

EIR

Executive Intelligence Review

April 6, 1982

\$10.00

Infrastructure: key to U.S. productivity
Carlos Andrés Pérez talks to EIR in Caracas
Report from Tokyo on Japan's foreign policy

**Peace movement and Libya aid
Sicilian separatist conspiracy**



EIR

The special reports listed below,
prepared by the EIR staff, are now available.

1. Prospects for Instability in the Arabian Gulf

A comprehensive review of the danger of instability in Saudi Arabia in the coming period. Includes analysis of the Saudi military forces, and the influence of left-wing forces, and pro-Khomeini networks in the country. \$250.

2. Energy and Economy: Mexico in the Year 2000

A development program for Mexico compiled jointly by Mexican and American scientists. Concludes Mexico can grow at 12 percent annually for the next decade, creating a \$100 billion capital-goods export market for the United States. Detailed analysis of key economic sectors; ideal for planning and marketing purposes. \$250.

3. Who Controls Environmentalism?

A history and detailed grid of the environmentalist movement in the United States. Analyzes sources of funding, political command structure, and future plans. \$50.

4. Prospects for Instability in Nigeria

A full analysis of Nigeria's economic development program from a political standpoint. Includes review of federal-state regulations, analysis of major regional power blocs, and the environment for foreign investors. \$250.

5. The Real Story of Libya's Muammar Qaddafi

A comprehensive review of the forces that placed Qaddafi in power and continue to control him to this day. Includes discussion of British intelli-

gence input, stemming from Qaddafi's training at Sandhurst and his ties to the Senussi (Muslim) Brotherhood. Heavy emphasis is placed on control over Qaddafi exercised by elements of the Italian "P-2" Masonic Lodge, which coordinates capital flight, drug-running and terrorism in Italy. Also explored in depth are "Billygate," the role of Armand Hammer, and Qaddafi's ties to fugitive financier Robert Vesco. 85 pages. \$250.

6. What is the Trilateral Commission?

The most complete analysis of the background, origins, and goals of this much-talked-about organization. Demonstrates the role of the commission in the Carter administration's Global 2000 report on mass population reduction; in the P-2 scandal that collapsed the Italian government this year; and in the Federal Reserve's high interest-rate policy. Includes complete membership list. \$100.

7. The Global 2000 Report: Blueprint for Extinction

A complete scientific and political refutation of the Carter Administration's *Global 2000 Report*. Includes a review of the report's contents, demonstrating that upwards of 2 billion people will die if its recommendations are followed; a detailed presentation of the organizations and individuals responsible for authorship of the report; analysis of how the report's "population control" policies caused the Vietnam war and the destruction of Cambodia, El Salvador, and Africa; analysis of environmentalist effort to "re-interpret" the Bible in line with the report. 100 pages. \$100.

EXECUTIVE INTELLIGENCE REVIEW

I would like to receive these EIR Special Reports:

Order Number(s) _____

Bill me for \$ _____ Enclosed is \$ _____

Please charge to my VISA Master Charge

Card No. _____

Signature _____ Exp. Date _____

Name _____

Title _____

Company _____

Address _____

City _____ State _____ Zip _____

Telephone (_____) _____
area code

Make checks payable to:

Executive Intelligence Review, Dept. MC-1, 304 West 58th Street, 5th floor, New York, N.Y. 10019 (212) 247-8820.

Founder and Contributing Editor:

Lyndon H. LaRouche, Jr.
Editor-in-chief: *Criton Zoakos*
Editors: *Nora Hamerman,*

Robyn Quijano
Managing Editor: *Susan Johnson*
Features Editor: *Christina Nelson Huth*
Art Director: *Martha Zoller*
Contributing Editors: *Uwe Parpart,*
Christopher White, Nancy Spannaus
Special Services: *Peter Ennis*

INTELLIGENCE DIRECTORS:

Africa: *Douglas DeGroot*
Agriculture: *Susan Brady*
Asia: *Daniel Sneider*
Counterintelligence: *Jeffrey Steinberg*
Economics: *David Goldman*
European Economics: *Laurent Murawiec*
Energy: *William Engdahl*
Europe: *Vivian Freyre Zoakos*
Latin America: *Dennis Small*
Law: *Edward Spannaus*
Middle East: *Robert Dreyfuss*
Military Strategy: *Steven Bardwell*
Science and Technology:
Marsha Freeman
Soviet Sector: *Rachel Douglas*
United States: *Graham Lowry*

INTERNATIONAL BUREAUS:

Bogota: *Carlos Cota Meza*
Bonn: *George Gregory, Rainer Apel*
Chicago: *Paul Greenberg*
Copenhagen: *Vincent Robson*
Houston: *Harley Schlanger,*
Nicholas F. Benton
Los Angeles: *Theodore Andromidas*
Mexico City: *Josefina Menendez*
Milan: *Stefania Sacchi, Marco Fanini*
Monterrey: *M. Luisa de Castro*
New Delhi: *Paul Zykofsky*
Paris: *Katherine Kanter,*
Sophie Tanapura
Rome: *Leonardo Servadio*
Stockholm: *Clifford Gaddy*
United Nations: *Nancy Coker*
Washington D.C.: *Richard Cohen,*
Laura Chasen, Susan Kokinda
Wiesbaden: *Philip Golub, Mary Lalevée,*
Thierry Lalevée, Barbara Spahn

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

In Europe: Executive Intelligence Review, Nachrichten Agentur GmbH, Postfach 2308, D. 6200 Wiesbaden Tel: 30-70-35
Executive Directors: Anno Hellenbroich, Michael Liebig

In Mexico: EIR, Francisco Diaz Covarrubias 54 A-3 Colonia San Rafael, Mexico DF. Tel: 592-0424.

Japan subscription sales:
O.T.O. Research Corporation
Takeuchi Bldg. 1-34-12 Takatanobaba
Shinjuku-Ku, Tokyo 160
Tel: (03) 208-7821

Copyright © 1981 New Solidarity International Press Service
All rights reserved. Reproduction in whole or in part without permission strictly prohibited. Second-class postage paid at New York, New York and at additional mailing offices.
Subscription by mail for the U.S.:
3 months—\$125, 6 months—\$225,
1 year—\$396, Single issue—\$10
Academic library rate: \$245 per year

EIR

From the Managing Editor

Opponents of the Malthusian Club of Rome can now bring themselves together from all parts of the globe to begin to restore science and progress as the foundation of human morality. An initiative to that effect is presented below in a founding statement on behalf of the Club of Life, an organization conceived by Helga Zepp-LaRouche, Chairman of the European Labor Party, and the wife and collaborator of *EIR* founder Lyndon H. LaRouche, Jr.

Mrs. Zepp-LaRouche's document appears alongside a Special Report on the complicity of the so-called anti-war movement internationally in the subversion of Italy and in the outright coup plot for a neo-fascist takeover in Sicily by the sponsors of NATO's failed 1973 Rosa dei Venti conspiracy. What kind of anti-war movement is this?

In the United States, the nuclear-freeze advocates are headed by William Colby, Robert Strange McNamara, George Ball, Dean Rusk, and Gen. Maxwell Taylor—the overseers of the Vietnam War. Why have hawks become doves?

Look back to the Vietnam War, which, as *EIR* has documented, was a project intended to depopulate and isolate a region rich in agro-industrial potential and in manpower educated, or ready to be educated, for nation-building. "Communism" was not the issue: Taylor, McNamara, et al. are on record as effusive admirers of Peking's rulers, who have contributed so much from their side to ravaging Indochina.

The same hatred of technology and growth prompts these policy-shapers' opposition to the development of advanced U.S. strategic weaponry.

If the peace movement is a hellish sham, where then do we look for peace, as look we must? Helga Zepp-LaRouche has warned since the 1979 NATO decision to deploy the Euromissiles that the limited-nuclear-war premises, and brinkmanship momentum, embodied in that decision could destroy humanity. Therefore, we must act on the truth that "development is the new name for peace."

Susan Johnson

ENR Contents

Departments

29 Interview

Carlos Andrés Pérez,
former President of
Venezuela.

41 Report from Bonn

Electoral setback
for Schmidt.

42 Middle East Report

Whither Israel?

43 Dateline Mexico

Changes in the
economic cabinet.

59 Energy Insider

Volcker ends the
drilling boom.

60 Congressional Closeup

64 Editorial

Why give Mr. Volcker
anything?

Corrections: In our March 23 article on "Soviet Military Costs: A Scientific Estimate," Figure 1 on page 24 contained an error. The 1980 breakdown of Soviet employment by sector should have shown the non-productive component as 32 percent, not 23 percent. In the Real U.S. Unemployment Index on page 12 of our March 30 issue, Category E was mis-described. It should have read, "Fifty percent of the two-thirds of the employables associated with welfare families."

Economics

4 Crisis for West Germany by the end of 1982?

Economics Editor David Goldman reports from Wiesbaden on the pitfalls for exports and banking.

6 Robert McNamara makes population reduction the criterion for economic policy

With special attention to Mexico, Africa, and the United States, and special applause for Paul Volcker.

8 Dollar drop will end import boom

America's shocking dependence on foreign capital goods and other manufactures could give way to an inability to buy them at all.

9 Foreign Exchange

The French franc and the EMS.

10 Corporate Strategy

Joining the Davignon Plan.

11 Trade Review

12 Agriculture

The "user fee" caper, Part II.

13 Currency Rates

14 Business Briefs

Special Report



Col. Muammar Qaddafi with Austrian Chancellor Bruno Kreisky after the Libyan leader's arrival at Vienna airport on March 10.

Arnaud de Wildenberg/Syigma

16 Sicilian separatist plot aided by Libya and peace movement

Lyndon H. LaRouche, Jr. on "Operation Nightmare," a release circulated in summary throughout the Italian government by the Anipe press service.

19 What Col. Qaddafi did in Austria

Socialist International Bruno Kreisky sponsored his emergence as a public godfather of the anti-war movement.

21 'Operation Nightmare' and its instigators within Italy

And the acknowledgement by British intelligence circles that the plan is live.

23 Euro-leadership invades U.S. cities

"Peace" spokesmen on tour.

International

24 A call for creating the Club of Life

The initiating statement by Helga Zepp-LaRouche.

27 The real winners in the March elections

An in-depth report on Colombia by Cynthia Rush, who has just returned from Bogotá.

33 The Arab Thought Forum

A new creation of the Club of Rome.

35 Japan's foreign policy at the crossroads

Daniel Sneider reports on his discussions with senior statesmen in Tokyo.

37 Will Haig and Volcker force Tokyo into an independent approach?

Background on Japan's recognition that it can no longer automatically defer to Washington's definition of its international role.

44 International Intelligence

National

46 Behind the pressure for a 'budget compromise'

The Bank for International Settlements' goal is to undercut both the White House and Congress as national leaders in a crisis.

48 Infrastructure investment: the key to U.S. productivity

An examination of past decades' proof that—as though the economy were a single large factory—infrastructure is decisive in determining the acceleration or disintegration of production.

51 The LaRouche model charts a path for industrial growth

The LaRouche-Riemann econometric projection of what would happen if the United States returned to large-scale infrastructure investment.

55 NAWAPA could revive the economy

The scope of employment and production made feasible by the North American Water and Power Alliance proposal.

62 National News

Crisis for West Germany by the end of 1982?

by David Goldman, Economics Editor

EIR Economics Editor David Goldman is currently on a two-month visit to West Germany, where he is meeting with banking and industrial leaders.

Although the standard forecasts issued by commercial banks and economic institutes predict a modest economic stabilization in West Germany's economy—in distinct contrast to the disaster on the other side of the Atlantic—there are few illusions among well-informed circles here that Germany might escape the consequences of a world depression for much longer than an additional six to eight months. West Germany will face its greatest economic, and therefore political crisis in the post-war period not later than the end of 1982, barring a dramatic reversal of U.S. economic policy.

As the world's most trade-dependent industrial nation, with 55 percent of total output devoted to exports, West Germany faces an impossible situation should world trade continue to decline. The last several months' developments among some key West German trading partners are, in direct consequence of the American problem, an extremely grim warning for the near future. According to estimates by economists at the General Organization for Trade and Tariffs in Geneva (GATT), Third World imports shrank by 5 percent during 1981 and will shrink at an even faster rate next year. Meanwhile, the imports of the Eastern European countries fell

by more than 6 percent during the fourth quarter of last year alone, and eastern trade shows no sign of recovering.

The British argument

It is speciously argued on West Germany's behalf, especially by British economists, that since the American share of Europe's exports is relatively small, even a disaster in the U.S. economy will have relatively little effect on the German economy. However, as a senior Economics Ministry official in Bonn told a journalist recently, "It is impossible to estimate what the effects of a U.S. depression would be for the West German economy, because the indirect effects, not the direct effects, are what is important. Look at the effect of the U.S. economic problem upon the Third World, for example; if their economic growth falls due to high interest rates, they can import less from West Germany."

For a variety of extraordinary reasons West Germany has been able, in the past year, to expand its exports (by 6 percent in real terms) even while world trade stagnated or fell. Part of this has to do, ironically, with high American interest rates; the continued overvaluation of the dollar, by at least 30 percent in relative price terms, means that West German goods paid for in dollars are a bargain. Adding to this short-term curren-

cy effect is the situation in West Germany's western neighbor and main trading partner, France. François Mitterrand's election last year threw France's economy into special problems, and allowed West German exporters to beat their French competition on their own ground. West Germany's trade surplus with France grew enormously, accounting for the largest part of Germany's trade surplus.

So while real living standards actually fell marginally during 1981, West Germany was able to use the complications of the same Volcker policy that forced high interest rates onto the Europeans to expand its export markets by a significant margin. Only through foreign orders could West German industry avoid a major collapse of production levels, which still, nonetheless, remain below the level registered at the end of 1980. That is less than a desirable situation, but it reflects the ability of the still-seaworthy German economy to maneuver during the beginning phases of a world depression.

No more escape-hatches

All of the escape-hatches that gave West Germany the tone of a modest economic recovery during the last few months are now being sealed. Reality has caught up with François Mitterrand's France, and the French franc will probably undergo devaluation during the next weeks, making German goods more expensive in France. The German export boom to France will not collapse all at once, but the momentum will be gone; and the end of the year will see a significant absolute fall-off of German exports to France.

West German bankers are already trying to stay as far away from additional big loans to Third World nations as possible, given the near-disastrous financial condition of most of the big Third World debtors; but these big debtors happen to be West Germany's biggest customers. Finally, the OPEC countries, who took half-again as much German exports during 1981 as during the previous year, have entered 1982 with lower oil prices and less money to spend. Several OPEC members who have developed important trading relations with West Germany, such as Nigeria, are in deep trouble.

That means, as most of this country's sharpest economic observers believe, that while German industry has a big enough order-book to make it through most of this year, it is moving inexorably to a sheer dropoff at the end of the year. The problem for Europe, as a commentator in the London *Daily Telegraph* wrote March 22, is not so much that the United States is a major market; despite the huge apparent size of the fluffed-up American GNP (26 percent of world GNP), the United States takes only 14 percent of world imports. The problem is that the United States is the "world's financial transmission belt."

Excepting the early disappearance of Federal Reserve Chairman Paul Volcker, West German economic survival may depend on actions which had been unthinkable during the years of NATO solidarity and strength following World War II. Trade with the East bloc is falling for one reason and one reason only: the Chancellor wants to avoid hysteria in Washington, and he refuses to believe that such a great nation would not hold back from economic and political suicide. The neutral Austrians, who are not members of NATO, and whose prime minister was host to Libya's Qaddafi last month, have no such problem. They lent the Soviets \$1.1 billion in two weeks in mid-March, and are building a half-billion dollar steel mill in Byelorussia. The Austrian credits, enormous for a country Austria's size, makes the argument one hears everywhere in West Germany respecting eastern trade—namely, that the Soviets are short of hard currency—look sort of silly. The Germans know perfectly well that the Soviets will be earning \$15 billion a year through natural gas shipments to the West by the late 1980s: They are providing the means to ship the gas West despite hysterical objections in Washington. "Theoretically," said one West German bank economist, "there are no obstacles to making bridge credits with five-year maturity to the Soviets, so that they could buy everything they want here right away."

Recession—not loss of leadership

But the West Germans would rather take a recession, and a bad one, than throw away their last chance to exercise world leadership in a world gone haywire as a result of Washington's disorientation. There are no financing problems; the biggest worry West German industry has now, said an economist at a top steel company, is not that the Russians will run out of money, but that the Japanese will get the edge on the next generation of Russian industrialization efforts in Siberia. The problem is political. The hesitation of West German firms to throw themselves into major deals with the Soviets virtually guarantees a grim economic situation for West Germany by year's end. Instead of doing what is rational, West German firms are submitting to Washington's demands.

Because its underlying industrial potential as a major net exporter is still there, West Germany still has considerable room to maneuver. For a nation that survived virtually total destruction through war, and rebuilt, a temporary economic collapse is something to be endured and overcome.

The danger is not that the economic alternatives available to West Germany will disappear; rather it is that the economic decline may finally undermine Chancellor Helmut Schmidt's eight-year administration, and leave West Germany without the leadership to take those alternatives.

Robert McNamara makes population cuts the criterion for economic policy

by Kathy Burdman

“The most fundamental point underlying all our foreign policy needs is overpopulation. This is the theme in every area.”

The speaker was Robert McNamara, in a March 16 interview with a journalist. McNamara, who applied the same “cost-accounting” methods to both mismanaging the Ford Motor Company and prosecuting the Vietnam War as a “population war,” retired last year as the head of the World Bank. He is associated with the Brandt Commission on Third World development established in 1979 by the World Bank and the Socialist International, which promotes the decoupling of underdeveloped sector economies from the industrialized nations, except for resource grabs.

The international banker remains very politically active and expressed special concern over Mexico, whose population is much too big, he said, adding that rapid population growth in Mexico is already one of the greatest “national-security threats” to America today; the U.S. priority right now is to get Mexico to keep the Mexicans in Mexico. He proposed that the United States provide the Mexican government with all sorts of macro-economic policies which will promote labor-intensive low-wage jobs. Otherwise, Hispanics are likely to be the largest population in this country, he said, declaring that “It will create horrible political problems. We’re going to be up to our tails in unemployable Mexicans.”

McNamara now sits on the Committee for the Year 2000, an organization set up by former Secretary of State Cyrus Vance to lobby for national and international decision-making to be guided by the criterion of population reduction.

McNamara, asked if Mexico’s recent peso-devaluation was “a population-control policy,” said yes, emphasizing that when Mexico “overvalues” the peso, it can afford to import what he considers too many high-technology capital-intensive goods from the United States, and pay excessively high wages in the oil sector. The devaluation, he said happily, will encourage instead less imports and reliance on more labor-intensive jobs. It

means making the economy more labor-intensive.

Obviously, Mexico took the devaluation measure under international pressure, McNamara acknowledged, citing Bank of America, Citibank, and David Rockefeller as pressure-points for devaluation. But, he added, Mexico is still importing “too much,” and wages are still “too high.” He advocated a continuous devaluation, more and more every month, “like Brazil.”

Asked if he favored sealing the border, McNamara said that he did, but termed the move impossible under this administration, since to keep Mexicans from being employed in the United States, all Americans would have to be issued ID cards.

His other “macrostrategy” is for Mexico City. “We have to obtain a better balance between urban and rural population, and the only way to do that is get people out of the city,” he said, proposing punitive taxes and regulations against heavy industry on the city, and encouraging labor-intensive agriculture with higher food prices. That will also keep down population in the cities.”

McNamara called the turmoil in Central America “Mexico’s problem, not ours.” He explained, “It is an immediate danger to Mexico. There is a tremendous overpopulation in El Salvador, Nicaragua, and Guatemala, and they’re all ready to spill over into Mexico. And if that happens, with rural poverty in Mexico a breeding ground for radical activity, then Mexico could face turmoil. We should tell the Mexicans that it is their job to deal with the area, and to keep people in their countries.”

McNamara emphasized that he would be happy to have communist regimes in any nation, as long as those regimes are committed to reducing population and migration. “Allow them to have whatever regime they want, whether we like it or not. Sandinista, whatever the people want. We should stop worrying so much about Cubans and start creating the conditions where people don’t roam.”

McNamara explained that “We have a quiet group of people who are working on all different areas in which U.S. policy must be changed. But the most fundamental

point underlying all our foreign policy needs is overpopulation. This is the theme in every area. That's what we're really concerned about."

Cy Vance, and Carter State Department hatchet-man Warren Christopher as members of his group, he said, "It's true a lot of us are Democrats." It also includes liberal Republicans like Charles Mathias of Maryland and Charles Percy of Illinois. Thomas Enders at State is very helpful on Mexico, he said; and "helped us get through David Rockefeller's initiative on the Caribbean basin, the free-trading zone. . . ."

Prospects for Africa

He supported David Rockefeller's efforts in Africa as well, which he described as encouragement "for what indigenous regimes can do in Africa, even socialist regimes," if they promote the right policies. He declared that in southern Africa, there is going to be a "population-caused race explosion" over the next several years, unless Reagan stops backing apartheid. All of southern Africa will explode in strife. He endorsed for South Africa the "thorough-going reforms" pressed by Ted Heath, former Tory British prime minister and spokesman for the World Bank's Brandt Commission. McNamara himself will speak on behalf of this approach at Witwatersrand University in South Africa later this year, he said.

"Nigeria," he continued, referring to Africa's most populous nation, "has serious population problems, just like Mexico, horrible, and they're doing nothing about it. Not to mention Kenya, growing at 4 percent a year and doubling their population every 17 years already. There is a very dangerous situation there, and unless we cooperate with them to institute the kinds of reforms I mentioned in the case of Mexico, there will be war and horrible suffering. There may be war and horrible suffering anyway. . . ."

McNamara was asked if he expected a "huge crisis" in Mexico or Africa. "Mexico will continue to hemorrhage over a long period," he replied, adding that he would prefer to see an explosion that would alert people on both sides of the border to the crisis.

Summarizing the efforts of his "quiet group of people," McNamara said that the fundamental theme underlying those efforts is the danger of overpopulation. "David Rockefeller talks on Africa, Cy Vance is doing something on arms control, I talk on South Africa. I'm also planning to do a speech on this nuclear weapons issue; it's terrible what's happening with us."

Is McNamara of Vietnam War fame supporting the nuclear-freeze proposal? "Nuclear war, as I said in one article this week, is the only thing more dangerous than the population crisis," he replied.

"But the pressing need to cut world population will not come soon in policy. This can only be achieved



McNamara as Defense Secretary

within an overall change in current U.S. government policy. That will probably come first on the domestic front. . . ."

Comments on Volcker

Does this mean that Reagan will come under attack from the peace movement and on other domestic fronts, he was asked. "Yes," he replied, "but there could be all sorts of situations. For example, the President has a budget proposal to Congress which Congress will never pass. Reagan is going to have to get the debt ceiling raised on the national debt, and that's not going to be done without a lot of blood on the floor. That could be a real domestic crisis."

McNamara said that he would join liberal Democrats in criticizing Paul Volcker's interest-rate policy at the Federal Reserve, but only "in public." "In fact, I agree with Volcker's monetary policy. He's not going to change his monetary policy now, nor do I think he should change it until Congress cuts the budget deficit." But before that happens, there will be real trouble, he said.

"Reagan is going to have trouble on the economy, trouble on the budget, and his arms-control policy is not out of the woods by any means either. In fact, as Cy Vance points out, he has no arms-control policy. He also has no nuclear policy, as I intend to point out. So, within another six to nine months, the situation in Washington could change."

Dollar drop will end import boom

by Peter Rush

The U.S. merchandise-trade deficit continued to widen in the fourth quarter of 1981, as shown by the latest Commerce Department statistics. Behind the overall 1981 increase in that deficit from \$26.4 billion to \$32.6 billion is an unhealthy composition of exports and imports which prompts two conclusions.

First, as *EIR* predicted more than a year ago, U.S. industry—not least because of the Federal Reserve's high interest rates—is excessively dependent on imports of manufactured goods.

Second, the trade deficit will undermine the current-account surplus, and the dollar's parities will tumble for this and related reasons, unless national policy is drastically changed.

The textbook result of export expansion due to greater price competitiveness will be canceled in most sectors by a lack of international demand, a loss of America's technological edge, and the exporters' burden of interest-rate-led overhead costs. The current-account balance will be further sliced by a decline in revenue from an item that represents from 30 to 50 percent of the invisible account: repatriation of oil-company profits. And the dollar drop will mean an inability to finance imports that would be even more destructive than import dependence.

In current-dollar terms, imports of manufactured goods accounted for some 89 percent of the overall rise in imports from 1980 to 1981:

Imports (millions)	1980	1981
Food and crude materials	\$ 29,091	\$ 29,610
Mineral fuels, oils, chemicals	89,897	91,380
Manufactured goods	124,207	140,481
Total	\$243,195	\$261,471
Exports (millions)	1980	1981
Food and crude materials	\$ 54,222	\$ 54,108
Mineral oils, fuels, chemicals	30,711	33,285
Manufactured goods	131,850	141,444
Total	\$216,783	\$228,837

The dollar's appreciation may explain some of this

increase of manufactured-goods imports, but the largest jump came in the second half of 1981, with no corresponding jump in the dollar's value, and with the recession accelerating.

The only explanation is that the high interest-rate squeeze on U.S. business has transformed marginally cheaper, and, in truth, artificially undervalued, imported goods into a significant factor in companies' balance sheets. Imports of capital goods (excluding automotive) rose by 18.1 percent between 1980 and 1981, and even in the fourth quarter of 1981 showed continued strong growth. This, of course, is an area in which the United States has traditionally acted as a world export leader, importing relatively little; it is an area essential to both military and civilian strength.

As for exports, they grew in 1981 by 4.6 percent over 1980, a rate below the 9.1 percent inflation level. Agriculture was strong, but crude materials declined; manufactured goods showed a steady rise through the second quarter, before falling off sharply in the fourth quarter to the level of late 1980. This 9 percent drop from the second quarter to the fourth was the leading element in the overall export decline during that period of 2 percent.

The dollar prospect

In view of the depth of the U.S. industrial depression, it may seem surprising that imports are as strong as they remained at the end of 1981.

Consider, however, how artificially high U.S. interest rates have not only drained capital from Europe, but propped up the dollar. At a certain point, that process will be superseded by the crash-points inherent in the U.S. industrial decline.

Even apart from a trade-deficit panic, the dollar can soon be shaken by the effects of any number of bankruptcies, market crashes, and policy debacles.

The dollar is at present something like 35 percent above its 1979 international value, even though the economy of the United States has had its industrial underpinnings taken out from under it.

For obvious reasons, this overvaluation exacerbates the trade deficit, and the Reagan administration has shown no signs of promoting the kind of export drive necessary to remedy the situation.

If, however, the dollar weakens, as it could, anywhere from 15 to 40 percent, the most palpable consequence in industrial terms will be a decline in all categories of imports, because so many corporate purchasers will be unable to finance the increased import prices, or to pass them along. The result will not be a wholesome correction in the U.S. trade balance—it will be a further wrenching contraction in world trade as a whole.

The French franc and the EMS

Germany hopes to stabilize the franc and other European currencies, but makeshift solutions may fail.

The French franc, which stood at 5.5 to the dollar when François Mitterrand took office as French president in May 1981, slid all the way down to 6.26 to the dollar on March 26, despite the previous day's tightening of exchange controls. It will fall a good deal lower.

The question now in currency dealers' minds is by which means the franc will continue to fall: by daily drops in the currency markets, or by a devaluation.

The fate of the franc involves much more than France. Starting in May 1978, then-French President Valéry Giscard d'Estaing and German Chancellor Helmut Schmidt put together the European Monetary System, as a system of fixed exchange rates and as the seed-crystal for a new gold-based international monetary system. The larger aspirations that lay behind the formation of the EMS have obviously not been realized, but the EMS has worked relatively well in stabilizing European parities. The financial forces whose power is concentrated in the City of London and in Venice wish to crack apart the EMS, and a disruptive form of currency controls could follow.

David Sandberg, the chief economist for currency management at Bankers Trust, reported March 19, "We are being told that the French will devalue some time in May. But the French can't wait. The pressure is too great. If the franc devalues 8

to 10 percent, that may not suffice. Half the problem with the franc is the government of François Mitterrand, and as long as he is in office, there will be constant problems with the franc and money fleeing out of France."

What happens to the franc is of paramount importance to West Germany. France consumes between 25 and 30 percent of German exports. If the French economy goes down under the misdirection of the Mitterrand administration, which is de-emphasizing industry in favor of services, then Germany loses an essential export market—during a period of contracting world trade.

German bankers told me the week of March 21 that Germany has a halfway solution. German bankers do not want to continue to support the excesses of the Mitterrand government through continued German support; thus they would like to see the French franc devalued by 8 to 10 percent, but gently, without the turbulence that often accompanies a devaluation on the currency markets. The new support level is one that the Germans think could work for the near future. But German industrialists are confident that the lower inflation rate and higher productivity that prevails in Germany will continue to make German exports cheap in France, despite a devaluation.

However, the strategy of constant franc turmoil envisaged by Bankers Trust's Sandberg goes beyond what the Germans are looking for. Continued devaluations of the franc mean big trouble. Sandberg predicts: "we think that the European Monetary System is fractured irreparably. The Europeans will not have a fixed-currency system much longer."

Sandberg raises the possibility of exchange controls in some European countries to prevent chaos. "Partial exchange controls now exist in France," he said. They could be adopted in the countries with weaker currencies, such as in Denmark, Ireland, and even Italy if there is enough pressure."

The March 22 London *Financial Times* reinforces Sandberg's view by stating that the above list of countries, including Belgium, may have to devalue their currencies soon.

Were half of Europe's countries forced to devalue, following by only two weeks Belgium's 8 percent devaluation of its franc, then the European continent could indeed be beset with significant currency instability. Such a situation could be heightened by the London and Venetian flight-capital specialists. The U.S. Treasury, under the influence of Undersecretary Beryl Sprinkel, has stated that the U.S. will not intervene into currency markets, unless disaster strikes. Instability and capital outflows, in the absence of currency controls, would jeopardize the common strategy of lowering interest rates in Europe, initiated by Schmidt, and currency controls would pose another set of problems.

In that environment, the French franc could fall a long, long way.

Joining the Davignon Plan

General Motors' new steel-procurement policy will further contract the sector, in line with world reorganization.

The American steel cartel is being dissolved. Assembled by the the Morgans, Mellons, Meyers, and Moores as leading American agents of the Anglo-European financial oligarchy in the years 1898 to 1904, the steel cartel was slated for dissolution as early as the end of the 1950s. The present dismantling of steel production is the second and final phase of the shutdown that began in 1977-79.

The announcement dooming as much as 50 percent of American basic steel production was made by General Motors Corporation, another Morgan company, on March 23. GM announced that they would suspend all contracts with existing steel suppliers. Instead, the company will open up all steel procurement to competitive bidding.

GM is the largest single user of steel in the United States, buying about 8 percent of the total product. The announcement will trigger a wild round of price-cutting as companies seek to maintain their share of, or break into, the GM market.

As intended, this will throw great patches of red ink on the major steel producers' books, making the final conversion of these companies to non-steel, financial, energy, and insurance conglomerates appear financially and economically acceptable.

General Motors has in essence "deregulated" the U.S. steel industry. As under other forms of dereg-

ulation, the result will be to push America into a "postindustrial society".

The shakeout of American steel production is being conducted, not by the lower level financial agents in New York, Boston, Cleveland, or Pittsburgh, but at the leading agency of the European financial oligarchy, the Organization for Economic Cooperation and Development (OECD). According to a steel expert connected to the British Fabian Society's Heritage Foundation in Washington, D.C., both Secretary of Commerce Malcolm Baldrige and Special Trade Representative William Brock have sent staff members to attend "informal meetings" with the OECD Steel Committee. It is this Committee that directs the work of the European Community's Davignon Plan for the shutdown of "excess capacity." These "informal meetings" are the "working group" for carrying out decisions made at the December meeting between Davignon and Baldrige, Brock, Agriculture Secretary John Block, and Secretary of State Alexander Haig. At the December meeting, held in Brussels, the high-ranking U.S. officials agreed to put U.S. steel production under the umbrella of the European Community's Davignon plan. That plan, named for Count Etienne Davignon, the EC Commissioner in charge of steel, has separated European carbon-steel production from that of specialty steel, and

then ordered the shutdown of carbon-steel production, causing economic depression in Europe's industrial heartland.

In the United States, capacity utilization was already down to 58 percent as of March 20, 1982. If adjusted for capacity that was shut down and not replaced with modern facilities since 1977, the capacity utilization figures would show a present production level less than half 1977's. According to the American Iron and Steel Institute, the industry trade group, the total of 252,000 blue-collar workers still employed is lower than for any year since 1932, the first year that industry-wide employment figures were kept.

Why should the steel industry allow its own dissolution?

First, the steel companies are no longer steel companies, and secondly, the steel cartel, like any cartel, works on a financial basis rather than a production basis.

Indeed, the controllers of the cartel are among the most ardent proponents of the post-industrial society. Only 8 percent of U.S. Steel's 1982 revenues will come from steel production. The steel industry is the second largest holder of coal lands—after the Morgan-controlled railroads—in the nation. Beginning with Armco Steel's 1977 creation of an offshore re-insurance company, designed to convert assets from steel to paper, steel companies have moved into minerals, oil, coal, timber, insurance, banking, trading companies, and other financial services.

As Edgar Speer, the former chairman of U.S. Steel, often boasted, "the purpose of U.S. Steel is not to produce steel, but to make money."

Trade Review by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
\$20 mn.	U.S.A./ Mexico	The state of Indiana has planned a new barge system to Mexico which will make it easy to ship Indiana corn and other farm products into Mexico and possibly to bring Mexican petrochemicals to Indiana on the return trip. Ohio River barges will be loaded at Mt. Vernon, Ind., and floated onto submersible seagoing barges at Pascagoula for trip to Mexican Gulf ports. Crowley Maritime of San Francisco and Mexico's TMM have agreed to put \$20 mn. into 38 of the seagoing barges for the route.	Sea method avoids expense and delays of obsolete rail connections. Indiana expects prompt approval from Mexico, whose food distribution agency, CONASUPO, wants to cut delivery costs. Indiana also hopes to expand system to numerous Caribbean markets.
\$275 mn.	U.S.A. from Japan	325 New subway cars will be delivered to New York City's graffiti artists by Kawasaki in 1985. Cars are destined to replace disintegrating equipment in the IRT division. Kawasaki beat Budd Co., the only surviving U.S.-based builder of passenger rail cars, since Budd could not deliver before 1987 nor meet the 12.25% interest export credit Japanese Ex-Im Bank is providing on \$126 mn. of the contract. In order to be compatible with equipment on the older cars, most of the electrical machinery on the new cars will be made by traditional American suppliers. That 40-50 % of total value will be shipped from the U.S. for final assembly in Japan.	By buying abroad, New York is ineligible for federal aid, but deficit-ridden Metropolitan Transportation Authority says U.S. mass transit aid has been cut so much as to make Japanese offer more attractive anyway.
	Brazil/China	Mendes Jr., the Brazilian construction company with \$2.1 bn. in overseas contracts, has signed a letter of intent for joint venture with China Civil Engineering Construction Corp. of Peking. They plan to work together in Third World countries. Mendes has been satisfied with low wages and regimentation of the 1,000 Chinese they have employed in their railroad-building in Iraq.	While Brazil buys 25,000 bpd oil from China, Brazil's exports there have collapsed along with Chinese industry: Iron ore, sugar, and cocoa exports, substantial in 1980, have now disappeared. Abandonment of China steel and superport projects leaves few openings for Brazilian exporters.
\$860 mn.	Indonesia from France	Paper pulp operation yielding 250,000 tpy will be built by French-led consortium in southern Borneo. Société Générale's Sogée, Grands Travaux de Marseilles, Leroy-Somer, Fives-Cail Babcock, Siemens of West Germany, and Rauma-Repola of Finland will be builders and 51% owners. Indonesia will have minority stake.	Complex will export 100,000 tpy bleached long-fiber pulp and produce 150,000 tons of paper for Indonesia.
\$540 mn.	U.S.S.R. from Austria	Voest-Alpine signed turnkey project with Soviets for mill to turn 750,000 tpy of scrap into liquid steel in electric arc furnaces. Plant, located in Byelorussia, may be model for 10 similar plants needed by U.S.S.R.	Austrian bank financing at 7.8 %, 2% below normal rate, helped win deal.
\$43 mn.	Iraq from West Germany	Iraq has bought 2 Zeiss reflector telescopes for its new national observatory to be built by Krupp, MAN, and GHH.	Arab scientists may again make major contributions to astronomy.
	Mexico from Sweden	The two govts. have signed agreement in principle on electric power to facilitate joint ventures.	Swedish Asea-Atom wants Mexican nuclear contract.

The 'user fee' caper, Part II

Waterways must pay for themselves, says the DOT, pleased that this will discourage building new ones.

This DOT study merely became a thinly disguised trumpet for a policy position of full waterway cost recovery which the current administration had adopted well before the completion of the research," James A. Skinner, Jr., chairman of the National Waterways Conference, Inc., told the Water Resources Subcommittee of the House Committee on Public Works and Transportation early last month.

Skinner, who represents waterway-related businesses, associations, and agencies organized to document the public value of the American waterways system, charged that the study not only ignored many subjects specified by Congress, but failed to consider the cumulative effect of shallow-draft navigation fees along with pending coastal port fees and Coast Guard user charges.

Furthermore, Mr. Skinner pointed out, the study rules out any new U.S. navigation projects over the next two decades.

Transportation Secretary Drew Lewis admitted the study's defects when he presented the results of the quick contract job done for the administration (by the Booz, Allen and Hamilton consulting firm, systems analysts at Data Resources, Inc., and an Iowa State University professor) to the Senate Environment and Public Works Subcommittee on Water Resources on Feb. 10.

With only \$9 million, Lewis as-

serted, the Transportation Department was forced to concentrate on the direct effect of users' fees on shippers, carriers, and immediate regions, to the exclusion of other issues such as an historical analysis of federal assistance to the nation's various freight-transportation modes or waterway requirements through the end of the century.

Consideration of such issues, Lewis claimed, would be "a waste of the taxpayers' money."

The user-charge analysis was based on construction costs only for projects now under way. Mr. Skinner and others protest that this method leads to an underestimation of the charges required to achieve the cost-recovery (i.e., waterways paying for themselves) demanded by the Office of Management and Budget. Lewis commented in his Senate testimony that under the study's approach, projects would be added and charged for as they were required to accommodate projected traffic.

Then Lewis proceeded to the heart of the matter: "The analysis found that full cost-recovery user charges postpone traffic growth to the extent that no new projects are needed for capacity purposes before the year 2000."

The Secretary added only that while rehabilitation projects on the waterways are not strictly excluded, it is judged that cost-recovery "would tend to dampen some of the enthusiasm for these projects that

would otherwise exist, and lead to lower-cost ways of dealing with rehabilitation needs."

In other words, instead of seeking to estimate the full burden on productive industry that user fees would impose at either present or expanded capacity, the DOT takes the point of view that fees are welcome because they will discourage growth!

"Dampening enthusiasm for projects" is not included among the "negative effects" of the plan listed in the study—effects which, in any case, Secretary Lewis considers "not nearly great enough" to reconsider the user-fee policy.

The user fees will result in an immediate drop in barge traffic and a permanent reduction in the share of waterway traffic now moving on barges, the cheapest and most fuel-efficient form of traffic, according to the study. Barge traffic may recover in five years to pre-user-charge levels.

More significant is the reported effect on the grain industry—the single largest commodity moving on the waterways in terms of ton-miles.

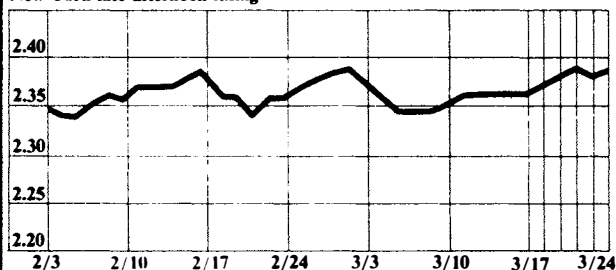
Nearly half the country's export grain travels to port through the inland waterways. The effects will include imposition of transport charges to the tune of 5 to 6 cents per bushel for grain shippers—that adds up to a gross income loss of 1 percent for corn or wheat growers, or \$900 a year loss for a 400-acre family grain farm at current crop prices. User fees will also impel a forced shift in the location of the areas where grain is grown for export!

Next installment: how to win this fight.

Currency Rates

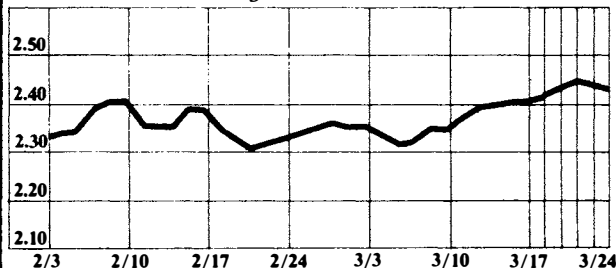
The dollar in deutschemarks

New York late afternoon fixing



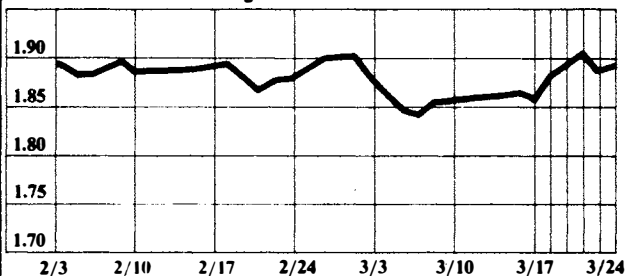
The dollar in yen

New York late afternoon fixing



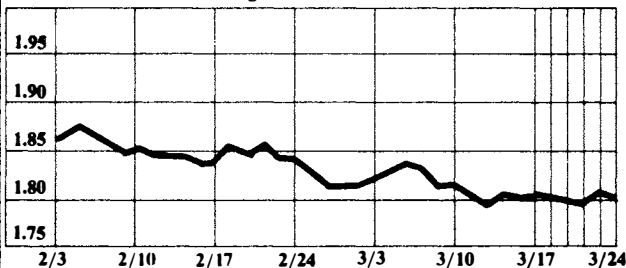
The dollar in Swiss francs

New York late afternoon fixing



The British pound in dollars

New York late afternoon fixing



EIR

The special reports listed below, prepared by the EIR staff, are now available

- Crisis In Washington: The Fight for Control of the Reagan Administration.** Details the power grab by George Bush, Alexander Haig, and James Baker III; the growing influence of Henry Kissinger; why Paul Volcker has gone unchallenged; the "Swiss group" led by Fred Ikle and Jack Kemp. Includes 25 profiles of leading administration figures. 75 pages. \$250.
- Mexico After the Devaluation.** Analysis of the international assault which forced the recent peso devaluation, and of the new government economic measures. Examines four pressure points on Mexico: new threats of capital flight, the danger of trade war with the U.S., spillover of the Central American conflict, and flaws in the ruling PRI party. 75 pages. \$250.

EXECUTIVE INTELLIGENCE REVIEW

I would like to receive these EIR Special Reports:

Order Number(s) _____

Bill me for \$ _____ Enclosed is \$ _____

Please charge to my VISA Master Charge Card No. _____

Signature _____ Exp. Date _____

Name _____

Title _____

Company _____

Address _____

City _____ State _____ Zip _____

Telephone(_____) _____
area code

Make checks payable to:

Executive Intelligence Review, Dept. MC-1,
304 West 58th Street, 5th floor, New York, N.Y. 10019
(212) 247-8820.

Business Briefs

Domestic Credit

Congress threatens a Treasury debt crisis

The federal government could be shut down in early June if a coalition of Congressmen and Senators responsible for the borrowing power of the U.S. Treasury gets its way. A coalition of Republicans, led by Senate Finance Committee Chairman Robert Dole, House Republican Newt Gingrich, and House Democratic spokesman Henry Reuss are planning to put a "freeze" on the federal debt ceiling in order to try to force President Ronald Reagan to agree to cut the budget and raise taxes, their aides told journalists in mid-March. The Treasury's current borrowing ceiling of \$1,079.8 billion should run out in mid-May or by June 1, according to current rates of Treasury borrowing.

Moves are already underway in Congress to freeze the ceiling. In January, the Treasury sent a request to Senate Finance Committee Chairman Robert Dole and House Ways and Means Committee Chairman Daniel Rostenkowski to raise the Treasury's authority to sell long-term bonds of 10 years and over, which is currently set at \$70 billion total. The Treasury actually reached this limit in February, and has issued no long-term debt since, but has still received no response from the Congress, Treasury sources told *EIR*.

One source explained that the "Treasury will have to go the short term bond market, and pay higher interest rates, if it cannot raise the money it needs long-term." It is entirely possible, the source said, that Congress may never raise the long-term borrowing ceiling, forcing the Treasury further and further into the short-term borrowing market.

Given the current overall Treasury debt ceiling of \$1,079.8 billion, the source further estimated that the Treasury currently has some \$1,049.7 billion in debt outstanding as of the end of March, and would run into the ceiling by late May. According to the Treasury, "We will be

able to get by for a few days using the cash on hand, since tax receipts come in in April. But after that, the U.S. government will have to start cutting back operations."

Energy

Argentina opens doors to world's nuclear waste

"What are you going to do with the waste?" the enemies of nuclear energy chirp with tedious monotony. Argentina has provided another answer to officials plagued by political restrictions on residue disposal in the advanced countries.

Vice-Admiral Carlos Castro Madero, the head of Argentina's National Atomic Energy Commission, announced last month that Argentina would open the world's first commercial nuclear depository in the unpopulated Patagonia province of Chubut. He explained that the facility should not be called a "dump," since the waste materials would be scientifically stored under international safeguards "and not just strewn around." He said that Argentina was able to help out other nuclear countries, "because we have no environmentalist problem."

Castro Madero admitted this Argentine move in favor of peaceful nuclear energy would stir choruses of "Argentina is building a bomb," which they are hearing anyway from such "distorting" media as *The Washington Post*, *The New Scientist*, and *Spotlight*.

In one of his repeated refutations of allegations that Argentina and Brazil were racing to get the bomb, Castro Madero had told Brazil's *O Globo* on Feb. 28; "The two countries do have the technical capability to make it, but . . . the two countries do not contemplate manufacturing the bomb because that would be a waste of investment and human resources. . . . when the countries so much need nuclear energy for their development."

Ironically the accusations also prob-

ably helped rally elements of Brazil's military which do not support peaceful nuclear energy to defend the nuclear program from the budget cutters.

The Argentine nuclear program has accepted a slowdown due to the radical budget cuts imposed by Swiss banker Roberto Alemann, the new economic czar, who is determined to dismantle national industries. The nuclear-waste facility would generate considerable revenues in users' fees, however.

Banking

S&Ls lay case for bailout before Congress

Roy Green, Chairman of the U.S. League of Savings Associations, told the House Banking Committee March 18 that Federal Reserve Chairman Paul Volcker's high interest rates are destroying the S&Ls. "At the interest rates prevailing in February," Green stated, "we project that 1,100 S&Ls will fall below the critical 2 percent net worth [capital] level by the end of the year, that is, go bankrupt. If no government assistance is forthcoming," he added, "another 700 by the end of 1983" will go under.

Green noted that the Federal Savings & Loan Insurance Corp (FSLIC) simply does not have the financial resources to merge or otherwise prevent panic at the failure of so many S&Ls, and that in any case "the cost of liquidating so many institutions would be staggering. . . ."

Green and other S&L executives urged the immediate passage by Congress of a plan proposed earlier by the League for direct U.S. Treasury subsidies to S&Ls earnings. The plan would give the S&Ls a straight cash injection to allow them to continue making mortgages without having to pay such high interest rates. The U.S. League estimates its plan will cost some \$10 billion total.

House Banking Committee Chairman St. Germain issued a similar plan in February, but now believes the League's direct cash-subsidy formulation would in

fact cost the U.S. Treasury at least \$6.87 billion a year for each of three years of the plan, almost \$20 billion.

Instead, St. Germain has revised his "Home Mortgage Capital Stability Fund" (H.R.5568). St. Germain's new plan would provide for Treasury payments to the S&Ls' net worth account when capital falls below the 2 percent mark, which would keep S&Ls from bankruptcy but provide no new cash for mortgage lending.

Trade

Japan 'to join Comecon' if trade war worsens?

A top Japanese government official warned March 24 that "protectionist measures taken by the U.S. and Western Europe could force Japan to step up its trade with the Communist bloc and to begin exporting weapons around the globe," reported the *Los Angeles Times*. Kazuo Wakasugi, director of the Trade Policy Bureau of the Ministry of International Trade and Industry, added that if the U.S. and Europe went so far as to prohibit all imports from Japan—as French Foreign Trade Minister Michel Jobert has already threatened—then "politics would change here. There would be no benefit for Japan to remain a member of the free world. If that happened, we would probably join the Communist bloc. As for exporting weapons, we would not want to do this, but depending on the extent of the damage [the severity of trade embargo] there would be voices in Japan advocating increasing Japan's defense."

While Wakasugi's statements may sound outrageous, he is making the political point that, as in the 1930s, the postwar Japanese political system cannot survive a new depression and trade war.

Wakasugi's warning came the same day as the Regan administration decided to endorse the 1982 version of the 1930 Smoot-Hawley tariff that did so much to exacerbate the 1930s depression. Ap-

pearing before the Senate International Trade subcommittee, Trade Representative William Brock agreed to work out within four to six weeks so-called trade reciprocity legislation that both Congress and the administration could support. Trade Office officials told *EIR* that at a Tuesday cabinet meeting, the administration decided to support reciprocity legislation on a cross-sectoral basis in services, trade, and investment.

Foreign Exchange

Call issued to 'save franc with productive credit'

Jacques Cheminade, General Secretary of the European Labor Party, who is an associate of *EIR* founder Lyndon LaRouche, issued a emergency appeal March 23 for the formation of a non-partisan economic commission in France to introduce a program based on productive credit to save the French franc.

The commission would be made up of leading independent figures, representatives of the government majority and the opposition, leaders of the business community and the labor unions, representing the agricultural and industrial work force, he said. The purpose of the commission would be to elaborate and carry out an emergency program:

- 1) Legislating a European or, if necessary, unilateral remonetization of gold reserves at the price of \$500 an ounce;

- 2) Using this new level of 100 billion francs of gold reserves to issue productive credit earmarked for economic development, particularly high-technology industries (including nuclear energy) and the export of capital goods;

- 3) Establishing a system of exchange controls, export credit controls, and selective domestic credit, penalizing speculative credit and favoring credit used for productive ends;

- 4) Encouraging a new system of technology transfer with Third World countries, in exchange for guaranteed supplies of essential raw materials.

Briefly

● **JAPAN'S FOREIGN** Minister, Yoshio Sakarauchi, told President Reagan and cabinet officials during his March visit to Washington that one of the strongest ways for the U.S. to revitalize the world economy would be to lower its interest rates. Finance Minister Michio Watanabe has called them "a cancer on the world." The Foreign Minister also told Alexander Haig that Japan will not halt cooperation with the U.S.S.R. on Siberian development.

● **THE OKLAHOMA** State Board of Agriculture has announced that it will demand immediate action against high interest rates from President Reagan, Federal Reserve Chairman Volcker, and the Oklahoma congressional delegation.

● **HENRY WALLICH**, Federal Reserve Board Governor, told a Washington audience last month that America needs a "Tax-Based Incomes Policy," the TIP plan first proposed by discredited Democratic President Jimmy Carter. "We need to penalize the private sector," the central banker stated, "and both business and labor hate the TIP plan. That makes me think it must be a very fair idea."

● **AMERICANS** spent more than \$5 billion and 75,000 man-years in 1981 playing arcade video games, according to a report on the video industry.

● **THE CITIZENS** Budget Commission of New York, led by Lazard Frères banker Felix Rohatyn, will hold a major New York City conference on reducing population in the worlds' cities June 15-16. The CBC, for its 50th anniversary, has invited by the U.N. Fund for Population Activities to help organize a conference based on the U.N.'s 1980 Rome International Conference on Population and the Urban Future, U.N. sources said.

Sicilian separatist plot aided by Libya and peace movement

by Lyndon H. LaRouche, Jr.

On March 17, I rushed to relevant agencies of the U.S. government my estimate that the transatlantic "peace movement" is massively complicit in assisting a prepared, Qaddafi-backed revolution in Sicily against United States ally Italy. As I qualified my estimate at the time, all of the jigsaw puzzle pieces which have so far fallen into place permit no other assessment.

At the time I relayed this report to my friends, I triggered a special alert by my news service's regular and special anti-terrorist networks. As a result, new information including cross-checked information from key undercover sources within Sicily itself, confirms that such an insurrectionary scenario is now projected to be launched beginning with peace demonstrations in Italy on March 28 and April 4.

It is now confirmed that the massive deployment of U.S.A. and European "peaceniks" against the placing of U.S. missiles in Sicily is a planned cover for mobilizing another kind of insurrection within Sicily itself.

There is massive complicity from friends of U.S. prosecutor Thomas Puccio within the U.S. Department of Justice itself. Now, the deeper significance of Senators Robert Byrd's and Howard Baker's legislative lynching of an innocent U.S. Senator, Harrison "Pete" Williams, reveals its deeper significance. The Sicilian-Mafia dope-running friends of Billy Carter and Puccio are the key capability deployed for this projected insurrection against U.S. ally Italy.

During recent months, a German "peace movement" has been mobilized around a former aide to both Sen. Edward Kennedy and Sizzo Mansholt, Petra Kelly. This European operation against U.S. strategic policy, and also against Germany's Chancellor Helmut Schmidt, has been supported from the United States by the German Marshall Fund, with assistance from Paul Warnke [Carter's head of the Arms Control and Disarmament Agency and SALT negotiator] and Senator Kennedy. The new U.S. "anti-nuclear" organization, also prominently featuring Senator Kennedy, is deeply interconnected with the forces which Petra Kelly is heading, for a riotous, "1968-



Billy Carter is greeted by Libyan Prime Minister Shakellons during his September 1978 visit to Tripoli. The forces behind the planned Sicilian fascist insurrection are most prominently linked to Billy Carter's Rome-Sicily-Libya connections.

style" mass-demonstration against President Ronald Reagan in Bonn, West Germany during June.

One of the major operations projected prior to the June eruptions is the targeting of U.S. weapons bases in Sicily. Massive deployment of transatlantic "peace forces" into Italy is intended to provide the detonator and cover for an insurrection of the type accurately reported by long-standing U.S. intelligence-services' asset, banker Michele Sindona, a report covered up by the Carter Justice Department under Attorney General Benjamin Civiletti.

Behind Libya's Muammar Qaddafi

A motley crew is assembled for this operation in a strategic spot long under special attention of the Soviet military intelligence, the GRU, especially the naval-intelligence branch of the GRU. Highly visible is Libya's fascist-international-trained Col. Muammar Qaddafi, whose recent visit to Bruno Kreisky's Austria is a significant part of the preparations for the projected Sicilian insurrection. What Europeans call the "Israeli Mafia" and what Israelis call the "Frankfurt Mafia" is significantly involved.

Highly visible in coordination of the "peace movement" and other deployment into Sicily is the Switzerland-based command of the neo-Nazi Malmö international, the original sponsor and backer of Qaddafi. This neo-Nazi international includes the Madrid acquaintances of the late Col. Otto Skorzeny and Reid Buckley as well as the transatlantic Scottish Rite cover-organi-

zation Propaganda-2, headed by the Italian Nazi member of Mussolini's secret police organization, Licio Gelli. Not excluded is the Miami-based network of Mafia boss Meyer Lansky.

To identify the principal elements of the projected insurrection, it is sufficient to compare the massive bills of indictment of Italian justices Imposimato and Falcone with the New York City trial confessions of Michele Sindona, and with the lawsuit which defrauded customers have filed with U.S. federal court against the organized-crime-linked bankers of the Anti-Defamation League, Sterling Bank. This is the Lansky-Luciano linked network of the Sicilian separatist movement, a nominally U.S. intelligence-services-controlled creation of the British secret intelligence service.

However, although the forces behind the planned insurrection are most prominently linked to Billy Carter's Rome-Sicily-Libya connections, elements of the Reagan administration are also tagged with the dirt. Secretary of State Alexander Haig and his adviser Michael Ledeen are massively denounced by the Italian press as linked to the fascist-controlled P-2 network. The unfortunate Ambassador Maxwell Rabb is a former official of interests being sued by the government of Italy in U.S. federal court. The current Justice Department-FBI cover-up in the Abscam affair is directly connected to the projected Sicilian insurrection.

A chat with Michele Sindona

During 1978, prior to his alleged "flight to escape

prosecution” financier Michele Sindona was a dinner guest of mine. During that meeting Sindona outlined key elements of his pedigree to me, which I have been subsequently able to confirm. This set of facts, which I merely summarize here, provides a better insight into the connection between the “Sindona affair” and the presently projected insurrection.

Sindona was picked up by both the U.S. intelligence services and the Warburg interests during the 1943-45 operations in Sicily and the Italian peninsula, and described himself to me as a collaborator of the Anglo-American Warburg financial interests in Italy and France from that time until his personal troubles of the middle 1970s.

The operation into which Sindona accurately described himself as assimilated over the post-1943 period is largely an extension of the Schlumberger-Neuflize-Mallet, Geneva-centered financial cartel, the cartel which earlier backed Jacques Necker, Madame de Staël, Talleyrand, Fouchet, the Robespierres, which owned a piece of Napoleon Bonaparte, and which is today prominent among the backers of the international-terrorist link into the Middle East and Asia subcontinent, the Club of Rome-backed Islam and the West. This plugs directly into the largest insurance-financial complex in the world today, the Venice-Trieste Riunione Adriatica di Sicurtà (RAS) complex, the complex behind the fascist international’s P-2 links between Italy and Latin America.

Sindona’s complaint was essentially that he, an ever-faithful asset of the U.S. intelligence services, has been “hung out to dry” by those who had left him to take the fall for a dirty operation against the Vatican’s finances, the operation best known to most U.S. newspaper readers as the Franklin National Bank affair. Therefore, his admission that he had been shipped back to Sicily to help organize a U.S. Carter-administration-sponsored Sicilian insurrection was very credible at the time of his subsequent trial. It became not only credible, but a proven fact with the massive indictments submitted by Judges Imposimato and Falcone.

This is also the crowd which organized the attempted assassination of Pope John Paul II, as we have been able to prove with aid of information supplied by the intelligence services of the Turkish government and by tracking the movements of assassin Ali Agca’s confederate into Hamburg, West Germany, more recently.

It is not surprising that the Carter administration rushed Sindona into confinement, suppressing all evidence pertaining to Sindona’s admission.

The key role of the Nazi international

Although the allies prosecuted a large number of

accused Nazis at the end of the last war, British intelligence, in Germany and elsewhere, intervened energetically to destroy or bury certain important files, and to place important elements of a future neo-Nazi international under British special protection. Shortly after the war, the Nazis and the pro-Nazi elements of Italian and Eastern European fascist leading circles created the neo-Nazi international at Malmö, Sweden—hence, the name “Malmö international.” This international was based chiefly in the French-speaking canton in and around Geneva, with major sub-bases in northern Italy, Argentina-Uruguay-Paraguay, and Madrid.

Allen Dulles, who had dickered with S.S. General Wolf during war-time Switzerland operations, protected and used both SS factions during the postwar period, as well as intervening on behalf of Nazi Finance Minister Hjalmar Schacht’s son-in-law Otto Skorzeny. This network operated under many covers, including the World Anti-Communist League (WACL) and its Roy M. Cohn-linked Jewish subdivision, based on Jewish fascist networks formerly allied to Mussolini, the Jewish Anti-Communist League (JACL). The name “jackal” for assassin, was a tongue-in-cheek bit of word-play on the role of JACL-linked professional assassins operating out of bases in such centers as London (AJEX) and Switzerland. So, Nazi networks were integrated into the postwar spook-world of the Western allies, and were penetrated as objects of special interest by East bloc agencies, as well as the Mossad.

Under these arrangements, the Nazi international was able to save much of its pre-1945 Swiss and other deposits—after massive payoffs for this privilege, and the Geneva-Madrid route became a channel of major financial and spook traffic into (especially) Peron’s Argentina, into the Jesuit-created state of Paraguay, and into the financial safe-house of the Southern Cone, Uruguay.

During recent decades, the mixture of first and second generations of the backers of the Malmö international became a key spook-operations capability of a complex of rentier-financier interests based in greatest concentration in and around Switzerland, including parts of West Germany, Austria, northern Italy, and reaching deep into powerful networks inside Romania.

The case of the fascist international creation known as Col. Muammar Qaddafi illustrates the case, as does the Italian Propaganda-2 organization of former Italian Nazi secret-police (OVRA) member Licio Gelli.

The highest-ranking financial genius of the fascist movements of the 1920s and 1930s was not the famous Hjalmar Schacht, but the Venetian *éminence grise* behind Mussolini, Volpi di Misurata. Volpi di Misurata is a figure at the top of many operations, including the creation of Libya as a nominally Italian, actually Vene-

tian colony. Venice, Trieste, Genoa, Geneva, and Vienna, were and are the headquarters cities of the fascist international.

During 1969, NATO launched the "strategy of tension," under whose auspice the present international "environmentalist" and terrorist movements were created, under initiatives originating in Venice and Geneva. These influences have been conduited, during the postwar period, under the cover of a network of "European cultural associations," including one founded by the former SS officer and founder of the World Wildlife Fund, Prince Bernhard of the Netherlands. As part of this arrangement, through agreement reached between Venice and the British intelligence services, the Nazi-educated Qaddafi was made dictator of the Venetian colony known as Libya.

The former husband of Ulrike Meinhof, Klaus Rainer Roehl, wrote a book, *Die Genossin*, which is understood to be a fictionalized account of the manner through which the kidnapping of Ulrike Meinhof's two children blackmailed her into becoming a prominent terrorist. The book's fictionalized account argues that the creators and controllers of the German terrorist organization were "extreme right-wing" forces using "left terrorism" as part of a strategy for bringing neo-fascist dictatorships into power. Although we can not directly corroborate a case concerning Ulrike Meinhof's personal history in this matter, every feature of the fictionalized account's references to "extreme right-wing" networks behind terrorism is massively proven by means of facts in our possession.

Not only is the Geneva-centered neo-Nazi international directly involved in coordinating all international terrorism, including both "right" and "left" varieties. These same neo-Nazi networks are key parts of the backing and coordination of international "environmentalism" and Bertrand Russellite "peace movements."

Not only does the neo-Nazi international participate in controlling both extreme-right and extreme-left operations internationally, the characteristic ideology of the mass-based "environmentalist" movements of today is purely fascism, as Siemens Foundation ex-Nazi Armin Mohler, defines the Buckley-linked international fascist movement of today.

Consequently, the danger involved in the projected Sicilian insurrection is not merely the threat to Italy and to Mediterranean stability. A victory for the Sicilian separatist friends of Billy Carter would mean a crucial victory for the neo-Nazi international, the beginning of a fascist sweep out of Sicily into other parts of Europe, all smugly coordinated out of peaceful Switzerland.

This deployment of the fascist-influenced "peace movement" must be stopped cold and now.

What Col. Qaddafi did in Austria

by Paolo Raimondi

With the visit of Libyan dictator Col. Muammar Qaddafi the second week in March, Vienna reconfirmed its historic role as the capital of the Central European oligarchy. Assassinations, coups, and wars have been plotted there at every crucial juncture in the last three centuries. By hosting Qaddafi, Austrian Chancellor Bruno Kreisky, a leader of the Socialist International, has shown that the forces he represents are openly pushing the "Third Way" policy of a devolving Europe independent of two "Fortress" superpowers, sponsored by Britain's Foreign Minister Lord Carrington.

Kreisky, who extended his invitation to Qaddafi a few days after the Reagan administration had decided to break all economic relations with Libya, stated repeatedly that his intention was to re-introduce Qaddafi into the Western world by rebuilding his democratic image. Actually, Kreisky intends to blackmail the forces in Europe and the United States genuinely committed to stopping global thermonuclear confrontation into backing down before Qaddafi's policies of confrontation and terrorist methods with the threat that the Colonel will provoke a war. Kreisky has thus unmasked himself, and emerged in his true role as a controller of international terrorism.

Why Qaddafi is a fascist

In Vienna, Qaddafi stated that Libya is the keystone in the creation of the European-Arab Third Force to stop the superpowers. He called both Reagan and Begin the personifications of evil; and one never talks with evil, he said, but beats it down with force. "What should one do," Qaddafi stated, "when the American Sixth Fleet entered the Gulf of Syrte [off the Libyan coast]? Cry for peace? No, we must prepare mass violence to compel others to peace." And on the issue of the

existence of Israel he echoes the Nazi *Lebensraum* policy: "The Jews should go back to Russia, to Germany, and to other places they came from, to create a place for the Palestinians."

Qaddafi and his patrons need a "strike force" to carry out violent confrontation in Europe and the Mideast. On March 13, Qaddafi invited to meet him at Vienna's Imperial Hotel the leaders of the European peace and environmentalist movements, and they came. Otto Schily, the West Berlin lawyer who coordinated the defense of the RAF, the German Baader Meinhof terrorists; Green Party leader Roland Vogt, who was a leading figure in the riots at the Frankfurt airport last fall; Alfred Mechttersheimer, a former leader of Franz-Josef Strauss's CSU and senior NATO official, who just joined the Green movement; Prof. Egon Matzner, ideologue of the Austrian Socialist Party; and Alexander Langer, leader of the Italian left sect, Lotta Continua, in the Alto Adige region. Other Green Party and peace movement leaders, such as former Senator Kennedy aide Petra Kelly, although invited, did not attend.

According to the account of Italian daily *Corriere della Sera* reporter Ettore Petta, the only Western journalist present, Qaddafi and his terrorist guests held a three-hour discussion on how to further violent opposition to the pro-development governments of Helmut Schmidt of Germany and Italian Prime Minister Spadolini. Qaddafi offered "financial and moral support" for mass actions against the "symbols" of American and Western militarism, and offered his help to the "European masses" to fight national governments, and liquidate parties, parliaments, and other institutions to give more "power to the masses" as Qaddafi had already done in Libya.

He suggested that his *Green Book* be used as the tinder to ignite the European peace movement. According to informed sources, the book, which is simply the policies of the Club of Rome simplified "for the masses," was suggested to Qaddafi by Francesco Forte, a leader of the Italian Socialist Party and member of the Club of Rome and Trilateral Commission.

Qaddafi specifically demanded that the activities of the peace movement concentrate on Sicily, and offered to pay the way of 300 European demonstrators to use "violence as an instrument of peace movement action" to stop the NATO installation of cruise missiles in the Comiso area.

But despite the left rhetoric about "the masses," Qaddafi's offers may be too hot to handle if the green and peace movements are not to blow the democratic cover so painstakingly built up by the European press. Even the committed pro-terrorists of the European peace movement are hesitating in publicly accepting the Libyan madman's offer. West German Green Party leader Roland Vogt said that the movement will open a

debate to decide whether to take the Libyan money, and every individual member will be "left free" to decide on this openly fascist alliance. However, clearly this "material and moral support" could be used to organize a series of demonstrations against the Schmidt government, and create the momentum for a massive protest against President Reagan's visit to the Bonn summit in June.

The Sicilian operation

Research into the preparations for the peace movement assault on Sicily revealed that everything was in place for a mass revolt *before* Qaddafi spoke in Vienna. The real plan for Sicily is not a protest demonstration as such, but the further exploitation of the chaos created by events for the emergence of a Sicilian separatist movement. Vogt enthusiastically reported that more than 200 chapters have been built in Sicily. In the past months, European leaders of the peace movement, including the head of the World Wildlife Fund, Prince Bernhard of the Netherlands, have created a new green and peace movement in Sicily in conjunction with Aurelio Peccei of the Club of Rome and Italian Radical Party leader Marco Pannella.

The rapid development of the movement in the rural areas of Sicily could only have occurred with the aid of the Mafia and old networks of the Separatist Party. In fact, Socialist Party and Mafia leader Michele Papa, Billy Carter's Libyan connection, endorsed the peace movement in Sicily.

Another notorious separatist, Prince Alleata of Monreale, whose name appeared on the original lists of the fascist Propaganda-2 Freemasonic Lodge of Licio Gelli, said that the separatist movement is ready to make a coup in Sicily, by exploiting the unrest provoked by the planned Comiso demonstrations. The Socialist Party is fully involved in the plan. Sicilian Socialist Lauricella acknowledged that Qaddafi went to Malta the day before he arrived in Sicily from Vienna. Even if the central government in Rome puts a stop to the independence initiative, the outcome of the Sicilian situation could create an area of extreme tension in the Mediterranean to fit the so-called southern flank scenario of NATO's limited conventional military confrontation.

And while observers are indicating that the overall operation being coordinated by Bruno Kreisky's Second International could result in a repetition of the 1968 chaos in Europe, the same Second International is arming the insane Colonel. At the Vienna meeting, Kreisky said he would be willing to supply arms to Libya. One day after the visit Socialist President François Mitterrand of France announced he would send 10 new gunboats to Libya, lifting the arms embargo established by his predecessor, Helmut Schmidt ally Valéry Giscard d'Estaing.

'Operation Nightmare' and its instigators within Italy

by Vivian Freyre Zoakos, European Editor

The Sicilian separatist revolt code-named Operation Nightmare—being readied under the auspices of a truly nightmarish alliance including Libyan dictator Qaddafi, Soviet military intelligence, British secret intelligence, and U.S. networks including Secretary of State Alexander Haig—is to be triggered this month under the cover of a mass “populist protest” in the name of peace.

Investigations by *EIR*'s Wiesbaden staff have provided strong evidence that the British and Dutch royal households have imposed an Official Secrets Act blackout on news of the Operation Nightmare coup plot. Mr. Angus Ogilvy, cousin of Queen Elizabeth, and the personal aide to former Prime Minister Edward Heath, Mr. Simon May, both told *EIR* that they had “no information” on the plan, but ventured that it would automatically fall under the Official Secrets Act blanket.

But word of the impending operation has already led to two parliamentary inquiries in Rome. On March 19, ten Sicilian deputies from the Italian Communist Party raised a formal question to the Spadolini government of Italy concerning recent military maneuvers in and around Sicily code-named Trinacria Due. A parliamentary interrogatory about Sicily had been raised a few days earlier by a Senator from Prime Minister Spadolini's Republican Party, who called Sicily “our El Salvador.”

A reliable and well-placed Mediterranean intelligence source said that these elements of Operation Nightmare are in place, as this issue of *EIR* goes to press:

- Over the weekend of March 21, three British commando units were flown into Cyprus en route to their Sicilian destination; all members were chosen for their Italian language capabilities;
- Between 50 and 60 top MI5 (British intelligence) agents infiltrated Sicily over the preceding two weeks under tourist covers; a group of young Sicilians studying at British universities were simultaneously redeployed to the island to run support operations for the MI5 units;
- £20 million has been transferred to an Italian bank to finance this operation;
- The British consulate in Sicily is functioning as an important weapons distributor for the revolt; the principal weapon to be used is the Israeli Uzi submachine gun,

ammunition for which is arriving from Spain;

- A British submarine has sailed from Cyprus in the direction of Sicily;
- Twenty-five to 30 Soviet military intelligence (GRU) agents stationed in Libya have been redeployed to Sicily to participate in the operation.

The current issue of the Italian magazine *Europeo*, as well as a leading American defense analyst, confirmed that State Department Secretary Alexander Haig, Henry Kissinger, and banker David Rockefeller are complicit in the Sicily operation.

Europeo reviews the relations between U.S. and Italian Freemasons. Earlier this year, this magazine had taken the lead in publishing the results of investigations by the head of Italian military intelligence, in which Haig's adviser Michael Ledeen was found to be receiving payoffs from the illegal Freemasonic conspiratorial lodge, the Propaganda-2. This lodge has been shown to control the Italian terrorist movement, including the Sicilian separatists now being activated. *Europeo* reviewed the well-known fact that relations between Italian and American Freemasonry were cemented in 1943 during the allied invasion of the island. Then, as now, the Mafia was politically deployed by this transatlantic network. The magazine reports that the connection has been kept live since by ensuring that all Italian defense ministers first received the approval of the U.S. lodges before their appointment. In conclusion, *Europeo* notes that in the more recent period this has meant the approval of Haig, Kissinger, and Rockefeller.

In short, no significant operation could be launched without their knowledge and consent.

An American defense analyst with close ties to the Defense Department has confirmed that since mid-February a possible Sicilian coup has been the main item of discussion among privileged circles in Washington. The analyst, who was among those meeting with West German opposition leader Franz-Josef Strauss in the capital the week of March 15, said that the option had been discussed with Strauss who had given it full approval.

The analyst confirmed that Italy is currently the key

to the European strategy of circles within Soviet military intelligence. He predicted that a Sicilian coup, run under cover of the European peace movement, would have the following effects.

First, it would immediately collapse the Spadolini government, which would be replaced by a "right-wing socialist" regime under Italian Socialist Party chief Bettino Craxi, as the first in a wave of right-wing-colored fascist governments spreading throughout Europe.

Craxi's connections to the Propaganda-2 lodge and Italian terrorism are legion, and repeatedly documented in this publication.

Secondly, the analyst said, the Sicilian "revolution" would ensure that the controversial deployment of U.S. theatre nuclear weapons (Euromissiles) in Sicily would never occur. Indicative of this are the planned giant demonstrations in Sicily of the West German, Dutch, British, and Italian peace movement in Sicily on April 4. These demonstrations would provide a cover of legitimacy and "popular upheaval" to the Sicilian coup.

The Euromissile deployment site in Italy is in Sicily. Failure to deploy the missiles there, the analyst contended, would mean that Chancellor Schmidt could not allow their deployment in West Germany, and would precipitate his downfall from power.

Schmidt's opponent Strauss, like the Italian Craxi, is intimately linked to the Propaganda-2 networks re-established after the war by the same British and Venetian intelligence faction responsible for the horror of Hitler's Germany and Mussolini's Italy. It was the Duke of Kent who founded the Propaganda-2 lodge after the war, and his son today maintains the coordination among the transatlantic Freemasonic lodges.

The peacenik brownshirts

Reverend Laurens Hogebrink, executive board member of the Dutch Interchurch Peace Council, which coordinates the European-wide "peace" movement, is currently in the United States with a delegation of leaders of the European peace movement (see story, page 23). He told an interviewer how his movement had managed to show astounding growth in Sicily within a few months. Reverend Hogebrink, who boasted the peace movement now had fully 200 chapters in Sicily, said these were created thanks to the help of the Italian Radical Party, the New Left Democrazia Proletaria, the Italian Socialist Party, and a Soviet intelligence-controlled wing of the Italian Communist Party.

The Radical Party, a regroupment of Italian lumpen and fascist elements with a left-wing cover, began in 1956 but only grew to significance with the anti-Vietnam War movement. Since that time it has organized the radical-left "chic" political spectrum, spanning causes from "peace" to abortion to the League of

Homosexuals. Its leader, Marco Pannella, most recently discredited himself when he attended the national conference of the avowedly neo-fascist MSI party in February, openly embracing MSI national secretary Almirante on the podium. The MSI's president, former NATO Admiral Birindelli, was exposed last year as a member of the P-2 lodge.

Pannella's Radical Party is also close to the Socialists of Bettino Craxi, with which it has run joint electoral lists.

The wing of the Italian Communists working with the peace movement—and which, according to some expert estimates, organized a large proportion of the peaceniks in Sicily—is that faction of the party originating with the old KGB-British intelligence-dominated Comintern. Its historic leader, the late Pietro Secchia, and his followers, worked with possibly the most notorious of Italy's terrorists: wealthy publisher Giangiacomo Feltrinelli, whose widely documented activities spanned Eastern Europe, Cuba, and the highest levels of British and Venetian intelligence.

A more circumspect partner in the Sicilian operation is the Mormon Church, which reportedly has a couple of hundred chapters in Sicily. Two of the more prominent peacenik leaders currently in the United States, including the Italian Rev. Enrico Chiavacci, held highly confidential meetings in Salt Lake City with Cleon Skousen, the head of the Latter-Day Saints' intelligence operations run from the Freedom Institute. The visiting delegation has stated publicly that the model for the burgeoning U.S. peace movement should be the collaboration between the Mormons and peace movement last year to prevent the deployment of the MX missile.

The March 19 parliamentary interrogatory by ten Communist deputies, while playing into the Sicilian "peace" movement, also raises the wider danger to the Italian mainland posed by ongoing military maneuvers. The deputies' questions submitted for formal response by the Spadolini government, center on Operation Trinacria, which involved Italian naval and air forces, the carabinieri, finance police, and police prefects in maneuvers in Sicily last November. One of the questions is "what measures will the government take with the planned maneuvers of a similar nature to take place outside Sicily in the Lazio region"—which is where Rome, the Italian capital, is located.

Another one of the questions asks: "What explanation is there for the formation of a joint civilian-military committee in Sicily by Defense Minister Lagorio?" Socialist Lagorio, the highest-ranking collaborator of the Israeli Mossad in the Italian government, has also been a leading member of the "Libya party" among the Italian Socialists, and was formerly the political patron of Giovanni Senzani, a Florentine criminologist arrested in January as a top mastermind of the Red Brigades.

Euro-leadership invades U.S. cities

by Lonnie Wolfe

On March 12, eight leaders of the European peace movement arrived in the United States. They included two Italians involved in planning this month's demonstrations in Sicily, Parliament member Giancarla Codrignani, head of the Italian Foreign Relations Committee, and Rev. Enrico Chiavacci, of the Theological Institute of Florence. The eight joined West German Dorothee Solle, Visiting Professor at Union Theological Seminary in New York, who has been proselytizing in the United States for the past five months. They are here for a two-week tour of 50 American cities, with public and private engagements, to build the U.S. peace movement and coordinate its actions with the planned spring upheavals in Europe.

The tour formally began with a public event March 20 at New York's Riverside Church, addressed by Monsignor Bruce Kent, the head of Britain's Campaign for Nuclear Disarmament, and Rev. Volkmar Diele, a Protestant minister who directed the Action/Reconciliation meeting that ran last October's 250,000-person demonstration in the streets of Bonn. The speeches, keynoted by Riverside's chief minister, the Rev. William Sloane Coffin, a veteran of the 1960s anti-war movement and a supporter of Ayatollah Khomeini's Muslim Brotherhood, were a call for urgent, demonstrative action in support of the European peace movement's efforts to block the deployment of cruise and Pershing II missiles. "A mass movement in the United States is crucial to our success," Monsignor Kent told the audience of 300 mostly veteran anti-war activists.

Later that evening, Kent and the others were more forthcoming in a private reception held at the Union Theological Seminary. They boasted that they, as Europeans, had played a key role in setting up the American movement. They bragged of forthcoming private meetings with the *New York Times* editorial board, with the Council on Foreign Relations, and with unnamed State Department officials.

Kent and the others stressed the "strategic importance" of the Sicilian deployment to block the cruise missiles in Sicily—at all costs. The so-called peace leaders further confirmed reports that representatives of the German and Italian movements met with Libyan dictator

Muammar Quaddafi while he was in Austria meeting with Socialist International leader and Austrian Chancellor Bruno Kreisky. Such meetings were necessary, they pointed out, since the movement would seek support in any quarter. One peace leader dismayed his American hosts by unabashedly lauding the Libyan regime.

The European peace leaders identified former Attorney General Ramsey Clark, who demonstrated for Khomeini in the streets of Teheran, and Daniel Ellsberg, the former Defense Department official who leaked the "Pentagon Papers" to the *New York Times*, as coordinators for joint U.S.-European operations.

On March 22, the Italian members of the tour flew out to a meeting in Colorado sponsored by the SANE organization. Ellsberg, who accompanied German peace leaders on a recent "secret" trip to Egypt to meet with Muslim Brotherhood circles, was to attend the meeting.

The American gear-up

The two-week tour of the 10 Europeans is designed to feed into efforts to gear up the American movement. Joining Kent on a tour of the East Coast is Toni Livingsage, who organized the December Copenhagen "mass rally." Diele will lead a tour of the West Coast. In his entourage will be Dan Smith, British head of the European Nuclear Disarmament; Andreas Zumach, responsible for Action/Reconciliation in West Germany, and Rev. Laurens Hogebrink, Executive Board member of the Dutch Interchurch Peace Council.

The coming-out party of the U.S. movement is a scheduled mass demonstration in front of the United Nations special session on disarmament on June 12 in New York City. The European leadership, along with representatives of the Japanese peace movement, have promised to send thousands. To help build this demonstration, European peace leaders have announced that demonstrations targeting President Regan's trip to Europe in June will feature American speakers.

On March 20, Riverside Church and other peace movement centers began "non-violent" training for the June U.N. demonstration, including how to use personal belongings as weapons against the police.

On March 27, a number of groups within the American coalition are sponsoring a demonstration in Washington against U.S. involvement in El Salvador. The week of April 24-May 2 has been dubbed "National Days of Resistance" and will feature forums on campuses throughout the country, some of which will involve Europeans. On May 1, the left wing of the movement, grouped in the "All Peoples Congress," a coalition of anti-Reagan and terrorist-linked groups, plan a "mass march" on Washington. The organizers of the American movement and their European counterparts stress these events building the June demonstration, which will "make or break" the movement here.

A call for creating the Club of Life

by Helga Zepp-LaRouche



Helga Zepp-LaRouche

One of the highlights of the International Caucus of Labor Committees conference in early January of this year was the call issued by European Labor Party Chairman Helga Zepp-LaRouche for the foundation of a Club of Life. Mrs. LaRouche motivated her call by a devastating analysis of the dominance that has been

gained by the same philosophical nihilist currents that spawned the fascist regime of Adolf Hitler. That dominance, symbolized by the Club of Rome, must be challenged by an international institution committed to restoring the scientific outlook represented by Pope John Paul II's encyclical *Laborem Exercens*, by the 14th-century scientist Cardinal Nicholas of Cusa, and by the neoplatonic tradition more broadly, Mrs. LaRouche argued.

During the past two and a half months the organizing has proceeded for an international board of directors committed to the principles of a Club of Life. Through the circulation of the document written by Mrs. Zepp-LaRouche and reprinted below, individuals in leading scientific and political positions have been located on every major continent who are committed to organizing for this new institution. While the organizing committee has not yet decided to make public the names of the founders, it believes it is now appropriate to circulate the proposal for broader consideration.

Any individuals interested in responding can reach Mrs. LaRouche or her representatives through *EIR*. What follows is her statement.

Never before has the human species found itself in as fundamental a crisis as today. We are confronted with the possibility of the annihilation of all life through a global atomic war. We are situated in the midst of a world economic crisis, which in its full range of effects could cost billions of human lives, above all in the developing sector. In broad sections of the world, human society is threatening to slip back into a dark age. The most worrisome aspect, however, is that in the so-called developed countries, in particular, a cultural pessimism is beginning to take hold which has begun to diminish—if not outright deny—the value and worthiness of human life.

The human race, however, is no accident of nature. Man is the living being, which alone is capable of reason, and in the last several thousand years, has been able to develop all of the concepts which present solutions to today's crisis. Governments and leading institutions have either given these concepts up in favor of a pragmatic approach, or feel themselves unable to effectively act on the basis of these concepts.

The world needs a new humanism in the sense in which Pope John Paul II defined it in his latest document, *Familiaris Consortio*: "Science is called upon to unite with wisdom." The world at this time urgently needs men of wisdom to intervene, men who are governed by motives other than selfish ones and who want to assume responsibility for changing the course of the world toward a more hopeful direction. We call upon these wise men and women, irrespective of their nationalities and political differences, to join together in a new institution, which is to be called the Club of Life.

The Club of Life views itself as a conscious counterpole to the Club of Rome, both in its world outlook and in its political intention. The Club of Rome has become a symbol in our time for a philosophy of hatred toward life. It was the theses disseminated by the Club of Rome, beginning with the scientifically indefensible book, *The Limits to Growth* in 1972, which were most responsible for the emergence of today's culture of pessimism. The Club of Rome became the model for numerous organizations, which, springing up from the Malthusian-Darwinian world outlook, are proposing measures for reducing the world population by 2 billion, based on the *Global 2000* and *Global Futures* reports—organizations such as the Draper Fund and the Global Tomorrow coalition in the United States.

Members of the Club of Rome not only boast of having "created" the international ecological movement; but what makes their philosophy so ominous is that their anti-life proposals coincide with the conditions of a complete world economic crisis. In such a climate, individuals now dare to come forward with demands for which others had been condemned at the Nuremberg Tribunal.

For example, today in the United States, a legislative proposal is being discussed to legalize euthanasia. Representatives of institutions advocating what is called population control are speaking openly of the necessity for increasing the death rate, and of the usefulness of "population wars" such as the war in El Salvador. To this day, the most massive genocide of recent history—the massacre of Cambodia—which all governments are informed about, hangs like an enormous memorial over the United States. The moral decay in the so-called advanced countries is of such a degree, that Pope John Paul II in his Christmas 1981 address, warned of a worldwide assault by the forces of hedonism, characterizing this decay precisely as moral senility.

In contrast to this is the enormous will for development in many countries of the so-called Third World, whose realization is being prevented through unjust economic and monetary arrangements, and through the effects of an unbridled liberal economic philosophy.

Historic roots of cultural pessimism

The Club of Life shall reveal for all time the unscientific nature of the argumentation of the Club of Rome and expose the historic roots of its cultural pessimism.

For the apparent conflict around the danger of overpopulation is not new. Behind it stand the same absurd arguments and motivations which motivated British colonialism at the end of the 18th century.

Thomas Robert Malthus, the paid agent of the British East India Company, presented the nonsensical assertion that the industrial revolution would lead to a

population catastrophe, because the availability of agricultural goods rises in merely arithmetic series, while populations increase in a geometric series.

It is precisely the opposite which is proven! While for example in 1800, of 5 million people living in America, around 94 percent worked in the agricultural sector, today, with 220 million people, only 4 percent produce better and more food.

Cynics with a bestial concept of mankind were saying in those days exactly what the followers of the Club of Rome say today. Sir Walter Raleigh and Sir Matthew Hale propagated the idea that population control through "natural" causes, such as war, epidemics, famine, massacre, tidal waves, floods, fires, and so on were certainly evils, but nevertheless would help in fighting an even greater evil, namely overpopulation.

Behind the Malthusian "population theory" was hidden a degraded, bestial concept of mankind, which viewed those human beings who did not belong to one's own oligarchical elite as essentially no more than animals, who when their numbers increase become dangerous, and eventually, "useless eaters."

Malthus, who in 1804 received the first academic chair in history for political economy at the East India College in Haileyburg, did nothing more than to wrap around the colonialist intentions of his employers a little "scientific" coating. He argued vehemently against the then-spreading idea that mankind is capable of self-perfection, and that the industrial revolution would soon allow for mankind's entry into the Age of Reason. Malthus claimed in opposition that mankind was forever damned to a single up-and-down cycle of well-being and misery.

The same Manichean idea of the eternal cycle was then seized upon by Friederich Nietzsche. The oligarchical network of his time had recognized that in the area of scientific argumentation, they could not compete with the spokesmen for progress; thus, Nietzsche began to attack the validity of scientific inquiry overall, substituting in its place a cultish irrationality. Historically, the effect of Nietzsche's ideas leads directly to the catastrophe-theorists à la Oswald Spengler, author of the 1918-22 cultural pessimism tract, *The Decline of the West*, and the justification of genocide by the National Socialists. A comparison of the ideas of Malthus, Nietzsche, and Spengler with catastrophe-theories such as *Global 2000* or *Global Futures* leave no doubt as to the dangerousness of the latter.

The fight between Malthusianism and progress

The writings of the "evil Parson Malthus" were aimed against the concepts of mercantilism and of cameralism, i.e., the concept that ground rent, despite what the Physiocrats asserted, was not the source of social wealth, but the source was in fact growth of the

productivity of labor through technological progress. Jean-Baptiste Colbert, Louis IV's Finance Minister, for example, saw population growth as the measuring rod for the wealth of society, and gave tax benefits to large families. The cameralist authors of the Leibniz tradition elaborated in detail the connection between population growth and social wealth.

Alexander Hamilton reviewed this concept in his first report to the American Congress. Friedrich List, founder of the 19th-century German customs union, gave the name of "American System" to this economic concept, and described with great clarity how the American Revolution was the result of the American System, standing upon the application of technological progress, against the concept of British colonialism.

Every nation of the earth which has carried out a successful industrial revolution achieved this through the application of the theories which are in the tradition of mercantilism, cameralism, *polytechnique*, and the American System. This is the case not only for France, Germany, America, and czarist Russia, but also for Japan, which with the aid of economic theories of Friedrich List and Henry C. Carey, Abraham Lincoln's economic adviser, developed in a period of 50 years from an entirely undeveloped country to one of the leading economic nations of the world. There are no rational arguments—only racist ones—to refute that the Japanese model can and should be reproduced all over the earth.

The now 200-year-long debate between Malthusianism and the representatives of technological progress is not a matter of differing opinions. It is an unambiguous, scientifically provable question as to who is right and who is wrong. The only relevant criterion in this debate is the rise of potential relative population-density.

Any society which goes the path of "zero growth," or even negative growth, necessarily collapses. There are sufficient examples of this in history. It collapses because "zero growth" not only violates reason, but also violates the lawful ordering of the universe.

In order simply to be able to maintain constant potential relative population-density, a society must realize technological progress. With unchanging levels of technology, natural resources are not yet absolutely limited, but they become relatively limited, since their initial extraction becomes linked to increasingly higher costs, finally reaching a point of unprofitability.

The application of technological progress reduces the costs of opening up raw materials and expands the spectrum of nature as altered by man, that is, defining new types of resources. Such progress also represents progress in man's understanding of the lawfully ordered composition of the universe. Successful application of technological progress is simultaneously proof of the agreement of reason with the laws of the physical

universe, since the hypotheses conceived by reason have demonstrated themselves to be efficient in the physical universe.

In the developmental history of the human species, there has always existed a direct relation between the technological level of the respective processes of production and the potential relative population-density.

The refutation of Malthus

Our knowledge encompasses the entire span from very early stages of culture, during which low technological levels only allowed for a population potential of a few hundred thousands of men, to a level today of approximately four and a half billion men. If only we were to utilize nuclear technology on a worldwide basis, and the technologies which work in connection with nuclear, our planet would have a potential relative population-density of at least 20 billion human beings. The technological revolution made possible with the commercial application of thermonuclear fusion energy would so cheapen the costs of energy production that entire sections of continents could be transformed from current desert and wilderness regions. Nuclear fusion would mean, in addition, overcoming in principle the relative finiteness of resources.

The fact alone that today four and a half billion people live on the earth itself constitutes the definitive refutation of the Malthusian argument.

The major reason why the tendency increasingly exists in the so-called industrial nations to look upon population growth in the developing countries not as potential increases in the wealth of all human society, but rather as "superfluous eaters," lies in the dissemination of a new nihilism, which is being nurtured and strengthened by the Club of Rome's theorists of catastrophe and their followers. As a consequence, many people no longer find any higher purpose in life; and increasingly, the media are dominated by images which show men in ever more horrifying degradation. At the same time, the value of a single human life appears to be constantly declining.

It is therefore more necessary than ever before to fight worldwide for the viewpoint which considers each individual human existence valuable because every man possesses a creative spirit which permits him to contribute to the total development of his human species. Placing emphasis upon these intellectual qualities of human beings is also the precondition for overcoming racialism and chauvinism of all types, and of establishing thereby a just world economic order under consideration of the dignity and worthiness of men—and of the entirety of humanity.

It has today become a matter of survival for the human species to establish a just world order, which is carried by the idea of understanding between peoples.

This world order must presume that each nation has natural and inalienable rights whose sovereignty must be respected, which at the same time forms a unity.

Universal progress

This is possible, because the human species—despite all of its diversities—is nonetheless unified, as Cardinal Nicholas of Cusa termed it, through the *spiritus universorum*—the spirit of universality. A lasting peace can only then be obtained, if each country can develop, and thereby has an interest in its neighbor similarly developing. New scientific discoveries mean such a great gift for humanity, that they should be put at the disposal, without delay, of all nations. That means above all a massive transfer of technology into the developing countries, and, beyond that, the realization of this “plan of a universal and balanced progress of all,” which Pope John Paul II called for in his latest encyclical *Laborem Exercens*.

It has been demonstrated that the available institutions which should be serving the demand for understanding between peoples in this sense—such as the United Nations, for example—are motivated too divisively, and proceed from an excessively pragmatic standpoint.

The Club of Life shall therefore be an instrument for those individuals who, on the eve of a possible collapse of human society, want to intervene with passionate commitment and political decisiveness in behalf of a new worldwide humanism. The Club of Life shall be supported upon the philosophical convictions which Judeo-Christian humanism and classical humanism produced in the last two and a half thousand years at its high points, and will make these convictions known worldwide. The Club commits itself to the idea of technological progress and to the value of human beings, which are inseparable from one another.

In order to effectively as possible begin the fight against the increasing disregard for life, politicians, trade unionists, scientists, and church representatives are called upon to come together as quickly as possible for the formal founding of the Club of Life.

The general tasks will be to disprove for good the unscientific character of the Club of Rome and of all other Malthusian organizations; and on the other hand, to make known the thoughts of the great humanists of the past and the possibilities within science for solving today's problems. If there can be quickly found individuals in enough countries who want to devote themselves to these great ideas, it is still possible to defeat the culture of pessimism, and again provide human beings with trust in their creative abilities.

The goal of the Club of Life is nothing less than to bring mankind a good step further on its path of establishing justice upon earth.

Colombia

The real winners in the March elections

by Cynthia Rush

The apparent winner in Colombia's March 14 congressional elections was the slate of former Liberal President Alfonso López Michelsen, the candidate publicly identified with efforts to legalize Colombia's drug trade and destroy what remains of productive economic activity in the country. With 2.3 million votes, compared to the 2.1 million of his conservative opponent Belisario Betancur, and with control of the Liberal party machinery, López is likely to be elected president in the elections scheduled for May 30.

The López victory can by no means be construed as a popular mandate for his drug and deindustrialization policies however. It is well known that many of the 2.3 million votes for López are the result of backroom deals and promises made to provincial “caciques,” [bosses] as well as the activation of the party's vote-buying machine. Sources in Bogotá told *EIR* that López secured votes from the drug-infested Atlantic Coast region by promising local cronies that he would remove all anti-narcotics forces from the region if he were elected president. *EIR* also learned that López Michelsen had strong backing inside the U.S. State Department from proponents of integrating Colombia fully into the Caribbean drug zone, under cover of various “development” schemes.

In areas where the party's vote-buying apparatus worked less efficiently, as in the case of the capital city of Bogotá, López was overwhelmingly defeated by the 37-year-old liberal dissident Senator Luís Carlos Galán Sarmiento. Galán, head of the “New Liberalism” movement, won in Bogotá by capitalizing on the population's hatred for López and by adopting portions of the pro-industry, anti-drug platform of candidates Maximiliano Londoño and Fausto Charris of the Andean Labor Party (PLAN). Although he garnered 600,000 votes nationwide, fewer than predicted, in the province of Cundinamarca Galán won seven out of eight senate seats and almost half of the seats in the Bogotá city council. His senatorial slate in Bogotá also roundly defeated Ernesto Samper Pizano, López Michelsen's campaign coordinator, who has been denounced by antidrug coalitions on three continents for his proposals to legalizé production

and trade of marijuana between Colombia and the United States.

Bucking the mafias

Galán's victory in Bogotá demonstrates resistance to the implementation of the drug and austerity policies that are planned for Colombia regardless of who becomes the next president. This has little to do with Galán personally. The young Jesuit-trained oligarch spent most of his campaign cultivating his populist image and engaging in demagogic rabble-rousing. His backing by men like former presidents Carlos Lleras Restrepo and Alberto Lleras Camargo, individuals who have spent most of their lives attempting to destroy the nation, make any of his calls for creating "a new Colombia" highly suspect. Rather Galán's adoption of entire sections of the Andean Labor Party program in the latter part of his campaign, focusing on the need to modernize the Colombian economy through high-technology development and eliminate the financial networks that coordinate and control terrorism and drug-running, showed that a broader desire exists among the population for economic and technological progress. Galán's shrewd appeal to this sentiment contributed to his upset victory over López in Bogotá.

In the last weeks of the campaign, statements by Galán and his backers echoed the Labor Party's charges that López was a follower of Milton Friedman's Chicago School and that the policies applied during his first presidential term had encouraged the drug trade and devastated industry and agriculture. The only ones to benefit from these policies, wrote the pro-Galán newspaper *El Espectador* on March 10, were the large financial groups and the "extra-legal economy" created by the *bonanza marimbera* (drug economy). *El Espectador* also followed the lead of the Colombian Anti-Drug Coalition, which has repeatedly exposed López Michelsen's links to the international drug trade by publishing cartoons showing López and Samper Pizano waving marijuana plants. If López follows through on his proposal to affiliate the Liberal party to the Socialist International, Carlos Lleras caustically remarked, Colombia will see a strange brand of "socialism" which combines the Socialist International with the Grancolombiano financial group run by López's backer and cousin Jaime Michelsen, whose major activity is buying up Miami banks.

Liberal Party split

Before the March 14 elections, López mooted that he would consider withdrawing his candidacy in favor of a "third alternative" if he did not win a majority of the votes. On March 17, López reported that he would remain the official party candidate but made overtures to Galán in hopes of securing his support for a "uni-

fied" Liberal candidacy. Galán replied that he will make no deals with López and will continue his campaign up to the May 30 presidential elections. While he is not expected to win, Galán poses a threat of splitting the Liberal Party badly enough to hand a victory to Conservative party candidate Belisario Betancur.

Since the civil war that wracked Colombia in the 1940s and 1950s—La Violencia—no Conservative candidate has been able to win a presidential majority. The Conservatives have only occupied the presidency through the power-sharing agreement of the National Front by which Liberals and Conservatives alternated in power over a 16-year period beginning in 1957. To the staunchly Liberal Colombian electorate, the idea of a Conservative presidency is anathema, linked in their minds to the fascist dictatorship of former Conservative Party chieftain Laureano Gómez. In the current economic crisis and large-scale Liberal disaffection with López Michelsen, conservative Belisario Betancur is hoping that his "national unity" strategy will swing enough liberals and independents over to his side for victory.

If Betancur were to win, he would offer no better alternative to López. His attacks on the "dehumanizing" influence of both capitalism and socialism—reminiscent of Mussolini's ravings—are characteristic of his peasant rallies and appeals to the lumpen population in the nation's cities. The Conservative Party program is based on the same Friedmanite "free enterprise" thrust applied so disastrously by Liberal governments over the last eight years.

Sources close to Conservative faction leader Alvaro Gómez have told *EIR* that López is assured of defeating Belisario because Gómez—also a longtime advocate of legalizing Colombia's drug economy—is secretly planning to swing his Conservative support to the Liberal López ticket. Although ostensibly supporting Belisario Betancur, Alvaro reportedly stands to gain more from a López victory. He and López agree on most major issues, such as eliminating the last vestiges of republicanism from the Colombian constitution through a complete "reform," and further "federalize" the nation to enhance the autonomy of the local drug mafias.

López is also claiming that he is the only true "candidate of peace" in the country, capable of bringing terrorist groups like the Socialist International-backed M-19 to the negotiating table. The M-19's top leader, Jaime Bateman, virtually endorsed López in an interview with a kidnaped reporter on March 10 and then ordered a bombing offensive to sabotage the March 14 elections altogether. Launched to demonstrate the group's rejection of conditional amnesty recently decreed by President Turbay Ayala, the terrorist offensive sets the stage for the future declaration of an unconditional amnesty, which López favors.



Venezuela's Carlos Andres Perez discusses Central America with EIR

Former Venezuelan President Carlos Andrés Pérez remains one of the most controversial figures on the international political scene. As head of state from 1973 to 1979, Pérez adopted a nationalist policy of heavy industrial growth, and used Venezuela's oil income to fuel average annual GNP growth rates of 6-7 percent throughout his term. He nationalized all foreign oil companies operating in Venezuela, and insisted on Venezuela developing a strong industrial base with major investment projects in areas like steel, aluminum, and hydroelectric plants.

Pérez's relative success in this nation-building effort earned him the hatred of the international financial oligarchy opposed to Third World progress—including their political instruments like Henry Kissinger, who is known to still be gunning for Pérez's final political demise. Although out of office for almost three years, Pérez remains a pre-eminent political influence in Venezuela, in particular in his social-democratic party, Acción Democrática. In the interview printed below conducted by *EIR* Latin America Editor Dennis Small in Caracas, Venezuela on March 19, Pérez strongly reiterates his commitment to industrial development, and his hostility to Malthusianism and to the high-interest-rate policies of U.S. Federal Reserve Chairman Paul Volcker.

Pérez's international activities have been no less controversial. As a leader of the Socialist International, he has played an active role supporting the Nicaraguan revolution and the Salvadoran opposition. More recently, he has expressed concern over the growing radicalization of the Central American region, and has lined up with a faction inside the Socialist International pressuring the Sandinistas in Nicaragua to retain their original commitments to pluralism. In his March 19 conversation with *EIR*, Pérez endorsed the usefulness of the recent call by U.S. politician Lyndon H. LaRouche to establish a Commission for Free Elections in El Salvador.

EIR will soon present a full review of the current economic situation in Venezuela, as well as on-the-scene evaluation by Mr. Small of Venezuela's current and prospective role in helping to stabilize the Central American region.

The following is an interview with the former president of Venezuela and leader of the social democratic party Acción Democrática, Carlos Andrés Pérez, conducted by EIR Latin America Editor Dennis Small in Caracas, Venezuela on March 19.

Small: I'd like to discuss two subjects with you: first, the question of economic development; and second, the issue of Central America. On economics, today in the United States the problem of Federal Reserve Chairman Paul Volcker's high-interest-rate policy is a matter of great controversy. Several U.S. allies such as West German Chancellor Helmut Schmidt, have strongly criticized the high interest rates and have insisted that they be lowered. Chancellor Schmidt has even said that high interest rates are more dangerous for world peace than intercontinental missiles, since without economic development there can be no peace. I would like to know if you share this view of Chancellor Schmidt's, and how you evaluate the problem of high interest rates more generally.

Pérez: I have more reasons and arguments than the head of an industrialized country like West Germany could have to oppose, to openly criticize this economic policy which has been carried out by the present U.S. administration and other governments of the Western world, both in Europe and in America. We have the case of the British government, that of Mrs. Thatcher, and the well-known cases of Chile and Argentina, which all fall under the same parameters or the same ideological-economic definition, which is that favored by the famous economist from Chicago, Mr. Milton Friedman. This definition is based on the reactivation of the old theory of economic liberalism, which makes the fight against inflation its exclusive concern.

Countries like the United States can for a certain period of time, withstand a policy of high interest rates, since they have a well-developed industrial process. But in the longer run such a policy will cause serious damage to the fundamental economy of those countries. We are already seeing this in Great Britain, since those high interest rates do not permit a continuity of industrial development and the expansion of the productive pro-

cess. No country in the world can continue its economic development with a cost of money like that proposed by such a policy.

Well, for developing countries this is even worse: it is a total attack, an expression of unacceptable economic totalitarianism. Because it is absolutely unacceptable to maintain the supposed national interests of one state against the interests of humanity. Therefore such a policy, in the first place, will not yield the results the present government of the United States hopes for, but instead will only further aggravate the circumstances in which the world economy finds itself. Already we can see in the supposed "models" in Latin America, where they have tried to sell us on the idea of strong governments together with economies governed by these theories as examples of how to develop our nations. They have presented Chile and Argentina as examples to be followed, but we can see today how these economies have been decimated. What they hoped to sell us on as a paradise for development has failed miserably.

Small: Then you would add your voice to that of Chancellor Helmut Schmidt and of Mexican President José López Portillo in calling for lower interest rates in the United States?

Pérez: Absolutely. This is a part of our struggle for a new world economic order, because there is no doubt that interdependence among countries is not only an interdependence of problems but an interdependence of solutions. No country can arrogate to itself the right, for mere national purposes, to take measures which can cause serious damage to the entire process of world economic development.

Small: Regarding the economic development of Venezuela, if one simply reviews the statistics of GNP growth under your administration and those under the present Herrera Campins administration, one sees a total difference in economic orientation. Does this have something to do with what we have just been discussing?

Pérez: Unfortunately, your observation is correct. Here too in Venezuela we have felt the effects of the neoliberal epidemic, with terrible consequences for the development of Venezuela. Right now as you interview me, our situation has worsened due to a negative oil situation which for a country like ours, an oil exporter, is going to provoke a very important collapse in income. It's well known that Venezuela is still a country which has not developed its true wealth-generating capacity, but depends on a source of wealth as strange and foreign as oil. Today's situation demonstrates the harm which these three years of the current administration have done to the country.

Small: I want to ask your opinion about the internation-

al organization called the Club of Rome, whose thesis is that resources are scarce and that therefore economic growth must be reduced. I have noted with interest that the Club of Rome has supported and praised the economic policies of President Herrera Campins. Could you give me your opinion of the Club of Rome?

Pérez: In the first place, I am not adverse to any human activity which involves undertaking initiatives to try and uncover the problems that afflict us, or their possible solutions. I always consider it positive—even if I am not in agreement with its philosophical orientation. This is the case with the Club of Rome. The Club of Rome was founded as a bold statement of a group of economic and social scientists trying to discover the true causes of the socio-economic phenomena of our countries and to propose solutions. Of course I do not agree with their conclusions, which you referred to, because I hold an optimistic philosophy of life and I believe that the Malthusianism of yesterday or of today stems from a pessimistic sense of man and of life.

At the same time, we must remember that the arrogance of the latest stages of humanity's development in the great industrialized nations has caused them to lose sight of a fact which today has begun to gain importance: that natural resources are not infinite but finite, and that the problem is not whether or not they are sufficient for the present and future of humanity, but rather of how they can best be administered in the service of new generations, in the service of a humanity which will evolve eternally through time. This is the significance of the position we progressive men take toward the future of humanity.

Small: What must the United States do to be a good ally of Venezuela's?

Pérez: Here we must differentiate between the United States and the government of the United States, because unfortunately we sometimes fall into generalities which could make us unwitting accomplices of those who seek to provoke strategic hostility against that great nation of our hemisphere. We believe that the United States is a nation of exceptional importance in the world, that it is an example of what a people can do who are tenaciously and persistently dedicated to development. The United States is a great nation, and so we must take care when we state our policies and our positions—especially in light of the global confrontation in which the two great powers, the United States and U.S.S.R., lead the opposing camps—not to confuse our criticisms of the U.S. administration with our positive and admiring concept of the U.S. people.

I would say that there has been a fatal development in relations between North and South, between the America which is North of the Rio Grande and that which is South of that great river which separates the United

States from our countries. And that is that there has not been a serious effort made to understand us, to understand our idiosyncracies and our objectives—which in essence are the same ideals as those of the United States. These Latin American peoples, despite their long and painful road—if we study their history we will find that it has been a long, unending, but uncompromising fight for freedom.

This lack of understanding has led to serious U.S. policy errors toward Venezuela. I believe that the U.S. president who came closest to understanding us is President Jimmy Carter. I understand that at this moment and for very particular reasons, President Carter is a very controversial figure. But regarding Latin America, I declare categorically that he is the president who made the great effort to understand us and to help us in our democratic process—beyond the efforts of F.D. Roosevelt and J.F. Kennedy, who are the two presidents for whom Latin America holds a special devotion and warmth.

I believe that the fundamental way in which the United States could feel closer to us and we to the United States, would be by making an effort to understand, and not to try to impose upon us formulas which they consider beneficial to these countries. Rather they should discuss them with us and try to appreciate what we want to be and what we believe should be the form of effective cooperation between the United States and Latin America. This seems to me to be the fundamental problem in relations between the two Americas.

Small: Moving on to the theme of Central America, what do you think of the proposal made recently by Mexican President José López Portillo in Managua, in which he offered Mexico's help in achieved negotiated, peaceful solutions to that area's crises?

Pérez: The problem of Central America is enmired in a sea of confusion and is unfortunately centered in this turbulent and difficult Caribbean Sea. In the first place, we must state that to characterize the situation in Central America as a fight between communism and anticommunism is unacceptable. This is an optical illusion of U.S. policy which tries to see everything subsumed within the globalism of the international situation. Central America is not a part of the East-West battle; nor is its dramatic situation a product of communist infiltration in the area; nor is it a consequence of the decisions of the U.S.S.R. or of the United States—although we will not deny that they are interfering in the terrible process of war there.

The reason for that war, that confrontation, the reasons for those revolutions, are precisely the decades those peoples have lived under oppression and governments of exploitation which, in alliance with local oligarchies or multinational interests, have created intolerable

situations, intolerable for the inhabitants of those countries of our Latin America. That is the reality of what is going on there such that if the premises of the Central American discussion are not changed, we will not be able to approach satisfactory solutions.

Herein lies the importance of what López Portillo expressed. He was dealing precisely, as president of a great Latin American nation and one who understands the problems around him, with the need for dialogue to achieve an understanding of the situation, and to search for peaceful solutions to put an end to this bloody Central American drama.

Small: President López Portillo has also criticized what he called “the verbal terrorism” of both sides of the Central American confrontation. Do you share this view?

Pérez: This is another aspect which we do not cease to lament, which begins with the verbal radicalism of present U.S. policy. Never, not even in the worst times of U.S. Secretary of State John Foster Dulles, did we hear from high-level U.S. authorities the ideas and proposals which they are making today. Of course, we can hardly hope that the other side would respond differently. Thus this is a very negative feature, because people cannot understand each other by shouting.

“The (LaRouche) initiative for free elections in El Salvador that you describe to me fits within this school of thought, which seeks a peaceful solution and which does not believe that El Salvador can be helped with arms, either to the guerrillas or to the military junta.”

Small: In the United States the well-known politician Lyndon H. LaRouche has formed a “Commission for Free Elections in El Salvador,” which emphasizes three points: 1) Special cooperation between the United States, Mexico, and El Salvador; 2) negotiations with all elements involved in the fighting, including the insurgents, in order to reach a peaceful solution to this crisis; and 3) the elimination of the death squads which operate in the area. I would like to know what you think of this proposal and in particular what you think of the death squads in Central America?

Pérez: The situation in El Salvador has been subjected to such media manipulation that it has proven very difficult for us to understand who is proposing what. For example, it would be absurd for democratic sectors such as those made up of the Social Democratic parties to oppose the elections, when it is well known that we share the belief that there is only one means of consulting the people and of choosing legitimate governments, and that is through the electoral process. Thus, we are not opposed to elections. What we *do* say is that the conditions for carrying out a credible electoral process currently do not exist. From this point of view, all the democratic sectors of America and Europe have posed the necessity of prior negotiations that create the conditions for entering an election process which can open up the democratic path for that country. The [LaRouche] initiative that you describe to me fits within this school of thought which seeks a peaceful solution and which does not believe that El Salvador can be helped with arms, either to the guerrillas or to the military junta.

Small: Nevertheless they are receiving arms on both sides. There are elements within the Socialist International, for instance, which have publicly defended providing financial support and the sending of arms to the left in this situation.

Pérez: No! The Socialist International, and this is another confusion that has been created, has never defended the guerrillas, nor expressed sympathy for the guerrillas. What we have said is that the guerrillas are a consequence and a socio-economic reality of that country, and that the impossibility of peaceful solutions has justified the presence of the guerrillas. But we have always insisted that violence is not a means for resolving conflicts between peoples. The reality is as you have posed it, and it cannot be changed without an end to the supply of arms to *both* sides.

Small: Returning to the issue of the death squads.

Pérez: Here there is another point. Either democracy demonstrates what it truly is—a regime founded on respect for liberty and the dignity of man, his physical and spiritual integrity—or we become indistinguishable from parties or totalitarian groups that deny the essential value of man and subsume it within the state. The death squads are one of the gravest challenges to democracy, because they act in its name and thereby falsify the essential values of our system. The death squads, according to all reports, according to all the news and evidence that has been gathered, are made up of groups that wave the banner of anticommunism. In this way they try to confuse anticommunism with the fight for democracy.

Small: What do you think of the French arms sales to Nicaragua?

Pérez: This is a highly controversial matter, and it depends on how you look at it. One of the most negative aspects we have pointed out in U.S. policy is that it first accuses Nicaragua of wanting to join the Soviet bloc, and then it shuts them off from all avenues of negotiation and trade, to force them to go to the Soviet bloc as the only option open. In this context, I think France has tried to offer an example that shows that there can be arms suppliers that are not Cuba nor the U.S.S.R. but are in the Western world.

Small: What can you tell us about the Socialist International talks that will be held in West Germany on the subject of Central America? And what will be the position of Acción Democrática?

Pérez: I cannot nor should I predict anything specific, precisely because we should await the debate and let our ideas mature. But I can tell you that it will be oriented by our proposal to not corner the democratic forces in Central America, but to contribute to opening up a pathway so pluralist systems can operate there and so that we can create a climate of peace through which those peoples can resolve their political and social crises.

Small: Do you currently see a process of radicalization within both the Nicaraguan and Salvadoran left?

Pérez: This worries us seriously. But here, as always, we must seek the *cause* of the problem. It is not the fever which must be studied, but the causes which produce the fever. Here we find the harassment and the isolation which they want to produce with this absurd globalization of the conflict.

Small: There are those who say that the death squads are the biggest recruiter to the left.

Pérez: It is true. Unfortunately these exaggerations, these senseless crimes contribute to the radicalization of the population, above all the youth. But not only the youth. Now in Guatemala even the Indians, who had remained apart from the fighting and the violence in that exploding country, are getting involved; and this is going to prove an even more dramatic situation than what is going on in El Salvador.

Small: What can you tell us of what you know about the Propaganda-2 Masonic Lodge in Italy and its implications for Latin America?

Pérez: The truth is that the press reports that have reached us have not been sufficiently clear to understand exactly what is involved. But it appears, for those of us who try to get behind the news, that it was indeed creating an immense network with ramifications on different continents, including in Latin America. And of course, as with all these Mafias, they are never up to any good.

The Arab Thought Forum

Mark Burdman reports from Wiesbaden on a pet project of Club of Rome co-founder Aurelio Peccei: brainwashing the Arab world.

Under the guise of seemingly respectable academic discussions on population, food, energy, and other global problems, the same NATO-centered oligarchical grouping behind the Club of Rome International has set up a new sophisticated Club of Rome spinoff that is engaged in the destabilization of Arab countries.

This intelligence operation has been given the name Arab Thought Forum, and has also been known under the titles "Club of Aqaba" and the "Arab Group of the Club of Rome." It is being used to infiltrate elites in the Arab countries.

The networks behind the Arab Thought Forum, which might be more appropriately tagged the Arab Forum for Thought Control, are the same networks responsible for assassinations, terrorism, and so-called fundamentalism throughout the Middle East. These networks interface top drug-trafficking and dirty-money operatives within the Arab world itself.

Their modus operandi is to proliferate the ideology of Malthusianism and the *Global 2000 Report* of the Carter administration throughout the Arab world, thereby calling into question the legitimacy of governments and nation-states, and paving the way for Jacobin insurrectionary movements in the Arab countries. These operations are programmed to occur in conjunction with subversive actions run by agents of the British Secret Intelligence Services (SIS), the Israeli Mossad, and the Soviet KGB in the Arab world, against Arab aspirations for independence and development.

Overseeing this thought forum intelligence operation are the individuals who form the directorate of the Club of Rome International: Aurelio Peccei, Alexander King, and Edward Pestel, all with high-level NATO credentials. According to Arab diplomatic sources, Peccei has been working on the Arab thought-control project for several years, regarding it as his most important international activity, and of a piece with his related efforts to use a phony fundamentalist version of Islam as an instrument of subversion aimed against Arabs and against the western countries as well. For example, Peccei's "Islam and the West" project attempts to peddle the line that Khomeini's coup in Iran or the terrorist activities of the Muslim Brotherhood are religious phenomena. Peccei is

so intent on seeing his Thought Control Forum come into being that he has reportedly been trying to keep under wraps its extensive ties to the Club of Rome.

Peccei, with King and Pestel—the latter a top officer in the NATO Science Committee which coordinates technology restriction internationally—coordinated a 1980 meeting in Athens between Club of Rome officials and certain prominent Arabs out of which the Thought-Control Forum was launched.

In private discussions, King, a top officer in NATO's OECD Science and Planning Divisions in Paris, has corroborated that "we in the Club of Rome have become very close to the Arabs" through the Forum. Among King's own contributions to these efforts are spreading propaganda throughout the Arab world (especially Egypt) about the necessity of "population control" because of the "rising food bill" and encouraging the transformation of Jordan, whose Crown Prince Hassan is the chairman of the Thought Forum's board of trustees, into an "Arab version of Switzerland"—a highly suggestive effort in view of the recently documented Swiss role in extensive dirty-money and terrorism-support operations.

The activities of King and his fellow Club of Rome member Maurice Guernier in Paris in the direction of establishing the Arab Thought Forum have extended into the highest levels of the French government. According to Thought Forum Secretary General Malek Basbus, a nest in the Mitterrand government including Finance Minister Jacques Delors, Foreign Minister Claude Cheysson, and European Community representative Edgar Pisani (a Club of Rome member) is actively supporting the Forum's work. Paris is also the hub of Forum activities due to the efforts of the so-called Club of Paris, headed by "Aquarian" ideologue Jean-Jacques Servan-Schreiber, who has discussed extensively with Arab Forum members the idea of transforming the Arab sector into a model "information society," a code-expression for the creation of "1984" zero-growth computer-run societies headed by Club of Rome technocrats. Servan-Schreiber has won extensive support from the Mitterrand government for his brainwashing efforts, and has built up a large network of contacts in the Arab

world centered around the Forum group.

The first launching point for the Arab Thought Forum was an Athens meeting of June 1980, at which Arab representatives were brainwashed with Malthusian propaganda about food scarcity and the "population explosion." A secretive follow-up meeting along the same lines was held in Seville, Spain, in December 1981, at which Peccei, King, Pestel, and Guernier worked over an Arab representation of 40 prominent individuals. On March 15-16, a third meeting took place at the Rome-based International Bureau of Informatics between the Club of Rome and the Forum on the subject of "Agriculture," i.e., "food scarcity" and "overpopulation." The Forum intends to come into its own in the public eye in May with a major conference in Amman, Jordan, on "Euro-Arab Dialogue," which will be attended on the European side by representatives from the Club of Rome, from London's Royal Institute for International Affairs, from France's Institut des Relations Internationales; and from West Germany's Forschungsinstitut der Deutschen Gesellschaft für Auswärtige Politik. The last three are respectively the British, French, and German counterparts of the New York Council on Foreign Relations.

A Global 2000 for the Arab world

As it is now constituted, the Thought Forum has as its board of trustees chairman the Crown Prince of the Hashemite Kingdom of Jordan, Hassan, brother of King Hussein. Hassan is known for his advocacy of "appropriate technologies" for the Arab world and as the key figure within Jordanian ruling circles sympathetic to the Muslim Brotherhood.

The vice-chairman of the board of trustees is Kuwait's Minister of Planning and Finance, Abdel-Latif al-Hamad. Al-Hamad also sits on the board of the "mother" institute of the "appropriate technologies for the third world" ideology, the Institute for Development Studies (IDS) at the University of Sussex in Great Britain, and is a member of the Socialist International elite Brandt Commission.

Official Thought Forum documents specify that the Forum's purpose is "dealing with the developmental dash that shows no sign of abating." The Secretary-General of the Forum, Malek Basbus, a Lebanese by birth who operates out of Paris, has best described the ideologies and goals of the Forum. In a discussion from his Paris headquarters, Basbus asserted forthrightly that what is needed is for the Arabs to "replicate the work of Global 2000 for the Arab world" and to replace "the ridiculous idea of the nation-state" with the Club of Rome's models for "regional blocs."

Many prominent Arabs have been roped into cooperating with the Thought Control Forum, in some cases perhaps unaware of its true purposes. Saudi Arabian Oil Minister Zaki Yamani, for example, who has other-

wise been associated with the pro-development factional grouping in Saudi Arabian ruling circles, has reportedly been active in Forum planning and policy discussions. A glance at the group's current board of trustees reveals an array of ministers (current and past), businessmen, and journalists from throughout the Arab world. According to Basbus, other active members, collaborators, and/or co-thinkers of the Forum include the Syrian Minister of Planning, the Kuwaiti Minister of Agriculture, the Iraqi Foreign Minister, and the head of the Khartoum-based Arab Agricultural Authority for Investment and Development.

The Dope, Inc. link

Based on ongoing *EIR* investigations, it appears more than likely at this point that most of the relevant infrastructure, financial and otherwise, for the Thought Forum has been provided by drug-trafficking-related circles in the Arab world.

For instance, one of the members of the Forum's board of trustees, banker Elias Saba, was formerly with Intrabank, the entity closed down in 1971 for involvement in international smuggling activities. The Intrabank group completely overlaps the Beirut-based Casino du Liban, a pulse-center for crime and drug-trafficking throughout the Middle East with tentacles extending into Western Europe.

The Intrabank connection also operates through the Albanian-born Sheik Kamal Adham, the former Saudi director of intelligence (sacked in 1979 for support of the Carter administration's Camp David Treaty), who sat on Intrabank's board of directors until its closing. While not yet an official Forum member, Adham had held at least one extensive discussion with Basbus about the Forum and is described as "very much interested" in its work. One of Adham's associates, the Egyptian-born financier Roger Tamraz, is a member of the Forum and the Arab group of the Club of Rome. The head of the well-connected First Arabian Corporation, Tamraz has had as one of his pet projects a series of speculative ventures on the Nile Delta.

The banker Zuhair El-Harb, a top figure in the Triad Corporation empire of the dirty-money-connected Adnan Khashoggi, and involved with the Suez group of banks and the Paris-centered Saudi-French Bank, is presently a Forum member.

Finally, Arab diplomatic sources have specified that one of the motivating individuals behind the Forum in direct collaboration with genocidalist Peccei was the Saudi "iceberg prince" Mohammed al-Faisal. From his "Islamic" banking interests in Geneva, al-Faisal has started a number of projects in the United States and elsewhere that have been little more than fronts for terrorism and related activities under a Muslim Brotherhood banner.

Japan's foreign policy at the crossroads

by Daniel Sneider, Asia Editor

EIR Asia Editor Daniel Sneider recently spent two weeks in Japan meeting with business and political leaders. This is the first of a two-part report on his trip. The second part will deal with economic policy.

It has become almost faddish these days to speak of the "secret" of the "Japanese economic miracle." Japan's status in the world as a power is now a fact, but the content of Japan's role remains undefined.

To talk to Japanese themselves about Japan's role can be disappointing; clear answers are often hard to find. Nonetheless, certain themes emerged from the many conversations this writer had with leading Japanese in different walks of life.

On the one hand there is a feeling of tremendous accomplishment, in the Japanese economic and social system, and in the highly competent manner in which Japan has weathered the storm of economic depression and political instability of the past decade. Looking across the Pacific at the decaying state of their once-powerful ally and "protector," the Japanese openly express pride in their relative success and the recognition of that success in countless new books and articles abroad.

This confidence and a new sense of nationalism is paired with a deep sense of crisis, of uncertainty about Japan's ability to maintain the hard-won gains of the postwar reconstruction. The crux of Japanese fears lies in the knowledge that their own future progress depends on events *outside* Japan, events which they are not sure they can affect. Rising trade protectionism in the United States and Western Europe, the world economic crisis, and the prospects of strategic confrontation between the United States and the Soviet Union all appear as potential cataclysmic typhoons heading for Japan.

The Japanese are therefore confronted by a troubled world and by the necessity that in order to ensure their survival, they must somehow act for themselves in the world arena. During most of the postwar era, Japanese prosperity had grown within the relatively stable environment of the Bretton Woods international monetary

system, and the strategic alliance backed by American strength.

This changed as the 1970s opened with the collapse of the international monetary system, and saw the decay of American power. Divergent assessments by Japan and the United States (as well as Europe and the United States) about the cause of this crisis and how to respond to it have now led to growing tension in Japan-U.S. relations.

On one level the Japanese express indecision over how to deal with this situation. As one Japanese businessman told this writer, "We Japanese are an internal-minded people. We are not used to thinking about what to do in the world." Publicly and privately, leading Japanese place reduction of tensions with the United States and maintenance of the postwar alliance as their number-one concern.

At the same time, the rising feelings of nationalism, of self-confidence, are more openly expressed today than at any time since the end of the Pacific War; trade problems with the Americans are viewed in large part as the result of Japanese economic success and American economic failure. The Japanese openly question why they should be penalized for their success. On the issue of U.S. demands for greater Japanese defense spending, there are those who question the wisdom of U.S. strategic thinking, and those of the younger generation who privately envision a Japanese defense buildup independent of the United States.

The issue on the table is indeed what Japan will do in the world. It is an issue which brings up profound questions of history, particularly the events leading up to and following World War II, of the future shape of the Japanese nation, and what it means today to "be Japanese." The Japanese are constantly obsessed with the question of "Japaneseness," of defining and preserving their national character. Ultimately the issue of the individual Japanese identity, though, is inseparable from the national identity and the role of Japan as a whole in the world. What it means to be Japanese may be defined as

the interaction between this island nation and the outside world.

The legacy of World War II

The period of the 1930s-1940s constitutes the last time Japan attempted to assert itself as a world power and to challenge the power centers of the British Empire and the United States. Those events are explained differently by different Japanese, but all agree that the result was disastrous—near destruction of Japan in the war and its occupation for the first time in its entire history by a foreign power.

Certainly, American occupation was relatively benign and few Japanese of that generation will fail to praise General Douglas MacArthur and America's assistance in postwar reconstruction. But two legacies are left. One is the strong desire to avoid circumstances that could lead again to war; the second, is the desire to finally shed the stigma of defeat and occupation, to assert Japan's independence. Such sentiments are not intrinsically anti-American—they are the natural urges of nationalism, bolstered by the all-too-evident success of Japan's efforts to achieve equal status as a modern industrial nation.

Americans dealing with Japan, particularly those ignorant of its history and its culture, view the nation and its modern history through the prism of the Pacific War. Japanese history is divided into "prewar" and "postwar" periods, distinct in character. Such a viewpoint has the attraction of being self-congratulatory concerning America's defeat of the Japanese Empire and the democratization process under the Occupation.

Except for some left-of-center intellectuals, the Japanese of the older generation do not see their history in that way. The key turning point was not the War but the Meiji Restoration of 1868, the political and social revolution which threw off feudalism, and, inspired by the West and America in particular, unleashed a drive to rapidly industrialize and modernize Japan. As a tour brochure handed out at the Meiji Shrine built to commemorate the Emperor, proudly declared: "During the Meiji era (1868-1912) Japan flourished under the benign rule of the Emperor Meiji, who promulgated the Meiji Constitution, promoted friendship with overseas countries, and developed the nation in every cultural field. It was the most glorious of all periods of more than 2,000 years of Japanese history, a period during which the foundation of modern Japan was laid."

The history of modern Japan is, in that view, a continuum from Meiji to the present, a continuum in which the invasion of China and the other militarist adventures of the 1930s, leading to the Pacific War, were a mistaken and disastrous interregnum. Democracy and constitutional order in Japan are not the *de novo* gifts of General MacArthur, but the products first of all

of the Meiji revolution, however imperfect it was.

In this Japanese view, there spans a more than hundred year process of modernization, of shaping a Japanese identity, which is at once nationally unique, oriental, and Westernized. The problems that confront Japanese society today are in that sense not new.

The crisis of leadership

The difference is that the world strategic environment has changed. The dangers that threaten Japan are heightened, and in some cases are new dangers. The Japanese national identity is being tested, and some Japanese themselves question the depth and security of their accomplishments. In almost every meeting this writer had, the question was posed of what Japan would *do* to respond to the global economic and strategic crisis. In every case the answer was one of doubt whether the Japanese were prepared to act independently.

Near the end of my visit, I spent one night talking with an old Japanese friend, a keen observer of the nation's political scene, and a man who spends his private moments worrying about the future of his beloved nation. Without hesitation, he told me that he believes a major crisis, a crisis of war or peace, was only a few years away at most. Does Japan have, he asked, speaking more to himself than me, the kind of leadership to face the crisis?

His answer, looking at the present political leadership, was an unqualified "No." The present Prime Minister, Zenko Suzuki, a product of the Liberal-Democratic Party machine—which has ruled Japan during virtually the entirety of the postwar period—is a man who constantly seeks to "harmonize" the various interests around him so as not to disturb the steady stability. My friend said, "Suzuki is a man of balance and a statesman in a time of crisis must sometimes act without consideration of balance." Thinking for a moment, he added, that it was his belief, his hope, that someone—a de Gaulle or a Napoleon perhaps—would emerge from the shadows to provide leadership to Japan.

This is a hope which many Americans perhaps share for our own country, though we may choose to define it differently. My friend is not wishing for a "strongman," for the "man on a white horse," but for a leader, or rather a leadership, which can embody, as did the leaders of the Meiji Revolution, the ideas of nationhood which will shape a new Japanese role and identity in the world.

Japan's capacity and power to do good in the world, to deploy its economic and technological capabilities for the development of other nations, for insuring the future in turn for Japan, is undeniable. What is not certain is whether the Japanese will live up to their potential.

Will Haig and Volcker force Tokyo into an independent approach?

by Daniel Sneider

"Please forgive me for saying so," a well-known Japanese political leader and statesman politely told me, "but the United States is too obsessed with containing the Soviet Union and with anti-Communism." The two great problems in the world, he said quietly, are the North-South issue and the danger of nuclear war. The Japanese statesman stressed his fears about the danger of war, pointedly stating that the idea of limited nuclear war is "totally unacceptable." "The reaction of the Europeans" to this concept, he said, "is completely understandable."

The views expressed by this Japanese leader I found to be a virtually total consensus among the dozens of leading business, government, political, and press figures I talked to in Tokyo. The Reagan administration's commitment to confrontation with the Soviet Union is viewed in Japanese circles as a simplistic and dangerous doctrine, although there is little love for Moscow in Tokyo.

The Japanese are far more concerned about the deteriorating Western economies and economic devolution in the underdeveloped countries. These conditions are viewed from Japan as the greatest threat to peace and stability in the world and it is a matter of common agreement that the current high-interest-rate austerity policies of the U.S. Federal Reserve are the greatest single cause of this situation. The stress on North-South relations is increasingly a part of official foreign policy, reflecting the fears that instability in the Third World will disrupt supplies of energy and raw materials to resource-poor Japan and wipe out the markets for Japanese technology.

In informed circles, the adoption of these views by the government of Prime Minister Zenko Suzuki as official policy is termed "the Germanization of Japan." The

identity of Japanese policy with that of West German Chancellor Helmut Schmidt is now a matter of general understanding. Schmidt's frank talk during his recent visit to the United States about the primary importance of the world economic crisis and the need for a sane East-West policy was quietly supported and admired in Tokyo. As one senior government official put it privately: "We will let the Germans do the talking and back them up from behind the scenes."

This statement reflects two pertinent facts about Japanese thinking on the current strategic situation. First, that Schmidt's leadership is irreplaceable as a counterweight to visions of confrontation with the Soviets. The same government official pointed out in private conversation that the defeat of former French President Valéry Giscard d'Estaing meant that, apart from Schmidt, there exists a complete dearth of political leadership in the advanced capitalist countries.

The second fact is that there is no agreement among leading Japanese circles as to the role Japan can and should play in this crisis situation. While they are willing to back the Germans, the Japanese are clearly not yet prepared to take a leading role themselves. When the question of "what Japan will do?" is put to people in Japan, the usual answer is a variation of the noncommittal shrug or even, as one business leader told me, "We don't know what to do."

The problem

The indecision in leading Japanese circles is not the result of a lack of ideas. It is more a function of the deteriorating state of U.S.-Japan relations and a continuing Japanese reluctance to envisage a situation where they must act totally independently of their post-war

ally, an ally on which they depend for their military security and which is Japan's number-one trading partner. As the Japanese statesman put it to me: "It is the United States that must solve these [global] problems. We are hoping that the United States will reawaken itself." The same view was stated by a senior government official who said that he foresaw a situation of muddling from one crisis to another until the 1984 U.S. presidential elections. It is clear in Tokyo that hopes regarding Reagan—and Carter was not liked here—have been much dampened over the past months.

The unstated, though evident, feeling behind these statements is a fear of U.S. pressure and retaliation against Japan for taking independent stands. Washington continues to link trade-war pressures with demands for increased Japanese defense spending and an increased NATO-style Japanese defense role in the region. Tokyo's current policy is to make immediate concessions on trade and defense issues in order to lessen that pressure, hoping at least to buy some time and work quietly along German-style policy lines.

The nationalist undertones of Japanese policy are noticeable, but they are not necessarily anti-American. In fact, as informed sources told me, one of the key architects of the "Germanization" policy is Chief Cabinet Secretary Kiichi Miyazawa, a former foreign minister who is an intimate of the Trilateral Commission, pro-United States, and "internationalist" in his views. Sources who have recently spoken to Miyazawa describe his attitude as "wait and see," particularly on any Japanese compliance with U.S. demands for a hard line toward the East around the Poland issue. Miyazawa believes, those sources say, that U.S. policy is too unstable, that it is impossible to predict what it will be from one month to the next, and therefore Japan should not commit itself in any way.

It is common to hear criticism in business and political circles of the leadership qualities of Premier Suzuki, particularly in the area of foreign policy. Suzuki's experience as a politician has been confined almost entirely to domestic affairs, except for negotiations with the Soviet Union on a fishery agreement when he was Fishery Minister. Some sources believe that Suzuki depends entirely on Miyazawa—one journalist described the latter as "the real Prime Minister." However, a source close to the Prime Minister's office rejects this charge. Suzuki, he told me, ultimately makes his decisions by himself. Of course, he added, he has advisers; but various people—former Prime Minister Fukuda and others—as well as Miyazawa—have had influence on him at different times. There is no one person, he insisted, shaping Suzuki's foreign policy.

Suzuki himself has some strong views, according to this source, which are crucial to his foreign-policy outlook. "Suzuki is very committed to peace," he said,

a view shaped by the experience of the Second World War. He is opposed in principle to any large-scale remilitarization of Japan, although he is willing to accommodate U.S. pressures for slight increases in defense spending.

The Soviet question

Most intriguing is Suzuki's strong interest in developing better relations with Japan's northern neighbor, the Soviet Union. According to this source, Suzuki hopes to make his mark in foreign policy as a Prime Minister by completing the one item of business unfinished after World War II—the conclusion of a peace treaty with the Soviets. Signing that treaty means reaching an agreement on the status of the four islands north of Hokkaido, the northernmost of Japan's main islands. The northern islands were occupied by the Soviet Union at the end of the war as part of the Potsdam Conference agreement, but Japan officially insists on their return as part of a peace treaty. The source believes that Suzuki is aiming at an agreement that was visible in outline at the time of former Premier Tanaka's visit to Moscow in 1973—the return of the two southernmost islands. Suzuki is also deeply interested in the Japanese participation in the development of Siberian and Soviet Far East resources. According to this source, former Premier Tanaka, the main backer of the Suzuki cabinet within the ruling Liberal Democratic Party, also supports this aim.

Thus, considering the chilly state of Japan-Soviet relations since the Soviet invasion of Afghanistan and the conclusion of the Japan-China peace treaty, there is now considerable openness toward improving relations with Moscow. One good reason for this is economics, always a factor in Japanese policy-making. Japan lost minimally several billions of dollars in contracts with the Soviet Union due to Tokyo's full-scale participation in the post-Afghanistan economic embargo. When President Reagan summarily lifted the U.S. grain embargo, the Japanese felt left in the lurch. There is almost no sympathy in Tokyo, particularly among business circles, for Japan to again faithfully follow U.S. economic sanctions against the socialist bloc over the Poland crisis.

That situation is viewed, particularly in business circles, as fundamentally an economic crisis within Poland, not dissimilar to the debt-fueled economic crises affecting many developing countries. A top official of Japan's largest trading company, Mitsubishi Corporation, expressed greatest worry over the effect of the Polish crisis on other economies in Eastern Europe, an area of increasing Japanese trade and loan activity. He related recent conversations with East German officials who described cutbacks in their economic plans due to the disruption of the Polish economy. Nobody

said as much, but it was implied that Japanese business would be happy to see stability and increased economic activity in Poland, if possible, under the military regime.

Another factor in renewed Japanese interest in the Soviet Union and its Comecon allies is their relatively sober view of the prospects for Chinese economic development. With long knowledge of China, Japanese business circles were skeptical about the "China-boom" fever which caught up many Americans and Europeans. While China is an important investment market and trading partner for Japan, there are no illusions about the economic mess in China today. A top government official dealing with foreign economic relations said: "It will be a hundred years before China becomes a modern industrial nation." The same official had recently made a visit to India, which, despite problems, would progress at twice the rate of China, he said.

Third World factor

Overall, there is a strong belief in Japanese policy circles that strategic problems, particularly the Third World "hot spots," are fundamentally economic problems. The crux of Japanese North-South policy, which is increasingly a focus of their foreign policy, is that the crises in the developing sector are not basically caused by Soviet activity, although the U.S.S.R. may exploit certain opportunities, but by economic backwardness and underdevelopment. There is great concern, for example, over the possibility of Iran-style crises flowing from internal economic problems.

From this standpoint the Japanese have emphasized the necessity of industrial and agricultural development in the Third World. In response to U.S. demands for Japan to take responsibility for security problems outside their borders, arguments have been made in Tokyo that the best role for Japan to take is economic assistance, not military mobilization.

This is part of a broader debate in the Japanese elite over Japan's future as a world power. According to a top official in the Economic Planning Agency, the essence of the debate is whether Japan should be a world power with a military establishment commensurate with its economic strength, or whether Japan could carry out the bold and "unprecedented idea of being a power based solely on its economic strength." This official said that he supports the latter course, which is the majority view, both in the leadership and among the population. The economic planner pointed out the relatively low level of defense expenditure relative to GNP made by post-war Japan, and asserted that this was an essential factor in Japan's economic growth.

For Japan to actually carry out this "unprecedented idea," it must solve the North-South problem through large-scale economic modernization of the developing countries. So far, Japanese rhetoric on the North-South

issue has outpaced any real policy initiatives. Partly this is a product of the indecisiveness of Japanese policy-making, the preference to "wait and see." The Japanese have placed themselves in the difficult position of making gestures toward the South and ensuring that their policy does not diverge too much from the consensus of the North, which usually comes down to not straying too far from the U.S. position. For example, at the request of several developing countries, Prime Minister Suzuki acted as mediator between the two sides at the October 1981 North-South summit in Cancún, Mexico. He tried to get the United States to soften its policy of drastic credit reduction measures to multinational aid institutions. He also gave mild support to the notion of conducting North-South talks through international dialogue, rather than the Washington line of turning all issues over to the International Monetary Fund/World Bank.

Yet, when Secretary of State Alexander Haig made very clear his hostility to Suzuki's efforts—going so far as to prevent direct, personal discussion between Suzuki and President Reagan—many people in Tokyo argued that the Suzuki initiative was "a failure," and that Japan should not have taken such an independent approach.

Official policy emphasis has been on increasing government aid levels. Privately, Japanese foreign-aid officials admit that this is no solution to the severe economic crisis hitting the developing—and developed—sectors. However, as a senior leader of the ruling party explained, they do not believe that the developing countries would accept the "sincerity" of Japan's offer to play a mediating role if the levels of official aid do not increase substantially.

In reality the net transfer of Japanese resources—technology and capital—has been increasing tremendously over the past year and a half. The transfer occurs through the private sector, which, however, is backed up by the official government agencies, under MITI's direction. The principal focus of such activity is in Asia, particularly in Southeast Asia, which has had the highest growth rate of any region in the world over the recent period. The Japanese have also been active for many years in places like Brazil, and more recently in Mexico, and Japanese businessmen also express an increasing interest in black Africa.

Critics point out that Japanese economic-development activity is mostly tied to energy and resource development in countries which are major sources of these supplies to Japan. The Japanese have been more ready to transfer technology and assist the industrialization plans of countries like Brazil and Mexico than any other of the industrialized capitalist countries.

The development of Japan's economy in a short period from backwardness to industrialization denies

any claim that such rapid development is not possible. Privately Japanese officials in government and business know this is true, but they are careful to take a low profile regarding any public declaration that Japan is a "model"—partly out of a desire not to raise expectations regarding what Japan will do for the Third World.

At a higher level of policy debate, however, there is recognition that Japan must define its role in world affairs precisely from the standpoint of its own experience of economic development and the transfer of that experience, and its fruits to the developing countries. The most profound and far-reaching expression of this recognition is a bold concept promoted by Masaki Nakajima, founding chairman of the Mitsubishi Research Institute and a former top official of Mitsubishi Bank and Steel Corporation. It calls for the formation of a new Global Infrastructure Fund (GIF), and a \$25 billion annual fund separate from the IMF/World Bank system to finance mammoth infrastructure projects in the developing sectors. (See *EIR*, Feb. 23.)

The concept behind the GIF plan, which Nakajima began to publicize in 1977, is that such projects, lasting ten years or more to completion, would have a \$500 billion multiplier effect on the world economy, and would provide vast sites for on-the-job training of skilled manpower, transfer of advanced technology, and peaceful cooperation among regions and nations. The

implicit idea is that this would be the basis for a new world monetary system, project-oriented rather than "money-oriented." The projects themselves are left open to suggestion and discussion, although Nakajima has thrown out some illustrative ideas drawn from existing studies, including greening of the Sahara Desert; vast water-power development in central Africa, Latin America, and South Asia; canals across the Thai Isthmus; and a second Panama canal.

The GIF idea has received backing from the leadership of the business circles and from elements in the government in the recent period, and Nakajima is hopeful that the GIF may soon be adopted as official policy. On Jan. 1 a group was formed to promote the idea. Headed by the powerful former chairman of the business federation Keidanren, Toshio Doko, it comprises such senior government officials as the head of the official aid agency, the Overseas Economic Cooperation Fund, Hosomi, and former Foreign Minister Saburo Okita. Former Prime Minister Takeo Fukuda is a backer of the idea as well.

The willingness of the Japanese government to independently put its weight and resources behind such ideas will be the decisive test of whether the leadership of this nation has the ability to define a new role for Japan in the world, a role which will define the identity of its citizens into the next century.

EIR

U.S., Canada and Mexico only

3 months **\$125**
6 months **\$225**
1 year **\$396**

Foreign Rates

Central America, West Indies, Venezuela and Colombia:
 3 mo. \$135, 6 mo. \$245, 1 yr. \$450
 Western Europe, South America, Mediterranean, and
 North Africa: 3 mo. \$140, 6 mo. \$255, 1 yr. \$470
 All other countries: 3 mo. \$145, 6 mo. \$265, 1 yr. \$490

I would like to subscribe to the *Executive Intelligence Review* for

3 months 6 months 1 year

Please charge my

Master Charge No. _____ Visa No. _____
 Interbank No. _____ Signature _____
 Expiration date _____

I enclose \$ _____ check or money order

Name _____

Company _____

Address _____

City _____ State _____ Zip _____

Make checks payable to *Executive Intelligence Review* and mail to *EIR*, 304 W. 58th Street, 5th Floor, New York, NY 10019. For more information call (212) 247-8820.

Electoral setback for Schmidt

Germany's Chancellor lost his first "test of strength," but can easily regroup if his supporters clarify the issues.

Returning from a round of brief consultations in London, West German Chancellor Helmut Schmidt told newsmen in Bonn March 22 the message he had just delivered to British Prime Minister Margeret Thatcher: there was one issue above all others, Schmidt insisted, which European leaders had to face. That was "the greatest chaos in the world economy since 1945." Schmidt then warned, "A depression in the style of the 1930s is probably on our doorstep right now. This has to be fought."

Schmidt communicated these thoughts 24 hours after his Social Democratic Party (SPD) had suffered a dramatic electoral loss in the northern state of Lower Saxony. For the first time in over a decade, SPD returns had dipped below 40 percent in a northern industrial state.

The victor in the election, moreover, had been the international zero-growth organization, the Club of Rome. The Club has cultivated two party currents in the state through the Volkswagen Foundation circuit which financed the Club of Rome's founding.

Christian Democratic incumbent Ernst Albrecht, a protégé of the zero-growth Club, came off with more than 50 percent, giving him an absolute majority in the state parliament; and the Green Party, a fascist-environmentalist party, topped the 5 percent requirement for parliamentary representation, giving them now a total of 11 seats.

How could voters so strongly

desert Schmidt's party, when the Chancellor has made stemming world depression his chief policy objective, and give such support to forces who would readily dismantle Germany as an economic power, and implement a Morgenthau Plan-type program for ruralization if they had to power to do so?

Helga Zepp-LaRouche, Chairman of the European Labor Party, and one of Germany's most prominent proponents of nuclear-power development, answered this question in a written statement March 23. What the results documented, she stated, was that the Lower Saxony electorate had acted on the basis of "stupidity," a parochial ignorance of international developments quite similar to the "stupidity" which ushered Jimmy Carter into power in 1976 in the U.S.

In Lower Saxony, Albrecht and the Club of Rome took advantage of the large voter base among anti-communist Eastern refugees to whip up hysterical opposition to the left wing of the SPD. That left wing is controlled by Willy Brandt, the synthetic politician invented by Eleanor Dulles in West Berlin after World War II.

The Lower Saxony election was the first of four Schmidt faces this year, the most important being Hamburg, his home state, in April, and Hesse, a stronghold of Schmidt support, in the fall.

At stake in these coming months is whether one of the world's foremost statesmen, whose name has come to be identified with the concept of "peace through eco-

omic development," will be allowed to bring to fruition a series of treaty agreements which have been the hallmark of his eight years in office. These treaties lay the basis for a substantial leap in East-West trade, and economic cooperation between advanced and developing countries.

The Lower Saxony election highlights the weakness of Schmidt's government. Although recognized as "the most popular Chancellor" of the Federal Republic's existence, Schmidt has been forced to govern in alliance with an array of political figures who do not share the Chancellor's outlook. Germany's political "careerists," who are to be found in every political party, are individuals bound by the postwar occupation mentality that Germany can never be a proud nation. These careerists, including a whole group of CDU Chancellor and federal cabinet hopefuls (Helmut Kohl, Albrecht, Manfred Woerner) have been working closely with the German Marshall Fund to paralyze Schmidt's government and drive him to defeat, possibly through early elections before year-end or in 1983. With Brandt counted in as an ally, these CDU'ers have held a dozen or so meetings in Washington in recent weeks to strike agreement with Washington officials on the policies the CDU would implement, especially on defense questions, were it to come to power.

Schmidt's base is to be found in industrial regions where trade union and industry groups representing every party have come together to realize Schmidt's outlook. What Lower Saxony shows is that this base must now move rapidly to educate a wider array of the population.

Whither Israel?

Sharon's West Bank butchery may be the undoing of Menachem Begin's regime.

A popular Israeli radio show with a large listenership in the armed forces recently ran a comedy routine in which the Yiddish word "meshugenah," or "crazy," was graphically defined.

"You mean 'meshugenah,' as in Ariel Sharon," commented one of the characters.

In the eyes of not a few Israelis, Ariel "Arik" Sharon, Israel's extremist defense minister, is more than just meshugenah. He is viewed as a power-hungry megalomaniac whose ruthless plans for annexing the occupied West Bank and shooting or otherwise eliminating anyone who gets in his way have engendered revulsion in Israel. Even Prime Minister Menachem Begin has gone on record describing Sharon as "anti-democratic" and likely to "surround the prime minister's office with tanks."

Begin is not far off the mark. On March 23, the Begin government was nearly toppled when three motions of no confidence were brought before the Israeli Knesset by the opposition parties in protest of the harshness with which Sharon and his clique are handling the West Bank. Despite the fact that for their own purposes the extreme right-wing splinter parties joined with the Labour Party in the vote (i.e., to block withdrawal from Sinai), the tie vote in the Knesset that almost brought Begin down was widely interpreted as testimony that a substantial number of Israeli citi-

zens do not want an occupation army in the West Bank. The tie vote has sharply reduced Begin's parliamentary maneuvering room, and may also have thrown a monkey wrench into Sharon's provocative schemes.

Sharon's West Bank brutality, charged a March 22 *Jerusalem Post* editorial, has "surely widened the gap between Israelis and Palestinians in the [occupied] areas" wrecking any chance of Palestinian autonomy agreement. The Israeli daily *Haaretz* accused the Begin government of treating the West Bank "as though it had already been annexed," and it absolved the Palestine Liberation Organization from responsibility for the West Bank riots, declaring they are provoked by Sharon.

While talk of early elections is rampant, there is one thing that is clear: Sharon and his faction in and around the government are very much out on a limb.

Sharon has been gambling that by stepping up military pressure on the West Bank, south Lebanon, and Jordan before the April 25 deadline for Israel's final withdrawal from Sinai, he can emerge as a strongman among Israeli political leaders and the successor to the ailing Begin.

Backing for Sharon comes primarily from the non-Israeli organized crime networks, including the Meyer Lansky dope empire and the U.S.-based Meshulam Riklis of the

Rapid-American Corporation. Sharon also has important ties with British and Swiss bankers. Inside Israel, one of his closest collaborators is former Col. Menachem Milson, the new West Bank civilian administrator. Milson is an Israeli intelligence veteran who is associated with the Aspen Institute in the United States, the thinktank that helped overthrow the Shah of Iran in 1979 and fostered the spread of Islamic fundamentalism.

According to Israeli intelligence sources, Sharon has lost the confidence of much of the leadership of Begin's ruling Herut Party. Ministers Aridor, Shamir, and Levy have reportedly formed a "Stop Arik Movement" to thwart Sharon's power play. In addition, many Israeli army officers are reportedly angry at Sharon's one-man rule. Most worrying to these officers is Sharon's stated willingness to defy the United States and carry out an adventurist policy toward Israel's Arab neighbors.

In early March when Sharon proposed that Israel stage a land, sea, and air invasion of Lebanon—his demand since January—he was blocked by Begin and others in the cabinet. Thus checkmated, at least temporarily, in Lebanon, Sharon is going haywire on the West Bank.

Working with Sharon is Chief of Staff Rafael Eytan (despite a public display of differences) and Economics Minister Yaacov Meridor. The Mafia-connected Meridor, the key powerbroker in Herut between Sharon and Begin, has suddenly come under investigation for all sorts of illegal activities, however, including kickbacks to his sons and an alleged loan made illegally from the North American Bank Ltd.

Changes in the economic cabinet

Wall Street and London banking circles seem to be fond of new Finance Minister Silva Herzog.

In March, two of Mexico's most powerful government officials, Finance Minister David Ibarra Muñoz and central-bank director Gustavo Romero Kolbeck, suddenly resigned their posts. Their replacements, Undersecretary of Finance Jesús Silva Herzog and Banco de México sub-director Miguel Mancera Aguayo, were announced with equal haste. They are known to be close to the PRI presidential candidate (who is therefore, the next president), Miguel de la Madrid.

The press and some PRI politicians here rushed to explain that this shake-up in the upper echelons was simply a move to guarantee a smoother transition from the López Portillo administration to de la Madrid's, in a period of difficult economic decisions following the February peso devaluation.

Wall Street and London mouthpieces such as the *Journal of Commerce* and the *Financial Times* (usually quick to seize these occasions to declare that the Mexican political system is falling apart), this time portrayed the changes as merely institutional.

Nonetheless, everything indicates that the reshuffle was dictated to Mexico by its creditors in Wall Street and London. Bankers are not hiding the fact that they just didn't trust President López Portillo and his aides to impose the austerity measures they have been demanding since earlier this year. In the

words of a senior Wall Street banker, the new economic team in Mexico is applauded by New York and other international bankers because of "its willingness to work with them and carry out unpopular programs."

Among Wall Street's unpopular demands is a 20 percent cut in the 1982 federal budget, a precondition for lending the \$20 billion Mexico will need this year to keep afloat.

The bankers seem especially fond of the new Harvard-trained Finance Minister, Jesús Silva Herzog. An early 1981 issue of the *Institutional Investor* (a London financial newsletter) praised him as a man who has an urbane knowledge of the international financial community. He is reputed to be the man who negotiated most of the big Eurodollar credits Mexico has received in recent years.

As for the new director of the Banco de México, the nation's central bank, Mancera Aguayo, he acquired long experience in monetarist practices at the Bank of England. He has been part of the bureaucracy of the Banco de México, the country's stronghold of monetarism, since the 1950s.

Both officials are seen by some financial analysts in this capital as followers of former Finance Minister Antonio Ortiz Mena, who in the 1960s imposed the "import substitution" economic model, promoting light consumer industries at the expense of a strong state-controlled

capital-goods industry. The "Ortiz Mena Mafia," as it is known here, lost political ground when José López Portillo took over the Finance Ministry in the early 1970s. As the Wall Street banker described it, they were shoved aside by López Portillo with his "go like hell for growth" policies.

PRI candidate de la Madrid has not hidden his dealings with the Ortiz Mena crowd. Back in January, a meeting he held with Ortiz Mena, now director of the Inter-American Development Bank based in Washington, received wide press notice.

That de la Madrid is ready to make some compromises with the country's creditors has been made clear by the candidate himself. He has been disassociating himself from the rapid development policies which characterized the López Portillo administration. In a campaign speech in the northeastern state of Tamaulipas in March, de la Madrid proposed an oil policy which makes dangerous compromises with environmentalist demands raised by zero-growth leftist groups.

De la Madrid has tried to conceal the tremendous pressures the International Monetary Fund and other foreign forces have put on Mexico to stop its industrialization efforts and growth policies. This is a departure from the political explanations President López Portillo has given for the devaluation of the peso and other economic blows which have hit Mexico recently.

Although there is no guarantee that de la Madrid will keep his promises to the bankers once he is president, I can report, that for the moment, he is telling Wall Street he is prepared to do so.

International Intelligence

Army takes power in Bangladesh

Bangladesh Army Chief of Staff General H. M. Ershad, seized power in a bloodless coup March 23, ousting President Abdus Sattar. Sattar had become president following an abortive May 1981 coup in which President Ziaur Rahman was assassinated. Initial reports were that Bangladesh is calm and there are as yet no mass arrests.

General Ershad is one of the East Pakistani generals who chose to remain in West Pakistan during the 1971 Bangladesh war of liberation. However, Ershad is not part of the most extreme pro-Pakistan, pro-Jamaate-Islami (Muslim Brotherhood) factions inside Bangladesh. Indeed, Ershad had criticized Sattar for bringing too many of the latter into the Bangladesh government.

As noted in *EIR* Delhi correspondent Paul Zykofsky's report in our last issue on his visit to Bangladesh, if the coup should lead to further economic devolution of Bangladesh, it will accelerate the flow of refugees into India, increasing political turmoil in that country, along the lines of a scenario discussed in 1971 by Henry Kissinger.

Brezhnev makes bid to improve Peking ties

As predicted by the *EIR*, Soviet President Leonid Brezhnev has signaled a shift toward relaxation of tensions with Peking. The signal came March 24 in an important foreign-policy speech in the Central Asian city of Tashkent.

In language not heard from a Soviet head of government in many years, Brezhnev outlined four "principles" of Soviet policy toward Peking: 1) Despite criticisms of Chinese departures from "socialist principles," the U.S.S.R. "does not deny the existence of a socialist system in China"; 2) the Soviet Union recognizes the sovereignty of the People's Republic over Taiwan; 3) the Soviet

Union is ready to renew talks on border disputes "at any moment," and to this frequent Soviet offer Brezhnev added a reference to "possible measures to strengthen mutual trust in the frontier areas"; 4) the Soviet Union "remembers the bonds of friendship and comradely cooperation" between the P.R.C. and U.S.S.R. in the past and considers their estrangement "not normal."

Brezhnev said that Moscow is interested in relations "of mutual benefit with no detriment to third parties" in the areas of economics, science, culture, and politics.

Haig, Ledeen called good friends by P-2

Licio Gelli, the Venerable Master of the outlawed fascist Propaganda-2 Freemasonic Lodge, has just finished an autobiography, and, on a tape-recording in the possession of Bologna Judge Aldo Gentile described by the Italian magazine *Panorama*, intends to use it in "political warfare" against "his enemies."

Gelli has been spotted recently in the French city of Nice and in Switzerland, according to information in the hands of Italian magistrates.

Gelli decided that he will designate as his agent for getting the book published none other than Michael Ledeen, the former special adviser to Secretary of State Haig who is himself implicated in P-2's operations. Gelli said he considers Ledeen the person he can trust most to get the job done.

Francesco Pazienza, the Socialist Party and P-2 member investigated by the Italian Parliamentary commission on P-2, called Haig a good friend in an interview with the Italian newspaper *Il Mondo*. Pazienza, who conduited funds to Ledeen through Swiss bank accounts, bragged how his clout with Haig was such that the Secretary of State postponed a trip to Camp David to meet with the President in order to attend a meeting with Christian Democrat Flaminio Piccoli that Pazienza had set up. Pazienza also confirmed his own ties to the Israeli Mossad in the interview.

Election strategy backfires against French Socialists

The French Socialist Party and its ruling coalition partners, the Communist Party and left-radical MRG, suffered drastic losses in the provincial elections that ended March 21. They not only lost about 75 of the seats held from the last elections in 1976, but nearly all of the 167 newly created provincial seats.

Interior Minister Gaston Defferre had created the new seats in a gerrymandering operation.

Guatemala coup threatens all Central America

Two weeks after the fraudulent March 7 elections which elected Gen. Aníbal Guevara as the next president, a battalion from the Air Force and the Army surrounded the National Palace and placed outgoing President Gen. Romeo Lucas García and president-elect Guevara under house arrest on March 23.

The new head of a five-man junta is Gen. Efraín Ríos Montt, who ran unsuccessfully for president on the Christian Democratic ticket in 1974. However reliable sources report that the power behind Ríos Montt is Mario Sandoval Alarcon, the extremist head of the Movimiento de Liberación Nacional (MLN), who is known to control the "Mano Blanca" death-squad apparatus in the country.

According to reports in the major U.S. press, the change in government was intended as a moderate "young colonels" coup carried out with State Department knowledge but "betrayed" at the last minute by Ríos Montt in order to place the death-squad backers in power.

EIR's assessment is that the original and only purpose of the coup, which probably did have State Department backing, was to unleash a civil war in that country and intensify crisis conditions in the rest of Central America—

particularly in El Salvador. This coheres with remarks made by Alexander Haig in a recent interview with the *Los Angeles Times* in which he warned that Guatemala is "the next target" and that "Mexico is a very short run from here." Undersecretary of State Thomas Enders, according to congressional sources, is promoting Salvadoran death-squad leader Gen. Roberto D'Aubuisson, a candidate in the March 28 elections. The Guatemalan coup is certain to encourage the insurgency in El Salvador and could strengthen D'Aubuisson in the March 28 elections.

Canadians warn United States on water

The Canadian Ambassador to the United States, Allan E. Gottlieb, predicted that Canada may become "considerably less secure" for the United States if it challenges its northern neighbor over a host of issues, including "the diversion of rivers and the buildings of dams which effect the other side." The warning came in the Ambassador's speech before the Baltimore World Affairs Council March 18.

Although Gottlieb did not mention it by name, the only plan on the table that would effect Canadian water is the NAWAPA proposal to bring water from Alaska through Canada into the drought-stricken High Plains of the United States. The plan would also aid Canadian agriculture.

Canadian Environment Minister John Roberts, according to Montreal's *La Presse*, expects "strong economic pressures" on Canada within the next 10 years to persuade Canadians to sell water to the U.S. Western states. "Water is the petroleum of tomorrow," Roberts said. "We must not negotiate."

In the mid-1960s, Jack Davis, then Minister of Forestry and Fisheries, called the original NAWAPA a scheme created "to steal Canadian water." Gen. A. G. L. McNaughton called NAWAPA "a monstrous concept . . . a diabolical thesis that all waters of North America should be-

come a shared resource," in his 1966 address to the Royal Society of Canada.

Bonn rejects Global 2000 in Bundestag statement

The West German government of Chancellor Helmut Schmidt refuted the premises of the Carter administration's 1980 *Global 2000 Report*, which calls for policies that it states will lead to the elimination of almost 200 million people by the year 2000, in a March 12 document responding to several parliamentary motions. The document states that "The German federal government is committed to making contributions in the future to find ways to break through the assumed natural limits to the development of population growth and food supply."

It asserts that the Bonn government does not think that the *Global 2000 Report* has sufficient insight into international problems to be taken as blueprints for government action. "Because a positive approach is lacking, *Global 2000* fails to concretize practical steps and therefore inevitably paints a gloomy picture."

Global 2000's methodology is also seriously at fault, because it uses a manifold of partial models which were developed at different times with different purposes." As well, "there is no investigation of alternate developments by which the trends [*Global 2000* cites] could be altered."

The Bonn statement rejects the *Global 2000* claim that "it would be better to limit economic development and technological progress in the highly-industrialized countries and for the developing countries not even to industrialize. . . . The situation would be worsened [by such policy] and the potential for international conflicts would be increased. . . ."

Addressing the central issue of continued existence of nation-states, the document states: "The sovereignty and self-responsibility of the developing nations must be respected, especially in this sensitive political area; the same applies to the preservation of basic human rights."

Briefly

● **DENG XIAOPING**, the Vice-Premier of China, declared March 23 that a downgrading of U.S.-China relations will be "inevitable" if the U.S. supplies arms to Taiwan. Hsinhua, the official news agency, says Peking does not think a visit to China by U.S. Assistant Secretary of State John Holdridge is possible at this time—before any such official request was made.

● **PAKISTANI** University students are continuing to boycott classes throughout the nation in protest of the regime of dictator Ziaul Haq. On March 13, students clashed with Muslim fundamentalist youth gangs that sources report were organized by Zia to terrorize the campuses.

● **COSTA RICAN** police seized March 16 the largest cache of illegal weapons in that nation's recent history, being transported to Salvadoran guerrillas by an "international commando." The arms included American-built weapons provided to Israel under the Camp David accords. Sources reported that the "commando" was integrated with Israeli Mossad agents.

● **A BRITISH** operative has been stirring up ethnic strife in the Balkans. Marcia MacDermott, one of a group of Britons sent to Bulgaria by the Foreign Office to "train Bulgarian diplomats," has received great publicity in Bulgaria for her claim that Macedonia's national heroes were ethnic Bulgarians. The Yugoslav press denounced Bulgaria in turn. Bulgaria retains its territorial claim to the Yugoslavian Republic of Macedonia.

● **MEXICO** is the target of a fiscal-austerity program being organized among private banks by the U.S. Federal Reserve. A senior official at the New York Fed told an interviewer March 23 that "Our message to the banks is, 'If you're a creditor of Mexico's, you should be putting pressure on them to reduce their borrowing needs.'"

Behind the pressure for a 'budget compromise'

by Richard Cohen, Washington Bureau Chief

Pressures intensified in late March for President Reagan to accept deeper cuts in the fiscal 1983 federal budget. The question here is, despite appearances, not a presidential loss of power to Congress; the question is whether *both* the White House and the legislative branch will yield to a fiscal policy made above their heads in Wall Street and at the Swiss-based Bank for International Settlements (BIS), the Federal Reserve's controller. The President and Congress will then have to bear full responsibility for the budget program's wretched effects on the economy. BIS-run task forces of non-elected "crisis managers" will replace the governing functions of discredited, Hooverized officials, who were foolish enough to accept the argument that the primary cause of the depression is the budget deficit created in fact by Paul Volcker's interest rates.

Substance to 'breakthroughs'?

However, those blow-dried congressional committee staffers who relay the policies of the BIS and the New York banks fear the negotiations between Congress and the White House intended to secure the BIS budget package are not proceeding smoothly, even though on March 24 a "breakthrough" atmosphere was created when the White House announced that the pro-Volcker Chief of Staff James Baker III was about to enter into formal discussions with House Speaker Tip O'Neill, House Budget Committee Chairman James Jones, and House Ways and Means Committee Chairman Dan Rostenkowski on the 1983 budget.

It is worth noting, however, that on March 10 Mr.

Reagan had called in BIS supporter Malcolm Baldrige, the Commerce Secretary, to tell him that he intends to stick with his own program despite business complaints about the size of the deficit; and James Baker was ordered into the room to hear that statement. And on March 19, Reagan refused to meet with his economic advisory board, after a six-hour meeting of the board discussed further budget cuts, cost-of-living reductions, and tax hikes. (Deputy White House Chief of Staff Michael Deaver reportedly backed the President's refusal.)

On March 19, speaking before the National Association of Manufacturers (NAM), the President chided "some in the business community" who had criticized his tax- and budget proposal while emphasizing that he would not retreat on his tax program. Following his address, the Executive Board of the NAM met and issued a statement supporting the President's program. Finally, on March 23, speaking before the National Conference of Christians and Jews in New York City, the President sounded the Roosevelt theme of "no retreat."

Sources close to the White House are convinced that while the President may endorse the format of the discussions with the congressional leadership, he has made no commitments on substance. And while the President resists pressure for compromise, Congress, reflecting increasing constituency pressure for relief under recession conditions, the week of March 22 passed a supplemental budget for FY82 appropriating more funds than planned in the Reagan budget. This

echoes a theme already well-developed in early reports from both Senate and House authorizing committees suggesting that committee requests will go well beyond the Reagan FY83 proposals. Further, those close to Wall Street and the BIS are taking note of additional constituency pressure in those key weakened sectors of the economy—construction and agriculture (see Congressional Closeup).

The pressures

These concerns have moved the orchestrators of the bi-partisan congressional effort to force the President to the negotiating table into a higher-pressure campaign. On March 16, Wall Street guru Henry Kaufman of Salomon Brothers was sent to testify before the House Budget Committee. Kaufman ranted that “Wall Street has lost confidence in Reagan’s economic program and it must be changed in order to prevent economic tragedy.” He then predicted that if the White House failed to join Congress in re-writing the budget, interest rates would rise sharply. In closing he warned, “We don’t know whether the United States can avoid a 1930s-style Great Depression.”

While Kaufman was threatening the President on Capitol Hill, Jacques de Larosière, Executive Director of the International Monetary Fund, told the American Enterprise Institute that the U.S. deficit has risen to levels that are no longer consistent with fiscal soundness. De Larosiere warned that if the White House and Congress do not increase taxes and cut entitlement programs, interest rates will go through the ceiling. The following day, March 17, Federal Reserve Board Governor Henry Wallich told a Washington press conference that increasingly high interest rates will result if the President refuses to reverse himself on tax and budget matters. And on March 19, Fed. Chairman Paul A. Volcker told the NAM just before the President’s appearance that “there is nothing more urgent in coming weeks than resolving the budgetary problem.” While his full-scale lobbying effort unfolded, Rep. Henry Reuss (D-Wisc.) Chairman of the Joint Economic Committee and an intimate of European central bankers, was busy introducing the new tactics jointly conceived by Reuss and—according to informed sources—a number of European bankers. These sources report that Reuss was behind the proposal by House Budget Committee Chairman Jones to the House Democratic Caucus on March 17 that would report the proposed Reagan FY83 budget onto the floor of the House immediately. The Reagan budget would presumably gain few votes even among Republicans, thus exposing the real weakness of the President’s position.

While my sources suggest that the tactic is only a threat aimed at pressuring Reagan to the bargaining table, it reveals more devastating blackmail operations

being actively discussed among Reuss and his associates. Admitting that the entire spring budget scenario has as its central goal “marginalizing the President,” sources close to Reuss report that he and others are considering the option of going for a “congressional dictatorship over the White House—and in fact a period of congressional government.” This is to be accomplished by an organized bipartisan congressional veto of the projected mid-May vote on increasing the U.S. debt ceiling if the President refuses to yield on taxes and budget matters. This bit of blackmail, while considered by most impossible to secure for lack of enough Republican defections, nonetheless increases pressure on the White House to submit to a deal.

While Reuss and Jones were issuing threats, Republican leaders announced that their efforts toward a budget compromise would shift from the Senate to the House, focusing on Speaker O’Neill. David Stockman, the Office of Management and Budget Director, put out the word that a compromise could be possible within two weeks, and suggesting that he had urged Capitol Hill Democrats to swear that “emergency measures taken for the good of all Americans in May will not become the object of partisan exploitation in November.”

By the weekend of March 20 it was leaked that O’Neill had already entered into private talks with House Republicans, and rumored that he has already agreed to sell out the Social Security COL increase if the President proposes to do so first.

A scenario

Yet nervous congressional staffers are not convinced that a budget-cutting agreement will be reached even by mid-May. The March 21 *Washington Post* lead editorial, reflecting these growing fears, warned that failure to reach a White House-Congress budget compromise could explode by early summer into uncontrollable constituencies determining congressional and executive budget policy.

This spending will lead to serious increases in interest rates, warns the *Post*, which, however, advocates that rates should remain high under any circumstances. The *Post* reports that under these conditions this summer it is likely that at least one of six financially shaky major industrial corporations will go bankrupt. Congress will then target the Federal Reserve Board and its Chairman Paul Volcker for interest-rate relief, suggests the *Post*.

Less disturbing to the *Post* under these circumstances is the suggestion that Congress and the President will instead listen to a nest of economic Rasputins, clustered about Presidential adviser Milton Friedman, and opt for a “balanced budget” constitutional amendment in order to save political face.

Infrastructure investment: the key to U.S. productivity

by Steven Bardwell, Military Editor

Alexander Hamilton, in his famous 1791 *Report to the Congress on the Subject of Manufactures*, outlined a program for the encouragement of industry which is sorely needed in the United States today. Hamilton defined what Henry Clay was to call 37 years later the American System of economics, a combination of:

- 1) protective import and export regulations;
- 2) "encouragement of new inventions";
- 3) cheap and plentiful credit; and
- 4) "good roads, canals, and navigable rivers . . . the greatest of all improvements."

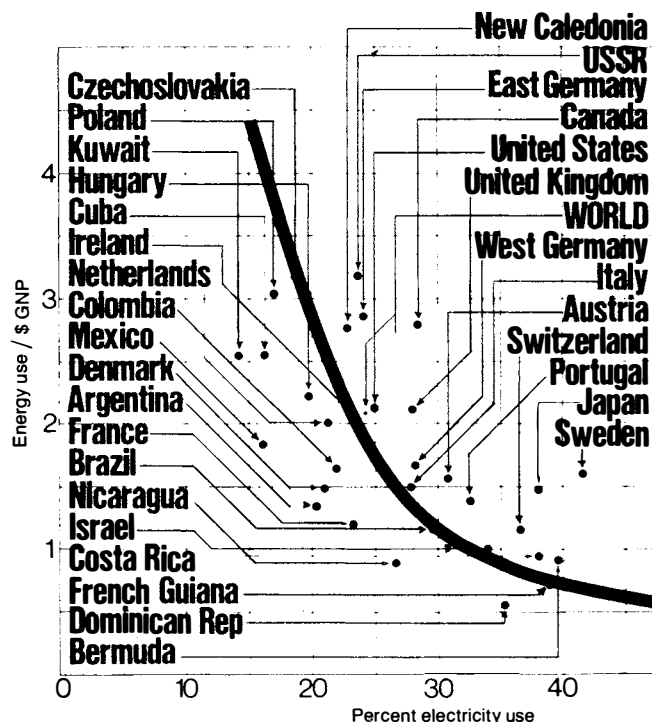
"Domestic improvements" remained for the next 75 years the centerpiece of economic policy for the group of American System economists who guided American industrialization. The results of a recent study by the economics staff of *Executive Intelligence Review* point to the efficacy of this plank in the American System platform today. The *EIR* study employed the computer model developed three years ago by a team of Fusion Energy Foundation researchers under the direction of *EIR* Founder and Contributing Editor Lyndon H. LaRouche, Jr. The computer model, known as the LaRouche-Riemann model, is designed not only to simply measure an economy's current performance, as are most conventional input-output models, but also to analyze the economy's ability to generate a profit to support its activities and to reproduce itself at a higher level of applied technology and labor productivity.

The study's results have confirmed with amazing detail the importance of domestic improvements to the national economy, and most emphatically, have identified the lack of such improvement (or infrastructure investment, in more modern terminology) as a central cause for the current disastrous situation of U.S. industry. Even more dramatically, the study results demonstrated renewed infrastructure investment on a broad scale by the federal government to be the most efficient ingredient in a program to re-industrialize the United States.

The LaRouche-Riemann model study, described in detail in the following article, showed that the decline in U.S. infrastructure investment since the late 1960s is closely correlated with the decline in the economy's

productivity growth (measured in output per manhour) and in the thermodynamic efficiency of the economy (as measured in terms of tangible profit divided by tangible consumption plus depreciation). This correlation is especially striking during the past 15 years, in which productivity changes have not been correlated with capital investment, research and development expenditures, or other common measures of economic progress. More important, however, is the second conclusion of this study: investment in infrastructure in the United States, especially large-scale water control projects in the Western states and rapid expansion of the nation's electrical grid, is the most efficient and dynamic way of re-invigo-

Figure 1
Relation of energy efficiency
and percent energy use



Source: Fremont Felix, Gibbs and Hill

rating our depressed economy.

Presenting the results of its study this February to an audience of local, state, and national leaders at a National Democratic Policy Committee-sponsored conference on water resources in Houston, Texas, the *EIR* team elaborated the high points of the NDPC's two-track program for gigantically increased infrastructure development in the United States. Track one consists of a massive water control and infrastructure project for the American West, modeled on the 1964 proposal of the Ralph M. Parsons Company known as the North American Water and Power Alliance (NAWAPA). The original NAWAPA project would have, at its conclusion, provided water and water transport for the western half of the United States, doubled the irrigated acreage for the entire country, created a new north-south inland waterways transportation grid, and generated 60 gigawatts of additional electrical energy generating capability. In the third section of this report, Sylvia Barkley evaluates both NAWAPA's current feasibility and the project's economic impact.

Track two of the National Democratic Policy Committee plan is crucial, the *EIR* specialists stressed, as it consists of an aggressive acceleration of construction of nuclear power generating capacity in the United States, leading to the completion of 150 gigawatts of new electrical capacity from nuclear installations by 1990. Momentum from a crash program of nuclear-energy development between now and 1990 would carry the United States through to the end of the century with a high rate of electricity growth which would have highly beneficial effects on the productivity of the economy as a whole.

The historical precedent

The central importance of infrastructure development was well known to the first American economists. Alexander Hamilton identified the interrelated issues:

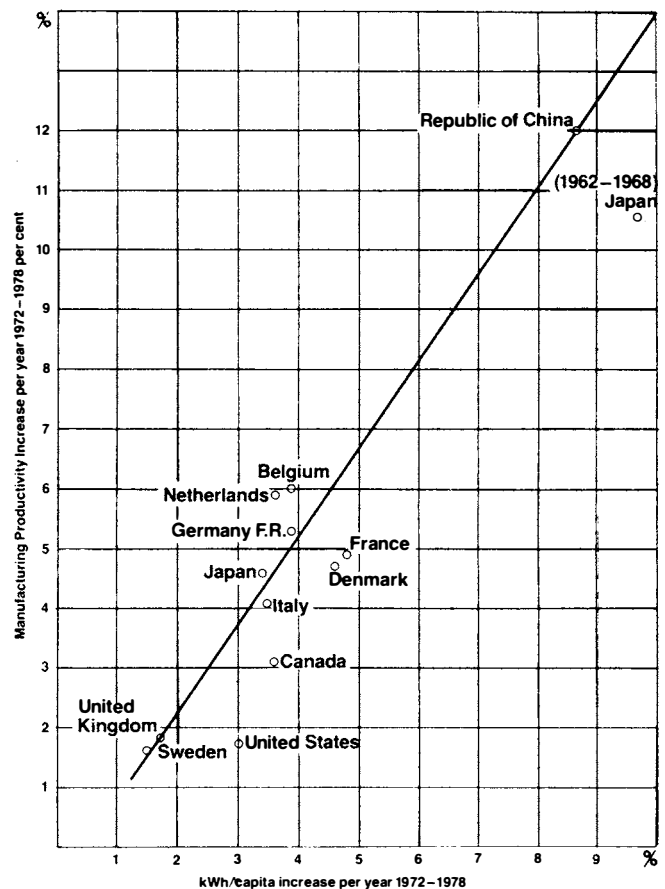
Improvements favoring the facilitating of the transportation of commodities intimately concern all the domestic interests of a community; but they may without impropriety be mentioned as having an important relation to manufacturing. . . . There can certainly be no object, more worthy of the cares of the local administrations; and it were to be wished, that there was no doubt of the power of the national Government to lend its direct aid, on a comprehensive plan. This is one of those improvements, which could be prosecuted with more efficacy by the whole, than by any part or parts of the Union. There are cases in which the general interest will be in danger to be sacrificed to the collision of some supposed local interests. Jealousies, in matters of this kind, are as apt to exist, as they are apt to be erroneous.

Hamilton summarizes very neatly the basic political

issues of infrastructure: it must be national in conception, centrally directed in execution, and evaluated in terms of general returns to investment, not local or private profitability. As Sylvia Barkley shows below, these issues of national planning and direction are the most difficult prerequisites for a competent infrastructure plan for the next 20 years.

The economics of infrastructure is surprisingly subtle, and it is a tribute to the genius of the American System economists that they so early identified the crucial nature of improvements in communication, transportation, and storage of commodities. First of all, infrastructure does not produce output or contribute directly to the production of output. Transportation, communication, warehousing, and energy transmission do not produce "value" as value is defined by the classical economists; the way modern market economists insist on jumbling the economic activity of these

Figure 2
Relation of productivity growth and electricity growth



Source: Fremont Felix, Gibbs and Hill

sectors with the rest of the economy as either a service or industrial sector is an indication of the shoddy thinking characteristic of modern economics.

As Hamilton and his successors deduced, infrastructure produces not output but *productivity*. The historic particulars of this hardly need restatement: infrastructure improvements speed the rate of commerce and accelerate turnover of commodities; they lessen necessary inventories; they cheapen the cost of raw materials; they expand available markets; they create new manufacturing processes dependent on rapid turnover; and they increase the efficiency of an economy by increasing the reliability of all transfer of goods and services.

This increasing economy-wide throughput has a profound meaning in terms of the thermodynamic efficiency of an economy. Here, we note two additional aspects of this question. First, an acceleration of the average velocity of transactions in an economy—either through improved communications or improved transport—provides a “hidden” source of productivity growth. This effect has been brutally shown by the effect of transport deregulation in the United States. Deregulation of the trucking and airline industries, according to a June 1979 study by *EIR*, was projected to result in an approximate 2 percent decline in average U.S. productivity because of delays in shipments, increased inventories, declines in reliability (that is, increases in thefts, illegal shipments, and hijacking), and shutdown of smaller routes.

The basis of this projection was a theoretical analysis of the role of infrastructure which showed that improved productivity in transport was mathematically equivalent, in engineering terms, to speeding up the economy. The computer model showed that a drop in transportation productivity was equivalent to slowing down the rate of time for the overall economy. Looked at in “real time,” the economy was experiencing a decline in productivity. It is as if the transfer lines and conveyor belts in an assembly plant were slowed down—not only slower production schedules result, but new inefficiencies, mismatches between time-phased production steps, and the like. Improvements in transport, especially transport of raw materials and energy, function positively in the same way.

It is instructive to note the role of the massive infrastructure projects of the 1930s in the recovery of the U.S. economy during the war. Without the electrical capacity of the Tennessee Valley Authority, not only would Southern industry not have grown, the atom bomb would not have been built. Southwestern agriculture was built on the harnessing of the Colorado River from the same period. The existence of New York City as a modern urban center during the 1950s was a result of the Works Progress Administration reconstruction of the city’s infrastructure.

Infrastructure in the form of transportation and water control falls directly under the theoretical analysis provided by the early American System economists. The role of energy in infrastructure is more complicated. It is the conclusion of several LaRouche-Riemann model studies that energy in the most general sense is *not* similar in quality to infrastructure but that electrical energy *is*. Hence, the emphasis on the growth of U.S. nuclear-based electrical generating capacity by 150 gigawatts by 1990.

Energy and infrastructure

A useful point of reference for this unique infrastructure role of electricity is a paper delivered by Fremont Felix at the 1980 Economy, Energy, and Electricity Conference held in Toronto, Canada. Felix, a consultant to Gibbs and Hill Company, studied the impact of the 1973 rise in oil prices on the consumption of energy in the industrial countries of the world. His conclusions illuminate the difference between energy in general and electricity in particular.

1) Figure 1, taken from Felix’s study, plots the percent of energy used in the form of electricity in a country against the total energy per dollars of GNP. There is a very close *inverse* relation between the two. That is, greater energy “efficiency” in an economy is associated with a higher technological level of that energy consumption. *The higher the proportion of electrical energy in a country’s energy budget, the more efficiently energy is used overall.* Note that this relation holds without regard to the overall level of economic development of the country—the Dominican Republic falls on the same curve as West Germany.

This demonstrates that the much-vaunted decline in energy use per unit GNP that occurred over the past decade is closely related to rising electricity use rather than conservation or other such measures. Many commentators have claimed that the final arrival of the post-industrial society is heralded by the decreasing energy content of GNP over the period of rising oil prices. This “decoupling” thesis has been the source of much evil speculation about the efficacy of conservation, the desirability of service-oriented economies, the necessary demise of heavy (and energy-intensive) industry, and the like. Felix shows, on the contrary, that there is a direct inverse correlation between the energy per unit GNP and electricity consumption.

2) *The growth rate of electrical energy is very closely correlated with the growth of GNP per capita.* For the same period, Felix derives a close relation between electrical-energy use and growth in output at a point when total energy use becomes almost totally decoupled from output growth. He formulates what he calls the “4-6-2.2 law”: 4 percent growth for GNP per capita is associated with 6 percent growth in electrical consump-

tion per capita, and with 2.2 percent growth of total energy use per capita.

Felix comments: "Electricity growth is, practically by itself, the 'locomotive' of GNP growth, whereas non-electric energy, while basic to the economy, has very little relation to growth. At this time, we note that the growth in electricity use must either outpace economic growth by two percentage points or progress as a 50 percent faster rate, as the case may be." Felix's data for the 41 countries with the highest rates of GNP per capita growth during the 1970s show this pattern in every case with the exception of the East block countries. For these economies, there is a "5.4-5.4-3.1" law, a difference which Felix ascribes to the higher proportion of industrial investment (as opposed to consumer goods investment) in the East bloc economies.

Felix draws the following conclusion concerning the overall importance of electricity growth: "To those who would write off growth in electricity use as a luxury to be dispensed with, the above is a powerful reminder that whatever limitation is placed on electricity growth will amputate economic growth correspondingly."

3) Even more important than these two conclusions, Felix finds *a close relation between productivity growth and growth in electricity consumption*. Figure 2 (also taken from the Felix paper) shows this relation for the major industrialized countries—those with the higher growth rates in productivity also have the higher growth rates in electricity consumption. Especially striking is the position of Japan, averaging productivity growth rates of approximately 10 percent a year, along with electricity consumption growth rates of 10 percent a year. This connection is the most indicative of the infrastructural nature of electricity production and consumption. Electricity is more than a source of energy, or a form of energy delivery. Its use qualitatively modifies the environment for all economic activity: *it produces productivity*.

Felix's conclusions regarding the cause of this extraordinary property of electricity are illuminating:

Electricity, unlike any other energy source, is the end-product of a complex thermo-mechanical-electrical conversion process which delivers not just another fuel, but a finely elaborated, highly sophisticated form of energy. . . . Among the qualities of electricity that can be cited: the higher productivity, flexibility, and versatility of electricity at the point of use, the better working environment it creates, the contribution of electricity to innovative processes, the methods, designs, technological advances, and improvements towards the creation of new products, which, besides creating new jobs, conserve energy, reduce costs, improve quality, and enhance reliability.

The LaRouche model charts a path for industrial growth

by Sylvia Barkley

The importance of infrastructure—highways, power plants, waterworks—is appreciated by anyone who has been responsible for moving a factory, or even a family, to a new location. Most econometricians, however, lack such experience in how the real world works. By and large, they assert that infrastructure investment and maintenance should be assessed in relationship to the rest of the economy as an expense which produces little or no new value.

The LaRouche-Riemann model's computer analysis of the effect of infrastructure investment on the functioning of the U.S. economy demonstrates just the opposite: that investment in inland waterways, water delivery systems to farms, industries, and cities, and the rest of the "domestic improvements" encouraged by American System economists of the 19th century benefits overall economic productivity.

In order to assess the effect of the water- and nuclear-

Figure 1
Average U.S. infrastructure investment, 1960-80
(million constant U.S. dollars)

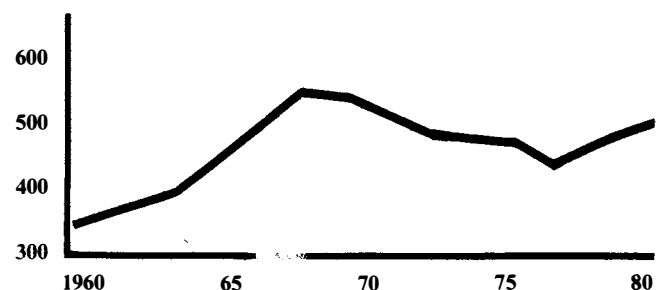
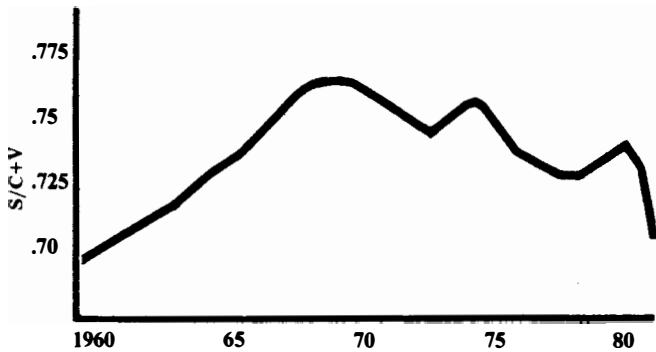


Figure 2
Reproductive ratio of the U.S. economy, 1960-80



energy-centered development program proposed by the National Democratic Policy Committee and its spokesman Lyndon H. LaRouche, Jr., the *EIR* economics staff examined the historical record of the U.S. economy. The study found that the net effect of such a plan can be determined: *it would lift the economy out of the current recession, and lead to a doubling of its size within 8 to 10 years.*

The first question which had to be addressed in preparing the computer simulation concerned the way in which infrastructure works in an economy. Although a dam or a nuclear plant creates power, a saleable product, this product alone cannot account for the total effect of these structures on the economy. Were the effect so simple, cost-benefit studies would not so uniformly oppose these projects. What infrastructural investments do,

in general terms, is not to create value themselves. Rather, they *improve the capability of other factors to produce wealth.*

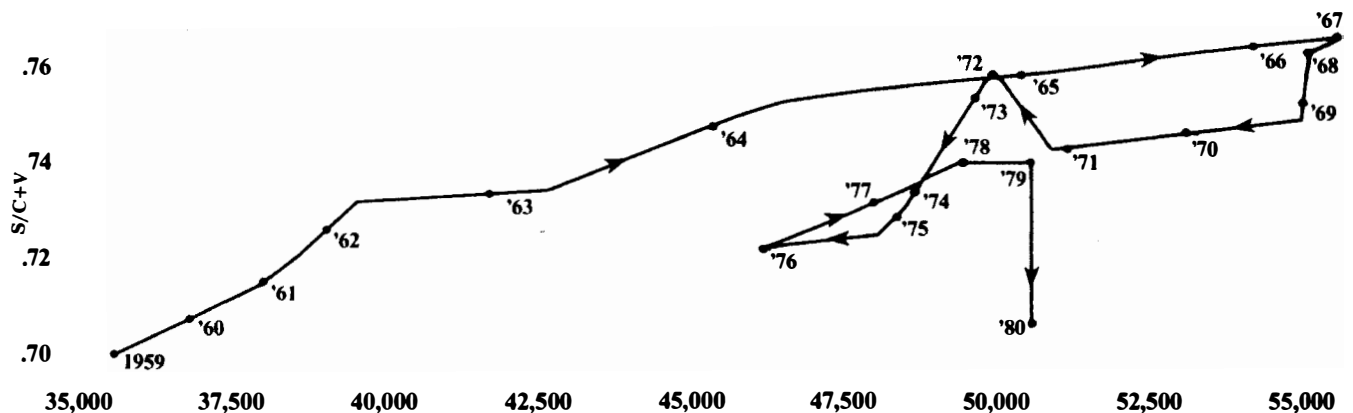
A new machine needs power, a new product needs an efficient and cheap transportation system, a worker or an executive needs water for his home. Thus, the historical course of the *changes in overall real productivity* was the source for the quantitative values—the data base—used in the LaRouche-Riemann analysis.

The historical record

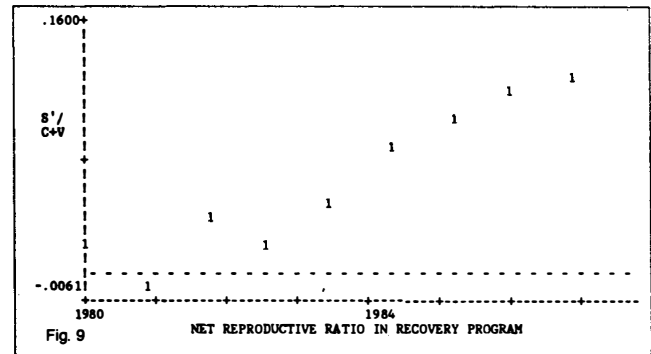
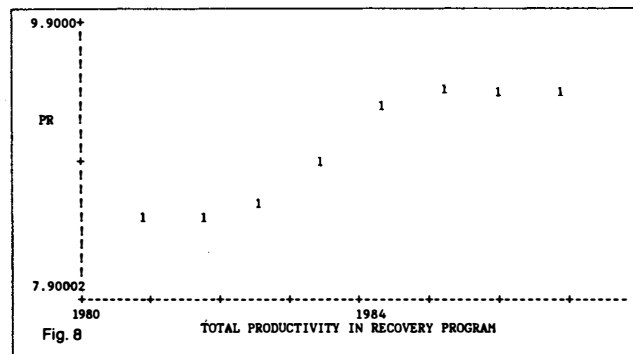
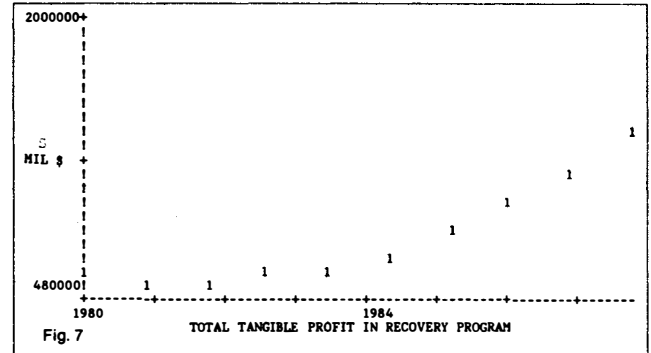
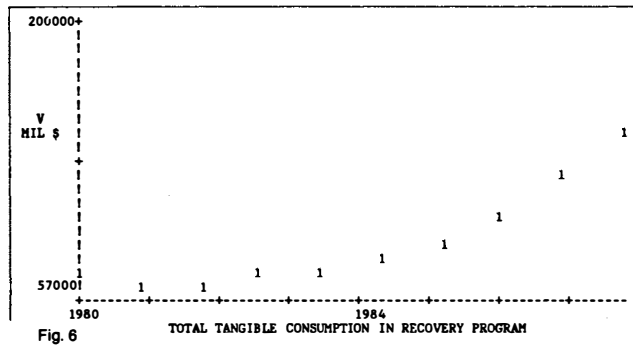
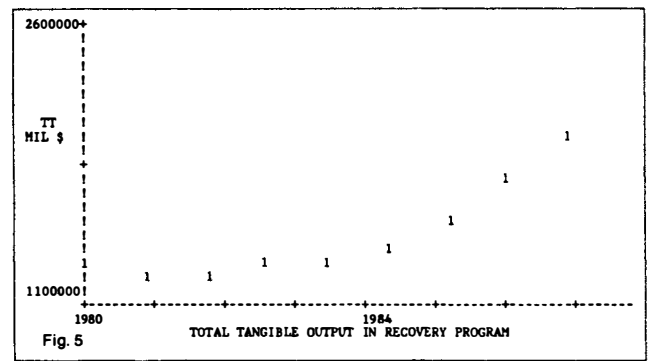
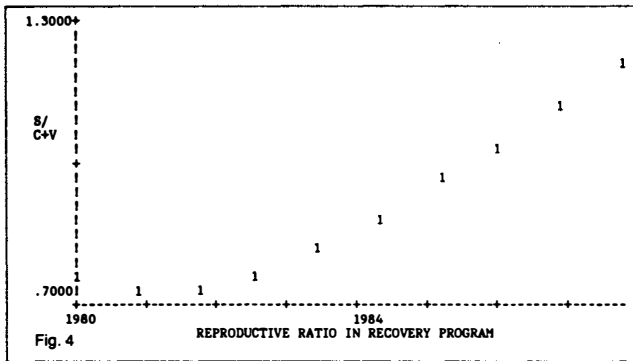
The *EIR* team compared infrastructure investment over history with secular patterns of productivity. The improvements in infrastructure were assessed as the sum of constant-dollar spending on industrial plant, farm construction, railroads, highways, water, and sewer systems, and electric, gas, and telephone utilities. The time-course of such investment (Figure 1) rose steeply during the early 1960s, leveled off in the late 1960s, at the same time that the peak of NASA spending was reached, and then fell to a trough in 1976. Recent figures indicate a modest rise to 1979, indicating the economy's temporary rebounding from the Oil Crisis of 1973-74, and then a halt to this advance in 1980.

The model demonstrated that the measure of productivity which is most directly correlated with infrastructure spending is, as could be expected, the overall capability of the economy to generate surplus, or the ratio of total surplus to real operating costs ($S/C+V$, where S is total profit generated by the economy, C represents the total cost of maintaining the economy's productive plant and equipment, and V represents the consumption of the productive work force.) This measure of economic performance, which could also appro-

Figure 3
Reproductive ratio of economy (S/C+V) compared to infrastructure investment in previous year
 (in million 1972 dollars) Note: Years refer to investment dates



The LaRouche-Riemann study of infrastructure and productivity



propriately be called the economy's reproductive ratio, is charted over the past two decades in Figure 2.

A pattern broadly similar to that of infrastructure investment is shown here, with the exception of an anomalous "recovery" in 1973-74, which resulted from price distortions due to the oil crisis.

The interrelation of the two variables is shown in Figure 3, where the vertical axis again represents the reproductive ratio, the horizontal axis reports the infrastructure spending for the previous year and the time-course of the U.S. economic is graphed.

The continued growth of the 1960s is followed by a steep downward trend beginning after 1967, illustrating

the sensitivity of a growing economy to a cut-off of infrastructure growth. Apart from the "recovery of 1973-74," the downward trend continues at a more moderate slope, and the mild recovery of 1977-79 retraces the same path. However, the halt in this increase, occurring between 1979 and 1980, appears to cause a very severe drop-off in the reproductive ratio for 1981.

The correlation of the two measures is very high during the period of growth, indicating that a real connection exists. An immediate question was raised by the short time-lag between the investment and the productivity response. Although some immediate bene-

fit may be felt from the spending, the crucial mechanism appears to be the kinds of decisions which individuals make. That is, if major infrastructure projects are gotten under way, there is an immediate response in the willingness of individual businessmen to invest in expansionary ways. Conversely, when the climate is changed by a halt in infrastructure spending, there is a retrenchment and concentration on marginal adjustments which send overall productivity plummeting.

The NDPC program

The National Democratic Policy Committee study calls for two specific programs of infrastructure investment, a massive build-up of nuclear power, and the upgraded version of the North American Water and Power Alliance which was described earlier. The nuclear proposal calls for an ambitious 150 gigawatts of nuclear power to be built over 10 years, and the NAWAPA proposal would cover 12 years and double the water available for irrigation in the United States.

The LaRouche-Riemann model cannot make useful predictions for such a long period in the future for the U.S. economy; analysis was therefore limited to the first seven years of the program. Average infrastructure investment was estimated at \$25 billion 1972 dollars per year (approximately \$59 billion in current dollars). Spending increased during the period of the computer analysis, reaching the average level by 1985, the third year of the program.

Spending was included in the category of non-productive expenditure, the same category as military, health, and education spending. However, the relationship shown in Figure 3 was used to generate a rate of increase in the reproductive ratio, which was directly programmed into the model. The time course of this variable, shown in Figure 4, was therefore used to encode the effects of the investment program on the economy as a whole.

The model showed that the economy will respond slowly at first to the program, but as the destructive effects of the past years of credit crunch and investment cutbacks are overcome, the response will become more and more dramatic.

Exponential growth

Total tangible output (Figure 5) has fallen between 1980 and 1981, and the model showed a lag of a year until this fall is recouped, and two more years before any significant improvement above the 1980 levels is felt. After this period, however, growth is exponential, with a final value of almost \$2 trillion in 1972 dollars, compared to a historical maximum of \$1.135 trillion, reached in 1974.

The total tangible consumption available to the labor force (V) shows a similar trend (Figure 6) with

rapid recovery to 1980 levels from the trough of 1981, but with a slow expansion from that point. The previous high level of wages is not exceeded until 1985, but again, after this point an exponential growth rate expresses itself. This is made possible by the continued increase in tangible profit (S) (Figure 7) which can be reinvested in expansion, and the increase in productivity (Figure 8).

Productivity increases, as calculated here, are the result only of allocation of surplus to more productive sectors of the economy. Because of this, the entire run is conservative in its positive projections; no technological advances were included. Under conditions of massive economic growth and dirigist policies, such advances, with associated jumps in productivity, would be expected to appear at least by the end of the period being described.

The crucial ratio

The most fundamental parameter of any economy is the net reproductive ratio ($S'/C+V$) the actual investment in expanding the productive base as a fraction of the operating costs of the existing economy. This ratio, shown in Figure 9, has fallen from a historical maximum in the United States of 0.11 to a 1980 value of 0.02, and an estimated level of -0.06 for 1981. (This value is an estimate because calculation of the value requires data from the following year.) The value of the ratio rises during the recovery program, with a single dip in 1982 caused by the impact of assigning the spending to the "non-productive" category.

It should be emphasized, however, that even after seven years, and an approximate doubling of the size of the real economy, the value of this crucial index is projected by this analysis to have reached only 0.12, barely greater than during the 1966-67 period. This reflects the tremendous erosion of economic health that has occurred in the last years, and the magnitude of the effort which will be required to restore the United States to its appropriate and necessary position as a driving force in world economic development.

The overall result of this analysis is to demonstrate that the National Democratic Policy Committee program represents a realistic solution to the economic collapse which is now overtaking the U.S. economy. The effect, as shown by the series of graphs above, is somewhat like that of a Saturn launch, in which the initial thrust moves the enormous mass only slowly, but with an irresistible force, and as upward motion begins, the acceleration increases continually. Like the Saturn rocket, these programs too will "burn out" unless replaced by new technologies; but they represent the only competent method now proposed to get the economy off the ground, or more precisely, out of the swamp of economic collapse.

NAWAPA could revive the economy

by Sylvia Barkley

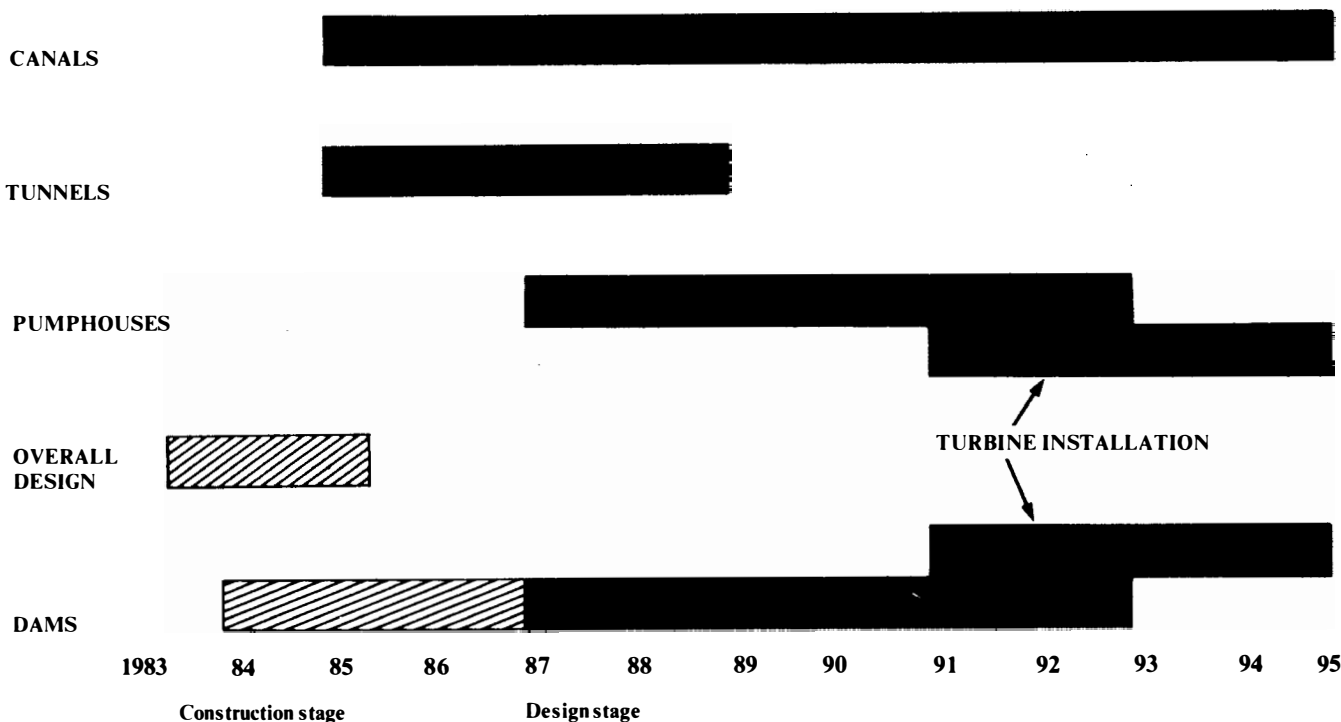
Many Americans are familiar with the success story of California's irrigated agriculture. The fertile but drought-ridden expanse of southern California now includes over 10 million irrigated acres. The region not only blossomed, but rapidly developed into the producer of 10 percent of the total agricultural produce, including 50 percent of the nation's vegetables when federally funded irrigation projects brought water into southern and central California, starting in 1945.

The opportunity to bring into production more than

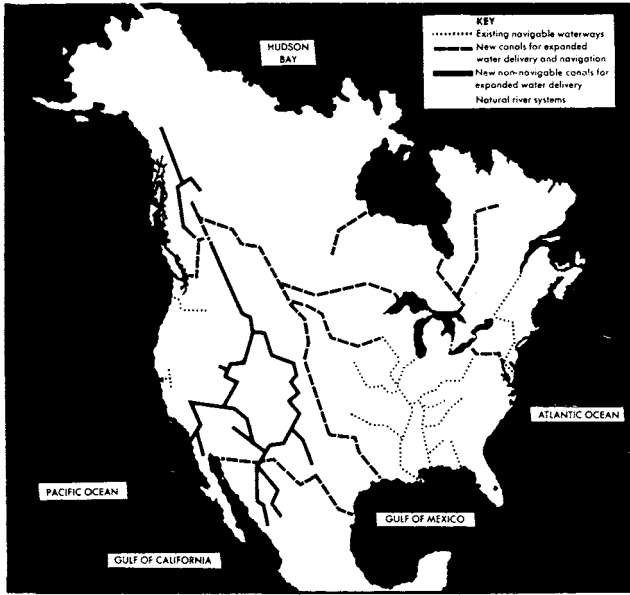
20 million acres of fertile farmland now unsupplied with water, to keep in production the more than 50 million acres now dependent on irrigation, and to double the productivity of almost 30 million more acres now producing low yields because they are farmed "dry," are three good reasons why the federal government must consider an integrated, continent-wide water development program for the nation. To these a fourth can be added: not only are American farms running out of fresh water supplies, but the nation's cities may soon go to the tap and find it dry. Cities across the High Plains, the Southwest, and southern California are threatened with acute water shortages before the end of the century. Not the least dramatic case is the metropolitan area of Los Angeles, which is facing the loss of half the Colorado River water it currently uses under the terms of the Central Arizona Water Project agreement, and has no current means to replace it.

This is the context in which the Fusion Energy Foundation, the National Democratic Policy Committee, and leaders in the Democratic Party including 1982 California senatorial candidate Will Wertz are calling for the implementation, under federal government auspices, of an updated version of the continent-scale North American Water and Power Alliance project (NAWAPA), de-

Figure 1
NAWAPA timetable—design and construction



The North American Water and Power Alliance



Source: Fusion Energy Foundation

The NAWAPA water proposal

veloped during the 1960s by the Ralph M. Parsons Company of Pasadena, California. The new NAWAPA plan would use a 500-mile long valley in the Canadian Rockies as a natural reservoir to catch and store part of the enormous volumes of water now being lost as runoff in Alaska and Northwest Canada. By constructing major networks of irrigation canals, and a connection into the Great Lakes and Mississippi River, NAWAPA would move 130 million acre-feet of water per year for irrigation in the United States, and 100 million more acre-feet for Canada and Mexico. The project would supply over 50,000 megawatts electric in hydroelectric capacity above the amount of power used to move the water.

An evaluation of the feasibility and the effects of implementation of a national water control project on the scale of NAWAPA shows that such an effort would not only mobilize the entire U.S. economy around the productive tasks involved in its completion—putting hundreds of thousands of skilled workers and engineers to work—but would have beneficial spinoff effects on the nation's industrial, agricultural, and labor productivity for decades to come.

Why should it be so big?

Any analysis of a major development project must include an examination of the feasibility of its construction and a rundown of the benefits it would provide. In the case of the North American Water and Power Alliance, the question of feasibility is particularly relevant because of the immense scale of the project. This size is brought forward by many as the major obstacle

to implementing NAWAPA. But in the conception of its original designers, its early supporters, and the current leaders of the National Democratic Policy Committee's campaign to implement NAWAPA, this large size is considered one of the project's greatest assets.

The NAWAPA project would indeed be gigantic: the largest public works project ever built, and approximately twice the size of the Ob River diversion now underway in the U.S.S.R. The plan would divert and control 250 million acre-feet a year (MAFY) of water, over half the amount used in the United States today (390 MAFY). It would require 4,300 miles of canals and 1,000 miles of tunnels, and a series of pumps which would lift 90 MAFY half a mile up. In terms of redrawing the map of the continent, the most impressive structure to be built as part of the project is the 500-mile long Rocky Mountain Trench Reservoir, an artificial lake at 3,000 feet elevation which would hold more water than the United States uses in a year.

In engineering terms, the size of NAWAPA does not offer any major challenges. The original design called for a 1,700-foot-high dam, which would have been the world's highest; but currently construction in Alaska would be incorporated into the plan in a way which removes the necessity for this particular record-breaker. The canals would be a maximum of 600 feet wide and 60 feet deep, the same dimensions as the Panama Canal. The tunnels and pump system would be the largest in aggregate, but no one component of the system stretches its current design and engineering capability to its limits.

Figure 2
NAWAPA cement and hydroturbine requirements

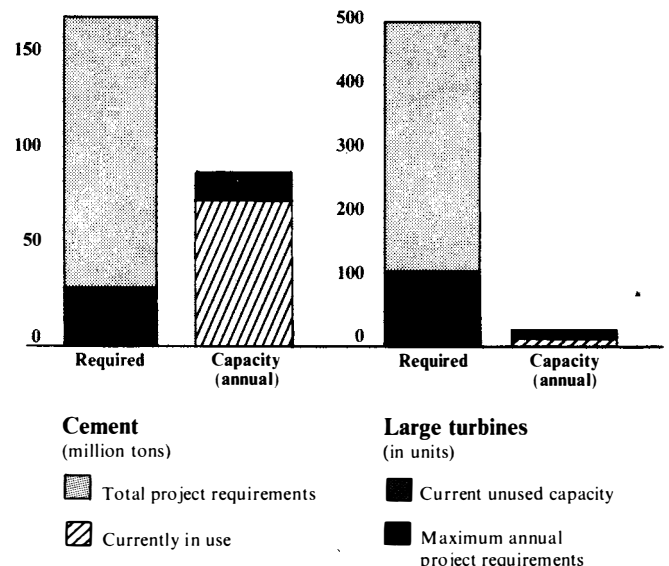
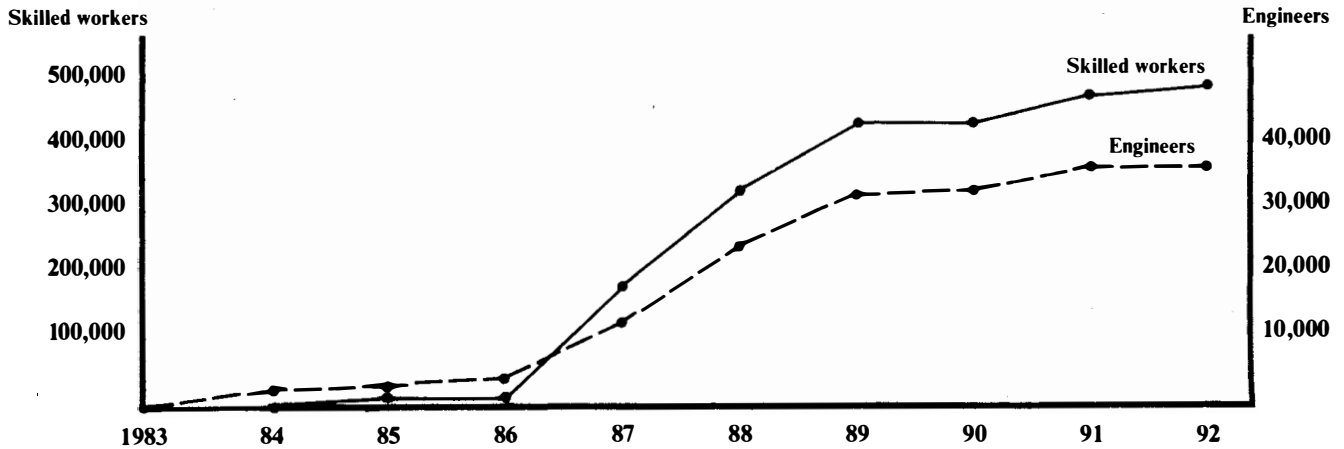


Figure 3

NAWAPA manpower requirements 1983-92



One could almost say that, to an engineer, NAWAPA is boring.

The question which can be asked is “Why *should* the project be so big? Isn’t it easier to break it up?” In fact, the economic policy reasons for fighting for, designing, and building the entire project at once are compelling. On an economic basis, one of the strongest points in NAWAPA’s favor is the extremely low price which it can charge for water at completion. At today’s prices, the cost of water will be only \$11.50 per acre-foot, in contrast to current costs of \$40 to \$60. This is due in part to the economies of scale, and also to the revenue which can be created from the sale of excess power. NAWAPA uses most of the power it generates to pump water uphill, but it provides a net surplus of 55 gigawatts of generating capability in the United States alone which will produce saleable power. The price contrast to smaller projects which are forced to buy power to move water uphill is startling. The Army Corps of Engineers, for example, faced with legislative restrictions which prohibited the corps from considering the Alaskan water source, calculated that the *best* plan for supplying water to the High Plains area would yield only 7.2 MAFY at a cost of \$350 to \$880 per acre-foot.

The political feasibility of NAWAPA is also dependent on undertaking the entire project in one sweep. The fact that NAWAPA will provide water to 23 Western and Midwestern states, and hydropower and transportation advantages to a significant portion of the Northeast, will overcome the regional rivalries which stall many projects.

On a broader scale, the plan represents an enormous opportunity for international cooperation among Canada, the United States and Mexico. Mexico will receive

40 MAFY according to the latest design, and this water will be mainly available in the region of Sonora, where high-technology farming is already in place, but where high altitudes have made efficient delivery of irrigation water difficult. Mexico indicated interest in NAWAPA when it was first proposed.

For Canada, the situation is more complex. The plan would use more Canadian water than it supplies, but this water is currently completely unused. The plan would also provide water transportation for the agricultural western provinces, and add 50 percent to the hydroelectric generating capacity of Niagara Falls because of the additional water flow into the Great Lakes. Part of the NAWAPA proposal, the barge canals into James Bay and the northern Quebec-Labrador areas, are specifically designed to enhance the economic development of these empty regions. The Canadian reaction to NAWAPA has been mixed. Government spokesmen are generally hostile to the “monstrous scheme” to deprive Canada of its water, while business and farm interests, particularly in the Western Plains states, are enthusiastic. An upcoming conference in Toronto, Canada, is planned as the starting point for organizing support in association with the U.S. initiative.

The timetable: a crash program?

The next question concerns the timetable for the construction of NAWAPA. In a certain sense, it is misleading to talk of a well-defined construction period for the project, since the associated water-distribution networks will continue to be built for decades, and since any realistic proposal will include immediate preliminary refurbishing of the railroad system to provide the necessary carrying capacity for materials and equip-

ment. Apart from these "leading" and "trailing" edge construction projects, the plan should be built as quickly as possible, with a projected timetable of 12 years (see Figure 1).

This allows two years before any direct project construction is started—two years of planning, also required for the repair and upgrading of the rail network over which millions of tons of steel, concrete, and heavy equipment will have to move. While the demand for materials will be spread over the ten years of construction, most of it will have to be moved to locations remote from existing plants. An estimated 300 stiff-leg derricks, 600 bulldozers, and 3,000 drag-line excavators will be used, and they too will have to be transported to a series of remote sites throughout the Rockies and the Great Plains area.

When the planning is complete and construction goes into high gear, the demands on the productive capacity of the entire U.S. economy will become significant. Figure 2 shows the relative levels of total demand, maximum yearly demand, total yearly capacity, and current idle capacity for two items that represent the range of problems which will be encountered in the "crash program" construction.

The first set of bars represents the cement requirements and capacity. Although the overall requirement for cement, 158 million tons, is greater than the entire U.S. yearly production, the maximum requirement for any one year is not much larger than the current "excess" capacity of 20 million tons per year. One peculiarity of the cement industry is the high cost of shipping by any means except water. At present, there is a shortage of cement capacity in the western states, but there are plentiful supplies of the raw material, limestone. In association with the project, new plants can be built on proposed canal routes. These plants will have access to a wide market when the project has been completed.

The second set of bars represents a different type of problem. The large turbines which will be used by NAWAPA both to generate power and to pump water are now made by only one company in the United States, Allis Chalmers, and its yearly capacity is not even close to the maximum demand that will be felt. However, the cause for the low capacity is not physical: almost any heavy machinery manufacturer has the equipment to begin large turbine production.

The problem is the lack of the engineering teams needed to design and supervise the production of these enormous yet precise devices. Only a decade ago, there were 5 to 10 companies in the United States producing this size of turbines, but now the needed engineering expertise is scattered. But this situation could be turned around rapidly, under conditions of mobilization, and therefore the discrepancy of need and capacity shown in

Figure 2 does not actually represent a major obstacle to the crash program timetable.

The second point which must be considered, once feasibility is established, is urgency. The manpower requirements shown in Figure 3 demonstrate that the abbreviated timetable will impose a tremendous requirement for engineers as well as for skilled workers, with a peak of 40,000 engineers and almost half a million workers employed directly by 1991. But this very demand must be posed and met if the project is to be built.

Such a mobilization represents the only effective answer to the most serious question of feasibility, the quality of the available manpower. Ten or 20 years ago the achievements of the Apollo program, of the SeaBees of World War II, demonstrated the existence of a pervasive technological literacy and a sense of personal responsibility for the task at hand. Only through these same characteristics can the unavoidable corrections and adjustments in a megaproject like NAWAPA be made as necessary without self-feeding delays. After the anti-growth, anti-technology policies of the Carter years and the Volcker depression which is now descending with full force on the skilled, productive workforce, many of the engineers who are still employed are producing new video games rather than dams.

On top of this, a generation of students has been taught that it is evil for man to leave his mark on the world. Only if the entire country, and the entire continent, are drawn into the effort, in the way that occurred with the Apollo project, can the magnificent concept of NAWAPA become a reality.

NAWAPA's benefits in coming years

The benefits produced by NAWAPA would be on the same scale as its construction. A total of 50 million acres of farmland could be irrigated in the United States, almost doubling the area now irrigated in the West. On irrigated land, the increase in crop productivity ranges from 40 percent for crops such as soybeans and alfalfa, to 140 percent for corn. If all the acreage irrigated by the current plan were to be used for corn, the United States would increase its production by 150 percent to 500 million tons per year. In consumer terms, this would represent 67 billion pounds of beef. Rather than remaining a net importer of beef, the United States could produce enough high-quality animal protein for itself and an additional 400 million people.

The economic effects of NAWAPA will go well beyond the direct impetus to agriculture. New investment in agricultural machinery and other farm infrastructure will be required. And the addition of 50 million acres of irrigated land will require an investment in local distribution systems on the same order as the building of NAWAPA itself.

Volcker ends the drilling boom

Some basic industrial economics suggest a shift in strategy is urgent for U.S. independent companies.

From the end of the last year through the middle of March, domestic U.S. oil and gas exploration underwent the sharpest decline in history. In this three-month span, the number of active drilling rigs fell to about 3,900. The all-time peak in activity was almost 4,600 last summer when the advantage of high potential profits in the face of collapse in the overall economy made oil exploration "almost the only game in town," as one independent called it. But as rapidly as certain political decisions fed the domestic "oil boom," it seems to have collapsed.

The irony of the sharp swings in domestic oil exploration is thus that the underlying reasons are entirely lawful. It is not the case that the oil sector was "overheated." The remainder of the economy—steel, auto, agriculture, highway construction, transportation, and other oil and natural gas consumers—is in the early stages of deliberate Fed-induced depression.

I have been talking with independent oil and gas producers as well as financial houses which specialize in such investment. While very few appreciate with sufficient urgency what is at stake in the monetary Russian roulette of Mr. Volcker, all of them know something serious is wrong.

One Dallas-based industry analyst who himself heads an independent oil company, Philip Crouse, estimates that as much as \$6 to \$8

billion of what he calls "funny money" has disappeared in the last three months from the speculative rush into oil drilling. By "funny money," Crouse explains, he means funds which chased into U.S. domestic oil drilling because of the unique conjuncture of events of the last three years.

In 1980, the Carter administration introduced a phased decontrol of domestic crude-oil prices. John Sawhill was running Department of Energy policy as Deputy DOE Secretary. Sawhill, who drafted strategic energy policy for David Rockefeller's Trilateral Commission, is a long-standing strategist for Arco Chairman Robert O. Anderson's zero-growth think tank, the Aspen Institute. This point is relevant because Sawhill's oil decontrol strategy had nothing to do with a solution to tight energy supplies in the wake of the Iran cutoff of 1979. He instead coupled the higher price (which predictably increased incentive for more domestic drilling) with the largest domestic tax in the nation's history: a \$227.3 billion dollar excise tax at the well-head. Sawhill and Carter at the time emphasized that this tax, termed the "Windfall Profits Tax," would ensure continued "conservation." What it specifically ensured was a windfall for Robert O. Anderson. Arco's oil is primarily in the rich North Slope of Alaska; Sawhill wrote the Windfall Profits Tax Act of 1980 to exempt Alaska oil.

The effects of domestic decontrol, combined with Reagan's February 1981 decision to impose immediate decontrol of domestic oil to world-price levels, created a special incentive for "funny money" from Canada, Europe, and the Bahamas as well as legitimate small investors searching for some haven amidst the general economic collapse.

The problem with all this is the fundamental lack of sound economic-growth strategy for the nation. During the 1980 election campaign, Reagan was backed by some of the most financially influential political action committees, those linked with various groups in Texas, Louisiana, and other locations of independent producers. Rightly angry with Carter-Sawhill policies such as the windfall tax, they backed Reagan to the hilt.

Numbers of groups such as the national Independent Petroleum Association of America, TIPRO in Texas, and IPAMS in the Rocky Mountains, poured millions into the Reagan and other Republican campaigns. This was well and good in the face of Jimmy Carter. But the outlook was tragically "single-issue." As a result, groups with influence such as the IPAA abstained from the fight against Volcker and Stockman while they focused on legal efforts to repeal the windfall tax and push for immediate natural-gas decontrol.

As a symbol of their own narrow-interest stupidity, the same IPAA which mobilized to defeat the windfall tax gave Anderson their highest honor last November. And Arco is one of the few oil stocks being pushed by Wall Street today—because Arco's Alaska oil is exempt from the windfall tax.

Fusion budget increases raised at hearings

Congressmen made clear their displeasure with the Department of Energy \$444 million FY83 request for magnetic fusion during hearings March 23 before the Energy Research and Production Subcommittee of the House Committee on Science and Technology. In her opening statement, subcommittee Chairman Marilyn Bouquard (D-Tenn.) stated, "For the second year in a row, the Department of Energy has submitted to Congress a budget which fails to meet the letter and the spirit of the Magnetic Fusion Energy Engineering Act of 1980. While this subcommittee recognizes the necessity of constrained budgets during this period of economic uncertainty, it is concerned about the program's continuing neglect of significant engineering development activities."

DOE witnesses were Dr. Alvin Trivelpiece, the director of the Office of Energy Research, and Dr. John Clarke. Trivelpiece announced at the hearing that Clarke has been made the director of the Office of Fusion Energy, replacing Edwin Kintner, who resigned in January.

Following their presentations Mrs. Bouquard stated that "instead of the 25 percent increase mandated in the law, we have a \$10 million cut. What would you need, Dr. Clarke, to maintain an aggressive fusion program?" Clarke replied that \$100 million would have to be added to the proposed request.

The Fusion Energy Foundation, which submitted written tes-

timony to Mrs. Bouquard's subcommittee, and will testify on the same subject before the House Appropriations Subcommittee on April 1, has recommended a FY83 budget appropriation of \$660 million.

Credit relief proposed for home buyers

In an effort to bolster the U.S. housing industry, Sen. Richard Lugar (R-Ind.) and 12 co-sponsors introduced legislation March 17 to subsidize home mortgages. The bill would authorize a total of \$5.12 billion over the next five years, to reduce mortgage interest rates on new homes by up to 4 percent.

In introducing the legislation, Lugar and several co-sponsors made it clear that they understand that usurious interest rates are responsible for the 18.7 percent official unemployment rate in construction and the fact that housing starts in 1981 were less than half of what they were in 1978. It reflects a growing realization in Congress that interest rates cannot be dealt with merely by lowering the deficit as Paul Volcker has demanded. But their solution is to provide emergency government aid rather than to force the man responsible for the crisis—Paul Volcker—to lower interest rates.

Senator Lugar estimates that by bringing interest rates down several points to home buyers, his bill would allow between 350,000 and 450,000 new homes to be built this year, putting 700,000 Americans back to work within several

months of passage. Only families with gross incomes under \$30,000 would be eligible for the subsidy.

Lugar's Subcommittee on Housing and Urban Affairs of the Banking Committee held hearings on the bill on March 23. Senate Banking Committee Chairman Jake Garn (R-Utah), who has been a staunch defender of Paul Volcker, is one of the 12 co-sponsors of the bill. Similar legislation has been introduced in the House by Rep. Jerry Patterson (D-Calif.). The House Banking Committee Housing Subcommittee is holding hearings on the housing crisis through the end of March, and Congressman Patterson will bring up his bill for discussion during these hearings.

Senate Democrats introduce emergency farm resolution

A majority of Democrats on the Senate Agriculture Committee introduced an emergency resolution on March 18, calling on the President and the Secretary of Agriculture to act to save the farm economy. Introduced by the ranking Democrat on the committee, Walter Huddleston (D-Ky.), the resolution, S. 346, introduced on National Agriculture Day, addresses the crisis in credit availability caused both by Federal Reserve Board policies and by collapsed farm policies.

In motivating the resolution, Huddleston warned that "without action, if projections of real farm income for 1982 prove to be accurate, farmers will have the lowest real farm income since the U.S.

Department of Agriculture began making such estimates in the early part of this century. It is now projected that real farm income will fall below \$10 billion in 1982, as it did in 1980 and 1981. The last time this happened in three consecutive years was in the midst of the Great Depression."

Co-sponsored by 14 Senators, including Democrats Edward Zorinsky (Neb.), John Melcher (Mont.), David Boren (Okla.), James Exon (Neb.), and Jim Sasser (Tenn.), the resolution advocates that the President work with and encourage the Board of Governors of the Federal Reserve System to adjust its monetary policy as soon as practical, so as to reduce the rate of interest farmers must pay to obtain credit for necessary production items; and that the President and the Secretary of Agriculture use their broad authorities to take emergency action to stabilize commodity prices and to provide credit assistance to farmers, by raising price-support loan rates, and providing emergency loans for operating credit.

A spokesman for Senator Huddleston noted that while these Democrats did not expect much support for the resolution from either the administration or leading Republican farm-state Senators, Larry Pressler (R-S.D.) had joined on as a co-sponsor.

Fed Vice-Chairman sails through hearings

Preston Martin, President Reagan's first appointment to the Federal Reserve Board and the newly

designated Vice-Chairman, testified to a strangely empty hearing room on March 24, and sailed through generally friendly questions from the three Senators present.

Martin, a former homebuilder, small businessman, and Federal Home Loan Bank Board official, is widely perceived as President Reagan's sop to the credit-starved small business and agriculture community. Martin validated that assessment by evincing much "sensitivity" to the housing, farming, and small-business community and support for certain emergency measures, but then supported the Fed's current tight-money policy wholeheartedly.

When asked by Senate Banking Committee Chairman Jake Garn (R-Utah), what he thought of the Fed's October 1979 decision to shift to a monetarist policy, Martin responded, "I think that October 1979 decision was certainly in the right direction. . . . I think that diverting the Fed's attention to try to control interest rates, rather than the current policy of focusing on reserves and money supply, would be a step in the wrong direction." He further added that he felt the Fed's major and primary role was as an "inflation fighter." In response to another Garn question about proposals to use the discount window of the Fed to direct credit to certain industries, Martin said, "I think it is so important to pursue the policy of combating inflation, that the course should be held steady. To layer on top of that a differentiation at the discount window for various industries would lead to an inappropriate use

of the discount window. Besides I think it is impossible to determine which industries should set credit and which should not."

Some of Martin's confusion over what is a productive industry, and what is not, may stem from his activities in the speculative field of building shopping centers or from his recent position with Sears Roebuck, the retail giant whose accelerated moves into traditional banking activities have helped in the dissolution of the small commercial banking structure that has traditionally served the needs of the productive base.

Martin pioneered the inflation-pacing variable-rate mortgage at the time he was Governor Reagan's S&L commissioner in California in 1967-69. More generally, he was characterized by a close California banker friend as a "re-industrializer" of the post-industrial variety, who thinks investment should be channeled away from housing.

But he wore a different face for the Senators. In response to a question about the proposed Emergency Mortgage Assistance Act of Sen. Richard Lugar, Martin indicated that he supported it. He did not feel that it would drain credit from other areas of the economy since, with U.S. interest rates so high, money would flow in from overseas and augment the U.S. credit base. He also expressed support for opening up U.S. pension funds for mortgage and real estate investment.

Only Sens. Jake Garn, William Proxmire, (D-Wis.) and Paul Sarbanes (D-Md.) attended the hearing and questioned Martin.

National News

Senate to investigate Abscammers' misconduct

The Senate passed Resolution 350 on March 25, jointly sponsored by the Republican and Democratic leadership, to create a Select Committee to investigate government misconduct in Abscam and related "sting" operations.

Although details had not been made public at press time, the decision of the Senate to investigate is itself the direct result of the fight waged by Sen. Harrison Williams, Democrat of New Jersey, who insisted that the Senate Ethics Committee recommendation for his expulsion based on Abscam-created charges be debated before the full Senate. Williams, Sens. Daniel Inouye (D-Hawaii) and John Melcher (D-Mont.) forced that debate to focus on the threat to the Senate and the U.S. Constitution posed by operations such as Abscam. After a week of debate, Williams resigned on March 11.

What the Senate investigation achieves against the Abscam frame-up network in the Justice Department will depend on constituent pressure. An intense fight is known to be going on over the scope and composition of the Select Committee. To consist of four Democrats and four Republicans, the committee will probably include Senator Inouye as its ranking Democrat. It is widely rumored that Senators Baker and Byrd, Majority Leader and Minority Leader, respectively, have been doing everything they can to limit the jurisdiction of the probe.

NATO Ministers rebuff Brezhnev missile freeze

In a development that is sure to help fuel the so-called peace movements in Europe and the United States, the NATO Nuclear Planning Group issued a particularly strong rebuff to Soviet Premier Brezhnev's proposed freeze in the deployment of medium-range nuclear missiles.

The NATO Defense Ministers were hosted by U.S. Defense Secretary Caspar Weinberger at a meeting on March 23-24 in Colorado Springs, Colorado. The ministers concluded the session by rejecting the Brezhnev offer and affirming plans to deploy Pershing II U.S. medium-range nuclear missiles in Western Europe starting next year.

The NATO decision reflects the position of Secretary of State Alexander Haig and Weinberger. NATO Secretary General Luns issued a strongly worded communiqué which emphasized that if the alliance did not proceed to deploy the missiles, "You can forget about negotiations" with the Soviet Union.

Press in violent defense of Nancy Kissinger

Following an incident at Newark airport in February for which Nancy Kissinger now faces assault charges, the gallants of the press have taken up a very peculiar form of defense of Mrs. K. The charges stem from a lunge that she made at the throat of Ellen Kaplan, an organizer for the pro-nuclear Fusion Energy Foundation, after Miss Kaplan had asked Dr. Kissinger about Henry's policy of prolonging the Vietnam war, and whether it was true that he slept with young boys at the Carlyle Hotel in New York City.

"Nancy Kissinger made one mistake in etiquette when she allegedly tried to choke that woman in Newark airport: Mrs. Kissinger did not stomp on the woman's face," wrote syndicated juvenile Bob Greene in the *Chicago Tribune* on March 9. *New York Times* columnist Russell Baker was another of many columnists advocating violence.

The *Bergen* [New Jersey] *Record* and a lead editorial in the *Denver Post* both carried the tale that the FEF is part of a bizarre anti-Semitic right-wing network, associated with FEF board member Lyndon LaRouche.

Investigators for the FEF and LaRouche's International Caucus of Labor Committees (ICLC) have established direct links between the press campaign to

incite violence and the B'nai B'rith Anti-Defamation League (ADL). Bob Ewegen, author of the *Denver Post* editorial, admitted that his source was Barbara Cooper Smith of the ADL.

The ICLC and FEF filed a joint complaint with the Department of Justice on March 12, but were informed that no action would be taken. Nancy's court date is May 26.

Media, NRC: 'Remember Three Mile Island'

New York City WINS news radio and other media outlets combined with environmentalist-inspired regulations of the Nuclear Regulatory Commission (NRC) to turn a routine clean-up incident at the damaged Three Mile Island Unit-2 nuclear plant into a "low-level emergency" on March 22.

In the course of removing a filter for cleaning, workers at the plant deliberately spilled 150-200 gallons of slightly radioactive water into storage drums. NRC regulations require plant operators to declare an "unusual event" whenever coolant is spilled at a rate higher than 1 gallon per minute. The "low-level emergency" was over within two hours. The press used the incident, declared to pose "no danger" by the NRC official on the scene, to build for the March anti-nuclear demonstrations on the second anniversary of the Three Mile Island nuclear accident.

Global 2000 crew plots Reagan 'policy takeover'

The Committee for the Year 2000, the elite group of "prominent citizens" and former government officials who support the Malthusian doctrine of the *Global 2000 Report* met secretly in Washington in March to plot a "policy takeover" of the Reagan administration.

The Committee is chaired by Arco chairman Robert O. Anderson and World Wildlife Fund President Russell

Train, and includes former Ambassador Elliot Richardson, and former Secretary of State Cyrus Vance. Members plan to use the growing policy paralysis in the administration as their vehicle. A committee spokesman reported that the group has been quietly working with a half-dozen cabinet officials, including Secretary of State Alexander Haig, Commerce Secretary Malcolm Baldrige, and Vice-President Bush. "These are people who cannot come out publicly on support of issues like limiting resources and population control," said the spokesman, "but they can help us work over the decision-making process." An informal dinner was held in March at Vice-President Bush's home to discuss these plans.

To the Reagan people under attack, the committee offers sympathy and understanding, the source said. "We have their profiles. We have our allies in environmental and other lobby groups attack them. This helps us."

Why population reducers are becoming peaceniks

"Many leaders of the population-control movement are now moving into the movement for the nuclear freeze, because it is the only way to change the thinking in Washington," a leader of the Draper Fund/Population Crisis Committee told an interviewer March 23. According to Philander J. Claxton, Jr., figures such as General Maxwell Taylor, Dean Rusk, Cyrus Vance, and Robert McNamara are "moving against the President's nuclear arms budget for this reason."

While none of the former hawk notables have actually signed the statement for a freeze on nuclear weapons, Claxton said, General Taylor is contemplating doing so because a nuclear freeze "is necessary to implement [his] new strategic doctrine. . . . Kill the MX missile and roll back the entire nuclear program, because you can't use nuclear weapons in the Third World, and that is where all the fighting is going to be. . . . It is overpopulation in the Third World which will be

generating most wars that America has to fight from now on."

"We must free money up for population control programs, and for labor-intensive jobs programs at the World Bank and for the IMF. The only way to do this is a massive wind-down in the defense budget. . . . I'd begin the unravelling of all the world's problems at that point," Claxton observed.

Justice Department tries to take over IBT local

Eyes are on the U.S. Department of Justice's attempt to use the Racketeer-Influenced Corrupt Organization (RICO) statutes for the first time to replace a legitimately elected union leadership.

The latest move in the DOJ case against flagship Teamster Local No. 560 in Union City, New Jersey, came in Federal Court on March 22, when Judge H. Curtis Meanor refused the DOJ's request for a temporary restraining order. The order would have stripped local president Salvatore Provanzano (who is also state head and an international vice-president of the union) and six other board members of their positions.

The DOJ case is not based on any criminal record of the seven, but rather on an attempt to tag Local 560 as a "criminal enterprise" under RICO, based on earlier indictments of Provanzano family members and associates.

In denying the DOJ demand, Meanor noted, "I have the haunting fear that if new elections are held, and new officers installed . . . if reversed on appeal . . . I think that would be a disaster for this union." The Justice Department gameplan is to turn the union over to government-appointed trustees while a "dissident" leadership can be cultivated in preparation for new elections.

Although acknowledging that "nothing expressly" stated in RICO allows for court-supervised trusteeship of a union, Meanor set August of this year for a non-jury trial to decide on the government's bid to take over Local No. 560.

Briefly

● **THE STATE** Department, CIA, and Pentagon were involved in the terrorist assassination of Lord Mountbatten in 1979, said the head of the Irish Ulster Union Party, Northern Ireland M.P. Molyneux, at a press conference in London March 23. He asserted that these U.S. agencies ran a coordinating center in Ireland to use the IRA for its own ends, and stated that he is preparing to release documents proving his charges. The State Department has denounced the allegations.

● **ANGELO CODEVILLA** probably knows about that," stated an aide to Sen. William Roth (R-Del.) after being briefed on the plans to instigate an insurrectionary coup in Sicily discovered in part by this news service. Codevilla, a top staff member for Sen. Malcolm Wallop (R-Wyo.) has been identified by *EIR* as involved in attempts to oust West German Chancellor Helmut Schmidt.

● **THE REPUBLICAN** National Committee has announced an effort to solicit labor support, attempting to counter the alliance between the AFL-CIO and the Democratic National Committee signaled by the DNC's newly formed Labor Council. The RNC intends to form a labor liaison group drawn from unions, including the Teamsters and some professional unions, which endorsed Ronald Reagan in 1980.

● **SANDRA CLIMACO**, a 29-year-old registered nurse, pulled 10 percent of the vote in the March 16 Illinois Democratic primary for the 22nd C.D. seat of 38-year veteran Mel Price, the Chairman of the House Armed Services Committee. Climaco's 4,500 votes came largely from a door-to-door campaign emphasizing an all-out fight against the Fed's high interest rates. She was backed by the National Democratic Policy Committee. Price's victory margin was six points lower than his 1980 primary vote.

Why give Mr. Volcker anything?

How readily Americans resort to the image of the family in discussing economic policy. "In hard times, tighten the belt," "it's impossible to live beyond your means," "wait for things to get better," "we've got to sacrifice." Jimmy Carter was proficient in this sort of rhetoric; so are many Republicans.

We were reminded of how poisonous this fixed-universe outlook has become by the March results of General Motors' negotiations with the United Auto Workers. The package cancels all pay increases during the new 30-month contract, eliminates nine days of paid vacation per year, and defers the cost-of-living allowance for nine months, which means real wages will shrink even if inflation further abates. In exchange, the UAW has been promised that GM will open four plants employing a total of five thousand workers, and will grant a profit-sharing plan to employees.

The GM contract

Within the "family" of GM and its workers, the facts of the matter are that the abolition of the nine-day vacation cuts more man-hours than the new auto plants would provide. Nor will GM create those five thousand jobs. One industry expert who has reviewed the company's accounts tells us that the company has cooked its books into unrecognizability to cover huge operating deficits; instead of earning \$330 million in 1981, as GM claims, it lost somewhere between \$1 and \$2 billion.

And no one should have any illusions that the slack of devastated industrial capacity will be taken up by opening some more sweatshops, which is what the administration's "urban enterprise zones" amount to.

Contrary to the advocates of givebacks and enterprise zones, labor is not the problem: Paul Volcker is.

Paul Volcker destroyed U.S. auto production by making both consumer financing and techno-

logical investment impossible. The pattern of heavy-industry wage and benefit givebacks simply further reduces purchasing power. This, as Volcker has repeatedly stated, is his aim: to permanently reduce American living standards. "Supply-siders" tend to agree; as some of them confided to us before Mr. Reagan's inauguration, the "supply-side" doctrine is a euphemism for funneling "savings" out of consumption and industrial investment, into debt-service and speculative post-industrial sectors.

Who's draining profits

Will givebacks at least provide American business with breathing room? The truth is that if all the concessions granted thus far by the UAW, the Teamsters, the United Steel Workers, the Meatpackers, and the airline workers during Volcker's tenure are totaled, they amount to about \$2.5 billion per year. Yet for every 1 percent increase in interest rates, industrial corporations pay an additional aggregate of \$4 billion in operating expenses. *EIR* has calculated that since 1980, Mr. Volcker's first full year at the Fed, interest payments on industry's debt have leaped by 80 percent, or \$75 billion—fifteen times the amount of total labor givebacks.

The United States was built by belying Volcker's argument that high wages mean inflation. Americans applied themselves to the improvements in agriculture and manufacturing which expanded output and living standards, and lowered costs. The federal government, at key points, applied itself to promoting technological innovation and large-scale infrastructure. That is the task of government: to ensure that producers have the opportunity to produce, instead of being idled and ruined by the "free-market" userers at the dictatorial Federal Reserve.

One sacrifice is badly needed: Paul Volcker. That is the way to save the family's sustenance, and the nation.

Franklin House Publishers present:

Lyndon LaRouche

the STRATEGIC STUDIES SERIES

All seven volumes for only \$25

The Power of Reason: A Kind of Autobiography, \$2.95. Lyndon LaRouche discusses his life and philosophy.

How to Defeat Liberalism and William F. Buckley, \$3.95. Rebuilding the American System through a labor/farmer/industrialist alliance.

Will the Soviets Rule in the 1980s?, \$3.95. The precipitous state of U.S.-U.S.S.R. relations — essential background to the Polish crisis.

What Every Conservative Should Know About Communism, \$3.95. The idols of Friedmanite "conservatism," Jefferson and Adam Smith, exposed as free-trade anarchists.

Basic Economics for Conservative Democrats, \$3.95. How to end the depression: the economics of capital formation.

Why Revival of "SALT" Won't Stop War, \$3.95. The causes — and prevention — of World War III.

Hostage to Khomeini, by Robert Dreyfuss with Thierry LeMarc, \$4.25. *EIR's* Middle East Editor details the essential historical background to how and why British intelligence gamemasters installed the Muslim Fundamentalists in Iran. An expose being re-published in Arabic and Farsi throughout the Middle East, including Iran. Commissioned by Lyndon H. LaRouche.

Send me the 7-volume LaRouche series at \$25 (including postage).

I have ordered single copies as indicated.

Please send me the Benjamin Franklin book catalogue.

Enclosed \$ _____

MasterCharge/Visa # _____

Expiration Date _____

Mastercard/Visa holders, call (212) 247-7484

Name _____

Address _____ Tel. (____) _____

City _____ State _____ Zip _____

Order from your bookstore, or from:

The New Benjamin Franklin House Publishing Co., Inc.

Dept. E

305 West 58th Street

New York, New York 10019

(Add \$1.50 postage per book. Postage included in Special Offer.)