development of basic industries.

He commented that the situation facing Mexico is the result of political actions taken by the United States through the increase in interest rates . . . which have

created a system which forces developing countries and especially Mexico to import high inflation rates.

Then, Parpart again stressed that if Mexico fails to modernize its agriculture and make it productive, the IMF, World Bank, and GATT will use Mexico's pressing need to import food as "a big stick to pressure Mexico and keep it dependent, despite its oil wealth."

**Lyndon LaRouche, Monterrey, March 9, 1981:** Today the major problem of developing nations is the flow of fiat-credit generated by offshore, unregulated Eurodollar banking into refinancing of external debt of nations, as well as into purchases within the national sector. The Eurodollar sums lent are essentially either drug-runners' debits or fictitious money, and do not represent real values deposited with the lending banks. The use of such funds for usurious refinancing arrangements and as leverage for substantial, non-productive categories of purchases within developing economies, is the principal source of monetary inflation. . . .

We require a new international rediscount arrangement, based on the use of reserve gold at parity prices of production for monetary-gold reserves. Such new facilities . . . must bypass and collapse the prevailing, hyper-inflationary usury of the Eurodollar market. . . .

**Lyndon LaRouche, Mexico City, March 16, 1981:** The present situation is such that if the Reagan administration continues its present policy, we will probably be in an irreversible world depression beginning May or June. . . .

Therefore, at this time it is extremely important that I, in my capacity as a representative of a current within the U.S. Democratic Party, strengthen the solidarity between my forces and the republican forces in Mexico. . . .

Apart from all the practical economic considerations, GATT would mean an invasion and liquidation of the sovereignty of Mexico, in the form of the 1976 IMF conditions which imposed automatic inflation upon Mexico. If the peso is tied to the dollar, and the dollar goes up 15 percent in inflation every year, then the peso is inflated automatically by 15 percent.

**Lyndon LaRouche, March 26, 1981, from UPI wire in seven Mexican newspapers:** "The most important characteristic of overall investment during the next decade should be nuclear technology," declared Lyndon LaRouche in a symposium. . . . LaRouche, who is an energetic proponent of his country's exchanging technology for oil with Mexico, stressed that "only the capabilities of nuclear energy could satisfy the necessities" of Mexican development. "Mexico," proposed the economist, "should be owner of nuclear technologies, developing

research and the necessary training programs, just like Pemex did in respect to oil technologies."

**David Goldman, EIR, June 30, 1981:** The most frustrating thing about Mexico's present 30 percent inflation rate is how easy it would be to reduce it, if the right sort of economic relations prevailed with the United States. . . . That is not to say that inflation—and the enormous interest charges that go with it—have not made financial life a headache for most Mexican businessmen. 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.

Mexico is leaning hard against economic distortions that arise from its close economic relationship with the United States. These distortions, not the ambitious and well-funded government development plan, are responsible for the inflation problem. . . . Many of the private-sector commercial banks . . . argue that the government will have to scale down the growth rate from the present 8 percent per annum to perhaps 6 percent in 1982—although they admit that this implies a sacrifice of national economic interests in order to compensate for distortions imposed from the outside.

**Maravilia Carrasco and Cecilia Soto, from El Heraldo, July 23, 1981:** They asserted that there is a conspiracy against Mexico because our country represents those who are fighting to develop themselves. They asserted that Mexico must take measures of self-defense, such as exchange controls, lowering interest rates, tying credit issuance strictly to financing of productive projects and a tax reform penalizing speculators. . . . They demanded that the "fatalist technicians" in the service of the International Monetary Fund and the World Bank be thrown out of the Bank of Mexico.

**Lyndon LaRouche, EIR, July 28, 1981:** The July 9 declarations . . . of the Federal Reserve leave nations wishing to avoid the looming new depression no alternative but to institute exchange controls. . . . U.S. interest rates will continue within a band of between 19 and 21 percent for at least the coming two months. . . .

Therefore, nations which choose not to join Paul A. Volcker's pack of Friedmanite lemmings over the cliff are obliged to take virtual economic-warfare measures to defend their nations from the consequences of Federal Reserve System madness. . . .

Exchange controls . . . permit nations to provide credit at lower borrowing costs, probably between 6 and 8 percent, for essential domestic borrowing, but to ensure that funds borrowed in this way do not flow out, directly or indirectly, to high-priced money markets such as those of London or New York City.

Granted, such procedures incur bureaucratic measures. It requires that no money transfers can leave a nation in excess of small personal amounts except that that transfer bear a number identifying a license for such transfer. . . . It requires that all incoming deposits be registered and controlled. . . . To make such controls efficient, various degrees of painful penalties, including substantial presumptive prison sentences and fines, are imposed for violators. . . .

There is no other choice. Bureaucratic, painful, "repressive," or not, such measures are demanded under the conditions created by the madmen of the Fed.

**Richard Cohen, Mexico City, from *Avance*, July 29, 1981:** Third World countries, including Mexico, run the risk of finding themselves under pressures by international financial organizations to force them to devalue their currencies." That assertion was made by Richard Cohen, the chief of *Executive Intelligence Review's* Washington office, who indicated that if interest rates stay high, the world economy . . . would suffer a severe and sudden collapse.

**Mexican Labor Party, Aug. 5, 1981:** If the Bank of Mexico does not implement exchange controls and lower interest rates, the economy is going to collapse. The IMF and the oligarchy are the ones guilty of the conspiracy (against the peso) denounced by the President of Mexico (on July 17).

**David Goldman, memorandum, Feb. 11, 1982:** Between the second and third quarter of this year, the U.S. banking system will undergo a major shakeout. . . . The result will be a shock-wave contraction of credit extension to all dollar creditors internationally. Of these, the weakest sector internationally . . . is *the Mexican private-sector borrowers*. These will be the first sacrificed.

Without an appropriate program of exchange controls . . . the Mexican economy will be characterized by domino-style bankruptcies of private sector financial and industrial firms . . . with corresponding (10 to 20 percent) reductions in private-sector output levels and employment. . . . An effective program of controls could avert such a disaster, but the time left in which an effective program may be started is measured in weeks. . . .

Exchange controls must be adopted that will:

- 1) Ruthlessly prevent flight capital. . . .
- 2) Deny import licenses for all but essential imports, eliminating luxury consumer goods imports in particular.

Simultaneously, the central bank of Mexico must begin to issue long-term, low-interest peso-denomination credits either directly or in combination with private sector banks, on behalf of all projects which contribute to national development . . . [with] concentration of

efforts on major infrastructural projects, including agricultural infrastructure. . . . will enable Mexico to enjoy a leap in productivity. . . . Through these measures, Mexico will save sufficient foreign exchange to stabilize the external debt position of both the private and especially the public sector, and to maintain essential imports of capital goods. . . .

Exchange controls can save Mexico more than enough foreign exchange to prevent a financial disaster in the private sector. But those who object that controls are unworkable or undesirable condemn Mexico to chaos. . . .

## Volckerites push new peso devaluation

The initial drop in the Mexican peso on Feb. 17, from 27 to the dollar to 38, was followed eight days later by a new drop to 44 pesos to the dollar. Prominent among other continuing pressures which can be called "Phase II" of the international economic warfare campaign which resulted in the initial devaluation, is a drive for yet further devaluation; some currency traders at Citibank insist that 60 pesos to the dollar would be appropriate.

The overall guidance for the "Phase II" pressure continues to come from Swiss and London financial command centers, in part through their Washington subsidiary, the International Monetary Fund. An IMF official privately confided immediately after the first devaluation that Mexico's step "was just the thing to do, because they need a slowdown in their economic activity."

Contributing to the pressure for a further drop in the peso is the U.S. State Department, which is telling Mexicans who took their money out of Mexico in capital flight speculation, "keep your money in the United States a while longer," instead of repatriating the flight capital to Mexico.

*EIR* spoke to several senior currency traders in the United States the last week in February. This is what they said:

**Lyle Pai, foreign exchange department, Citibank, New York:** The peso should be between 50 and 60 pesos, as I said last year. The international traders will decide what that value should be.

Oil prices keep going down. Even if they spend at the same level they are doing right now, or even if they cut the budget, the amount of expenditure saved will not be near the amount of revenues they will lose because of the oil price drop. With this devaluation, people are going to

be lot more focused on these issues. Previously people would say, "Well, they have enough international reserves." Now they see a 40 percent devaluation and they are going to say, "uh oh, oil prices are dropping . . . let's sell pesos."

I don't think there is anything the Bank of Mexico can do. If people put pesos in a suitcase and fly to Switzerland and give them to the Swiss central bank, and this bank turns to the central bank of Mexico and says "I want dollars or Swiss francs for these pesos," that's it. Capital is going from Mexico mainly to Switzerland and the Southwest of the United States. In the case of Switzerland, people just take one or two suitcases there. And the point is, how long can the Bank of Mexico keep going?

There is a big question mark about more foreign loans to Mexico. The banks are going to be very leery about lending to the Mexican private sector. There may not be a problem with the government. It all depends on how [presidential candidate] De la Madrid proceeds. If he continues to spend as López Portillo did, there may be problems.

The value of the peso to the dollar is still not right. When they devalue to 50 pesos the pressure is going to be completely off relative to prices in the U.S.

This is not over, this is just the first shot.

**Robert Boston, Thomson McKinnon Securities, New York office:** The difference in inflation rates between the U.S. and Mexico caused the devaluation. That trend is not over. We expect the peso to trade lower in the next two to four months. You cannot stop market forces. Flight of capital did not force the devaluation. It's just the result.

In Mexico there is going to be a big increase in inflation due to the devaluation. The new President in Mexico will make no difference. What difference does a President make? What you need is a Paul Volcker in your central bank, that's what you need. That would throw Mexico into a depression.

Inflation is a disease. It's like a vampire. Eventually you can't stop it at all until it brings the government down.

**Larry Young of Thomson McKinnon's Chicago office:** Capital flight was not the cause of the devaluation. The fact is that the dollar is more attractive. A lot of British, Japanese, and Germans are holding their assets in dollars because it offers higher interest rates. In this sense, I would say that Mr. Volcker was behind the devaluation.

[Young outlined three underlying causes for the devaluation: sagging oil revenues, a threat of a loan cut-off from the World Bank and the International Monetary Fund, and nervousness because it is an election year in Mexico.]

The climate here in Chicago is that there's going to be another devaluation.

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## Investigative Leads

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# Red Brigader ran Solidarity support

by Vivian Zoakos, European Editor

A startling picture has begun to emerge around the case of arrested Italian trade unionist Luigi Scricciolo, indicating that the Western support movement for Polish Solidarity may have been connected to the kidnapping of the American NATO General James Dozier. These Italian leads corroborate charges printed more than a year ago in this publication, that Polish Solidarity, nominally a pro-Western oriented "independent freedom movement," is in fact largely controlled by a network of international intelligence agencies led by British secret intelligence and including the Soviet KGB itself.

What the Scricciolo case points to is the way in which terrorist networks have infiltrated the international trade-union movement, often under seemingly opposite "pro-communist" and "anti-communist" labels.

As *EIR* first reported in this column three weeks ago, Luigi Scricciolo is the chief of foreign affairs of the Italian trade union confederation UIL and a close associate of UIL Secretary-General Giorgio Benvenuto, a leading figure in the International Metalworkers Federation. He was picked up Feb. 4 on charges of being a Red Brigade terrorist. Arrested with Scricciolo was his wife, Paolo Elia, who functioned as an unofficial press aide for the UIL. Scricciolo was responsible for maintaining all liaisons with non-Italian trade unions, and has been characterized (since his arrest) by UIL head Benvenuto as having enjoyed his "full confidence."

### Deliver Dozier to Eastern Europe?

As *EIR* reported March 2, Scricciolo was in correspondence with Ernest Lee, the head of the AFL-CIO International Affairs Department at the Paris international headquarters of the American trade union federation. Sources at the AFL-CIO headquarters report that Irving Brown, the director of the Paris AFL-CIO office, who is in charge of conducting American trade-union contributions into the Polish Solidarity movement under orders from AFL-CIO president Lane Kirkland, has had the most contact with the arrested terrorist. U.S. trade unionists could very reasonably now ask the question of whether their union dues are being conducted to pay for terrorism.

The information leading to Scricciolo's arrest originated with his cousin Loris Scricciolo, the jailed Red Brigade leader, and with Antonio Savasta, one of the "jailers" of kidnaped NATO General Dozier who was seized when Dozier was rescued on Jan. 28. The cousin charged that Luigi had at least on one occasion passed him NATO documents and had agreed to arrange, on the request of the so-called "strategic leadership" of the Red Brigades, a meeting between the latter and a representative of the Bulgarian Embassy in Rome, where some of these documents were to be exchanged.

On March 1 Loris Scricciolo testified from his jail cell that during the period of Dozier's captivity, Loris had been asked by this same Red Brigades "strategic leadership" to contact Luigi Scricciolo to arrange for the possible transfer of Dozier to an East European country, in exchange for a delivery of weapons to the terrorists.

Dozier's jailer, Antonio Savasta, identified Scricciolo as the "public relations" man of the Red Brigades vis-a-vis other terrorist organizations, including the Irish Republican Army and the Basque ETA. In 1979, according to the same source, Scricciolo held a meeting with the full leadership of the Red Brigades where he reportedly behaved like "the foreign minister" of the Red Brigades, "supporting a network of contacts with representatives from Cuba and Bulgaria."

Scricciolo had been a member of the Maoist grouplet Lotta Continua and other extraparliamentary left groups. Later, he joined the Democratic Party of Proletarian Unity, through which these groups formed their electoral arm in the early 1970s, and then rose meteorically through the ranks of the Socialist International-linked UIL under the protection of Giorgio Benvenuto, who made him foreign affairs director.

### **Scricciolo and Solidarity**

It was Scricciolo who maintained the contacts between the UIL and Polish Solidarity. He attended the September 1981 Gdansk congress of Solidarity, held regular meetings with Solidarity leader Jacek Kuron (former head of the KOR, which dissolved into Solidarity last year), and was the organizer of Lech Walesa's trip to Italy prior to the establishment of martial law in Poland in December 1981.

Scricciolo's associated networks also extend into the United States. One of his collaborators in Italy was Marta Petrusewics, an active organizer of the Solidarity movement abroad who is currently working closely with the Polish Workers Task Force in New York City. Petrusewics is also a close personal associate of Red Brigade mastermind Franco Piperno, who has recently been granted asylum by the Canadian government. Martha Petrusewics regularly flies to Montreal to consult with Piperno, who is wanted by Italian authorities

in connection with the 1978 kidnap-murder of Aldo Moro, and numerous other subversion charges.

In New York City, the Polish Workers Task Force with which Petrusewics collaborates is headquartered in the offices of the League for Industrial Democracy (LID). A variety of other, interchangeable Solidarity support committees operate out of the same location. The LID was founded and is still today funded by the United Auto Workers, but is also close to liberal networks in other union, like the ILGWU. The UAW leadership works closely with Scricciolo's protector Giorgio Benvenuto in the International Metalworkers Federation. The UIL which Benvenuto heads was begun and still has its stronghold in the FIAT auto plants in Turin.

According to information confirmed through discussions with ranking UIL members last month, one of Scricciolo's close associates for many years was identified as Bogdan Denic, a Yugoslav emigré and sociology professor who has taught "social theory and methodology" at the Johns Hopkins University overseas center in Bologna, Italy. Denic is also prominently associated with the International Association of Machinists, headed by William Winpisinger (a member of the Socialist International). Denic has in the past been a member of former National Security Adviser Zbigniew Brzezinski's Research Institute for International Change, currently headed by Sewryn Bialer.

Denic spends half of his time in Italy, where he maintains close contact with leading Italian sociologists. Among his other activities, he has organized various "exchange programs" for DSOC, the Democratic Socialist Organizing Committee, which is the U.S. affiliate of the Socialist International. These programs have involved sending DSOC members to El Salvador to make contact with guerrillas, as well as to Poland to "meet and learn from the Polish experience."

The widening implications of the Scricciolo case touch on the threat of "Italian-style" terrorism in the United States, which many law enforcement authorities have warned is on the agenda for the near term ahead. In a Special Report issued in early 1981, *EIR* reported on the December 1980 Washington Eurosocialism Conference, which was attended by Winpisinger and a number of other foreign and American affiliates of the networks identified here. The conference delivered a threat that incoming President Ronald Reagan's economic program would be met with violent uprisings, to be organized by the U.S. affiliates of the Socialist International.

The AFL-CIO's European chief Irving Brown, who was hastily summoned to the United States in February to report to Lane Kirkland and the leadership after Scricciolo's arrest, refused to answer any questions from reporters on the Scricciolo affair.

# Widened war danger as Iran falls into domestic chaos

by Robert Dreyfuss, Middle East Editor

With the winter weather coming to an end in the Persian Gulf, the 17-month-old war between Iraq and Iran is about to enter a new and deadlier phase. Both Baghdad and Teheran are reported to be planning new military offensives in the spring, and, according to intelligence sources, a dramatic escalation of the war will begin no later than early April.

What makes the situation more dangerous than it was last year at this time is that Iran, exhausted after a year and a half of fighting, is facing two crises. Economically, the Teheran regime is literally bankrupt and unable to finance either its war effort or its domestic welfare economy; and politically, Iran is preparing to face the political breakdown that will follow the death of Ayatollah Khomeini.

For Khomeini's backers in London, Switzerland, and Tel Aviv, and among the remnants of the Carter administration, the crises in Teheran can no longer be avoided or postponed. According to U.S., British, and Israeli intelligence sources close to the leadership of the Khomeini regime, a desperate Iran may choose a reckless expansion of the war into the neighboring Persian Gulf sheikhdoms, regardless of the consequences, rather than face military defeat by Iraq and an internal collapse that would lead to the extinction of the Khomeini dictatorship.

"Iran is losing the war," said one Middle East analyst, "and the mullahs may decide that there is no other choice but to expand the war and involve the superpowers in a confrontation." The chief target of such an Iranian attack, according to several sources, would be the oil fields of nearby Kuwait.

Despite the radical changes in Iran's political leadership since 1979, however, especially since the fall of President Abolhassan Bani-Sadr in 1981 and the subsequent campaign of terrorist bombings that wiped out dozens of top mullahs, the Teheran regime remains a political asset of the same Anglo-Venetian and Israeli circles that toppled the Shah and put Khomeini in power as part of a broader policy of wrecking industrial development in the region. Although Iran receives external

assistance today from both Washington and Moscow, the behind-the-scenes controllers of the Teheran clique—such as Savama secret service chief Gen. Mossein Fardoust and ex-Foreign Minister Ibrahim Yazdi—are still allies of the Socialist International, the British SIS, and the "third force."

The decision to propel Iran against the states of the Arab Gulf, therefore, is not a decision of a passel of disheveled mullahs, but one taken at the highest levels of the European oligarchy. An attack on Kuwait by Iran, combined with a disintegration of Iran's regime toward civil war, would result in an almost immediate U.S.-Soviet confrontation.

Eugene Rostow, head of the Pentagon Arms Control and Disarmament Agency, who is close to the Israeli Mossad circles supplying Iran's armed forces and *pasdaran*, or Revolutionary Guard, with advanced weapons, thus knew better when he said, in an interview with the *Wall Street Journal*: "There comes a time in every administration when the Soviet Union tests the United States. Iran is the place where we will be tested."

More accurate is the prediction of Tory British Parliament member Julian Amery: "The crisis in Iran will become a civil war and threaten to destabilize the Persian Gulf. Both big powers have interests to protect, and they will be drawn into conflict there almost spontaneously."

And Britain's Lord Chalfont, a longtime observer of Iran, describes Iran and the war in the Persian Gulf as the single most dangerous flashpoint on the global scene today.

## Khomeini regime squeezed

For the first time since the start of the Iran-Iraq war, the Khomeini regime is at the end of its rope. From financial reserves of tens of billions of dollars in 1980, and despite the influx of more than \$7 billion from the United States after the U.S. hostages were freed, Teheran is down to less than \$600 million in foreign assets.

Desperate to increase its revenues, during the month of February Iran cut its price of oil three times, finally bringing the asking price down to \$30 per barrel. "But

that will not do any good," said an experienced OPEC analyst. "Because of the war, Iran is forced to confront an additional cost of \$6 per barrel because of insurance premiums for tankers that enter the war zone in the northern Gulf. So Iran's oil is still not competitive." Iranian oil exports are stuck at about 500,000 barrels a day, *less than a tenth of 1978 levels*.

In addition, Saudi Arabia, which is supporting Iraq financially and politically, is determined to block Iran's return to the oil market and thus to maintain the squeeze on Iran. "The Saudis will undersell Iran in OPEC no matter what it takes," said one source. "So Iran may attack the Gulf states, like Kuwait, as a warning to Saudi Arabia."

Although the Soviet Union is taking advantage of Iran's predicament to step up its own economic involvement in Iran, an involvement which produced a record trade level of \$1.2 billion during 1981 and participation in some 50 projects in Iran, Moscow is unable and unwilling to bail out Iran in its crisis. "Although a lot of Iranian oil is being bartered in the Soviet Union's bloc, all they are getting in return is cigarettes and potatoes," said one expert.

And, although Moscow and its allies in Eastern Europe and Asia are supplying limited quantities of weapons to Iran, the primary sources of Iranian arms are Israel and the West. That continued flow requires hard cash, something that Iran simply does not have. Food imports, another politically critical requirement, also place enormous demands on Iran's resources, and the current squeeze means that Iran's mullahs may no longer be able to feed Iran's 40 million people. Domestic food production has collapsed since the 1979 revolution, leading to a sharp rise in imports.

Finally, according to military experts, Iraq plans to restart its war drive in the spring, when the end of the rains enables Iraq's armored divisions to have mobility. Iraq has mobilized a huge force of almost 1,500,000 soldiers and militiamen, with a reserve of 500,000 more.

Faced with all these challenges, the mullahs are well aware that their balancing act of the past three years is in danger. Supporting Teheran, however, is the revenue from exports of opium and other drugs, which some analysts believe could be funneling several billion dollars annually in "black" money into Iran.

### **End of the Ayatollah?**

Complicating things further are the persistent rumors that Ayatollah Khomeini is dying. Now 83, Khomeini is frequently absent for long periods of time, and, in early February, it was announced by the Pars New Agency that a council of mullahs had been formed to "replace" Khomeini. The rumors themselves have caused a rise in tensions.

"The situation is ripe for confrontation between the

U.S. and U.S.S.R.," said a former National Security Council official. "Rumors are everywhere about what is happening in Iran, and as the situation worsens both Washington and Moscow will start to worry about what the other side might be doing. This is a recipe for escalation."

Richard Falk, the Princeton University professor who supported the Khomeini revolution and served as an unofficial adviser to Cyrus Vance, is himself involved in rumor-mongering: "After Khomeini's death there will be a civil war, spreading throughout the entire country, and perhaps the army will join the fray." According to Falk, the situation will be up for grabs, with the result either "pro-Western, pro-Soviet, or 'the Libya model.'"

Thomas Ricks of Georgetown University, another member of the original pro-Khomeini U.S. network, is also spreading rumors. "The CIA is planning to support a military coup d'état in Tabriz very soon," says Ricks, oblivious to the fact that no military coup could succeed in maintaining order in Iran, given the presence of several million Iranians in armed gangs, militias, tribes, and so forth. "General Bahram Aryana, in Turkey, can take over Tabriz with a couple of thousand men," says Ricks. He predicts that Iran will disintegrate along the lines of its major ethnic groups, pitting a central Teheran-Qom-Isfahan axis against the outlying provinces.

Giving some credence to Ricks' views was the revolt in Amol, a city on the Caspian Sea, in which nationalist military men, not leftists or Bani-Sadr supporters, were said to be involved. But if the CIA is indeed involved in an effort to help Aryana stage a rebellion, its only effect in the real world would be to provide Moscow with an excuse to intervene more directly in Iran. Aryana himself, based in Paris and Istanbul, is said to be seeking support from Israel's Mossad as well as the CIA, and from a number of Israeli-linked U.S. officials such as the State Department's Michael Ledeen.

The Soviet Union, content to see its influence in Iran increase incrementally, has no intention of an Afghan-style invasion. Moscow's only concern in Iran now is not to allow the United States to reclaim the country as a forward base, and while the U.S.S.R. cannot have the regime it desires in Teheran, it can block with ease the establishment of even the slightest hint of an American-allied government again.

For its part, the State Department seems still convinced that the Islamic Republican Party and the clergy in Iran are the only alternative to takeover by the Tudeh Party, the same idiotic reasoning that dominated the Carter administration's thinking on Iran. Though they may play around with the exiled Iranian military, the State Department and CIA appear to link American interests in Iran with maintaining the barbarically fundamentalist regime.



# U.S. and Israel run weapons to mullahs

by Robert Dreyfuss

The same Iranian dictatorship that held Americans hostage for over a year is now being kept in power by a steady flow of American arms, while the U.S. Pentagon looks the other way.

According to reports from former Iranian military officers and experts in the United States and Europe, the U.S. and NATO weaponry is being channeled into Iran through transshipment points in Israel, Brazil, and certain Persian Gulf sheikhdoms.

## The DOD winks

The U.S. does not maintain diplomatic relations with Iran, and the Pentagon refuses to comment, but high-level sources report that Washington is well aware of the arms flow. "There is someone in the Pentagon who watches this very carefully, and who turns a blind eye to the arms supply," said a former U.S. National Security Council aide.

"If you ask the Department of Defense," said an Iranian officer opposed to Khomeini's dictatorship, "they'll tell you privately that they don't want to know."

Since the Iran-Iraq war began in September 1980, Iran has managed to keep its air force and part of its armored divisions functioning, which would be an impossible task without the supply of U.S. spare parts. According to Arab sources, even American tanks and heavy weapons are being supplied to the mullah regime.

Israeli Foreign Ministry official David Kimche has also admitted that his country is aiding the Iranian war effort, but Israel does not produce enough arms to maintain the high Iranian military.

In the United States, the military procurement effort for Iran is being led by Commander Firuz Davari, according to informed sources. Davari, who previously served as Iran's military purchasing agent in London for two years and maintained links to the black market arms traffickers in London and Switzerland, has been in Washington since last summer.

Davari is reportedly in league with banker Cyrus Hashemi, an Iranian Khomeini loyalist. According to military sources, Davari and Hashemi are purchasing American weapons and sending them into Iran through

European-based shipping companies.

During 1980, it was reported that Hashemi was a secret intermediary for relations between Khomeini and the Carter administration, and that Hashemi had conduited Iranian funds to pro-Khomeini terrorist groups in the United States. Hashemi filed a multi-million dollar libel suit against this journal and other press outlets, denying the widely-publicized charges. Meanwhile, evidence of Hashemi's unsavory dealings has multiplied.

Questioned about Hashemi in late February, a former Carter aide admitted knowing him, and added that information about the shadowy banker was "highly classified." He confirmed that Hashemi is an experienced gun-runner.

Because of the sensitive nature of U.S. and NATO arming of Iran, the supplies are often diverted through two or three other nations before they reach Teheran.

"Much of the arms traffic to Iran passes through Brazil," said one source. "U.S. and NATO stockpiles are shipped there, and then re-exported." From there, much of the supplies pass through such small Gulf emirates as Bahrain and Dubai, under the watchful eye of the British secret service.

Underwriting the arms traffic to Iran are several large American banks, who routinely write letters of credit for the "Brazil" arms, and Libyan banker and terrorist financier Abdullah Saudi of the Arab Banking Corporation.

American officials who question the propriety of arming the insane Khomeini regime are simply told that, should the clergy-dominated regime collapse, then Iran's Tudeh Communist Party would take over. Israel has justified its supply to Iran on the grounds that it weakens the Arabs, especially Iraq.

Such reasoning is designed to lull the naïve into complicity. By arming Iran, the British intelligence circles and their friends in Washington and Tel Aviv are trying to prop up the mullahs' Malthusian dictatorship, in order to spread the Khomeini cancer throughout the rest of the Islamic world. The Iranian communists, who had no base in the country before the mullahs seized power, are gaining strength only now.



*Evidence of fraud in a lawsuit against Hashemi.*

# The real story of Cyrus Hashemi

by Edward Spannaus, Law Editor

Inquire within the Iranian exile community as to the source of financing of student militants and terrorism, and one name comes up repeatedly. Ask about the means by which U.S. weapons are being run into Iran to the regime of the Ayatollah Khomeini, and the same name comes up. That name is Cyrus Hashemi.

The names of Hashemi and his bank, the First Gulf Bank & Trust Company, chartered in the West Indies, surfaced during 1979 in the context of investigations into the funding of Iranian terrorism in the United States, and particularly around the July 22, 1979 assassination of Ali Tabatabai, a courageous anti-Khomeini spokesman in Washington, D.C. Official Iranian involvement in the Tabatabai assassination was established in the subsequent indictments of four men for the killing. The

indictments charged that the assassination conspiracy had been planned in the Iran Interests Section of the Algerian Embassy in Washington, which was serving as the Iranian diplomatic center. The Iranian Embassy itself was shut down in 1979.

*EIR* was the first publication to print reports of Hashemi's involvement in financing Iranian terrorism. Subsequently, the *Washington Post* transmitted a report on its wire service, apparently based in part on earlier investigations by NSIPS, *EIR*'s parent news service, which identified Hashemi and First Gulf Bank & Trust as conduits for funds channeled to Iranian student militants and terrorists.

The *Washington Post* quickly heard from then-Assistant Attorney General J. Stanley Pottinger and was convinced by Pottinger or others to print a "clarification" of the story which deleted references to Hashemi and his bank. (According to one source, the Justice Department itself put pressure on the *Post* to retract the story; this is a credible story both because of Hashemi's acknowledged involvement in the hostage negotiations and also because of reports from local law enforcement sources that a "national-security" cover was placed on the investigation of the Tabatabai assassination.)

After negotiating an agreement with the *Washington Post*, Pottinger and Hashemi turned around and filed suit against NSIPS and four associated entities, and also against the *Washington Post*, the *Boston Globe*, the *Atlanta Journal*, and Cable Network News. Subsequently, the *Post*, the *Globe* and the *Journal* had the suit dismissed on the basis of the previously negotiated settlement. These defendants did not actually retract their statements about Hashemi—they merely deleted them—and an affidavit by a *Washington Post* reporter who wrote the story for the *Washington Post-Los Angeles Times* news service stated that "Mr. Pottinger had told us nothing to make us doubt the accuracy of any statements in the story. . . ."

Hashemi has subsequently amended his lawsuit to add as defendants Robert Dreyfuss and Thierry LeMarc, authors of the book *Hostage to Khomeini*, which is an account of how the Khomeini revolution was synthesized. Also named are *EIR* founder Lyndon H. LaRouche, Jr., who commissioned the writing of *Hostage to Khomeini*, and the book's publisher. At present, Hash-

## A new fund

A legal defense fund has been established to defray legal fees and costs associated with Cyrus Hashemi's multi-million dollar lawsuit against the *Executive Intelligence Review*. The fund is registered under the title: The Final Defeat of Ayatollah Khomeini Fund.

The fund is named after a new book to be published soon, written by *EIR* founder and contributing editor Lyndon H. LaRouche, entitled *The Final Defeat of Ayatollah Khomeini: A Doctrine of Constitutional Law for the Iranian Renaissance from the Dark Age of Neo-Asharite Irrationalism*.

The fund is established both to defend *EIR* and its associated news service, and to begin a counter-offensive against Hashemi and his supporters. This process is expensive, but it is urgent. Contributions may be made payable to the "Final Defeat of Ayatollah Khomeini Fund," c/o *EIR*, or directly to Account No. 031-104-201, European-American Bank, 10 Columbus Circle, New York, New York 10019. Telephone inquiries may be addressed to *EIR* Middle East Editor Robert Dreyfuss at (212) 247-8820.

emi is demanding a total of \$180 million in damages against the various "EIR defendants."

### 'Integrity and honesty'

Hashemi's lawsuit vigorously denied all the charges published against him, including any association with the Iranian secret police, the Savama; with the Muslim Student Association; or with any other student militants. The suit further denied any Hashemi complicity in laundering dirty money. His complaint stated the following:

Cyrus Hashemi is a private, law-abiding person who has lived in the United States for many years and has the highest reputation for ethics, integrity, and honesty.

There are many within the Iranian exile community in the United States who dispute this assertion with well-informed passion. In filing his suit, Hashemi may have been counting on the fact that most such persons live in fear of their lives, anticipating that they might meet the fate of the murdered Ali Tabatabai should they testify in court against Khomeini's agent Hashemi.

### Friends in high places

During the negotiations over the American hostages being held by the Khomeini regimes, Hashemi is reported to have met at various times with officials of the State Department and the National Security Council. On the day after the release of the hostages, Hashemi appeared on NBC-TV with his friend David Mizrahi. Hashemi was described as "a top adviser to the government in Teheran" who was involved in the hostage negotiations. Ask the State Department about Hashemi today, and you will still be told that the information is classified for national security reasons.

Who is this mysterious banker? He is a man who has been involved in numerous financial scandals, according to sources familiar with his dealings. Some sources specify that he had to leave Iran because of a scandal involving the Iranian Agricultural Bank.

Another case of fraud in which Hashemi was involved grew out of a \$576,000 loan obtained by Hashemi and his partner and lawyer Jackson Cook. (Cook is presently Hashemi's attorney of record in the libel suit against NSIPS and EIR.) Hashemi, Cook, and others set up a shell corporation in Delaware called First American Bancorporation. (They named the entity "Bancorporation" because they could not legally call it a bank.)

With no assets, the company issued nearly \$1 million worth of securities. Against a \$25,000 deposit, they issued a \$225,000 certificate of deposit and six checks, then borrowed \$576,000 from a Lebanese bank, using the CD and the checks as collateral. The bank charged

a conspiracy to defraud; the court in New York refused to dismiss the fraud claims. During a hearing on May 5, 1978, Judge Charles Brieant said to Hashemi's attorney:

I think, unbeknownst to you, you represent crooks. I think this is a fraud. I will say that to you right on the record. How it [the Bancorporation] can possibly have that certificate of deposit floating around here and only \$25,000 in money? It isn't logical.

At another point, the judge stated: "I haven't heard of a six-figure certificate of deposit being used against a rubber check." Finally, Hashemi and Cook settled the case out of court, with Hashemi promising to pay \$300,000 to the bank. Hashemi signed a confession of judgment for \$577,600, and Cook for \$225,000. In December 1980 the Banque du Liban et d'Outre-Mer sought a court judgment of \$466,975 against Hashemi and Cook on the grounds that they had repeatedly defaulted on their payments.

Apparently Judge Brieant was not the only one to entertain suspicions of Hashemi's integrity. In a set of Requests for Admissions filed in that case, Hashemi was asked to confirm the following allegations:

- That Hashemi was refused admission into France on Aug. 21, 1979, because he had stolen airline tickets in his possession;
- That Hashemi was carrying a document from the Knights of Malta [widely viewed as the combined culture and intelligence-organization of the European oligarchy—ed.] for use as a diplomatic passport;
- That on June 22, 1979, a judgment was entered by the 28th Chambre Correctionnel du Tribunal de Grande Instance de Paris convicting Cyrus Hashemi of the crime of issuing checks with insufficient funds in his account to cover them, and sentencing Hashemi to four months' imprisonment.

### The New York 'Komiteh'

In another court case now pending in New York State Supreme Court, Hashemi is identified in Iranian government documents as the official representative of the Islamic Revolutionary Committee in New York. This was the New York version of the "Komiteh" which ran the Khomeini revolution in Iran. Hashemi and two other individuals were put in charge of a New York-based Iranian bank, Bank Sepah, by the Khomeini regime. In court papers, the previous manager of the bank charged that his life was threatened during the takeover. In an official document, Hashemi is identified as the "Representative of the Revolutionary Committee in New York." How many Americans even knew that such a "Komiteh" existed in the United States during the Khomeini takeover which resulted in the captivity of 58 U.S. citizens? Yet Hashemi, who denies any

connection with the Savama or student militants or terrorists, was the official representative of the "Komiteh" in New York.

## Behind Hashemi

Behind Cyrus Hashemi is a powerful group delegated to perform the dirtiest side of Arab money dealing, including the financing of the Muslim Brotherhood activities worldwide. Among these are an Egyptian-Lebanese financier, Roger Tamraz, and the much-publicized investor and reputed gun-runner Ghaith Pharaon. In the United States, this group is part of the orbit of John Connally's Vinson & Elkins law firm in Houston, Texas.

Arab dirty-money networks are not really independent financial dealers, of course; they interface the banking level of the Propaganda-2 (P-2) Freemasonic networks identified by Italian authorities as among the controllers of terrorism and the narcotics traffic which finances it. Hashemi is linked to P-2 financial circles through at least three tracks:

- 1) the Tamraz-John Connally circles;
- 2) the Safra family-run Republic National Bank of New York, which took over the international banking operations of the Mafia-linked Franklin National Bank in New York;
- 3) the Pakistani-run Bank for Commerce and Credit International (BCCI), which ties directly into the P-2

Interalpha Group and the California-based Bank of America, which has a joint venture with Interalpha's Banco Ambrosiano. (Another fruitful "Billygate" lead with regard to Hashemi's Atlanta connections are Bert Lance's ties to BCCI.)

Hashemi's First Gulf Bank & Trust, Limited was originally incorporated in Anguilla as "First Arabian Bank & Trust," reported to be owned by Tamraz's First Arabian Corporation. Hashemi is linked to Tamraz and Syrian-American financier John Shaheen in numerous financial deals.

A John Connally protégé, Frank van Court, also ties Hashemi to Tamraz and Pharaon circles. Van Court was Ghaith Pharaon's representative on the board of Bert Lance's First National Bank of Georgia. He was also the head of Pharaon's Interdec corporation. Van Court, now a partner at Vinson & Elkins, is also an officer in Hashemi's International Intertrade, Limited, also known as Arabian Trading Company, run out of Hashemi's New York offices.

Hashemi is a man who travels in many circles, high and low. He runs the gamut from petty financial swindles to high finance, from being a revolutionary "Komiteh" official to negotiating with the highest levels of the U.S. government. He has operated with the help of powerful protectors, who may come to regret this association with Hashemi as his lawsuit against *EIR* proceeds.

## James Bill continues revolutionary support

Professor James Bill of the University of Texas at Austin, a Council on Foreign Relations-sponsored Iran specialist who was one of the few American academics who helped to engineer the fall of the Shah and install the Khoemini regime, said in New York on Feb. 22 that most Iranians "are better off now than they were under the Shah."

Bill's assertion, which drew protests from some members of the audience at the prestigious Asia Society, was part of a presentation by Bill on the current status of the Iranian revolution. As an open apologist for Khomeini's revolution, Bill remains influential in the State Department and among other U.S. agencies, including the CIA. "We get a lot of our information from Bill," said one CIA official not too long ago. Perhaps he should have said "misinformation."

According to Bill, the Khomeini junta and the

ruling Islamic Republican Party will rule Iran for at least another 10 years. He claimed that the clergy had taken advantage of the "mystique of martyrdom" to rally the forces of the "dispossessed" and down-trodden masses; the mullahs therefore have a strong and unshakeable base, and so the "exiles are not going to go back."

Bill carefully noted that the IRP is an enemy of the Tudeh communist Party, a line often used to rally gullible American officials to support the clergy as an alternative to the left. "The IRP has described the Tudeh as 'the most dangerous and cunning force' in Iran, 'willing to use any tactic,'" said Bill, who did not add that the IRP and the Tudeh seems to have established a fine working relationship over the last three years.

As for the future, Bill said that the revolt in Iran had "captured the imagination" of millions of people in Egypt, Saudi Arabia, and the Gulf states, and that "the contagion of the Iranian revolution is spreading like wildfire, spreading and seeping throughout the Middle East." Or so he hopes.

## Hormats ducks out of Club of Rome session

by Stanley Ezrol and Lydia Cherry

The Club of Rome held its tenth-anniversary conference at U.S. government expense at the Smithsonian Institution in Washington, D.C. March 1-3, but Assistant Secretary of State and Business Affairs Hormats failed to make his controversial scheduled appearance.

Over the past 10 years, the Club of Rome has built up a network extending into most advanced sector countries, the Third World, and even the U.S.S.R. The organization was founded by its current head Aurelio Peccei and other NATO and NATO-backed personnel at a meeting in 1967. It was at this meeting that Peccei first called for the end of the nation-state and the need for a new one-world government used to allocate the scarce resources which would be available in the coming period. In 1972 the Club released its first global model, *Limits to Growth*, which demonstrated the "unsustainability" of complex systems such as modern civilization. The model was later updated by "softer" versions. At the Washington event, Peccei introduced a new book, *Making It Happen*, written by U.S. Club of Rome members for a distinctively American audience.

The closest approximation of a political leader of stature was Sen. Claiborne Pell (D-R.I.) who is a member of the U.S. Association for the Club of Rome. Other Club of Rome leaders and associates present were Donald Lesh, Gerald Barney, Elliot Richardson, and Russell W. Peterson.

Kissinger's protégé, Secretary of State Alexander Haig, had planned to send former Kissinger National Security Council staffer Hormats as his representative to the conference, but under pressure from *EIR* reporters in State Department briefings and a widely-distributed *Open Letter to President Reagan* which calls on the President to "disassociate the U.S. government from the death lobby," the DOS plan appears to have been modified. First the State Department announced that Hormats would speak only "as an individual." The day before the conference, "due to a conflict in his schedule," Hormats was removed altogether, and Paul Balabanis from State's Bureau of Economic and Business Affairs, was announced as Hormat's stand-in. Balabanis, notice-

ably nervous as he addressed the gathering, read non-committal statements from a prepared text: "I do want, however, to disclaim that I am speaking for the administration. . . . I am talking on a personal basis. . . . To be frank, administration policies in international environmental areas are still a long way from settled."

Nevertheless, Gerald Barney, principal author of the Carter administration's *Global 2000 Report*—which calls for the elimination of a third of the world's population by the turn of the century—assured the 400-500 participants that "Fortunately, Reagan has recognized the importance of the Club of Rome approach," adding that the President has requested that the Chairman of the Council on Environmental Quality, Alan Hill—with whom Barney works closely—develop an economic forecasting capability for the government along Club of Rome lines.

The conference was haunted by the spectre of its chief opponent, *EIR* founder Lyndon LaRouche. The Club of Rome's law firm, Asher and Schwartz, sent LaRouche a letter of warning of the legal ramifications should his representatives make an appearance.

Extensive security precautions were in effect, including policemen with guard dogs, and ground rules for conference "discussion" limited questions to 30 seconds long. No statements could be made from the audience. The National Democratic Policy Committee, whose advisory board LaRouche chairs, and a leader from the Washington, D.C. Moral Majority, Rev. Cleveland Sparrow, nevertheless mounted a picket line.

The conference was keyed by Peccei, who is a life-long employee of Fiat's Gianni Agnelli and closely associated with members of the Propaganda-2 Masonic Lodge exposed by the Italian authorities last year. Peccei addressed the gathering once again on the subject of mankind's impotence: "We ourselves have inner limits. . . . The notion of limits to complexity should be part of our cultural patrimony."

Peccei announced the next stage of the Club's activities, *Forum Humanum*, which is organizing young people in their 20's and 30's. James Botkin, who spoke later in the day, was named by Peccei as director of the new project. Botkin noted in discussing his new role that centers had already been established in North America, Mexico, Venezuela, Brazil, Argentina, Tanzania, India, the Guineas, and Indonesia, and a center functions under the Polish martial-law regime. The center, he announced, will coordinate "peace" activities, and will develop "alternate values to the Western model of technological-industrial society."

Participants protested that the Club's program for massive population reduction, resource conservation, and reductions in living standards had hardly been mentioned through the day. Peccei responded that time did not permit every issue to be discussed at every conference.

## How much austerity?

*The IMF intends to force a sharp reduction of living standards following the peso devaluation; labor is an obstacle.*

**M**exican President José López Portillo bowed to “pressure from inside and outside the country” and devalued the peso Feb. 17, but calm is far from returning to the country. The peso continued to slip during the following week, and renewed pressure is now being applied to force the burden of the devaluation on the Mexican population.

But there are a few big obstacles to achieving this—principally the resistance of the powerful CTM labor confederation.

The New York *Journal of Commerce* continues to lead up the campaign to make Mexico bite the bullet. In a March 1 editorial, the Morgan Guaranty-linked daily warned that “the devaluation won’t do the trick alone,” and called for applying sharp domestic austerity measures—cuts in the budget and real wages to “reduce inflation.” The *Journal* cited a recent Morgan Guaranty Trust study to threaten that failure to take such steps will lead to permanent price and currency instability.

The March 8 issue of *Business Week* made the same point, in an article entitled “Devaluing the peso is only the first step.” The news weekly complained that “López Portillo followed up the devaluation with a weak emergency plan,” adding that “Mexico’s economic future now depends on how well the government can rein in such inflation and temper union demands for

compensating wage increases.”

*Business Week* was right to identify the labor question as the heart of the dispute. Earlier this week, López Portillo met with the CTM, and appealed to both labor and business to refrain from panicked leapfrogging of wages and prices. The national priority, he argued, is first to re-establish calm in the foreign-exchange markets. Once this is achieved, he promised his labor base, adequate catch-ups on the wage front would be approved by the government.

As he has throughout this administration, labor chief Fidel Velásquez delivered full support to López Portillo at a crucial juncture. The labor movement, he decreed, will *not* demand an immediate emergency wage increase, nor will it now launch a wave of strikes to defend itself from the effects of the devaluation—“at this moment that would disastrous for the country.” But Velásquez added that he was opposed to having “the majorities in Mexico” take the brunt of the devaluation, and announced that he expected catch-ups to be negotiated shortly. He also lambasted the “voracity” and “ambition” of those business and financial interests that had speculated against the peso, and warned them that they should appreciate the “political maturity” and “good judgment” of the labor movement.

This labor decision was not ar-

rived at without a fight, however. Only one day before the meeting with López Portillo, a group of hot-headed labor advisers met with Velásquez and with Blas Chumacero, number two in the CTM, to demand a full mobilization for increased wages. They were ultimately knocked back into line, but not without a heated exchange of views.

Velásquez thus demonstrated that he remains in control of Mexico’s labor movement. But many labor watchers here think Velásquez is going to come under increasing pressure from his base as the devaluation works its way through the economy in the form of price rises.

This price question is the flip side of the problem for the government. The business sector here is now facing severe liquidity problems as a result of the devaluation, since it is heavily indebted abroad in now-costlier dollars. Many businessmen have reacted to this crisis by attempting to sharply raise their prices to consumers.

The Commerce Ministry has stepped in, decreeing official freezes on the price of 47 items of basic consumption, and threatening sharp legal measures against any stores caught making illegal mark-ups. The ministry put teeth in its threat at the end of February, temporarily shutting over 20 large department stores and supermarkets in Mexico City and scores of smaller establishments which had illegally raised prices.

This has evoked screams of protest from the private sector, itself increasingly caught in a bind. Some, such as Coparmex leader José Luis Coindreau, have gone so far as to threaten to block further private investment until this “confusion” is resolved.

## Behind Ariel Sharon's power play

*Many Israelis fear that the unprincipled Defense Minister will be the next Prime Minister.*

Israel's ultra-extremist Defense Minister Ariel Sharon, backed up by the Israeli mafia and U.S.-based organized-crime figures Meyer Lansky and Meshulam Riklis, is making a power play for strong-man rule in Israel.

Sharon, who aspires to be the next Prime Minister of Israel, is said by his confidants to be awaiting the demise of ailing Prime Minister Menachem Begin. Sharon already heads up a "pre-emptive strike faction" in Israel of equally extremist military and political figures who are pushing for an unprovoked military strike into Lebanon, Syria, and Jordan.

To facilitate his designs, Sharon is undertaking a reorganization of the Israeli defense apparatus, eliminating all civilian input and putting decision-making directly into his hands and the hands of his cronies in the Israeli armed forces.

At the same time, Sharon is moving to completely militarize the Israeli economy by giving the go-ahead to an ultra-expensive plan for manufacturing Israel's own jet fighter, the Lavie, despite the fact that the Israeli economy is bankrupt.

Sharon justifies the Lavie decision by stressing the importance of Israel's acquiring "independence" through developing an independent arms-producing capability. Given Israel's precarious economic situation—inflation is officially

pegged at 127 percent—the Lavie project will only hasten Israel's transformation into a "banana republic" where real economic activity is replaced by arms production and organized crime-run drug and gambling operations.

Sharon's tactics have drawn serious protest from more responsible elements in the Israeli community. Numerous top-level officials in the Defense Ministry, including Director-General Yosef Maayan, have quit in response to Sharon's efforts to place the Defense Ministry under the aegis of his factioneers in the armed forces. For the first time in Israel's history, defense-ministry personnel have conducted work stoppages and limited strike actions to protest Sharon's policies.

"The issue is that Sharon wants to run the Defense Ministry as his own very private feudal fief, in which his liegemen can be appointed at will," charged a recent *Jerusalem Post* op-ed. Sharon "poses a peril to Israel's democratic regime," the writer, Meir Merhav, concluded.

"What in fact Sharon has done, under the guise of reform, is circumvent the checks and balances which control the military in a democracy," another *Jerusalem Post* editorialist asserted.

Opposition to Sharon's power play emerged late last year when Sharon suddenly appointed 35-year-old Arie Genger, an Israeli-

American living in New York, as his special assistant in charge of military exports, with jurisdiction over research and development, international contacts, and other sensitive areas. Never before had any one person in Israel had so much power over so diverse a field, including the military industries, the defense ministry, and the army.

The public outcry over the Genger appointment stemmed partially from the fact that Genger, an American citizen, was not qualified for the job, having lived outside Israel for the last 16 years.

What others found more worrisome was Genger's shady background and his questionable connections to the Meshulam Riklis empire. Riklis, who is, according to Israeli sources, reputed to be tied to organized crime kingpin Meyer Lansky, picked up Genger years ago, making him director of Riklis's Rapid America Corporation and other enterprises.

Because of the widespread opposition in Israel to the Genger appointment, Sharon was forced to back down. Genger, however, is expected to be slipped into the position once the storm has subsided, Israeli sources report.

Genger is currently working for the Israeli mafia-linked Economic Coordination Minister Yaacov Meridor, "with much the same duties as Sharon would have given him," according to the sources.

Why did Sharon go out on a limb with Genger? "Because Riklis owns Sharon," said one Israeli. "And Sharon owes Riklis. It is a sordid relationship.

"At least Begin has some principles," the sources continued. "Sharon, however, has none. And that is why he is so dangerous."

# International Intelligence

## ***Socialists hit again by Italy's P-2 scandal***

Leading members of the Italian Socialist Party have used their positions at the Italian state holding company, ENI, to channel funds of at least \$50 million to the Banco Andino di Lima of Peru, a front operation for the Banco Ambrosiano of Milan, which was heavily implicated in the Propaganda-2 Freemason lodge scandal which broke in Italy in May 1980. The outlawed P-2 is a command center for coup attempts, terrorism, narcotics traffic, and dirty money.

On March 5, the magazine *Europa* published tapes of a conversation between ENI Director Grandi and his Vice-President, Leonardo di Donna. Di Donna, a PSI member and a close associate of PSI leader Bettino Craxi, warned Grandi that he should "put aside" all papers that might incriminate the ENI in the Banco Andino affair, because the Guardia di Finanze, the Italian equivalent of the Internal Revenue Service, was about to stage a raid on the ENI offices. The tapes were released to the press by authorities of the city of Milan, who are determined to clean up the Propaganda-2 scandal.

It was also revealed that the Banco Andino office is nothing but a shell operation: it consists of one telex and one secretary. Italian Communist Party members of parliament are calling for a full investigation of the entire financial operation.

## ***State Department coup planned for Pakistan?***

Pakistani sources believe that the U.S. State Department is planning a coup d'état against Pakistan's dictator, General Ziaul Haq, in the event that Zia refuses to allow two U.S. military bases to be established there. His rumored replacement would be the extreme right-wing General Fazle Muqem, a man whose connections to drug traffic are

notorious.

Were the bases close to being built, with or without Zia, it is widely believed that the Soviet Union would act preemptively against such a U.S. effort to re-establish positions on the Soviets' southern tier, formerly held by the United States in Iran. Therefore, even the prospect of a U.S. coup in Pakistan would be sufficient cause for superpower confrontation in the region.

Meanwhile, Zia's troubled regime faces opponents both within and without. The Pakistani military Feb. 25 arrested 500 "subversive elements" of the Pakistani People's Party in Sind province, home of the party's founder, former Premier Ali Bhutto. Bhutto was judicially murdered by Zia in a 1978 coup organized by former U.S. Secretary of State Henry Kissinger.

Also opposing Zia and full alignment with the United States is a faction of the foreign service. Foreign Minister Agha Shahi recently resigned.

## ***Famine threatened in Bangladesh***

"There is no doubt that Bangladesh is headed for very difficult times," reported *EIR* New Delhi correspondent Paul Zykofsky upon return from a nine-day tour of that country. In extensive discussions with government officials and political leaders, Zykofsky found great concern for the possibility of another famine in Bangladesh, with 90 million people the world's eighth most populated nation.

It is typical of nations in which the high interest rates of the U.S. Federal Reserve and related depopulation policies of the World Bank, for example, mean genocide. Agricultural officials affirmed to Zykofsky that with proper irrigation and fertilizer, Bangladesh could produce 60 million tons of food grains—even becoming a food exporter. But at present, it produces only 15 million tons. A 2-million-ton shortfall is expected this year; stocks are believed to be far below official estimates, and the present climate

of credit and aid cutbacks makes international help unlikely.

## ***French right-to-life leader hits Club of Rome***

Dr. Emanuel Tremblay, founder of *Laissez-les-Vivre*, the French right-to-life movement, told the organization's Paris conference Feb. 27 that "the first effort demanded of a right to life member is to understand the reality of our enemies, to make the intellectual effort enabling him or her to believe in the reality of the enemy." He singled out the Carter administration's *Global 2000 Report*, British intelligence's Tavistock Institute, and the Club of Rome, as agents of genocide in "the tradition of H. G. Wells, George Orwell, and Aldous Huxley."

Dr. Tremblay demanded that his membership not focus narrowly on a single issue—for example, abortion—to realize that genocide takes many forms. "Don't be lazy. There are psycho-political laboratories working on the manipulation of human beings, of the masses. They push lies through the sensitivity and weaknesses of their audiences. You are members of the right to life, you have no right to be weak. . . . To win, you have to see things from above, no more smallness."

Tremblay introduced Jacques Cheminade, General Secretary of the European Labor Party in France, and a leading opponent of the Club of Rome and its leader Aurelio Peccei. Cheminade, in an address interrupted repeatedly by applause, counterposed the notion of a "divine spark" in each human being, expressed in scientific and technological progress, as embodied in the recent Papal encyclical *Laborem Exercens*, to the notion of human beings as the equivalent of cattle consuming too much grass, advanced by the Club of Rome.

Meanwhile, the IMF stopped funding a three-year \$913 million loan in July—Bangladesh had received only \$270 million—because the government did not reduce food subsidies.



## Briefly

The threatened genocide is compounded, reports Zykofsky, by a nominally elected president who is controlled by an extreme right-wing army faction and Muslim Brotherhood fundamentalists as much opposed to economic development as the World Bank.

### *Qaddafi warns Saudis: lower oil output*

The radical producers in OPEC are threatening to launch terrorism and potential military operations against Saudi Arabia to force it to reduce its oil output. OPEC is expected to hold an extraordinary meeting by the end of March, where Saudi Arabia is expected to come under heavy pressure to cut its exports. The Saudis have refused to heed such a bid, in part to preserve political stability between the princes of the royal family. A large production cut would mean a drop in oil revenues, a drop calculated by British Mideast analysts to spark rivalries and political instability in Saudi Arabia.

Libyan dictator Muammar Qaddafi, echoing warnings from Iran's Ayatollah Khomeini, delivered a raving attack March 2 on Saudi Arabia's commitment to maintain its high level of oil exports. Qaddafi warned that Saudi Arabia is "depriving the Libyan people of national income" by refusing to lower its oil production when world oil markets are shrinking and oil producers—especially Libya and Iran—are finding it difficult to sell oil.

Qaddafi ranted that unless Saudi Arabia changes its policy, its leadership will "end up like the Shah," and called upon "the people of the Gulf" to overthrow the conservative regimes of the region. Qaddafi boasted that he has already established contacts with revolutionary groups in Saudi Arabia.

The continued collapse of oil prices, which now threatens to spark an all out pricing war between OPEC and leading non-OPEC oil producers, is a byproduct of the depression worldwide. Over the

last two weeks in February the price of Saudi light crude on the international spot market has slipped from \$31 to \$28 a barrel and many oil exporters, including Britain, are now shaving their prices by as much as \$4.00 a barrel.

### *Pope talks sternly to Jesuit conference*

Pope John Paul II concluded a week-long extraordinary conference of Jesuit leaders from around the world with a personal statement informing them that he would permit a general congregation of the order before the end of the year to elect a successor to the retired Father General of the order, Pedro Arrupe. The conference was called "to inform the Jesuits of the Pope's wishes," and occurred in an atmosphere in which the order, under the temporary leadership of a Papal intervenor, had come under severe Vatican criticism and suppression of its questionable political activities.

Prior to the conference, an official Jesuit statement said that the Pope would demand that each Jesuit follow his dictates to the letter, or face ejection from the Society of Jesus. In his speech Feb. 27, John Paul pointedly reminded them that they swear an oath of personal fealty to the Pope upon becoming members of the order. He also emphasized that the decisions of the Vatican II Council are to be carried out by the Jesuit order as intended, "not according to personal criteria or psycho-sociological theories"—a scarcely disguised reference to "liberation theology" by which the Jesuits have been organizing guerrilla population-reduction wars in Latin America, terrorist organizations in Spain, and so forth.

"There is no more room for deviations certainly harmful to the vitality of the religious communities and the Church as a whole," declared the Pontiff.

Until now, the Vatican had pointedly prevented the convening of a Jesuit council to elect a Jesuit leader.

● **DOUGLAS HURD**, Britain's Minister for Foreign and Commonwealth Affairs, has called for the U.K. to begin talks with Washington on how to stem Israeli aggression, and stated that he sees no imminent Soviet threat in the Persian Gulf. The speech, made in Qatar, seems to be part of London's attempt to act as a diplomatic intermediary in the region.

● **THE BRITISH** press on the whole praised French President Mitterand's trip to Israel this month as proof that it is possible to befriend both Israel and the Arabs. The Saudi Arabian press commented that the visit was welcome if it means the French can convince the Israelis of the need for a comprehensive peace settlement.

● **ARRIGO LEVI**, a Trilateral Commission member and former editor of *La Stampa*, published an article in the March 4 London *Times* outlining a plan for "a new phase" in U.S.-European relations based on "rethinking" Western approaches to the Soviet bloc; otherwise, "the alliance may split wide open."

● **THEO SOMMER**, editor of the West German weekly *Die Zeit*, an outlet for the views of the International Institute for Strategic Studies in London, published an attack the first week in March on the United States as disrespectful of "German national interests."

● **KARL KAISER**, who heads the German Foreign Policy Institute, says that "Americans are going through an hysterical phase and you can quote me on that." He denied that Germany is turning toward Finlandization, and said that German voters alone, not the U.S., should decide whether Schmidt leaves office. "A German Chancellor cannot help but keep tensions under control in Central Europe," Kaiser said.

# Volcker runs the show in Washington, D.C.

by Richard Cohen, Washington Bureau Chief

Congressional leaders of both parties are busily advancing proposals for hundreds of billions of dollars in additional spending cuts and tax increases above the Reagan administration's requests. This self-styled bipartisan rush to prevent the alleged ravages of a monstrous federal deficit is being carried out under the supervision of Federal Reserve Chairman Paul Volcker.

Senate Budget Committee staff, operating for Committee Chairman Pete Domenici (R-N.M.) and Committee Minority leader Fritz Hollings (D-S.C.), have been in intensive discussions with leading investment and commercial bankers in New York City. In addition, Capitol Hill sources report that the Committee staff have operated in constant collaboration with Volcker and his staff.

These Senators have been told by both the bankers and Volcker that only if the projected federal budget deficit is significantly cut well beyond Reagan's austerity proposal will interest rates come down.

Volcker himself, appearing before the Senate Budget Committee on March 2, flaunted the fact that the benefits of such a deal are all on his own side. The following exchanges occurred:

Domenici: "What is the reason interest rates don't come down?" Volcker: "There is skepticism relating to the budget picture." Domenici: "Do you think interest rates would come down if Congress presented a credible budget?" Volcker: "Yes, but I would stress the word 'credible.'" James Sasser (D-Tenn.): "The economic statistics are staggering. I see interest rates as the primary culprit. Mr. Volcker, if we in Congress came up with

budget cuts that were substantial in 1983 and beyond, is the Fed prepared to respond by reducing interest rates to a reasonable level, and by that I mean 10 to 12 percent? If we bite the bullet, can we get a commitment to bring down interest rates?" Volcker: "You imply more power on our part than we have."

William Armstrong (R-Colo.): "Those of us who want to have a substantially smaller deficit . . . unless we can whisper to our colleagues that these cuts will yield a 4 to 5 percent drop in interest rates, we cannot get the votes for them. . . . Do you think we can have a 4 to 5 percent drop in interest rates?" Volcker: "Wow, that's a pretty substantial drop. I can't quantify anything. Let's just say that there will be a response." Volcker thereupon delivered a windy exposition of monetarist economic theories, to which Armstrong responded that he assumed that Volcker meant to say yes, he was going to make a substantial reduction in interest rates.

But when Armstrong asserted: "Let the record show that as a yes," Volcker responded: "I may have to correct the record."

## **A buildup of blackmail**

Upon their return from the early-February recess, Republican Senators and Congressmen have been openly bullied by Volcker assets Senators Baker, Domenici, and Dole, in concert with the secret support of the Office of Management and Budget director David Stockman, and White House Chief of Staff James Baker III, into accepting Volcker's "budget-deficit" black-

mail. At the same time, Democrats in the House and Senate were undergoing the same brainwashing at the hands of Volcker operatives House Speaker Tip O'Neill (D-Mass.); Senate Minority Leader Robert Byrd (D-W. Va.); the Democratic National Committee Chairman, banker Charles Manatt; AFL-CIO President Lane Kirkland; and the Brookings Institution-run Congressional Budget Office (CBO).

The result of their common effort has been an orgy of deadly austerity proposals which have dominated Congressional-White House discussion during the month of February. Even prior to the February recess, Hollings formally issued a program that would freeze all cost-of-living (COL) increases for federal entitlement programs, freeze military spending, and eliminate the FY83 10 percent personal income tax cut.

On Feb. 22, Senator Baker publicly proposed a new federal income surtax of 5 to 10 percent that would be used to fund military spending. Even though this proposal would eliminate the Reagan personal income-tax cuts, Stockman called it "one of the more creative proposals."

Domenici, addressing the pro-Volcker Conference Board on Feb. 23, warned that the Reagan program would not work.

Domenici's own proposal, which assumes a continuing economic collapse in its projections, calls for \$200 billion in additional budget cuts over three years, and \$120 billion in new taxes. The plan includes slashing welfare, Social Security, and other entitlement programs by \$60 billion over three years, and cutting the defense budget by \$25 billion, while freezing all domestic discretionary spending at current levels and a freeze this year on all federal salaries.

Senator Dole warned on Feb. 23 that the Reagan budget would have to be rewritten by the April-May target date for Congressional adoption of another increase in the federal debt ceiling. Also on Feb. 23, Alice Rivlin, director of the CBO, urged the House Budget Committee to reduce COLs for federal retirement programs.

Two days later, a previously resistant House Minority Leader Robert Michel (R-Ill.) joined the bandwagon, calling for a reduction in COLs for federal entitlement programs, deferral of the final round of the President's tax cut, and trimming of the defense budget. Michel suggested that he was already in negotiation with House Majority Leader Jim Wright (D-Tex.) and House Budget Committee Chairman Jim Jones (D-Okla.) in order to promote a bipartisan budget that would be amended to the debt-ceiling bill in April-May. At the same time, Alice Rivlin told the Senate Budget Committee that the White House deficit estimates were egregiously underestimated.

David Stockman, appearing before the House Budget Committee, reported on Feb. 26 that a freeze on

COLs for non-Social Security entitlement programs "may be warranted." Stockman's discreet support for the congressional alternative to the administration's package reportedly issued from a previous weekend meeting of White House aides and Presidential advisers. The only topic on the agenda was the economy and its political implications. Sources at the meeting summed up the White House assessment stating that they "don't know of anyone on the White House staff that isn't praying the Congress do their work for them."

### **The authorization question**

There are some limited signs of congressional resistance to screeching austerity on the appropriations side. Distress signals echoed through official Washington from the office of Senate Majority Leader Howard Baker (R-Tenn.) on the morning of March 2. Baker had just been informed of the results of a Senate leadership poll of unexpectedly rebellious budget-authorizing committees. After a full month of direct lectures and threats from Volcker and both the Congressional Republican and Democratic leaderships demanding deeper budget cuts and tax increases, the authorizing committees, operating under intense constituency pressure, are reported to have requested a whopping \$29 billion in budget authority beyond the Reagan plan.

Capitol Hill sources report that the authorizing committees' plan for increased funding for non-entitlement domestic programs over the Reagan budget would translate into a "shocking" \$10 billion in actual increases in appropriations, if the committees' recommendation stands. These sources suggest that Majority Leader Baker has called upon the leadership to press Republican committee chairmen to restrain their authorization projections prior to their official submission to the Senate Budget Committee on March 8.

In a potentially more important development, House Majority Leader Jim Wright, warning that the current economic crisis is very similar to the depression of the 1930s, called for an immediate high-level summit of legislative and executive-branch leaders with Federal Reserve chairman Paul Volcker to address the economic crisis. Wright told reporters on March 3 that he wants the summit to extract a promise from Volcker to restrain interest rates. Wright declared that the economy is "in a very desperate situation that is getting worse rather than better."

The summit Wright proposes would be bipartisan and held "in some secluded place" to work out a recovery program. Wright was careful not to attack President Reagan personally, and in fact praised him. House Speaker Tip O'Neill commented that there was no point in such a meeting unless Reagan compromised; he said nothing about Volcker. Wright, however, added that the meeting would be fruitless unless Volcker agreed not to act at cross purposes with the President.

# Senator Williams: 'Defend the separation of powers'

by Susan Johnson, Managing Editor

The Justice Department and FBI went on trial March 3 in the U.S. Senate, when plenary deliberations began on the Senate Ethics Committee's recommendation to expel Harrison A. Williams, Jr., the New Jersey Democrat convicted of "influence-peddling" in the Justice Department's Abscam operation.

There were three options for the Senate on the fate of Senator Williams himself: expulsion (pressed for by Majority Leader Howard Baker and Minority Leader Robert Byrd); censure (proposed by Minority Whip Alan Cranston, Democrat of California); and a vote for full exoneration (advocated by Daniel Inouye, Democrat of Hawaii and ranking minority member of the Senate Intelligence Committee) at once or pending the results of Williams's court appeal.

Either expulsion or censure, *EIR* concludes, would be a long step toward the Senate's self-destruction, for reasons presented below. Yet what has been unleashed in the United States, not least through *EIR*'s own efforts, is a demand for investigation into conduct of the executive branch which criminally violates both its own mandate and the principle of separation of powers. At this point, no Senator will be able to openly oppose the investigation of DOJ-FBI misconduct proposed by Senator Cranston. The effort instead, as we go to press on March 6, has been to sever that investigation and proceed with the expulsion vote, an effort made most explicit by the *New York Times*, which served as the first "leak" weapon against the Senator in Abscam.

The issue of separation of powers, raised by Senator Williams on the Senate floor March 4, is at the heart of the matter. The same Carter administration which installed Federal Reserve Chairman Volcker and his crushing policies selected as its senatorial Abscam target a 23-year veteran of the nation's highest legislative body, a powerful opponent of economic austerity and a spokesman for the interests of labor, the elderly, public education, and narcotics enforcement. The Abscam targeting proceeded despite repeated affirmations by middle-level

DOJ officials and FBI agents that their efforts to entice Williams into misconduct had been unavailing.

Senator Williams, in expanding the prepared statement we excerpt below, pointed out to his colleagues that he was tried above all by a "hue and cry" in the national news media, which he characterized as the mob justice of "old England" as opposed to the American presumption of the accused's innocence. He further stressed that, contrary to the self-righteous statements March 3 and March 4 by Ethics Committee co-chairmen Malcolm Wallop (R-Wyo.) and Howell Heflin (D-Ala.), the committee conducted no independent investigation into his case whatever. In fact, the Ethics Committee relied on the assertions of a staff member, Thomas Sanders, a former FBI agent and friend of Abscam prosecutor Thomas Puccio, who colluded with Puccio to withhold evidence from the committee. The committee thus confined itself to the segments of tapes and other documentary evidence provided by the FBI and sanctified in Williams's trial by Federal Judge George Pratt, who instructed the jury to disregard any issue of FBI misconduct.

As Senator Williams, invoking the Nazis' Reichstag Fire destruction of the independent legislature, summarized it for the Senate: "The government manufactured evidence, co-opted targets, and destroyed evidence in their efforts to make me appear guilty of wrongdoing. The government committed the crimes of perjury, obstruction of justice, conspiracy to commit perjury, bribery, impersonation of a foreign dignitary, and fraud. In addition, the government violated its own guidelines and regulation. The government engaged in a bad-faith prosecution by trying me in the press, engaging in *ex parte* contacts with the trial judge, with forum [judge] shopping, and withholding exculpatory evidence; and the prosecutor in my case stood to make \$60,000 from a book contract contingent on my conviction."

Williams described how the FBI forged a letter from himself on Sept. 12, 1979 to document improper dealings,

one of dozens of improper acts in preparation for “planting significant internal material from the Justice Department with the *New York Times*,” he said.

During the break in deliberations, a gaggle of Democrats led by Robert Byrd disappeared and finally had to be dragged back to the Senate floor after one hour by the sergeant-at-arms. However, the instance of forgery drew alarmed commentary from other Senators, many of whom appeared to be unfamiliar with the details of the case. They also commented attentively on the testimony of linguistic specialists that the jury under Judge Pratt had in effect been bamboozled by videotapes of Williams’s meetings with the FBI pseudo-sheiks, in which he not only emphatically refused a payment but gave no sign, according to these experts, of assenting to so-called “influence-peddling.”

The fact that the “white-collar crime” of “influence-peddling” is still on the minds of the Senate (the Ethics Committee insists that even if Williams is legally exculpated, he has “brought the Senate into disrepute”) demonstrates, however, to what extent legislators and the public at large have been induced to turn the concept of criminality upside-down, relying on swindlers and murderers as witnesses. Now, the evidence against the elements within the DOJ who have perpetrated this Orwellian deception is before the Senate to an unprecedented extent.

## Sen. Williams: government misconduct is the issue

*Below are excerpts from a personal statement by Senator Williams released on March 3. Emphasis is in the original.*

... This is the first time I am to be judged by my peers on the totality of the Abscam net that was so crudely wrapped around me. In Brooklyn, New York where my law case was tried, the jury was specifically denied the right to consider government misconduct in the operation by an erring judge. The Ethics Committee construed its mandate of investigation as limited and excluding any consideration of the gross misconduct of the Department of Justice and FBI.

Now if the Abscam operation is to be understood in its totality, it is not only my conduct but the government’s conduct which must be considered by the full U.S. Senate in order to arrive at a fully fair and just result. Renegade elements of the Department of Justice and FBI

manufactured the aroma of crime out of thin air, where no crime was ongoing or ever contemplated. . . .

Plato has taught us that the appearance or perception of reality is *not* reality itself. Plato emphasized the need for the political leaders of society to seek the truth based upon the careful use of *Reason* and rational deliberation. He deplored the art of sophistry, which made the worst argument win out over the more rational through manipulation of words and perceptions. Sophistry convicted Socrates despite the fact that Socrates committed no crime. . . .

I rely upon you to perform the historic function for which this great body exists: to guide our nation on the course of justice central to our constitutional republic, which has been so violated in the synchronized effort to create the appearance of my wrongdoing where there was none.

There is another significant and profound reason for our deliberation, which transcends the issue surrounding me personally. The Abscam operation, in which the executive branch of government politically targeted and then framed through sophistry an innocent member of the U.S. Senate, grossly trampled upon the separation of powers guaranteed by our constitution. . . .

What has been done to me constitutes the first time, to my knowledge, that the executive branch of government targeted to eliminate and destroy an innocent and duly elected member of the United States Senate. This type and method of operation is morally abhorrent and ethically repugnant to our constitution and government. Adolf Hitler destroyed the independent German Parliament through the Reichstag Fire in 1933 in order to impose his police state. I am afraid that in Abscam our own constitutional democratic government faces a mortal threat from an attitude that tolerates the manufacture of crime and framing up of duly elected political officials. . . .

They [the Abscam team] forged letters on Senate stationery. They committed major perjury, obstruction of justice and other crimes. They took bribes and gift favors from the convicted felon Mel Weinberg, who brazenly attempted at taxpayers’ expense to bring about my demise. They considered drugging me. On June 10, 1979 Mel Weinberg had a telephone conversation in which he was told by those trying to set me up that I was not a “doer” and that I always moved “quietly.” When Weinberg was directly told that I “do not use power for any advantages,” he responded on tape: “*Oh, how can we make him use it?*” (Senate Select Ethics Committee Print, pages 10-11-12) The essence of FBI and Department of Justice wrongdoing is the machinations of Mel Weinberg and the errant government operatives. . . .

Federal Judge Ruggiero Aldisert of the U.S. Third Circuit Court of Appeals wrote on February 12, 1982 in

a dissenting opinion on Abscam what the deeper meaning of this state of affairs represents:

The Gestapo were the consummate users of the "honey pot," a technique government witness Mel Weinberg proudly described as the technique the government utilized in this case.

In my situation, of course, I instantly responded to the offer of money by saying "No, no, no, no." Nonetheless Judge Aldisert's warning in his summation is directly relevant to the matter at hand. Judge Aldisert's eloquent words are:

To the Department of Justice, its operation was a taste of honey; to me, it emanates a fetid odor whose putrescence threatens to spoil basic concepts of fairness and justice that I hold dear. That the FBI has earned high praise for its performance in the traditional discharge of its duties should not immunize the secret police tactics employed in its Abscam operation from appropriate and vigorous condemnation.

Erwin Griswold, the former Solicitor General of the United States and longstanding eminent Dean of Harvard Law School, has also stated that the methods used in Abscam of surreptitiously taping innocent legislators raises the spectre of the "police-state" methods which we have always shunned. . . .

The power vested in each of us as Senators of the United States is a sacred bond between ourselves and the electorate we represent. If it were not I, but one of our constituents who had been the victim of such wrongdoing, I am confident we would be unanimously engaged in full committee investigation of the renegade individuals who even took in William Webster and Benjamin Civiletti with their confidence games. . . .

It is essential that we focus on the wrongdoings committed by FBI and Department of Justice operatives against the legislative branch of government. Future generations of free Americans will grant us blessing for proceeding with responsibility, reason and judicious deliberation.

## Sen. Inouye: 'Williams did no wrong at all'

*From the statement on the floor of the Senate March 3 by Sen. Daniel Inouye, Democrat of Hawaii, in defense of Senator Williams:*

I believe the record will show that agents of the

executive branch created this corruption out of whole cloth, and that this manufactured kind of corruption is unworthy of the FBI as an institution and is unworthy of our consideration and our approval. . . . [T]here is a willingness to deliberately set up completely innocent and honorable people. So I say that this could happen to any one of us.

Let us take, for example, a recorded conversation of January 7, 1980, in which Congressman John Jenrette of South Carolina indicated that Senator Strom Thurmond, the senior Senator from South Carolina, could be approached to assist these Arab investors, but that he would be "damn expensive." When Congressman Jenrette was on the stand at his trial, he said that his allegations about Senator Thurmond were false.

I think that if any one of us were in a position of authority in the Justice Department at that time, and if that tape had been brought to our attention, we would have known, or at least suspected, that this was a lie, and very likely the matter would have been stopped right there. But what actually happened in this case? Let me quote from the testimony of Mr. Philip Heymann, Assistant Attorney General and head of the criminal division at the time of the Abscam investigation:

"U.S. Attorney Ruff called me up and said, 'I want to go ahead and offer in some way an opportunity for Senator Thurmond to come in and take money, because we found this in the record, and we think we ought to follow this through.' . . . And I said, 'Go ahead.' This is the first time I heard of it. So, for me . . . within 15 minutes of the time the phone rang, I said 'Yes.' "

. . . And this was from a man who testified before the Congress of the United States: "After the careful internal review procedures are satisfied, we will initiate an undercover investigation only where we have a reason to believe that there is a pattern of criminality."

Unfortunately, that is not the end of the list. In recorded conversation on September 10, 1979, Mr. Melvin Weinberg, Abscam's No. 1 con man, said, "Javits we would definitely like and we'd like Moynihan." Now just what was going on in this investigation? This Abscam team wanted the Speaker of the House, Tip O'Neill. They went after Peter Rodino, chairman of the House Judiciary Committee. . . . Some of us here whose names have not yet surfaced may also have been targeted. . . .

What was Abscam? . . . [I]n order to lend credibility to Abdul Enterprises, the FBI arranged with the Chase Manhattan Bank to respond to any inquiry about Abdul by affirming that Abdul Enterprises had a line of credit of \$400 million. Imagine, the Chase Manhattan Bank, the foundation of our economy, conspiring like this. I would be ashamed to be on that board. . . .

We now have evidence that the con man Mel Wein-

berg completely and totally fabricated the initial allegations about Senator Williams, and that this fabrication was the basis upon which Justice Department officials decided to proceed. . . . If this is true, then none of us, no matter how pristine our dealings, is safe from this kind of intrusion. And what does Senator Williams do over the course of the next seven months that brings him before this body for possible expulsion? He brags about his senatorial influence. . . . Well, what is so illegal about that? Who among us has never touted his importance to his constituents? . . .

Imagine if I were in New York . . . and a mayor from one of the cities in Hawaii comes forward and says, "I met some very interesting people. They would like to invest some money for geothermal energy. What am I supposed to do? If I learn that his name is Abdul Habib, am I supposed to say, "Whoa, I do not want any part of Arabs." . . . I am certain that all of us have one time of another used our good offices to encourage investment in our State or in our State's businesses. What is wrong with that? . . .

And let us say the sheik says, "In my country when someone does me a good turn I have to reciprocate." I reject it, as Pete Williams did. I say, "No, no, no." And I try to lead the conversation back to the subject of the

investment. Does that make me a criminal? Am I supposed to leave that room right away and go to the FBI and report the sheik for saying that he would like to contribute something to my campaign? Have I now committed a crime? I do not believe so. And yet what is it that Senator Williams is supposed to have done?

After nearly a year of pursuing Senator Williams, the prosecutors were convinced that a successful prosecution was not at that point possible. Therefore, they felt it was necessary to contact him again to attempt to coerce him to commit a crime. . . .

[A]s the record shows, it failed miserably. Senator Williams rejected the bribe firmly. "No, no, no, no," four times. . . . So what crimes did Pete Williams commit, if he did commit any crime at all? He was trapped in this nightmare because he wanted to help his constituents. And what is the nature of our business here? To help our constituents. Each of us intercedes to encourage the economic interests of our constituents. That is part of our job. And we would not be re-elected unless we were able to provide such assistance. . . .

Outside, those listening might conclude that what is on trial is the Abscam investigation and not Harrison Arlington Williams, Jr. In some sense, I believe that is so, and that it is properly so.

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## **JEC report emphasizes sunrise industries**

The Democrats' half of the annual report of the Joint Economic Committee, issued in late February, reflected the view of the JEC's Chairman, Wisconsin liberal Henry Reuss, who has repeatedly stated his determination to hasten the demise of basic industry in favor of post-industrial "sunrise" industries such as electronics and the service sector.

In particular, the report urges the administration to liberalize trade policy in services and high-technology sunrise industries including computers, electronics, and telecommunications.

The Democrats also urge the government to allocate resources to ensure that new "industries crucial to the economy," in the words of one of the JEC's economists, prosper. An example, according to JEC staffers, is the semiconductor industry.

Reuss, who is working with Fed Chairman Paul Volcker to organize support for imposition of credit controls, did not place such a proposal in the JEC report, but the publication calls for credit "conservation." Rather than propose credit expansion to revive productive sectors, the JEC Democrats propose that the President or Fed Chairman call in the 100 top bankers and urge them not to extend credit for unproductive purposes, such as corporate takeovers.

The Democrats also backed labor-management collaboration and presidential authority to impose wage and price controls.

The Republican part of the report called for even deeper budget

cuts than the administration has proposed, and more tax breaks to spur investment. It urged the Fed merely to keep the money supply steady.

## **Reclamation bill passes House Interior Committee**

On Feb. 24, the House Interior Committee passed out the controversial revision of the 1902 Reclamation Act in essentially the form requested by the administration. H.R.5539, as passed by the Committee, includes the following changes to the outmoded "160-acre limitation" on Federally subsidized irrigation water: 1) Increase the limit on farm acreage which is allowed federal irrigation at subsidized rates from 160 acres to 960 acres. Above this limit, users will be charged "full cost" for their water. In the original version of the bill, farmers also had an option to own only 160 acres and receive subsidized water on an unlimited amount of leased land; 2) Allows for absentee ownership of farms receiving subsidized water; and 3) Removes Army Corps of Engineers projects from inclusion under the bill, allowing farmers who receive irrigation water from such projects, which do not have irrigation as their main purpose, to continue at subsidized rates.

Although 97 percent of farms affected by the federal irrigation programs involved in the law are under 960 acres, the remaining 3 percent includes 30 percent of all land involved. It is because of federal irrigation programs that much of the acreage is the most productive in the world, and there is concern among farmers that imposing

enormous new fees would undercut U.S. farm production.

The revised version of the bill did include one defeat for the free-enterprise forces in the administration, preserving the current method of calculating "full cost" for project water. James Watt, in his testimony before the Committee had suggested that the cost include the current cost of interest to the U.S. Treasury. At today's rates, this would add more than 4 percent per year to the calculated "full cost" of water for the larger farms.

Farm supporters were able to force inclusion of a provision in the House bill which would give individuals the option to remain under the old provisions.

The bill is expected to go to the House floor in April. The Senate is working on a different version of the bill, and if both houses pass their bills, a conference committee will have to work out a final version. If Congress does not act, the Department of the Interior, according to court directions, will have to promulgate regulations for carrying out the 1902 act.

## **NASA key for economic strength, says Schmitt**

Senator Harrison Schmitt told a Feb. 23 hearing of his Science, Technology and Space Subcommittee called to review the 1983 budget for NASA, that the agency program is crucial to the nation's economy. "We must continually remind ourselves that science and technology must be an intrinsic part of our economic recovery. . . . We must recognize now, perhaps more than ever, that we cannot afford to use national defense as



the only justification for our own civilian space program. For if we do, we may very well watch our efforts wither away with our economic strength."

Schmitt's warnings were echoed on the House side during continuing hearings in the Science and Technology Committee on the NASA budget.

From the opposite angle, Schmitt has also stated that the military is not taking advantage of the new space capabilities of programs like NASA's Space Transportation System (the Shuttle). Expecting the Senator to make that point, Under Secretary of the Air Force Edward Aldridge Jr. began his testimony on Feb. 24 by stating that it is not true that the military "has no plan for the use of space."

Aldridge outlined the Air Force's plans to build a Consolidated Space Operations Center in Colorado over the next five years, but held fast to agreements which limit the military's contribution to the funding of Shuttle-related technology and activities which they will use along with NASA and the commercial sector.

This discussion was ended by Schmitt with the observation that, "you guys want a free ride. When you have a \$1.4 billion Consolidated Space Operations Center with no Shuttle to fly, what will you do? You're saying, if NASA can't do it—too bad. If Dave Stockman or the Administration won't give NASA the money to do it, you'll say that you've lived up to your part of the agreement."

The new military budget as a whole is premised on a mission defined by Secretary Weinberger in terms of conventional warfare, Rapid Deployment Forces, and

vastly expanded versions of present weapons procurement. In this context, the long-term technological possibilities opened up by space research are, "not a high priority."

### **S**enator Boren asks reprieve for indebted farmers

Farmers will get a reprieve on repaying their Farmer Home Loan Administration loans if legislation introduced March 1 by Sen. David Boren (D-Okla.) is passed. The bill, S.2149, provides for a one-year moratorium on foreclosures of such loans, and a deferral of payment of interest and principal for those temporarily unable to pay their loans. Cosponsors of the bill are Sen. Walter Huddleston (D-Ky.), Roger Jepsen (R-Iowa), Edward Zorinsky (D-Neb.), Dennis Deconcini (D-Ariz.), Sam Nunn (D-Ga.) and J. James Exon (D-Neb.).

In introducing the bill, Senator Boren warned that because of high interest rates and low farm prices, "it would be hard to overestimate the grave nature of the economic situation in agriculture. Agriculture is virtually in a depression now. Farm debt has tripled since 1972. . . . I remind my colleagues that the last depression began on the farm.

"History has demonstrated that a collapse in the general economy has sometimes resulted from the forced liquidation of land and equipment. There will be serious damage to the entire economy if farmers who are basically sound were forced into premature bankruptcy because of the abnormal combination of high interest rates and low prices."

### **H**ouse Republicans oppose education budget cuts

Twenty-one freshmen Republican Congressmen sent a letter to President Reagan in late February, protesting the administration's major cuts in education programs. The Republicans, who have formally established themselves as the Coalition Against Reductions in Education, held a press conference March 1 to emphasize their concerns.

Led by Jim Dunn (R-Mich.), eight members of the group attended the press conference. Dunn, who formed the group, has been particularly concerned about the education cuts because he has eight colleges in his district.

The Congressmen stressed their belief that education has suffered a disproportionate share of the cuts, though there is no agreement among the group about where other cuts should be made in the budget. The group has requested a meeting with either the President or OMB Director David Stockman, as well as House Minority Leader Bob Michel (R-Ill.) and Senate Majority Leader Howard Baker (R-Tenn.) to discuss the issue.

In their letter to Reagan, the coalition emphasized that the education cuts amounted to an 11 percent decrease from 1980 levels, and that by 1983 education funding will be 32 percent below 1980 levels.

In particular they warned that Title I funds, which assist the poor, will be down 36 percent and aid to handicapped will drop 27 percent. Vocational education funds will decline by a whopping 47 percent.

# National News

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## Demand impeachment of Abscam's Pratt

Appropriate special constitutional procedures should be employed to impeach Federal District Court Judge George C. Pratt of Brooklyn, according to the National Democratic Policy Committee, the independent political-action committee headed by Lyndon H. LaRouche, Jr. Pratt, who supervised the conviction of Senator Harrison Williams—now proven innocent, although his appeal is pending—and other Abscam victims did so by “introducing and sanctioning abhorrent Nazi legal theories and precedents in the American judicial system,” according to the NDPC call.

The organization has denounced as “a pay-off” a proposal made to President Reagan that he nominate Judge Pratt to the Second Circuit Court of Appeals.

In Nazi Germany, findings of guilt by a court could be based on “subjective intent” or the “subjective character” of the accused, without a requirement that an actual crime had been committed, or that a proven conspiracy to commit a crime existed.

Judge Pratt, in the Williams Abscam case, instructed the jury to find him guilty on the same basis of “intent,” although the trial showed Williams to have committed no crime. This, says the NDPC, disqualifies Pratt for his present job, quite apart from a promotion.

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## U.N. receives ‘crimes’ charges against doctor

An official complaint was filed Feb. 26 with the Secretary General of the United Nations, charging Dr. Mary Anne Warren with “crimes against humanity” as defined by the Nuremberg Tribunals. Dr. Warren attained national notoriety for advocating euthanasia against defective new-born infants in testimony before the President's Commission for the Study of

Ethical Problems in Medicine and Biomedical and Behavioral Research.

The complaint, filed by the International Caucus of Labor Committees, charged that her advocacy of infanticide practices by medical personnel “constitutes crimes against humanity as defined by the Charter of the Nuremberg Tribunal, and as affirmed by the General Assembly of the United Nations in December 1946.

According to an organization spokesman, David Kilber, he presented Dr. Warren with a copy of the complaint at San Francisco State University. She responded by repeating several times: “Not all the Nazis did was bad.”

In her widely publicized testimony of Jan. 9, Dr. Warren stated: “I think most of us would agree that it is morally monstrous to allow crippled horses to die slowly and painfully. I feel the same way about severely defective infants . . . that kindness and moral decency requires they be given a painless death.”

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## Carmichael asks: ‘burn cities to the ground’

Stokely Carmichael, the “black power” leader of the 1960s, called for violence and destruction in America's urban centers before 800 Black Muslim extremists in Chicago Feb. 27. Carmichael was addressing a conference sponsored by the Nation of Islam, a splinter group from Wallace Dean Muhammad's World Community of al-Islam in the West. The organization's leader, Louis Farakhan, is funded by Libyan dictator Muammar Qaddafi.

Carmichael, who now heads the “All-African Peoples Revolutionary Party,” told the assembly: “Just as our parents burned down the plantations during the last century, we must burn the cities—all the way to the ground. We must engage in constant, deliberate destruction until we bring down the white capitalist system. The BLA are not terrorists. They are engaged in a struggle. For every one

black killed, we must kill five white cops.”

Carmichael's incitements were only indicative of the conference's planning of spring-summer race riots and terrorism. A total of 1,000 black militants from around the nation were in attendance in the course of the 3-day event.

Also addressing it was Chokwe Lumumba, a Detroit attorney and a leader of the Republic of New Africa. Several of the organization's members were involved in the New York Brinks holdup late last year.

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## Baltimore ‘ethnic districts’ challenged in testimony

Testimony delivered Feb. 26 before the Maryland Governor's Commission on Redistricting attacked plans which would divide the city of Baltimore into “ethnic plantations.” The new districts, which would tend to guarantee re-election of incumbent Congressmen Parren Mitchell and Barbara Mikulski, were the subject of testimony by Debra Hanania-Freeman, a Baltimore Democrat who ran against Parren Mitchell in 1978, and charged vote fraud was used to defeat her.

Hanania-Freeman told the commission that the new redistricting plan would “gerrymander” Baltimore, establishing one predominantly black district for Mitchell, and for a “free enterprise zone” of drug traffic, gambling, prostitution, and “slave-labor jobs.”

The remainder of the city would become a “peculiarly dyke-shaped” district for Barbara Mikulski, predominantly Catholic and white.

“Our republic,” said Freeman, “is not based on establishing districts dominated by people of any one religion, race, ethnic background, or sexual preference. In that sense, the redistricting is incompatible with the spirit of natural law implicit in our Constitution.”

Commission members questioned her closely on her views for more than 30

minutes, one noting that he was afraid to ask what "dyke-shaped" means.

Baltimore newspapers have widely speculated that Debra Freeman may declare her candidacy for Congress when districts are firmly established.

## May repeal D.C. euthanasia bill

A Washington, D.C. city councilman will introduce a bill March 9 to repeal the so-called Natural Death Act, a measure passed late last year legalizing euthanasia in the city. The bill has become the focus of a national furor over what critics charge is a mandating of medical personnel to commit crimes for which American judges sentenced Nazi doctors to death.

The city councilman, H. R. Crawford, was one of two members to vote against the original bill, which became law Feb. 25. He said he had made his decision to introduce a bill of repeal when he discovered that his constituents were also overwhelmingly against it. "The churches are against it, the Catholic Church is against it, the Federation of Civic Associations is against it," he reported.

The National Democratic Policy Committee has conducted a months-long campaign against the bill, seeking to have it overturned in the U.S. Congress, which maintains oversight of capital legislation. A resolution to overturn it was introduced by Rep. Mark Siljander (R-Mich.), but was allowed to die by D.C. Committee chairman Ronald Dellums, who said the Congress had no right to overturn "the will of the people" of Washington, D.C.

Councilman Crawford, however, when asked about the prospects for rescinding the Natural Death Act, announced that the citizenry are behind his repeal bill. "With myself, the churches and some others lobbying, I think we'll probably get the vote," he stated. The *Washington Post* had blacked out the bill's introduction into the Council, to inhibit public protest against it.

## Cement Masons endorse LaRouche program

The Illinois Conference of Cement Masons and Plasterers, convened Feb. 27 in Chicago, was dominated by denunciation of Federal Reserve high interest rates, and endorsement of the economic program offered by *EIR* founder Lyndon LaRouche.

LaRouche has become increasingly recognized for a uniquely science- and production-based answer to the world monetary crisis.

"This nation is in a depression, and it was caused by high interest rates," declared Ron Thelin, State President of the Cement Masons. He attacked Federal Reserve Chairman Paul Volcker, and declared that Volcker's purpose was to destroy industry, not fight inflation. "The problem in this country," he stated, "is that there are 284 officials who are members of the Trilateral Commission," referring to the elite international group headed by David Rockefeller which includes Volcker.

Thelin, speaking before 40 union business agents and 21 business managers as well as Cement Mason international representatives, said that 20 years ago he had first studied the North American Water and Power Alliance (NAWAPA), which is part of LaRouche's program, and concluded: "It would put people back to work and make our country more great. The food produced would help all the people of the world." Thelin added that when he heard LaRouche one year ago, "one thing bothered me . . . why LaRouche called Milton Friedman a 'fascist.' So I went to the dictatorship and looked up fascism, and it said 'government-controlled austerity, where certain industries flourish and labor and civil rights vanish.'"

He attacked Lane Kirkland as the equivalent of those in Dante's *Inferno* who betrayed a trust, and noted, "The *Federationist* [the AFL-CIO's magazine] last year mentioned interest rates exactly four times!"

## Briefly

● **RICHARD DELAUER**, the DOD's research director, said the Soviet Union may deploy space-based laser weapons by 1983, and have "a large permanent space complex . . . operational by about 1990 . . . capable of effectively attacking . . . ground, sea, and air targets from space," in secret testimony March 2 the House Armed Services Committee, leaked to the *Army Times*.

● **MARION BARRY**, District of Columbia mayor, received a reelection endorsement from the "Gertrude Stein Democratic Club," who named themselves after the lesbian expatriate who proposed that Hitler be given the Nobel Peace Prize in 1938. Barry, who tried to legalize sodomy and other perversions last year—Congress overruled him—thanked the group with the words: "I don't just come out of the closet at election time . . . I stay out."

● **POWER ENGINEERING**, a trade magazine, warns that electricity costs will increase 21 percent "unless U.S. utilities can build the nuclear facilities needed to generate 300,000 megawatts of electricity by the year 2000," in its February 1982 issue. The biggest capital cost of building a nuclear unit now, it added, is "the cost in time . . . the long stretch-out in construction schedules," which it blamed on the Nuclear Regulatory Commission.

● **YONAH ALEXANDER**, a "terrorism expert" at Georgetown, predicted a wave of "Libyan terrorism" in Central America over the next year, at a Feb. 27 session of the Conservative Political Action Conference in Washington. "Within the next two years," he added, "Mexican oil refineries would definitely be destroyed by Libyan terrorists, sending streams of Mexican refugees streaming across the border into the United States."

# Free elections in El Salvador

Elections are scheduled to take place in strife-torn El Salvador on the 28th of this month, but unless the violence of competing death squads there is brought to an abrupt end, those elections will be a fraud and a prelude to total anarchy.

Both the left and the right are attempting to win major military victories in the few weeks before a Constituent Assembly will be elected. The elected Assembly will then name a new government junta. Both sides, however, have already stated that they will not be bound by the results of the vote.

The strategy spelled out by rebel guerrilla leader Fermín Cienfuegos in a recent interview is to "defeat" the elections by "making the war felt at all levels." Slogans promising "Death to All Who Vote" have started to appear on walls in some parts of El Salvador. The right-wing leader Robert O. D'Aubuisson has stated that his forces plan to launch an extermination campaign against their opposition after the vote, whether from within or outside the government. This troubling scenario is not helped by the fact that the Haig State Department has named a six-person commission to "observe" the polling. On the team are three experts from the Vietnam War period, including Richard Scammon and Howard Penniman, who monitored the 1967 elections in Vietnam, as well as Clark Kerr, one of the architects of the "strategic hamlets" approach, which only succeeded in exterminating many Vietnamese civilians. Another State Department-appointed observer is Father Theodore Hesburgh, a leading U.S. zero-growth advocate whose role in coordinating the pro-leftist "theology of liberation" networks in this region is well known.

The presence of the old Vietnam apparatus should tell us something. Although many Americans still refuse to face the facts, Vietnam was engineered as a "population war" whose main purpose was not to defend U.S. interests but to reduce population. Hesburgh's role was interesting; silent until the war was well underway, he emerged in 1969-70 as an internationally prominent leader of the "peace" movement— itself rife with zero-growth ideology.

El Salvador threatens to repeat that tragic episode in U.S. history, in a far graver world strategic conjuncture. As *EIR* founder Lyndon LaRouche observed in a recent Washington speech, the key to understanding the widening bloodbath in Central America is that the death squads, many nominally fiercely "anti-communist," create the guerrillas from among the civilian survivors of atrocities.

LaRouche has announced that he will personally head a newly formed "Commission for Free Elections in El Salvador," which will also include as members *EIR* Latin America editor Dennis Small and Fernando Quijano of the International Caucus of Labor Committees' Executive. The Commission will propose to Salvadorean junta President José Napoleon Duarte, Mexican President José López Portillo and U.S. President Ronald Reagan that the three presidents agree on a plan to guarantee the freest elections in El Salvador's history. The steps they take should include negotiating with the insurrectionary groups, if necessary. But the only *military* side of the operation will be to hunt down and summarily execute all of the "death squads" now operating in El Salvador.

The Commission is prepared to initiate activities to back such a plan in all three countries. If the presidents concur, LaRouche's Commission is prepared to recommend postponing the elections from March 28 until a date when they can be carried out freely.

LaRouche's initiative follows closely on the homily delivered by Pope John Paul II Feb. 28 in Rome. In that public statement, the Pope harshly condemned both extremes in the "fratricidal war" and repeated Salvadorean Archbishop Rivera Damas's words, "The foreigners supply the arms, but the dead are all our people." Mexican President López Portillo has also taken to the international press to plead for a negotiated settlement in El Salvador and the exclusion of arms shipments to *all* forces in the fray.

Reason can still prevail, if the warning of the Pope and López Portillo be heeded. Reagan should listen to LaRouche's advice—not Haig's.

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