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The stakes in Europe's Common Agriculture Policy
Death squads the victor in El Salvador
House Majority Leader takes on Paul Volcker

Who wields the international oil weapon and why

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EIR

From the Managing Editor

This week's Special Report continues our record of excellence in energy reporting. Since we began publication in 1975, *EIR* has identified the manipulation of world oil supplies and prices as one of the central levers used to impel international economic decline. The reports this journal has carried include: "How Rockefeller Sabotages Energy Development" and "Who Controls the 'Big Sisters' " in February 1977; "Oil Hoax and War: Schlesinger is At It Again" and "What's Happening Inside OPEC" in March 1979; "The $53 Billion Rip-Off: The LaRouche-Riemann Economic Model Predicts the Effects of Carter's Oil-Price Hike" and "How the 1979 Oil Hoax was Created" in June 1979; "Iran is the Trigger on the Oil Weapon," "The United States has Plenty of Oil," and "A History of U.S. Oil Shortages Since 1866," in October 1979; "Energy Conservation: Building Inflation into the Economy," in March 1980; "The Billygate Networks: Oil, Drugs, Terror," "Oil Shut-off, Phase II," "London Targets Saudi Arabia," and "Resource Warfare and Recolonization" in September 1980.

Reprints of these reports are available from *EIR*'s Special Services Director, Peter Ennis, at (212) 247-8820, who can itemize prices and availability, or write to *EIR*, Dept. MC-1, 304 West 58th Street, New York, New York, 10019.

For a partial preview of next week's Special Report, read the coverage below of the "Operation Nightmare" scenario for Sicily, and the dossier on the British members of the Propaganda-2 Freemasonic lodge who have lengthy experience in high- and low-intensity warfare throughout the Mediterranean. That forthcoming Special Report will trace the composition and political activities of the "Black International"—the right-wing fascist networks who created Hitler and Mussolini, and who intersect the highest levels of governmental and financial power today. The report will include documentation of how some of these creatures (exemplified by Sweden's leading social democrat, Olof Palme) have transformed their younger generations into left-wing, rather than right-wing fascists.

Susan Johnson

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Special Report

Queen Juliana of the Netherlands, home base of Royal Dutch Shell, opening Parliament from her throne in The Hague, several years before her abdication in favor of Princess Beatrice.
RVD/Sygma

International

National

U.S. bankruptcies: the causes and consequences

by Leif Johnson

The potential bankruptcy of 30 of America's largest corporations and failure of as many as 100 U.S. thrift institutions in the second quarter of this year would consolidate the worldwide economic wrecking begun in October 1979 by the Bank for International Settlements and its U.S. instrument, Paul Adolph Volcker, Chairman of the Federal Reserve Board.

"I have on my desk a list of 30 corporations that could go under tomorrow," said the senior economist at a giant life insurance company. "But if I were you, I would be more concerned about the thrifts—they could go first. Think of what would happen if big ones went. The FDIC [Federal Deposit Insurance Corporation] and FSLIC [Federal Savings and Loan Insurance Corporation] will be drained immediately and the Treasury will have to throw in a quarter of a billion in each case just to make a merger of the failing thrifts. This will cause Reagan the most serious embarrassment," the economist added cheerfully.

The 'bailout' question

Unable to market new long-term paper, tight up against the debt ceiling, facing substantial tax-payment shortfalls from the first quarter, and anticipating the $100 billion-plus deficit this year, the Treasury is in a very poor position to bail out thrifts or corporations. The Federal Reserve, at its last Open Market Committee meeting, affirmed that they will not allow a credit expansion, the only possible remedy for a Treasury shortage.

In congressional testimony on March 25, Richard Pratt, Chairman of the Home Loan Bank Board and a close Volcker ally, declared that if interest rates remain at present levels, 900 savings institutions will be technically bankrupt by the end of this year, with 500 to follow in 1983.

The President—and Congress as well—cannot allow massive bankruptcies. Unless the President were to fire Volcker, or call the Fed in and dictate policy as even such a weak President as Harry Truman did in 1947, he cannot provide the Treasury with the powers to conduct bailouts, or provide the nation with credit to allow economic recovery and added tax receipts.

"The President will compromise with the Fed and Congress," predicted a senior investment analyst at an American branch of a major Swiss bank. "There will be a deal: cut defense, cut the cost-of-living allowances from Social Security and federal pensions, and stretch out the tax cuts. We are in touch with Domenici [Chairman of the Senate Budget Committee] and Hollings, as well as Baker, Conable, and Jones [the Senate Majority Leader, ranking Republican on the House Ways and Means Committee and House Budget Committee Chairman, respectively] who will lead the deal with the President."

tors DeConcini (D-Ariz.), and Baker, in addition to others, are demanding exact figures on how much revenue a $5 or $10 per barrel tax on oil would produce (including increased Windfall Profit taxes) to force the President to accept this destructive measure, as part of the "deal" with the Congress and the Fed.

Should the President be suborned by Congress and the Fed, he would lose his executive authority to make policy for the nation. Reagan continues to resist the theft of his powers, but lacks any economic policy that could outflank his, and the nation's tormentors.

Thus the failure of one or several top corporations—not necessarily unwelcome to the financial oligarchy which controls them—would put the White House to the test. Leading candidates for bankruptcy are International Harvester, Chrysler, Conrail, AM International and McClouth and Kaiser Steel, as well as several airlines, auto-parts producers and consumer-goods manufacturers.

The case of Harvester

International Harvester may be first. On March 24, a French branch of National Grindlays Bank, a British institution controlled by Lloyds of London and Citicorp of New York, sued International Harvester, to recover $1.9 million in overdue loans. This breaks the creditor standstill agreement reached last December between Harvester and its 350 creditor banks, under which payment was postponed.

"If one bank breaks the accord, the whole thing could steamroll," said the insurance-company economist quoted above. The unravelling of the creditors agreement would pull the company under, as well as many of the 330 smaller regional banks that have made loans to Harvester. Not only would the company's remaining 35,000 employees be put on the street, but the banking system which supplies credit for farming and commerce throughout the Midwest would be in jeopardy.

On March 19, Warren J. Hayford, the two-year-president of Harvester, resigned suddenly and without explanation. Simultaneously the Financial Accounting Standards Board has been pressing Harvester, Chrysler, and other companies with large sales through distributorships to reclassify the sale of accounts receivables as short-term bank debt. This would greatly increase the bank debt recorded on company books, forcing banks to call old credits or curtail new ones.

Harvester has been set up for its demise since its present chairman, Archie McCardell, assumed the top spot in 1977. A former top executive at Xerox (a British-created "post-industrial company"), and a member of the Chicago Council on Foreign Relations, McCardell embarked on a "cost-cutting" campaign so ruinous to the company that even *Fortune* magazine reported that business circles regarded McCardell as having "gone off the deep end."

McCardell's first action was to precipitate an extended strike of the company's blue-collar workers; Harvester's Wisconsin Steel subsidiary collapsed because of lost orders. He then instituted cost-cutting measures that drove some of Harvester's suppliers into bankruptcy and others to the brink.

Since 1979, McCardell has been a strong supporter of Fed Chairman Paul Volcker, whose policies are not hard to relate to the demise of Harvester. A profitable company in every year from the Great Depression to 1979, with $370 million in net profits for the latter year, the company suddenly drowned in red ink in both 1980 and 1981. The combined loss for those two years was three-quarters of a billion dollars.

In a background briefing for Washington reporters on April 1, a senior official of the Federal Reserve System announced that the Fed will never allow interest rates to come down. The official stated, "There are going to be a lot of changes in the U.S. financial system but one thing is clear: the days of low interest rates and booming construction are never going to return." Addressing a California realtor, the Fed official said pointedly, "I guess you're on the whip end. You people are the first to go." Another Fed official in New York declared that the Fed will not accept government measures to rescue industrial corporations. "We'd never support the bailout of a company now. The only way to handle such things is to let the companies go."

The 'free trade' corollary

It should be noted that the Fed's drive to spread economic and social chaos in the nation's industrial heartland and precipitate a Treasury crisis is tied to the Versailles summit of Western heads of government in July. The BIS considers it necessary to destroy Reagan's presidential authority before Versailles so that President Reagan, Chancellor Schmidt of West Germany (to whom the high Fed official ostentatiously referred to in the Washington briefing as "Mr. S--t") and Prime Minister Suzuki of Japan will be set up for the session of the General Agreement on Trade and Tariffs (GATT) in November.

The world is now ripe for a strong declaration of "free trade," according to former British Ambassador to the United Nations, Ivor Richards. Now the European Community's Commissioner of Employment and Social Affairs, the portly Mr. Richards told the U.S. Chamber of Commerce in a luncheon meeting March 31 that the Versailles summit will develop a strategy for the GATT ministers' meeting in November "which will issue a tough declaration for an open trading system and initiate a number of studies for future agreements."

An "open trading system," one of the oldest euphenisms in economic parlance, means—as it did in Adam Smith's day—freedom to destroy a nation's industry by dumping goods on its markets, freedom to disrupt its financial and trading affairs, and ultimately freedom to buy out the offending nation's industry, or to bankrupt the treasury of the adversary nation-state.

PART I

The Common Agriculture Policy: key to Europe's farm productivity

by Cynthia Parsons

As this year's round of European Community farm-policy negotiations open, European agriculture is being held hostage to the deteriorating world economy. The European Community (EC) is plunging into a paralyzing political crisis as French President Mitterrand and British Prime Minister Thatcher battle each other and undercut West German Chancellor Schmidt's hope that the EC can provide a unified voice for world economic recovery and political stabilization.

Since its controversial entry into the EC in 1973, Britain has led an attack on the Community's Common Agricultural Policy (CAP) as a wasteful and unnecessary "giveaway" program. Lately, the situation has been exacerbated by attacks against the CAP by U.S. free-marketeers echoing Britain and adding their own charge that the CAP which is stealing U.S. markets, particularly for grain, and is responsible for the bankruptcy facing American producers.

In reality, neither the CAP nor its programs are wasteful of European tax money, or unfair to American farmers. Anyone clinging to this excuse is ignoring the usurious interest rates that are both crippling farmers' ability to produce and constricting the world markets' ability to consume expanded farm-food exports from both the United States and Europe.

How CAP works

The CAP came into being in 1963, developed out of the 1957 Treaty of Rome. The treaty was to create a unified Europe for economic recovery some ten years after the war that devastated Europe's agriculture and left consumption levels below those of many Third World countries.

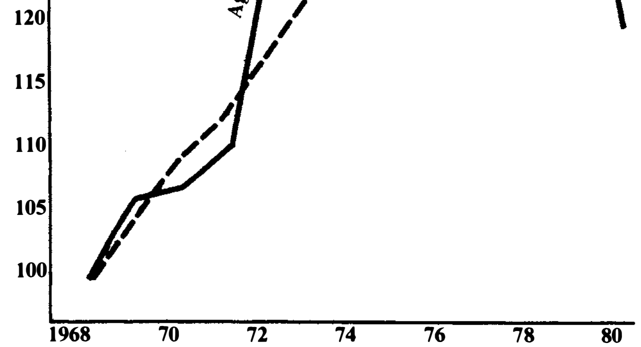
The six founding nations were expanded to include the United Kingdom, Ireland, and Denmark in 1973, and Greece in 1981. At the insistence of French President de Gaulle, upholding the CAP was made a prerequisite for EC membership to guarantee the coordinated growth of European agriculture and restore food self-sufficiency as rapidly as possible.

Thus the CAP, coordinating and meshing the national policies of farm-sector support of all its members, is the vehicle through which agricultural production and trade has developed in Europe. Through its guidelines the CAP has built the EC into a self-sufficient food producer and the second most important grain exporter after the United States. These guidelines—to increase agricultural productivity, stabilize markets, ensure a fair standard of living in the farm sector, and secure supplies—have been responsible for the modernization and expansion of European cereals, dairy, fruit, and vegetable production.

Following guidelines, a price-support program was established similar to the parity system in effect in the United States during the 1940s. Parity—the policy of

Figure 1

Agriculture and total economy in the European Community, an index of per capita real income
(percent of 1968)



Source: The Agriculture Situation in the Community, 1980 Report, January 1981 government action to guarantee orderly marketing at prices sufficient to assure producers cost of production plus a profit adequate to finance future production—laid the basis for the colossal gains American agriculture made during the past three decades.

CAP works as follows for the major grains, the core of the farm economy:

There is a system of three basic price support levels:

The target price, which serves as the reference point to establish the intervention price, and represents the price the farmer believes he should get for his grain. Each year a single target price is calculated for each major grain, plus monthly increments for storage and insurance. **The threshold price,** the central mechanism for protecting the internal market. This price determines the price at which grain can be imported into the EC. It is normally substantially above the international "free-market" price, because of the "import levy," but it averages about 2 percent below the target price level. **The intervention price,** a kind of "floor price." In order to safeguard farm incomes, the EC guarantees a market for Community-produced grain at intervention prices. Through its many intervention centers, the EC will purchase all grain offered in minimum 80-ton quantities. A single intervention price is formulated for each type of grain and is applicable throughout the Community. Since the French market center of Ormes traditionally has the most extensive surplus, it is taken as the standard for all price calculations.

The consequences

What this means for European farm producers can be seen from the following comparison of European and U.S. wheat prices. In 1981, the EC wheat target price was $6.38 per bushel, the wheat threshold price was $6.22 per bushel, and the wheat intervention price was $4.55 per bushel. Compared to this, the U.S. target price for wheat—roughly comparable to the combined EC threshold and target price—was $3.81 per bushel, and the U.S. price support loan rate, comparable to the EC intervention price, was $3.20.

Taking the U.S. Department of Agriculture's own cost-of-production estimates as a standard, it is apparent that European producers, unlike most American farmers, have a chance to break even. According to USDA, 1981 wheat production costs per bushel, including land charges, were $6.77—close to the European target price and nearly twice the U.S. target price levels!

The grain "surpluses" Europe has been producing are testimony to the success of the CAP pricing system. To stimulate exports of the surpluses at world market prices (kept below cost of production levels by the major grain companies), a program of export subsidies has been developed. Under CAP there is thus no control of the market by the large grain companies as in the United States marketing situation.

Figure 2
Shifts in world wheat trade
(national exports in million metric tons)

	1970-71	1975-76	1981-82
United States	19.9	31.7	48.3
European Community	3.4	8.6	14.5
Canada	11.5	12.1	17.0
Australia	9.5	7.9	12.0
Argentina	1.6	3.2	5.0
Other	9.1	3.2	4.0
Total	55.0	66.7	100.8

From 1970 to 1980, European grain production increased by 50 percent, with yields more than doubling. U.S. wheat yields are approximately 3 metric tons per hectare, while average yields in Europe are 4.6. Labor-productivity gains have kept pace with production increases. The total small-peasant population has been halved over the past 15 years; in Italy, the reduction has been even greater. Tractorization has increased 40 percent over 15 years, and the number of holdings under 20 hectares has been reduced by nearly half. Livestock production, while making definite but slow progress, is the weakest production area. In all areas, France, bolstered by its own national agricultural program, has made the best progress.

Complementing the CAP price-support system is the guidance program. Funds from CAP for the Feoga, or farm fund, which pay for intervention purchases, and storage, also provide farmers with funds for modernization and improvements.

For the European farmer who is prepared to change with the times, the CAP has been key to his progress. Unfortunately, since 1979, the tight credit situation worldwide has caused the EC as a whole to tighten its belt. This has lowered rates of production increase, pinched price support levels, and decidedly cut back imports.

1982 negotiations

Two issues are on the table: 1) setting new price-support levels for 1982-83; and 2) deciding on a proposed revision of the CAP guidelines. The outcome will determine whether or not the European farm sector is thrown irrevocably into the kind of spiral of equity bleeding and debt-mushrooming that has put U.S. farm producers into the worst crisis since the Great Depression.

The CAP Commission has drafted a proposal to implement a 9 percent price increase—the largest in any recent year, yet still far below the 12 percent average European inflation rate—combined with a proposal to further revise the guidelines in the direction of setting production limits which producers are taxed for exceeding.

The French government has already declared that it favors a 12 percent price-support increase, while the European Farmers Union has stated that nothing less than 16 percent is acceptable. Only the Thatcher government claims that 9 percent is too much, ignoring the farmer demonstration in the United Kingdom demanding 16 percent. Even the European Parliament, whose clout is considered weak, endorsed a 14 percent increase.

Even though CAP remains a critical defense for European farm production, it has been seriously compromised. As Figure 1 shows, European farm income in real per-capita terms has taken a beating since 1973. But especially in the past several years, when price support levels were held below the rate of inflation (in 1980 the price increase was 4.8 percent and in 1981, 11 percent), real farm income has taken a nosedive.

Already, capital investment has been hit. In Britain investment in machinery in 1981 was down 18 percent from 1980, and in France investment plummetted by 26 percent during the 1974 to 1979 period. Fully 100,000 farms are reportedly on the verge of bankruptcy in France.

This pressure on the CAP comes after a succession of political and monetary assaults. Starting in 1969, just two years after common EC price-support levels had been established for cereals, the French franc fell under attack and was forced to devalue. Later in the same year the deutschemark was revalued upward. To maintain common price-support levels, France would have had to increase prices by the full extent of the devaluation, and West Germany would have had to lower farm support prices—both unacceptable propositions.

As a result, a set of border taxes and subsidies to account for the new discrepancies now known as monetary compensatory accounts (MCAs) were adopted to bolster the CAP. As the Bretton Woods monetary system further unraveled with the successive dollar crisis and the adoption of "floating" exchange rates, the CAP has been under consistent pressure.

Today there is in fact not one farm price zone within the EC, but seven, and farm prices have diverged by as much as 40 percent between Germany at the top and the United Kingdom at the bottom. Currently the farm-price spreads in Europe are about 10 percent.

The extent to which the CAP has been undermined over the years has been masked in countries like France, Italy, and the Netherlands because those governments have adopted, independently of CAP, supplemental price-support programs. The effects of undermining CAP have also been masked by Europe's relatively recent adoption of hybrid seed varieties, which expanded output and yields without major capital investments in land and equipment.

Also contributing to the CAP's erosion have been the British gentleman farmers—the largely anti-Europe titleholders whose land is worked by tenants in the United Kingdom. Those gentleman farmers have stated their conviction that farm prices should be fixed "by markets, not by ministers," adding that that is the best way to eliminate so-called surplus production. The British want to replace the CAP's parity system with a system of feudal grants issued directly to farmers, as Part II of this report will elaborate.

Western Europe has benefited from an approximation of a parity system.

Business leaders talk about Volcker, protectionism, and Japan's future

by Daniel Sneider, Asia Editor

This is the second of a three-part series based on Asia Editor Daniel Sneider's recent visit to Japan.

As we publish it, the American public is being subjected to a new round of anti-Japanese trade propaganda by the allies of Federal Reserve Chairman Paul Volcker. When visiting Japanese Foreign Minister Yoshio Sakarauchi met President Ronald Reagan, cabinet secretaries, and Congressmen, he repeated to them the theme of his March 23 public speech in Washington: economic instability is the greatest threat to world peace. "Our [U.S.-Japan] close ties must be even further strengthened today. . . . We must overcome direct threats to world peace and stability; we must revitalize the global economy; and we must secure stable development in the Third World."

Hours prior to Sakarauchi's speech, however, the Reagan cabinet met and decided to support modified versions of the "trade reciprocity" bills now before Congress. Directed mainly at Japan, such bills allow Washington to unilaterally restrict imports from countries that it decides do not grant U.S. firms "equal access." Far from aiding U.S. industry, Commerce Undersecretary Lionel Olmer made it clear to a New York Japan Society audience March 25 that he interprets getting Japan to "open its market" as "encouraging foreign acquisition of Japanese companies." Washington's Volcker-led post-industrial faction regards the multinationals' takeover of Japan and the dilution of Japan's commitment to industry and technology as vital to their own anti-industry program in the United States and elsewhere. Mr. Sneider shows below why this is the case.

"The development of an economy is like riding a bicycle. If you try to stop in one place, you will fall down. You can only stay up by always going forward." This analogy, made by a senior official of the Japanese Ministry of International Trade and Industry (MITI), summarizes the Japanese commitment to continuous growth and technological innovation.

Japan's economic strength is best reflected in the response to the oil shocks of the 1970s. The Industrial Structure Council (ISC)—an advisory body to MITI consisting of representatives of academic, business, consumer, labor, and government officials—created a plan to secure stable supplies of energy, develop new energies like nuclear power, and save energy based on new materials and technologies.

Japan's approach contrasts with the stress on austerity-linked "energy conservaton" in the United States. In America, only a third of energy consumption is in industry; almost 60 percent of Japan's energy demand is from this sector. The ISC and MITI analyzed the energy flow of the industrial sector, tracing energy from its production sources through the various generation technologies, and finally charting the conversion to heat, motive power, and the amount of energy loss.

The ISC's *Vision* plan for the 1980s outlined a variety of high-technology innovations to raise overall energy-conversion efficiency all along the industrial process in almost every sector. A much-cited example is the replacement of conventional processes in steel with continuous casting. A great deal of work is also going into developing new materials such as ceramics and high-temperature alloys.

The major response to the economic crisis has not been cutbacks in investment, but increased R&D in new technologies that create continuous increases in labor productivity. "The engine that will propel the industrial structure of Japan to a higher level of creative knowledge-intensiveness in the 1980s," declares the ISC 1980s *Vision,* "will be technological innovation. . . . In the present decade, Japan aspires to build a *technology-based nation* through self-inspired and imaginative technological innovations [emphasis in original]."

The virtue of Japanese planning, which integrates the broad views of the government and private industry at every level, is an insistence on looking 10 and 20 years ahead, anticipating problems and defining next generations of technologies—and then taking steps now to ensure that desired future. It is from this standpoint that emphasis is placed on areas like micro-electronics and industrial robots. According to the Japan Industrial Robot Association, some 85 laboratories, in universities and research organizations, are researching robotics, a field in which Japan is the recognized world leader. More than 20,000 robots are at work today in Japanese factories. One motivation for the development of robotics is growing concern over the shift in the age structure of the population, due to slowing birth rates. By current estimates, more than 20 percent of the population will be over 65 by early in the next century.

As one of the directors of the giant Mitsubishi Corporation stressed to me, "The big change in Japan during the past years is going on inside the factory."

Depression and trade war

Despite Japan's obvious successes, there is a great deal of apprehension concerning the future. The trade effects of high American interest rates and protectionism are two of the main concerns. Businessmen and bankers think in 1982 Japan will at best show a 3 percent real GNP growth rate, far below previous expectations. Exports will not maintain 1981 growth rates, and the domestic market, even with stimulation, will be unable to take up the slack. While acknowledging Japan's health relative to American and West European economies, Japanese stress the difficulties they are having.

A Mitsubishi Electric executive laid out a three-point approach to deal with the problem. First, he said, Japan is developing entirely new products, such as robotics, to replace present export items. Unlike auto and steel, such items would presumably not be subject to protectionist attacks. Second, Japan is trying to establish joint ventures for production in importing countries themselves, particularly the United States. Third, he stressed the importance of the underdeveloped countries, which, he said, offer the greatest opportunity for real expansion of markets for industrial goods.

This, he explained, is why Mitsubushi Electric, for example, is making a major investment of its technology and skilled manpower in Mexico, which is viewed as a rapidly industrializing country. "We are not like you Americans," he told me. "We look at a country like Mexico from a 5-10-20-year perspective. We plan our involvement in that country without expecting to get an immediate return on our investment." The Japanese believe the most important factor for countries like Mexico, as for Japan itself, is the development of skilled manpower. Therefore, Japan is sending 50 to 60 of its own engineers and technicians to Mexico, both to carry out projects and to train Mexicans.

No one I spoke to, however, believes such measures are sufficient; the key remains the international economy, which is affected by policies outside Japan's control. For example, the size of Japan's trade surplus with the United States, Japanese leaders point out, is in large part a product of the artificial up-valuation of the dollar caused by high interest rates. Furthermore, the Japanese are perfectly aware that their international competitiveness is the result of their investment and technology, not "non-tariff barriers," and that America suffers precisely because it fails to carry out similar policies.

Volcker's regimen is frankly viewed as insane in Japan, where the average interest rate is around 7 percent. I asked numerous business and government officials what they thought would have happened to Japan had they had the same policy over the past two years. Several just looked at me incredulously, obviously unable even to contemplate such a question. One responded, "Well, we would never do such a thing." I persisted in asking "What if?" Finally he said, "We would be destroyed by now."

Hideaki Kumano, MITI's Industrial Structure division director, thought Japan's economy "worked" and America's didn't because "the problem in the U.S. is that you let your economics professors actually make economic policy for the government."

An executive of a large electronics firm told me he had interviewed scores of American chief executive officers over the recent period to search for possible partners for joint ventures in the United States. He found hardly any of them capable of thinking about business and economics the way the Japanese do. "We don't worry about showing a profit on a quarterly balance sheet the way your executives do. We are perfectly prepared to go for five years or more without earning a profit from sections of the company if it is part of developing a new market or a new technology. We think and plan in 5- to 10-year terms; I could hardly find anyone in America who thinks beyond a quarter or two."

One aspect of the difference is the nature of the Japanese corporation itself. Although it has the form of a public stock corporation, shareholders do not exert strong control over the company. Short-term dividends are less important to stockholders than long-term rising share values. Moreover, even large outside institutional shareholders do not dominate the board of directors; instead, boards come entirely from within the company.

Although I was constantly struck by the rationality of the Japanese economic system, the emphasis on criteria of real economic growth, rather than the monetary fixations of accountants, bankers, and lawyers, I noticed an erosion of this system. The erosion comes from *outside* Japan in the form of the anti-growth ideology of the Club of Rome stripe. This ideology gained ground in the early 1970s due to the panic over the oil shock in an economy previously fueled by plentiful, low-cost imported resources. The argument that resources, and thus growth, are limited gained acceptance among many fearful Japanese.

The anti-growth problem

These arguments have somewhat faded in recent years due to Japan's successful handling of the oil shock. A senior planner at the Economic Planning Agency pointed to the improvement of the energy-supply picture and Japan's relative ease in handling the post-Khomeini oil shock as important factors in rolling back "limits to growth" ideas.

MITI Industrial Structure director Kumano, however, expressed concern that such ideas are increasing. He said that the present head of the powerful Keidanren business federation, Yoshihiro Inayama, is an advocate of a "low stable growth" perspective for Japan. "We found ourselves encountering these arguments when we went to international conferences, like the OECD," Kumano explained, "At first we were very surprised by them." Kumano suggested that trade-war attacks on Japan are in fact the product of the Malthusian ideas now prevalent in America and elsewhere—that Japan is being attacked precisely because of its growth and technological orientation. Asked if the Club of Rome ideas could be also found inside MITI, Kumano, looking shocked, replied, "Of course not."

Sadao Ueshima, managing director of the Overseas Electric Industry Survey Institute, a think tank for the electric utilities, pointed to the growing environmentalist movement in Japan. It now takes 12 years to construct a nuclear power plant in Japan, he told me, due to opposition from local residents to plant siting. Much of the anti-nuclear fear is stirred up by the media and by the Japan Socialist Party, the largest opposition party, which is strongly anti-nuclear. Government and industry have countered the environmentalists with a public education campaign on the safety of nuclear energy.

Education and the future

Japan's ability to surmount external and internal problems may be determined by the current debate over Japanese education and culture. Japan is second only to the United States in the percent of high school graduates going on to college. Yet there is a widespread belief that the quality of higher education in Japan is on the decline and must be drastically reformed. The crucial debate centers on the need for Japan to internally generate scientific and technological innovation, particularly because of the decline of U.S. science and technology, the previous fount of such ideas for Japan.

One Japanese think tanker declared, "We must change our educational system to place emphasis on teaching people how to think, how to be creative, not on accumulating facts through memorization." This is not a new problem, but now it is vital. In some respects, Japan has had two higher education systems—one in the schools and one in the corporations, particularly the large *zaibatsu* firms which maintain huge in-house training programs ranging from technical education for engineers to specialized training in languages for executives. Firms prefer new employees not to have too much specialized university training before coming to the firm. Contrary to popular American belief, the vast majority of Japan's research and development, almost 75 percent, is carried out at the private level, a much higher percentage than in the United States.

Corporate activity, however, is not a substitute for an effective national educational system. The Japanese system stresses the ability of citizens and employees to work cooperatively, not as individuals. While such "consensus" modes of operation are manifestly successful at one level, there is some concern that this stifles individual creativity.

These educational concerns intersect with "the problem of the youth generation." Nagahido Shioda, president of the Japan Research Institute, who has been studying changing attitudes toward the family, told me that in government circles one can find two views on the effect of Westernization. One is a great concern that the erosion of traditional values and culture weakens Japan; there are demands for efforts to counter it. The other view is that Japanese culture and society are so unique as to be impermeable to Westernization. Shioda, however, sees these views as opposite sides of the same coin. Instead, he said, one should separate out the good and bad aspects of the changes, e.g., the individuality issue.

For 150 years the Japanese have been trying to evolve a culture that combines their own with that of the West. Today this is made more difficulty by the fear of importing current Western decay into Japan. Japan is still a fundamentally different culture. At times the Japanese defense of traditional culture seems the only means of defense they have against Western decadence.

What it means to be "Japanese," how to absorb the "good" but not the "bad" aspects of the West, and the new found national pride of recent years will determine whether the Japanese can mobilize their population to surmount their current difficulties, and whether they will be willing to fulfill their responsibilities in helping the world as a whole deal with the current political and economic crisis.

No agenda in Brussels

The European Community summit failed to work out a real program against high interest rates.

In a final communiqué, the leaders of the 10 European nation members of the Common Market who met in Brussels March 29 and 30 denounced high U.S. interest rates as "spreading recession around the world and undermining the hopes of reducing unemployment."

Beyond this important recognition, the meeting was notable for what it did not achieve.

West German Chancellor Helmut Schmidt reiterated several times during the meeting the theme of the central need to lower interest rates. He told a Swedish television network March 30, "There can be no investment nor lowering of unemployment unless U.S. interest rates are brought down." He stated that because a favorable balance of payments is expected this year, West Germany could expect to maneuver around the worst effects of the high U.S. rates.

But unfortunately, no substantive proposals for achieving a permanent lowering of interest rates worldwide were worked out. Instead, French Socialist President François Mitterrand attempted to wreck the meeting with a series of allegedly pan-European proposals, whose intent was to force a break between Europe and the United States. Schmidt would have none of this.

But to give Mitterrand the proper stage for his antics, British Prime Minister Margaret Thatcher insisted on acting as Mitterrand's foil, and thus much of the discussion was bogged down in a useless left-versus-right set of ideological confrontations.

For example, Mitterrand proposed that the EC adopt a program of grossly reflationary spending programs to create jobs. Schmidt—who is now pursuing a domestic jobs creation program which is, however, linked to productive industrial investment—blocked this Mitterrand resolution. Mitterrand also proposed a more tightly coordinated European Monetary System, which would set stricter rules for European central-bank monetary coordination.

Behind this particular Mitterrand proposal was an attempt to lock West Germany into unconditional support for the French franc, which is suffering from both the inflationary policies pursued by Mitterrand and from a Swiss-coordinated attempt to create havoc for France and Germany.

Thatcher in turn made use of various opportunities to be provocative. She refused to approve a 16 percent increase in the Common Agricultural Policy (CAP) farm price-support level, denouncing this arrangement as unfair to Britain and restrictive to free enterprise. Schmidt rejected the specific 16 percent increase proposed for farm-price supports, but refused to endorse the Thatcher attempt to destroy CAP altogether.

While Thatcher and Mitterrand tore at each other, Europe's leaders, with the sole exception of Schmidt and Belgium's Wilfried Martens (who went to Washington in February at Schmidt's behest to urge action against Volcker), have done little to combat the high interest rates.

Watching over the shoulders of those leaders is the Bank for International Settlements (BIS) which is highly aware of the potential for worsening economic crisis and preparing their own solutions to deal with it.

Fritz Leutwiler, the managing director of the BIS and the head of the Swiss central bank, told an audience in Mainz, West Germany on March 23 that "international debt payments are getting to be an increasing problem." He stated that "the third world nations will have to cut back their borrowing, or else they will be forced to by their international creditors." Leutwiler warned of a debt-crisis-triggered "international collapse."

Once such a collapse were to occur, Leutwiler said, "international institutions or an ad hoc body will have to step into the breach." What Leutwiler is taking about is a BIS dictatorship over world credit flows, enforced by the International Monetary Fund. Leutwiler was followed the next day by his number-two man at the Swiss central bank, Pierre Languetin, who smirked to an *EIR* correspondent that a "domino-effect collapse of the international banking system cannot be excluded."

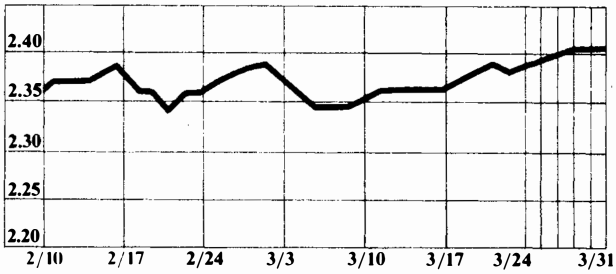
It is this policy that is ready to be put into effect at the first opening, and it is the reality of this fact that the European heads of state March 29 and 30 failed to address during their fruitless squabbling.

Trade Review by Mark Sonnenblick

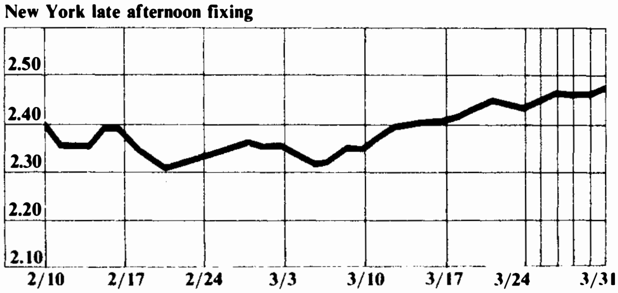
Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
$230 mn.	China from U.S.A.	Dr. Armand Hammer has signed a preliminary agreement in Peking for his Occidental Petroleum to develop what he calls the world's largest coal deposit, the 1.4 bn. ton steam coal pit at Pangshou, Shanxi province. Plan for first phase is for mine to yield 8.7 mn. tpy high-grade coal for export and 3.8 mn. tpy coal for China. Oxy will supply technology and equipment worth $230 mn. and will have 50-50 share of profits with the Chinese govt. until it recoups its investment; then, its share will be 40% of profits.	Is Hammer acting with approval of his friends in Moscow, who have recently been making overtures to Peking?
$44 mn.	Singapore from China	Sentinal Supply Ships has ordered 9 offshore oil drilling supply ships from Hudong Shipyard in Shanghai. Sentinal, a Singapore-based Australian and British operation, says the Chinese defeated 11 Asian competitors not only for cheaper price and better quality, but because Sentinal wants "to establish some sort of relationship" with China. Sentinal will pay cash for the ships.	Sentinal believes China, which has only 5 badly managed supply ships, might want to charter ships from Sentinal.
$28 mn.	U.S.A. from Japan	Conveyor systems for Nissan Motor's Smyrna, Tenn. truck plant and Honda's Marysville, Ohio auto plant will be made jointly by Jervis B. Webb Co. and Daifuku Machinery Works.	Webb says that $21 mn. of total components will be made in U.S.A.
CANCELED DEALS			
	U.S.A. from Costa Rica	USDA banned all beef imports from Costa Rica. Ag. Sec. John Block stated, "In recent months, we have not only received improperly identified products and products accompanied by fraudulent inspection certificates, but one of the plants apparently shipped us two boxes of dirt rather than meat."	One piece of dirty meat Costa Rica won't ship to the U.S. is swindler Robert Vesco whom Costa Rica protects from extradition.
$509 mn.	Brazil from U.K.	Brazil has canceled project for converting its largest oil-fired electric plant to coal. The plan had Northern Engineering and Klöckner U.K. totally replace 4 boilers and modify 2 more at Rio's 600 megawatt Santa Cruz plant at a cost of $509 mn. Deal was highlight of $1.2 bn. financing package signed by Brazil's planning minister in London last yr. (*EIR*, Nov. 10, 1981). Brazil gave a series of projects to British companies in return for large loans which went directly for debt service owed to London banks. These banks have forced 14% reduction in Brazilian manufacturing at a time when cheap nuclear and hydro-electricity is coming on stream. Under these depressed conditions, Brazil needs neither oil nor coal for electricity.	City of London banks have never hesitated to damage industry—even British industry—in order to protect their debt structures and their "invisibles" income.
$82 mn.	Iraq from Canada	Mechanical defects in the first 13,000 shipment of 1981 Malibus shipped by General Motors of Canada have caused Iraq to cancel a second shipment of 12,000 Malibus. GM had prepared the cars specially for desert conditions, but 36 GM mechanics sent to Iraq were unable to fix defective clutches and air filters.	Iraq shifted its car purchases to Toyota; Malibu lemons seeking foreign buyers. Iraq has no complaint on 7,000 Volvo heavy trucks (worth $286 mn.) delivered during last 18 months.

Currency Rates

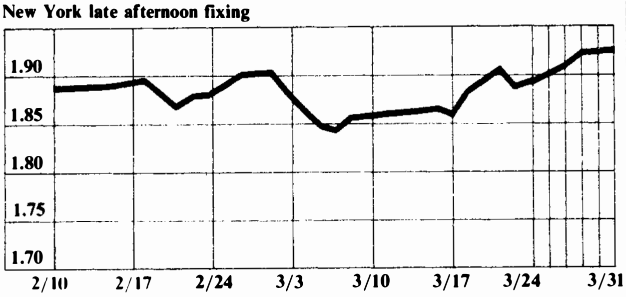
The dollar in deutschemarks
New York late afternoon fixing



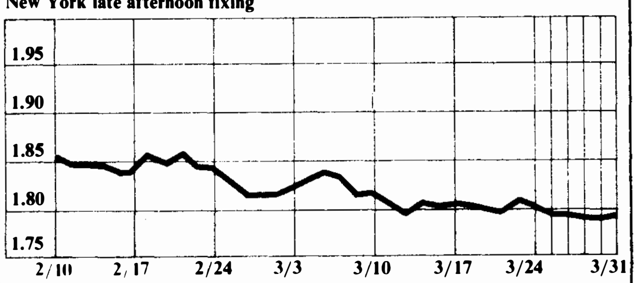
The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing



Banking by Kathy Burdman

IBFs prompt Venetian invasion

The new free banking zones are rapidly drawing capital into the United States. But who benefits?

At a rate of over $30 billion a month this year so far, international capital is flooding into the new free banking zones created by Federal Reserve Chairman Paul Volcker and Governor Henry Wallich last December. This striking development, of which *EIR* warned in an October 1980 banking survey, is increasing penetration and control of the U.S. banking market by the "Venetian faction" of international finance: the oligarchic British, Swiss, and Italian banks.

According to Federal Reserve figures, over $96 billion in loans has been booked by the so-called "International Banking Facilities" (IBFs) between the end of December 1981, when they were legalized, and March 29, 1982. That tremendous growth rate may not continue; but the size of IBFs "will certainly double by the end of 1982, at least," a Washington Fed official told *EIR*. "We expected IBFs to grow even faster," the Fed official stated, "because banks can bring all their international business into IBFs." He estimated such business immediately transferable to IBFs at $300-$500 billion, and went on to predict that the entire Caribbean offshore market, over $300 billion, will be transferred to New York IBFs.

The purpose of IBFs is to "bring the Eurodollar market back home," in the words of one Chase Manhattan official—to take the world's speculative offshore markets in London, Hong Kong, and the Caribbean, and house them in New York and other U.S. cities.

The Eurodollar market, now estimated at over $1.2 trillion, has no reserve requirements against loan defaults; no taxes; no interest-rate usury ceilings; and no banking safety. Because of the lack of regulation, any Third World default could set off a chain-reaction collapse.

Thus, with IBFs, the Eurodollar speculators bring their floating crap game here, and make the U.S. Federal Reserve and U.S. government responsible for any international blowout. IBFs, as legalized by the Federal Reserve last December, have the same total lack of regulation as the Euromarkets, and are attracting the same speculation.

The sheer number of IBFs established since December is huge: over 145 were set up in December in New York alone, with others in major financial centers such as Chicago, San Francisco, and Miami. Of the 145 IBFs set up, 120 were set up by foreign banks, led by the British, Swiss, and Italian banks in New York. And of the $96 billion in IBF assets so far, fully $51.2 billion—more than half—has been booked by foreign banks' IBFs.

The foreign-bank activity is overwhelmingly concentrated in New York, with $43.3 billion in loans out of the $51.2 total. The latest figures on where foreign IBFs are lending show $8.7 billion lent to foreign corporations, $7.7 billion lent to foreign banks, and $4.4 billion lent to foreign governments. On the deposit side, foreign banks are shipping deposits in from all their Caribbean offices and from their European headquarters (about 50 percent of deposits), and from other foreign banks in London and around the world.

Asked why foreign banks are coming in so fast, the Fed answered "they want to be under the Federal Reserve umbrella." If there were a major bankruptcy, "they would be out in the cold in the Cayman Islands," the source stated. "Here, there will be the involvement of the Fed" in bailing out foreign banks.

Foreign banks are moving into the United States to take it over, as they abandon lending in Asia, Africa, Central America, and other parts of the Third World, a Swiss banker further explained. "There is no question these areas are much less attractive now for banking, and the U.S. is the most attractive," stated Richard Andermatt, Vice-President of Crédit Suisse in New York. "IBFs encourage this trend by making New York the world's best financial center. If we can do an offshore business here cheaply, and make money, this will support greater foreign bank activity in lending to the U.S. as well," he said.

Although foreign IBFs are not technically allowed to lend to domestic U.S. businesses, their profits will serve as a base to expand foreign banking in the United States, Andermatt stated. "There will be increasing European investment in the U.S., including purchases of U.S. companies, and European banks want to be on the scene to make loans for these purposes," he stated. "One of the most profitable ways to expand the scene is IBFs."

Business Briefs

Research & Development

Japan to press high technology cooperation

The Japanese government will propose a joint international research effort on advanced technology at the seven-nation Western economic summit in Versailles this June, according to the *Mainichi Shimbun* newspaper. In early April, Japan's Ministry of International Trade and Industry (MITI) will report details of the proposal to Prime Minister Suzuki. Areas included are industrial robotics, communications satellites, and optical communications.

MITI has already worked out comprehensive proposals to facilitate technological exchange between Japan and the United States, according to the *Nihon Kezai Shimbun*, and will soon suggest that a bilateral working group be established to put them into effect. Joint development of the fifth-generation computer and of biotechnology are included.

On March 29, the Japanese Agency of Industrial Science and Technology announced that one of its laboratories has succeeded in operating Josephson logic gates at a very high speed for the first time in the world. This marks the first step toward the development of a "supercomputer," the laboratory stated, according to Jiji press service.

Housing

Mortgage bonds pushed by investment managers

President Reagan's recent proposals on the U.S. housing industry will, according to spokesmen for the insurance and pension sectors, allow implementation of Carter administration proposals to give the homebuilding industry over to the insurance companies.

According to an economist at a leading U.S. insurance company, the President's proposals entail converting home mortgages into mortgage bonds carrying "market interest rates of 16 to 17 percent."

"Our company," the economist said, "is highly favorable to existing GNMA passthroughs and we want to buy plenty more because of the high rates."

A leading West Coast pension expert claimed that the President's proposals will open up the possibility of tough laws to allow creditors to evict and collect against mortgages, abolition of all state usury ceilings, and a federal override of local zoning laws to allow homes one-third the size of existing homes, and more homes per plot.

Such miniature homes, consisting of one room and a kitchen, are called "granny houses," and are illegal in most communities.

"We just have to make people understand they have no God-given right to a house and the idea of suburbia is dead," the pension consultant stated.

Domestic Credit

Fed to continue its interest-rate hikes

Paul Volcker's Federal Reserve has begun raising interest rates again and will continue to do so, a leading Wall Street economist said March 31. "There will be no change in interest rate policy," after the Fed's Open Market Committee end of March meeting, said E. F. Hutton's chief economist William Yardeni. "There will be tight interest rates for at least another month," he told *EIR*.

Asked whether Volcker's continued squeeze will cause corporate bankruptcies, while the "free-market" faction in the White House sits by, Yardeni said, "What they are doing is crossing their fingers. This is riverboat gambling" with the economy. "It's one of the scariest things I've ever seen. Growing bankruptcies of corporations could bring down the entire monetary system," he said, noting that if large bankruptcies break out, the banks cannot continue to roll over corporate loans.

Yardeni also predicted that given this interest-rate environment, "the U.S. budget deficit could be $140 billion in 1983. If you cut $30 to $40 billion, you will still get a $100 billion deficit, so what good would it do?"

Also given Volcker's interest rates, "there might not be any recovery. I'd have to see it to believe it," he stated. "The real rates of interest are so high there there is simply not the environment in which lending to the economy can occur."

Gold

Swiss banks admit Soviets not dumping

Swiss banking sources this week admitted that the major factor behind the current drop in the world gold price is not dumping of gold on open markets by the Soviet Union, as has been claimed by most gold traders over the past weeks.

The real story—which *EIR* was the first to break last June—is that the old Italian and British families have been dumping their private hoards, and encouraging Third World small gold holders to dump as well, while buying quietly on the side. The Soviet Union, for its part, has not materially increased its sales on world markets.

A source at a major Swiss bank told a journalist at the beginning of April that indeed the Soviet Union has not been dumping gold on the market, but rather using it off the market, in deals with Western central banks.

The Soviets, the Swiss source said, have been using the gold as "collateral" for loans, and have used from 6 to 9 million ounces of gold, with a market value of $2 to $3 billion dollars. The source was unable to say how much the Soviets have raised in dollar loans in this fashion.

Most of the collateralized loans have been done by the leading Swiss commercial banks, such as Union Bank of Switzerland, which has long had a gold-market business relationship with the Soviet Union, sources said. The Basel-based Bank for International Settlements is also said to have made at least one loan to the Soviet central bank.

International Credit

Group of 30 proclaims end of the dollar

The Group of 30, the bankers' advisory group to the International Monetary Fund headed by former IMF Executive Director Johannes Witeveen, issued a report March 26 decreeing the end of the U.S. dollar as the leading world reserve currency. The Group of 30 since its formation has been dedicated to ending the dollar system and to the imposition of the IMF and World Bank as supranational governing agencies over the world banking system.

The G-30 reports on a survey they conducted of 22 major central banks in the Western OECD nations, OPEC, and the LDCs, which together hold over half the world's $350 billion foreign-exchange reserves. The results show, they say, "that several leading industrialized countries" as well as all the respondents "have been diversifying some of their own reserves into currencies other than the dollar over the past five years." The G-30 announces that as a result the world now has a "de facto multi-currency reserve system."

"We tend to lose sight of what an incredible change has taken place with central banks since 1973-74," G-30 leader Geoffrey Bell of Schroeders Bank stated. "They used to stick exclusively with the dollar. But as the system has become more volatile, they have become more active" and gone out of dollars.

According to the Institute for International Economics, a group close to the G-30, the portion of U.S. dollars in world central banks' total reserves outstanding has fallen from 85 percent at the end of 1978 to 65 percent at the end of 1981. Of the total net new reserves added to the system during that three years, more than two-thirds have been in non-dollar currencies, such as the German deutschemark, Japanese yen, and the Swiss franc.

Agriculture

Hearings probe crisis in U.S. farm sector

More than 20 percent of all farm-equipment dealerships nationwide have been forced out of business in the last five years, according to Chuck Brown, an implement dealer from Wheatland, Wyoming. Brown was addressing a fact-finding hearing at the Producers Livestock Marketing Association sale barn in Greeley, Colorado on March 25. The hearing was one of nine such sessions being held throughout the country by the National Farmers Union.

Brown's testimony, along with that of 30 other witnesses, including farmers, ranchers, bankers, and other rural businessmen, underlined the fact that the financial crunch in agriculture is already threatening the stability of most other rural business. Another equipment dealer testified that the increase in farm foreclosure sales this year has dropped the bottom out of machinery prices.

Due to declining machinery and land prices, farmers are losing equity rapidly, a development that is compounding the already severe credit crunch farmers face. One witness at the Greeley hearing, a dryland wheat farmer, reported that his $114,000 interest rate bill for 1981 was as large as his entire gross income in 1978!

At a second hearing in Noblesville, Indiana, an Ohio grain producer called for lower interest rates, a 100 percent parity policy for farm exports, and an end to threats of grain export embargos as the program to halt the collapse.

Testimony gathered at the hearings will be compiled into a document for distribution to all members of Congress and administration officials.

Briefly

- **THE BUNDESRAT,** the Upper House of West Germany's parliament, has rejected the program for jobs creation proposed by Chancellor Helmut Schmidt. The $5.2 billion jobs-creation program needed parliamentary approval for a 1 percent increase in the value added tax to finance the plan. The March 29 rejection is a setback for Schmidt.

- **GATT,** the world trade watchdog body, reported March 29 that the absolute volume of world trade fell 1 percent during 1981 versus 1980 to under $2 trillion. As *EIR* documented, this major slump is a total reversal of previous years of world trade growth. World trade grew a full 20 percent in real terms during 1980, so the shift is in fact a negative 21 percent swing. GATT blamed the fall in trade on the strength of the U.S. dollar and to high dollar interest rates, which, it noted, discouraged export lending.

- **WHARTON** Econometrics, in a study on the U.S. savings & loan industry, concludes that the current U.S. Treasury policy of forced mergers of S&Ls is prohibitively expensive. The study, one of Wharton's first correct projections, notes that so many S&Ls are now reaching bankruptcy that for the federal insurance agencies to continue to seek to merge weak thrifts with stronger ones will cost the Treasury up to $84 billion over the next three years.

- **PETE DOMENICI,** the Republican Chairman of the Senate Budget Committee, has some strange allies in his fight against President Reagan's budget proposal. Domenici has called for Reagan's budget to be cut according to the specifications of Fed Chairman Paul Volcker, by about $20 billion. Domenici's "alternate" budget, Capitol Hill sources said March 30, was written by aides to liberal Democrat Henry Reuss (D-Wisc.).

Who wields the oil weapon, and why

by Robert Dreyfuss, Middle East Editor

The decade between 1969 and 1979 will probably go down in history as the decade of the "energy crisis." More than any other single issue, the 1970s were dominated by the totally untrue idea that the "world is running out of oil." Almost like experimental rats in a maze, Americans and others around the world were treated to a carefully designed process of behavior modification called the oil crisis, from which the traumatic and quite terrifying gas lines and shutdowns of gas stations in 1973-74 remain indelibly burned into the consciousness of consumers.

As *EIR* has repeatedly documented since its premier issue in April 1975, the energy crisis of the 1970s is better known as the "Great Oil Hoax."

Down to every last detail, the 1970s oil hoax was manufactured quite literally in the computers of London's British Petroleum, a handful of British and Swiss banks, and the think tanks at Oxford University and the University of Sussex. Together with influential elements in the rest of the Seven Sisters oil multinationals, key independents like Occidental and Atlantic Richfield, and the New York banking mafia headed by David Rockefeller, a deliberate conspiracy was concocted in London to send energy prices skyrocketing and to drastically reduce oil supplies available to the world market.

The gross figures are staggering. In 1970, the Aramco complex in Saudi Arabia was developing new oil production facilities projected to be able to produce a full 20 million barrels per day (mbd) by 1980. Throughout the OPEC countries, investment in oil production capacity was enormous and production surged worldwide. Huge new oil finds were being announced almost weekly, both inside OPEC and in other nations around the world. But by the mid-1970s, OPEC's output had leveled off at about 31 million barrels a day, and Saudi Arabia and other OPEC states had canceled plans for expansion of production facilities. After briefly touching a peak of about 11 mbd, the Saudi output has fallen to less than 7 mbd today. For all of OPEC today, production is at 17.5 mbd and falling. Iraq and Iran, which together produced nearly 10 mbd in 1978-79, have been almost completely shut down.

Stuart Lewis/NSIPS

A decade of energy crises manipulated by the oil majors has nearly destroyed the world's economy.

And prices, after successive jumps in 1969-71, 1973-74, and 1978-79, rose from about $2 a barrel to $34, a 17-fold increase.

It is absolutely the case that both the collapse of production (and consumption) and the rise in oil prices were deliberately engineered by the City of London and its allies. London's motivation was simple: in the late 1960s it became apparent to the Anglo-American and Swiss banking establishment that the bankruptcy of the International Monetary Fund and the Bretton Woods monetary system required that a worldwide depression be imposed from the top. World industrial production would have to be slashed dramatically and world trade curtailed in order to maintain the value of worthless scraps of paper representing bad debt obligations. Austerity and belt-tightening became the watchwords of the day for national and local governments and corporate entities, as credit allocations were restricted severely. In the advanced industrial nations, the outcome of this austerity was to be economic depression; in the Third World, its outcome was to be genocidal depopulation.

The driving wheel for the necessary depression psychology was the energy crisis. By repeatedly subjecting the world's population to "energy shocks," the oil hoaxsters synthesized the overwhelming appearance of an energy shortage which, translated into supposedly practical terms, signaled to Americans and others the end of the post-World War II era of prosperity and the start of the era of scarcity. The media obligingly portrayed the oil crisis as a product of a Malthusian resources crisis, and propaganda from the Club of Rome's *Limits to Growth* psywar team became increasingly believable to duped victims of the Great Oil Hoax.

The rise in energy costs served as a $100 billion tax on the world economy, whose revenues were funneled through OPEC into the coffers of the international banks and the International Monetary Fund as recycled petrodollars to keep afloat the world monetary system. That tax, of course, contributed mightily to the process of forced industrial cutbacks and slower and eventually negative world economic growth.

In this brief survey, we will focus primarily on the three successive shocks of the Great Oil Hoax and the means by which they were delivered. The first was the 1969-71 preparatory phase that began with the coup d'état that brought Col. Muammar Qaddafi to power in Libya in September 1969; the second, the so-called Great Oil Hoax of 1973-74 that revolved around the October 1973 Middle East war; and the third, the 1978-79 crisis that was triggered by the Iranian Islamic Revolution launched by British intelligence's Ayatollah Khomeini and the Muslim Brotherhood.

Since the revolution in Iran, the British combination that toppled the Shah has refocused its activities on Saudi Arabia, the bastion of OPEC stability, with a view to forcing Saudi Arabia to drastically cut its production, even if that means a coup d'état by Saudi factions supporting the Brotherhood. Unless the lessons of the 1970s are learned, the London oil and financial cartel will make sure that history does repeat itself.

Economic warfare: the true story of the 1970s Great Oil Hoax

by Robert Dreyfuss, Middle East Editor

I. The Muammar Qaddafi Factor, 1969-71

The event that ushered in the 1970s oil crisis was the September 1969 coup d'état by Col. Muammar Qaddafi against Libya's King Idris.

The setting was as follows: During the 1960s, Libya emerged as the world's leading oil exporter. During this period, Libya was run by the Swiss banking clique and the newly established Propaganda-2 Freemasonic secret society in Italy, whose banks and insurance companies in Venice and in Switzerland controlled King Idris's corrupt regime. Virtually every Libyan official, from the king down, received huge oil-company bribes deposited in secret Swiss bank accounts.

The man who almost single-handedly built the oil industry in Libya was Occidental Petroleum's Armand Hammer, whose ties to Swiss banks and the Austrian and Italian underworld, and to the Soviet KGB, gave him an inside track to develop Libya. Purchasing the obscure and bankrupt Occidental Petroleum Corporation in the 1950s, Hammer used his Libya connection to become one of the world's most powerful oilmen almost overnight. Along with Hammer, Exxon and the Max Fisher-controlled Marathon Oil Company also had a large position in Libya.

In 1961, oil exports from Libya were a mere 20,000 barrels a day. By 1966, they reached 1.5 million barrels a day; by 1968, 2.6 mbd; and by 1969-70 over 3.5 mbd. In September 1969, the month of the coup d'état by Qaddafi, Libya exceeded even Saudi Arabia in daily oil exports! The key to this process was that major Western nations, especially in Europe, became heavily dependent on Libya for oil supplies, thus giving the P-2 controllers of Libya enormous leverage among the consumers. Becoming dependent on Libya too quickly, Europe was suddenly vulnerable to blackmail.

It was a setup.

On Sept. 1, 1969, Qaddafi's junta seized power. It is now generally recognized that the coup was sponsored by the U.S. State Department, the CIA, and certain Italian and Swiss agencies linked to P-2 and Armand Hammer. Official U.S. government documents reveal that David Newsom, the Exxon-linked American ambassador in Libya, in 1970 intervened to block a proposed coup against Qaddafi. Orchestrating the entire Libyan affair was the British Secret Intelligence Service (SIS), who had picked up Qaddafi during his training at the elite Sandhurst military school in Great Britain. Qaddafi's first prime minister, and the man who subsequently conducted the oil negotiations for Libya, was a slick former lawyer for Exxon.

Taking advantage of the 1967 closure of the Suez Canal, Qaddafi "demanded" that Hammer's Occidental cut back its production. Throughout early 1970, as Libya had Europe's consumers over a barrel, Qaddafi reduced Libyan production sharply and demanded higher prices for Libyan oil. The Libyan action was first resisted both by oil companies and consumer governments, but on Sept. 4, 1970, Hammer announced in Los Angeles that he had unilaterally accepted Qaddafi's terms. The other companies quickly followed suit—having no choice—and Libyan price rose from $2.00 to between $2.30 and $2.90.

Libya leads OPEC renegades

Closely coordinating with Libya were Algiera and Syria, which received Libyan subsidies. In fact, the Libyan victory in September 1970 was only made possible by the July 1970 Algerian action in unilaterally raising its export price to France to $2.85 from $2.08.

An official adviser to Libya and Algeria at the time was John Connally, the P-2-linked U.S. lawyer who represented Algerian interests in the United States. Connally later became U.S. Treasury Secretary, a position in which he would continue to represent (more discreetly) the identical policy. The Arthur D. Little consulting firm and Washington fixer Clark Clifford were also hired by Algeria.

Said Libyan Oil Minister Mabruk at the time, "A totally new situation has arisen in the oil market," and indeed it had. Throughout OPEC, nationalists put heavy pressure on OPEC governments to follow Libya's lead. In Janauary 1971, after an OPEC meeting in

Caracas, Venezuela, Libya presented Hammer with renewed demands for price hikes. In New York, John J. McCloy, a long-time Rockefeller associate, organized the U.S. oil companies into an officially recognized cartel to confront OPEC. At meetings in Teheran in January and February 1971, the oil companies under McCloy's direction, acting provocatively and boorishly, forced OPEC moderates like Saudi Arabia to support the radicals out of exasperation; particularly galling to the OPEC countries was the companies' action in passing on the price increases to consumers, since OPEC was seeking merely a fairer share of oil profits and *not* price increases. After highly controversial negotiations, on Feb. 14 a Teheran settlement was reached with Iran, Iraq, and Saudi Arabia.

But when the Teheran Agreement was suggested to the Libyans, representing Mediterranean producers, it was immediately rejected. "When we received the cable from the companies with their first offer, we laughed and laughed and laughed and laughed," said Libya's Maj. Abdessalam Jalloud. Once again, Libya demanded, and received, higher prices, and the Teheran Agreement was rendered worthless.

The stage was set. Using Libya's leverage on the world oil market, thanks to Armand Hammer's 1960s seduction of European consumers, and using their power within the London-New York oil cartel, the Anglo-Americans succeeded in sending shock waves into the world oil market.

What had been established in 1969-71, by the Libyan revolution, was the link between politics in the Middle East and the "energy crisis." And it was still the calm before the storm.

II. The First Great Oil Hoax, 1973-74

The *capability* established during 1969-71 was activated after the 1973 Middle East war.

The story of the Great Oil Hoax has been told in detail and at length in the pages of the *EIR* and in a U.S. Labor Party Special Report on Henry Kissinger published in 1978. In essence, what occurred during the 1973 crisis was an elaborate plot to use the war in the Middle East to quadruple the price of oil and enforce drastic austerity measures through phony energy shortages.

That Henry Kissinger, acting as an agent of the British Foreign Office, stage-managed the Middle East war is beyond question. Kissinger convinced Anwar Sadat of Egypt that a "limited war" against Israel would open the door for Egypt's recovery of the Sinai, occupied by Israel since the 1967 Arab-Israeli conflict, and he assured Egypt that Gen. Moshe Dayan would guarantee that Israel would pretend to be "surprised" by the war. Together, Kissinger and Dayan ensured that Israel did not launch a pre-emptive strike against Egypt and Syria, and Kissinger masterminded the step-by-step diplomacy that followed the war.

Meanwhile, ex-CIA Director Richard Helms was sent to Teheran as U.S. ambassador in the spring of 1973, with the job of convincing the Shah to demand drastic oil prices. The outbreak of the war coincided with an OPEC meeting in October, where the shocked Saudis allowed a price jump from \$2.50 to about \$5.00. With Libya in the lead, backed by Iran's Shah, who was dazzled by Kissinger's promises of immense wealth and power, prices again doubled from \$5.00 to \$11.65 in December 1973. The Arab oil embargo that lasted until mid-1974 and the production cutbacks by Arab producers enabled the oil companies to manipulate the world oil market at will.

Figures available since the embargo prove that the Arab oil embargo failed completely to cut oil deliveries to the United States, with proof that despite the oil embargo the level of U.S. oil imports actually *rose* during the 1973-74 crisis! The gasoline lines and fuel shortages were hoked up by the Seven Sisters as part of an economic-warfare assault against the industrialized countries.

Some documentation

We cite as evidence here only the following portion of reams of testimony and documentation of the oil hoax. First, in a letter to Treasury Secretary William Simon, (among secret documents made available to *EIR*), U.S. Ambassador James Akins in Saudi Arabia wrote during the crisis that Saudi Oil Minister Yamani had told Akins that "there are those amongst us who think that the U.S. administration does not really object to an increase in oil prices, and there are even those who think you encourage it." Added Yamani, according to Akins, "It is also thought that the hard-line U.S. policy toward Saudi Arabia is designed to discourage us from continuing our present efforts" to lower prices. Akins reported to Kissinger: "Yamani said he had long suspected that some in the U.S. administration really wanted oil prices to go up. . . . Yamani knew that I had taken another position, and he also had no doubt that this was the policy favored by the Treasury Secretary and by the President, but others, he said, seem to be playing a different game."

Another remarkable statement came from President Saddam Hussein of Iraq, then Vice-President, who condemned the Arab oil-production cutbacks and the price increases, and refused to have Iraq participate. The oil cutbacks, said Saddam Hussein, were devised by "reactionary ruling circles well-known for their links with America," and he said that the cutbacks "generally harmed other countries more than America" and "led to results which run counter to its stated purpose." The Iraqi leader warned that the Arab oil weapon would force Europe and Japan under the American umbrella, and he attacked the oil-price increases as far too extreme and "conducted in a hysterical manner."

When the suspicious Shah of Iran announced that he had figures to prove that more oil was getting into the United States than before the Arab embargo, Simon accused the Shah of "inexcusable and reckless remarks," then quietly classified all data on oil imports!

Genocide placed on the agenda

The quadrupling of oil prices wreaked havoc on the world financial market as consumers scrambled to be able to pay huge new oil bills. In the Third World, oil became almost impossible to purchase, and for the first time outright genocide in the developing sector was placed on the agenda. In the aftermath of the 1973 oil hoax, the developing countries threw away their plans for growth and were reduced to begging the IMF for money to stay alive. The IMF, in turn, doled out credit to the Third World only in exchange for drastic austerity measures, a policy exacerbated under the post-1979 Volcker regime. Recycled petrodollars became the tax that preserved the bankrupt monetary system.

West Germany, Japan, France, and Italy were also severely destabilized by the oil hoax, to the direct advantage of the Anglo-American faction and the Swiss and offshore banking apparatus that controlled the Eurodollar market. The ability of national governments to control their own financial destiny was eliminated with the creation of a huge, uncontrolled pool of financial resources that sloshed around the world. The power of a Robert Vesco or a Meyer Lansky rivaled the strength and influence of the head of the German Bundesbank.

III. Khomeini Raises Prices, 1978-79

From 1974-78, as the effects of the Great Oil Hoax were felt cumulatively, the price of oil remained almost stable, drifting slowly up from $11.65 to between $13.00 and $14.10. In real terms, however, this reflected an actual decline in oil prices. Such a price decline not only jeopardized the Malthusian plan behind the original crisis of 1973-74, but it threatened to undermine the investment in "alternative" energy schemes that had been concocted after 1974.

Enter the Ayatollah Khomeini.

In 1978, Iran was producing about 6 million barrels per day, and its neighbor, Iraq, exported over 4 mbd. When the Iraq-Iran war began two years later, after the fall of the Shah and Iran's takeover by the Islamic fundamentalist mullahs' regime, the full 10 mbd was knocked out and the price of oil had soared from $13 to between $34 and $40.

The revolution in Iran was launched by the same forces that ran the Great Oil Hoax of 1973. In the Middle East, that force is represented on the ground by the Muslim Brotherhood, a Freemasonic secret society which is dedicated to Malthusian economics and a return to the Dark Ages. Since the 19th century, Muslim Brotherhood cults have been controlled by the British SIS and by the heirs of the Propaganda-1 Masonic lodge that established the "Young Europe" movement, headquartered in Switzerland.

Established in Cairo in 1929, the Muslim Brotherhood of today spans the entire Middle East and stretches into Africa, South Asia, and Southeast Asia. From the beginning, the Muslim Brotherhood was controlled by the British SIS and by the Italian Masonic predecessors of today's P-2. Khomeini and the "Qom Mafia" that runs Iran today are all members of the Iranian lodge of SIS-linked Masons that participate in the Muslim Brotherhood fraternity.

The Iranian revolution was thus run directly by the British Crown. Having enormous influence in Iran accumulated over centuries, the British SIS and its religious arm, run by the Anglican Church Council for Foreign Relations in London, used a network of fronts to build the movement that toppled the Shah. Aiding the British was the duped Carter administration, which was itself installed by London through the agency of the Trilateral Commission, Jimmy Carter's electoral committee. Cyrus Vance, Zbigniew Brzezinski, and virtually the entire Carter cabinet—drawn from the ranks of the elite Council on Foreign Relations and the Trilateral Commission—were guided by the commission's policy papers prepared in London.

Together, London and Washington established secret contacts with Khomeini and his entourage—including Ibrahim Yazdi, Sadegh Ghotbzadeh, Abolhassan Bani-Sadr, and Mohammed Beheshti—in order to provide political backing to the revolution. As the British Broadcasting Corporation broadcast Khomeini's speeches into Iran and thus provided marching orders for the anti-Shah forces in the countries, the Khomeini circles maintained close contact with U.S. and British officials, via a network of Iran specialists. British SIS-linked academics in the United States, such as Bernard Lewis, Richard Cottam, Marvin Zonis, and James Bill were the architects of the Islamic revolution's tactics.

London's Socialist International network—such institutions as Amnesty International, the Geneva human-rights lawyers' apparatus, the Transnational Institute in Amsterdam—and former Attorney General Ramsey Clark's friends in the United States provided crucial flanking support to the Iranian revolution. The CIA-and SIS-linked Muslim Student Association in the United States and the London-based Islamic Council of Europe provided the personnel for the Iranian Muslim Brotherhood "government-in-exile" in 1978, and opened the doors for contacts with co-thinkers in the Arab world, Turkey, Pakistan, and India.

The full story behind the Islamic revolution in Iran is told at length in this author's book, *Hostage to Khomeini.*

Spread of Islamic revolution

Within a year of the fall of the Shah, the price of oil had tripled again. But the revolution in Iran was meant to be only a first step. Coinciding with the Iranian revolution was the appointment of Paul Volcker to the chairmanship of the U.S. Federal Reserve Board, whose high-interest-rate policies served to collapse industrial production rapidly and create the current oil "surplus." Khomeini's assignment, however, was to spread the "Islamic revolution" to the other states of the Middle East and the Islamic world, replacing the pro-development outlooks of Iraq, Saudi Arabia, Nigeria, and Indonesia with the backward-looking fanaticism of Khomeini's Iran; and for this the Muslim Brotherhood network is ideal.

Under London's tutelage, a hundred new Muslim Brotherhood institutions have been established in the last few years. Dozens of Islamic banks, such as the House of Islamic Money of Saudi Prince Mohammed Faisal, have spread their tentacles—usually from bases in London or Switzerland. Glossy pro-Muslim Brotherhood publications like *Arabia* magazine have sprung up, and conferences on the alleged opposition of Islam to the process of "Westernization" have provided rationales for the spread of Malthusian doctrines under "Islamic" guise.

There is no question that today Saudi Arabia itself is threatened by the Muslim Brotherhood coalition. The open emergence of the Israeli-Iran axis—with Israel admitting that it supplies weapons to Khomeini's hordes—and the support for Khomeini by Arab and Palestinian extremists like the Popular Front for the Liberation of Palestine represent a threat to Saudi stability. Within the House of Saud, there are reportedly factions prepared to join with London against the United States. These Saudi forces are led by Prince Abdullah ibn Abdel-Azis, commander of the Saudi National Guard, a British agent of influence who recently won an endorsement from Col. Muammar Qaddafi of Libya for his factional opposition to Crown Prince Fahd and his brothers. Should Saudi Arabia, currently producing half of OPEC's entire output, collapse to an "Islamic revolution" of London's making, the energy crisis of 1980s will make the 1970s look like the good old days.

A profile of the multinationals

by William Engdahl, Energy Editor

"The problem with the American majors is that they still tend to think too bloody much like national oil companies, and not the way the British companies do, as truly multinational organizations." This was the evaluation of a prominent member of British peerage to a group of friends in New York on the eve of the British Petroleum-run destabilization of the Shah of Iran in February 1979. The British peer's complaint, although to some extent outdated today, is a very useful point of departure for looking at the oil multinationals, the giant corporate entities which comprise seven of the world's top ten industrial companies.

In addition to their absolutely essential role as energy and technology organizations in the running of world industry, the major multinationals also have a higher-order role as controllers of the largest single cash flow in the world economy. Since the nearly 1,700 percent rise in the price of crude oil beginning with the 1973 "oil shock," the cost to the world economy of its crude trade has become a *one trillion dollar* annual business. Through sophisticated political manipulation of strategic world events since the 1969 coup against Libyan King Idris, the handful of London-led multinational petroleum companies, the so-called London group (nicknamed the Seven Sisters in the late 1960s) which has met secretly since 1934 under the aegis of British Petroleum and its cousin Royal Dutch/Shell, has accumulated global economic power of hitherto unimaginable scale.

Leaving aside for the moment the direct effects on world industry and trade of a forced price increase of 1,700 percent for vital energy feedstocks, this has given the multis enormous power to shape the events which will determine the future health or collapse of both the industrialized and developing sectors of the world. As other sections of this report document in detail, the men who dictate policy to the oil multis have, throughout the 1970s, used the energy price jack-ups and the enormous new financial power of the multis to bring about what the Council on Foreign Relations' *Project 1980s* series of publications characterized as the "controlled disintegration" of the world economy: the rapid deindustrialization of the developed Western nations, the slowing of world trade to a trickle, and—as a consequence of the world depression brought on by the collapse in the advanced sector—the genocidal depopulation of the Third World.

Here we will give a brief sketch of each of the great oil majors—British Petroleum, Royal Dutch/Shell, Texaco, Mobil, Socal, Exxon, and Gulf, which are grouped together as the so-called Seven Sisters, and two closely affiliated oil majors, Atlantic Richfield (Arco) and Occidental Petroleum. We will demonstrate how each functions, and under the influence of what agencies and individuals, on behalf of the Malthusian planners who brought about the Great Oil Hoax of the 1970s and intend to use it through the 1980s, if necessary, to fulfill their objectives of world depression, controlled disintegration, and genocide.

It is clear to any seasoned intelligence professional, indeed to anyone who has closely followed the political decisions shaping recent Mideast, European, and U.S. policy, that there are sometimes severe factional differences among the members of the London group of companies. At present, it can only be said that the visible track-marks of the American-based major companies show them to be largely led, whether through incredible short-sighted stupidity or, in some known cases, through documentable venality, like pups by the London policy leash.

Her Majesty's Secret Service

In recent years, under the debacle known as the Thatcher government, British financial apologists have pointed to their oil companies and their North Sea black gold as the one bright spot of an otherwise catastrophic economy. We begin our brief view of the major international oil companies with British Petroleum and Royal Dutch/Shell.

British Petroleum: Properly understood, BP is not any ordinary private oil company. It is an economic warfare arm of the Bank of England and Her Majesty's government. Founded in 1909 following the first commercial discovery of oil in Iran and originally known as the Anglo-Persian Oil Company, BP has been an arm of British foreign intelligence from its inception. The British government has owned the dominant share since the outbreak of World War I in 1914. By 1975, BP was owned 48 percent by the British government and 20 percent by the Bank of England. BP is an integral part of London strategy to replace a defunct dollar with the British pound sterling as once more the leading currency of a radically reorganized world trade.

From its documented complicity in running the devastation of Iran in 1978-79, seemingly against its own self-interest as the major holder of lifting rights for Iranian crude together with Shell, BP actually enjoyed a dramatic real profit increase from its remaining North Sea and U.S. Alaskan holdings following the second round of world oil price hikes which more than offset losses from its marginal Iranian holdings. Through its Sohio subsidiary, BP is dividing the spoils of the huge 10 billion barrel Alaska North Slope field with Exxon and Robert O. Anderson's Arco.

Most interesting is the shift over the last decade in the corporate profile of the company. In the early 1970s BP had much the same exposure as the American companies. It depended almost entirely on OPEC for its crude supply. But by 1980, BP had quietly made a profound corporate shift, while the American majors remained in the Mideast. It had gotten out of Iran and Nigeria and positioned itself to draw 73 percent of its total reserves from its North Sea and North Slope Alaska holdings. It is crucial to keep this in mind.

Now we turn briefly to the profile of the men who run Her Majesty's oil company. One of the more prominent families represented on the board of BP is the Earl of Inchcape, Chairman of Inchcape and Company, director of Standard and Chartered Banking, Limited and Peninsula and Orient Steamship Lines. The Inchcape dynasty has been deeply involved in world opium trade since the early 19th century. Standard and Chartered is known as "the bank of the British Empire" in Africa and the Far East.

Until very recently, Lord Inchcape was joined on BP's board by Lord Humphrey Trevelyan, who headed the top-level "mother" of David Rockefeller's New York Council on Foreign Relations, the venerable, highly secret policy group known as Chatham House or the Royal Institute for International Affairs (RIIA). Also sitting was Sir William J. Keswick, whose family runs Jardine Matheson, the orient merchant house which has run world opium trade since the Keswick family founded it in 1828. Another representative of the influential Standard and Charter banking group on BP's board is Lord Barber, who served Her Majesty as Chancellor of the Exchequer in the early 1970s when John Connally, Jack Bennett, and Paul Volcker were actively destroying the underpinnings of the U.S. dollar from their posts at the Treasury Department.

Royal Dutch Shell is an arm of the combined Dutch royal family's Royal Dutch Petroleum Company of The Hague and the Shell Transport and Trading Company of London. Its chairman during the 1930s, Sir Henri Deterding, was one of the key international financiers of Adolf Hitler, who bootlegged petroleum supplies to the Wehrmacht.

Shell has shifted its corporate profile away from the less profitable direct holdings of crude in OPEC and elsewhere toward dominance in the downstream transport side of crude transfers, making the company unusually profitable and second only to Exxon among the major oil corporations of the world.

This most "royal" of oil companies is headed by a group that counts among its numbers the distinguished Honorable Peter Montefiore Samuel of the Hill Samuel family banking interests, and Baron Cole, former chairman of the large Unilever Anglo-Dutch chemicals group, former chairman of Rolls Royce, a member of the prestigeous Council of the Royal Institute of International Affairs (RIIA), and a member of the International Advisory Board of David Rockefeller's Chase Manhattan Bank. Sir Dennis Wright, another prestigeous director of the Shell group, is also a director of Standard and Chartered Banking, who served during World War II in Her Majesty's Consular Service as an economics warfare specialist throughout the Balkans, ultimately becoming British ambassador to Iran, a post he held until 1971. The Earl of Cromer, no lightweight in oligarchical circles, is also known as G. R. S. Baring, manager of the enormously influential British banking house, Baring Brothers. The earl, who was ambassador to Washington while his colleague Dennis Wright was in Teheran in the early 1970s, served as governor of the Bank of England and a director of the International Monetary Fund (IMF), appropriate training for his role in using the enormous resources of Shell to conduct global economic warfare in the present period.

The list is longer, but this suffices to illustrate one point: The London oil majors are not primarily oil companies per se, but rather highly sophisticated adjuncts of the leading banking and political families of the Anglo-Dutch black oligarchy. Since the 1877 will of Cecil Rhodes, these families have been explicit about their plans to reestablish British-controlled neo-feudalism upon a depopulated world.

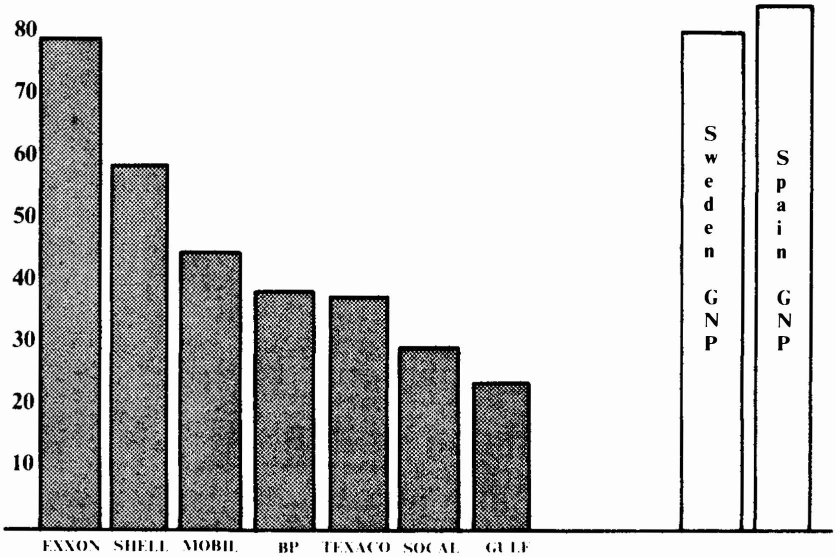
The American little sisters

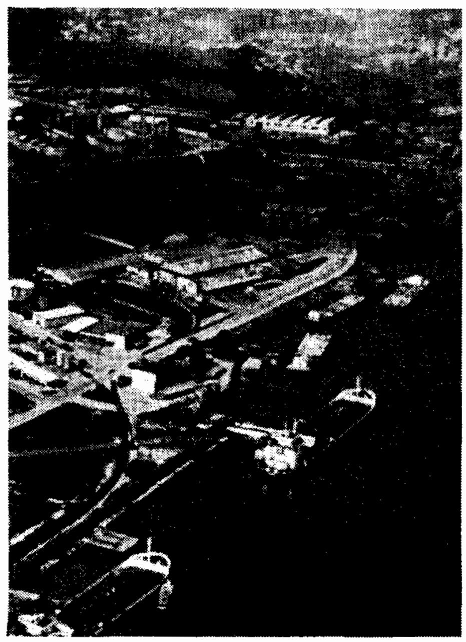
We have seen that Chatham House and the Bank of England are the "mother" of policy determination for the London group of major oil companies. Likewise, the New York Council on Foreign Relations, which was explicitly established by the RIIA in 1917 to be an active arm of British policy input into the U.S. ruling circles, is the locus of influence which determines, together with the large New York money center banks such as Chase Manhattan and Citibank, the policy direction of the U.S. major companies—Exxon, Mobil, Texaco, Gulf, and Chevron, otherwise known as Standard Oil of California or Socal.

Exxon: Exxon is known by various people in the industry who have had dealings with the company as "the double cross," an intentionally ambiguous allusion to the Madison Avenue-inspired corporate name adopted in 1972. Exxon replaced General Motors as the world's largest industrial corporation in the wake of the doubling of oil prices after the 1979 events. In 1981, Exxon had total worldwide corporate revenues of a staggering $115 billion.

Exxon, which had its origins as the flagship of the old John D. Rockefeller Standard Oil Trust until a

1979 sales of international oil majors
(in billions of 1979 dollars)





British-inspired anti-trust campaign succeeded in 1909 in forcing the trust's breakup, was created by the merger of the old Humble Oil and Refining Company with Esso Standard Oil Company. In 1948, it gained a 30 percent interest in a little concession in Saudi Arabia known as the Arabian American Oil Company or Aramco, by far the single most influential oil corporation in the world to this day.

Today's Exxon prefers an image of anonymity behind a facade of "management by committee" consensus. Exxon, however, is run by real individuals, who command its gross revenues which run well in excess of major industrial nations. Not surprisingly, most of the individuals are members of the elite Anglo-linked Council on Foreign Relations. They include people such as Sir Richard Dobson, former chairman of British American Tobacco who spent the war years in China. Exxon Chairman Clifton C. Garvin, Jr. in addition to being a director of Citibank—with which Exxon has more than one quarter of a billion dollars in loans outstanding—is also a member of the CFR, as is J. Kenneth Jamieson. President H. C. Kauffmann, while not yet on the CFR, is a director of David Rockefeller's Chase Manhattan Bank, which also has about one quarter of a billion dollars in loans outstanding to Exxon. Exxon Senior Vice-President Jack C. Clarke, who oversees the Mideast for the company, sits on the CFR as well as Georgetown Center for Strategic and International Studies and is a trustee of Robert O. Anderson's Aspen Institute. Donald M. Cox, another senior vice-president, is a member of the exclusive British-North American Committee. And senior vice-president for finance of the huge corporate entity is one Jack F. Bennett, who took leave from Exxon in 1971 to serve under Treasury Secretary John Connally along with then little-known Paul Adolph Volcker. Bennett was one of the financial strategists around Connally who persuaded President Nixon to break the United States open to "funny money" destruction by taking the dollar off the gold standard on August 15, 1971. Bennett sits on the Council on Foreign Relations. There are several other high-ranking Exxon officers sitting alongside Garvin, Bennett et al. on the CFR. The point becomes clear: There is a close affinity between the CFR and Exxon.

Mobil: A partner with Exxon in the Aramco group in Saudi Arabia, Mobil is locked into the North Sea game along with BP, Shell, and others. Another chunk of the old Standard Trust breakup, Mobil is headed by a management group led by CFR member Rawleigh Warner who also sits on the boards of American Express and Chemical Bank of New York. President William Tavoulareas also sits on CFR, as does Mobil's vice-president for public affairs, one Herbert Schmertz, who, when he is not writing ads defending Mobil and "free enterprise," is volunteering his services to the Kennedy family as campaign director to Ted "anti-Big Oil" Kennedy. One can imagine that there's more here than just good corporate public relations. George C. McGhee, a Mobil director and former assistant secretary of state, is a trustee of the Aspen Institute and a member of the CFR.

Texaco: Also a major Aramco partner, Texaco holds a 50 percent share with Socal in Caltex, which operates in Europe, the Far East, and Mideast. Texaco has the reputation of being the most poorly managed of the major oil companies. A board member, Willard C. Butcher, sits on the CFR and is chief executive officer of Chase Manhattan Bank. Fellow director Robert Roosa, a close ally of Marshall Plan fabian and Socialist International figure Averell Harriman, is one of the leading New York banking strategists as a senior partner of Brown Brothers, Harriman. Roosa is also one of the select higher elite of directors of the CFR. The Earl of Granard, member of the elite Order of the British Empire, also sits on Texaco's board, giving the company a familiar Anglo-aristocratic flavor.

Standard Oil of California (Socal): Socal, the fourth partner in Aramco, was the first to make a major discovery in the now-legendary giant fields of Saudi Arabia in 1938. Chevron, the wholly owned marketing arm of Socal, is also involved in Indonesia in a major way and is a major shareholder in the giant AMAX coal and minerals firm. Although Socal's chairman and president do not sit on the CFR, this San Francisco-based major includes as directors the infamous A. W. Clausen, current head of the World Bank and former head of Bank of America, the largest bank in the United States. Director Charles M. Pigott is on the CFR, and on the board of Citibank and the kooky social control laboratory Stanford Research Institute. David Packard of the Trilateral Commission, a specialized spinoff of the CFR, also serves on the Socal board, and Stanford Research Institute's board. Director George Weyerhauser of the large lumber conglomerate joins them.

Three other companies warrant brief mention here for their relation to the geopolitics of world oil. These are Gulf Oil, Occidental Petroleum, and Atlantic Richfield. Although none are tied into the giant Saudi Aramco group as are the other U.S.-based majors listed above, each are significant in different ways to fill out our strategic intelligence map of world oil policy.

Gulf: The smallest of the world's leading seven integrated petroleum companies, the Pittsburgh-based Gulf is tied to the Mellon banking family, one of the leading Anglophile families of the United States. The present position of the company is heavily tied to its agreements with the governments of Angola and Nigeria where it has the major concession for crude production. Gulf has been headed since 1976 by Jerry McAfee, who, while not himself a member of the Council on Foreign Relations, is a trustee of the Aspen Institute of Atlantic Richfield's Robert O. Anderson.

Occidental Petroleum: "Oxy" is the creation of long-standing British intelligence stringer Armand Hammer, who enjoys to this day the warm friendship of Muammar Qaddafi of Libya, where Occidental has derived the great measure of its wealth since the 1969 coup put that supporter of international terrorism into power.

Aside from Hammer, who has been involved in every dirty British intelligence operation over the past 60 years, starting with his stint in the 1920 spiriting art treasures out of Russia, Oxy includes on its board such people as A. Robert Abboud, former head of First National Bank of Chicago and member of the CFR. Oxy's vice-president for public affairs is one Gordon Reese, who primed for the job by serving as Margaret Thatcher's campaign director in Britain. Hammer is thoroughly implicated in the criminal Billygate Libya conspiracy (*EIR*, Sept. 16, 1980), and maintains ties with the worst elements in the East bloc.

Atlantic Richfield: Arco is significant to round out our intelligence picture because of its pivotal relationship to British Petroleum and Exxon in controlling the huge Alaska Beaufort Sea North Slope oil and gas reserves. Arco creator Robert O. Anderson has played a strategically central role with certain surrogates of British intelligence through his Aspen Institute. The Aspen Institute networks were central together with BP and Shell intelligence assets in the destabilization of the Shah of Iran, the trigger for the second great oil price shock of 1979-80. Arco has also played a significant role in recent price warfare operations against Mexico, where an "Iranization" scenario is in operation to destroy that nation's industrial-development policy. Anderson and Arco have been extensively covered elsewhere (see *EIR*, Feb. 16, 1982), so it will suffice here to emphasize his relationship to the Bank of England policy for the international energy markets.

Whether, within this group of corporations with almost unimaginable global power and influence, there still exist remnants of enlightened self-interest which are capable of factionally breaking with the London-centered policy of global "controlled economic disintegration" as outlined by the 1975-80 Council on Foreign Relations *Project 1980s* papers is by no means clear. But it is clear that some considerable portion of the responsibility for the survival of human civilization in recognizably healthy form rests the determination of that question.

Anglo-American rivals in the Persian Gulf

Since the late 1950s when it became apparent that Saudi Arabia was destined to become the largest oil exporter in the world, the United States and Britain have disputed which country would profit from marketing and developing Saudi Arabia's vast oil wealth.

The founder of the Saudi dynasty, King Abdul Aziz, cultivated a close alliance with the United States through his friendship with Franklin Roosevelt; but Abdul Aziz's successor, his eldest son King Saud, who took power in 1953, had a very different attitude toward the United States. Saud's rude treatment of the four American partners of the Arabian American Oil Company, Aramco—typified by his early effort to force Aramco to relinquish all oil-shipping rights to the Greek magnate Aristotle Onassis—was aimed at pushing the U.S. companies out of Saudi Arabia. Onassis maintained close ties to the Anglo-European nobility, the same corrupt jet-set circles Saud surrounded himself with.

In 1964, the United States exerted its influence in Saudi Arabia by working with a faction within the royal family centered around Prince Faisal, and ousted King Saud. Faisal then became king, and reaffirmed Saudi Arabia's friendship with the United States. Faisal was assassinated in 1974 by the same Muslim Brotherhood sect which first attempted his murder weeks after he took power. As *EIR* has documented, the Brotherhood is the creation of British intelligence.

Today, Crown Prince Fahd is committed to continuing the policies of Faisal, by maintaining Saudi Arabia's strong ties with the United States embodied in the Arabian American Oil Company.

A Washington analyst last week observed that the U.S. majors are "totally in league with Riyadh on putting a floor under the current price," but Britain is committed to breaking the U.S.-Saudi link and gaining full control over its prized old colonial holdings, the Persian Gulf and the Arabian peninsula, giving the City of London control over the largest oil reserves and associated dollar holdings in the world.

Oil price cuts to force depopulation within the producing countries

by Richard Freeman

The emergency meeting of the Organization of Petroleum Exporting Countries (OPEC) which occurred March 21, 22 and 23, took place under seige conditions. Prior to the meeting's convening, OPEC was confronted with the most serious challenge to its existence to date.

During the week of March 8, Texaco and British Petroleum, two of the "Seven Sisters" oil producers, along with the Hudson Institute think tank, issued predictions that the price of oil, which was \$36 to \$39 for light crude in 1981, and had fallen to \$34 in the early part of this year, would fall further to \$25 per barrel, and possibly a floor level of \$15 per barrel. This threesome also predicted that OPEC oil production, which peaked at 31 million barrels per day in 1979, had fallen to 20 million barrels per day (mbd) at the start of the year, would collapse further to 16.5 mbd.

At the same time, papers from the *New York Times* to the Paris *Le Figaro* carried stories warning of an OPEC deficit. Stated a Texaco oil official from London March 9: "If OPEC's surplus falls sharply, money could be withdrawn from the Eurodollar market, and some big banks could go bankrupt."

Adding to the tense atmosphere was a deliberate policy by certain oil multinationals to dump oil stocks. According to Kuwaiti Oil Minister Sheik Khalifia al-Sabah, the oil multis were dumping as much as 4.5 mbd at prices below the cartel's floor. The dumping was showing up on the Rotterdam spot market, where North Sea light crude was being unloaded at \$28.50 per barrel the last week in March, and Saudi light crude had been driven down to a price of \$28 per barrel as compared with Saudi contract price of \$34. Nigeria, the largest African OPEC producer, was a particular target of the dumping, as its light crude competed directly with the heavily discounted British Petroleum light crude.

After three days of discussion, OPEC announced it had worked out an agreement to stabilize the situation. Cartel spokesmen announced March 23 that the group would work to prevent the price of oil from falling further, would cut its oil production level to 17.5 mbd to remove some of the glut that was allowing the multis to force prices down on the market.

Following the meeting, a number of forces challenged OPEC, stating that the cartel could not hold to its announced prices and production levels, and that further cuts in output would be necessary. "OPEC is facing disintegration. Cutbacks in Saudi oil won't be enough to save the cartel," stated the March 19 *Foreign Intelligence Report*. The newsletter continued: "Next month's meeting will be a 'last gasp' at saving the organization as a viable price-fixer."

The battle to determine whether OPEC can hold its benchmark oil price at \$34, or will crack under pressure to cut prices, is, though not widely understood as such, the battle to determine whether the world economy will experience a banking collapse and economic devastation greater than that which occurred during the 1930s.

The break-OPEC forces are led by British Petroleum, Royal Dutch/Shell, and their cothinkers in the other five of the Seven Sisters oil multinationals, U.S. Federal Reserve Board Chairman Paul A. Volcker, the Switzerland-based Bank for International Settlements, the International Monetary Fund, and the old-line banking families of Europe—the European oligarchs that stand behind and control these institutions. This faction plans to run a "third oil shock"—only this time in reverse. Instead of pushing the price of oil upward, as they did twice during the 1970s, the bust-OPEC faction wants to unwind the price of oil in a downward plunge.

The strategic goal of these energy crisis manipulators remains the same, quite apart from whether they are using their political and economic control of world oil prices to drive these prices up or down. This strategic goal is the wrecking of the world economy, that is, the deindustrialization of the developed West, the collapse of world trade, and the genocidal depopulation of a Third World isolated from a depression-wracked advanced sector.

Two reasons to break OPEC

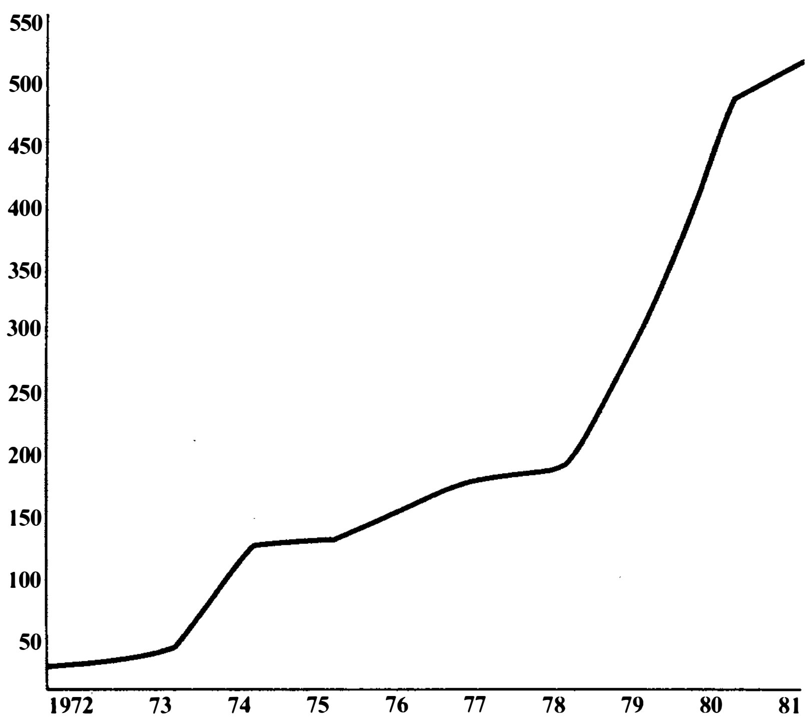
The third oil crisis has already been partly implemented by the collapse of world production caused by the loan-shark interest rates of the Fed's Volcker. The collapse of world industrial output slashed oil demand by 11 percent in January 1982 compared to January 1981. It is difficult to maintain prices in a collapsing world oil market.

The oligarchs' tactical purpose for breaking OPEC is two-fold. First, to destroy the ambitious development plans of the oil-producing nations of the Third World, notably Mexico, Nigeria, and Indonesia, leaving those nations in the miserable straits of the rest of the developing sector. Second, to force the OPEC surplus to evaporate, creating the conditions in which the cartel will run a deficit for the first time since OPEC became a world economic force in 1972. If OPEC runs a deficit, it will be forced to pull funds out of the Eurodollar market, the $1.6 trillion unregulated international banking operation. Such a sharp contraction of funds will render the major banks unable to roll over the Third World's $550 billion in outstanding debt, including about $120 billion which comes due in 1982. Under those circumstances, Third World nations will default on their debts and the world banking system will be blown to pieces.

This strategy to bust OPEC is based on using oil as a weapon. The commodity upon which the world depends for running factories, driving cars, and heating homes, oil is indispensable to the world economy. Only if the world is prepared to deindustrialize itself into a new dark age, can the Western world do without growing oil supplies. Therefore, in the 1970s, the forces that run the Seven Sisters decided to push the price of oil through the ceiling, creating a 17-fold increase in the price over the past decade. This twice brought the world economy to the brink of collapse, and fostered a hyperinflation of energy prices to industry, agriculture, transportation, and household consumers.

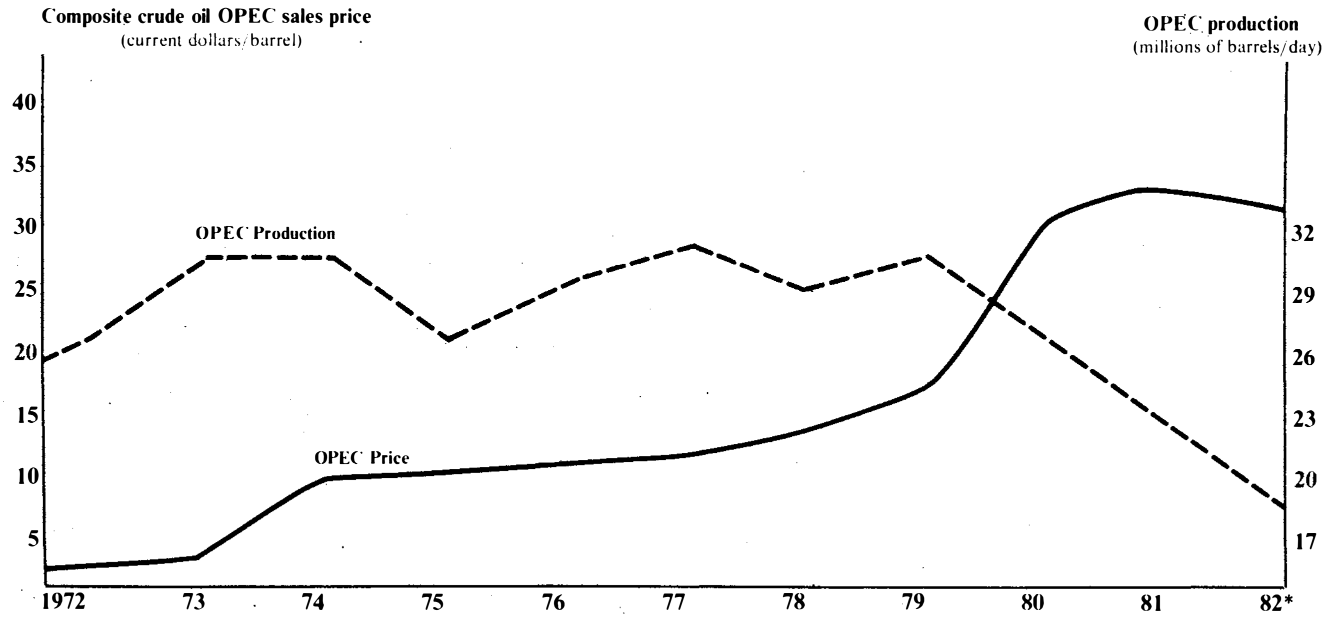
The strategy of pushing up oil prices was laid out in a series of studies conducted in the mid-1970s by the New York Council on Foreign Relations, one of the centers of oligarchical influence in the United States. The council's study was released under the title *1980s Project,* published in 26 volumes, with the volume titled *Oil Politics of the 1980s* devoted entirely to the CFR's strategy for using the oil weapon. The directors of the *1980s Project* included Cyrus Vance, who became Jimmy Carter's Secretary of State and helped launch the

Figure 1
Annual world oil bill paid for free-world-produced oil *



* (excludes oil produced in U.S.S.R., East bloc, and People's Republic of China)

Figure 2
OPEC oil production and prices



* as of January 1982 for OPEC prices; as of March 1982 for OPEC production.

1978 Iran revolution; Michael Blumenthal, Carter's Treasury Secretary, who helped destroy the world's financial stability; and Paul Adolph Volcker, whom Carter made Fed chairman in August 1979, and who has raised interest rates to usurious levels in order to collapse the world economy.

The central thesis of the *1980s Project* is that the world of the 1970 and 1980s would be put through a series of *extraneous* shocks—oil price increases, credit cut-offs, regional wars—which will cause the world's stable political and economic institutions to unravel. After enough such shocks, the world economy would move to, first, zero growth, and then reorganize itself at a negative economic growth rate.

These shocks occurred, as predicted by the CFR study. The increase of the price of oil following the orchestrated October 1973 Arab-Israeli war was the first. Between late 1974 and 1975, U.S. industrial production fell 8.9 percent and unemployment nearly doubled to 7.8 million Americans. Inflation became double-digit. Tens of thousands died in the African Sahel and in Bangaladesh as famine, drought, and natural disaster swept the Third World as a direct result of the collapse of advanced sector exports.

By 1976-77 some form of equilibrium had been restored, although the first signs of the permanent deterioration of industry in the advanced sector appeared.

But in 1978-79, Cyrus Vance's State Department, along with British Petroleum oil company and British intelligence, overthrew the Shah of Iran and installed the Ayatollah Khomeini and the Muslim Brotherhood fanatics in his place as rulers of Iran. A second oil hoax was triggered, and once again world industrial production fell. Only the second hoax had a more devastating long-term effect. As Figure 1 shows, the world oil bill, taking into account only oil produced in the Western world (excluding the East bloc) more than doubled, from less than $200 billion in 1978 to $480 billion in 1980. This $280 billion increase, equal to 15 percent of world import levels, was a tremendous tax ripped from the output of the world economy.

Not only did the 1979 oil shock devastate the Third World a second time, sending its debt levels soaring, but it built a permanent 2 to 3 percent into the inflation rate of the world economy. The advanced sector was pushed much further down the road of deindustrialization. Producers "adjusted" to the higher oil price by moving out of industries that required a lot of energy input. Since these industries were the same ones that are capital-intensive, the advanced sector shifted down the economic evolutionary scale toward more backward, labor-intensive, but energy-conserving industries.

This shift toward labor intensiveness lowered the overall productivity rate of the world economy, a drop which shows up in the fact that productivity for the years 1979-81 was half the rate of the previous three years in most advanced sector nations.

The Volcker shock

Then, for a third time, the world was subject to an "extraneous" shock. This time it was not oil, but high interest rates. The raising of U.S. interest rates by Federal Reserve Board Chairman Paul Volcker to record levels in late 1979 constituted the third attack against an already weakened world economy. World oil consumption plummeted (See Figure 2). In the case of the United States, oil imports, which were 6.51 million barrels per day in 1979, dropped to 4.40 mbd in 1981, and down to 3 mbd by February of 1982. The United States itself accounted for a drop of 3.5 million barrels per day of imports in less than three years, because factories and farms that use oil were shutting down.

As a result, the current "glut" of oil developed. OPEC cut its production during the course of 1980 and 1981 by 11 million barrels per day, but that has not been sufficient to offset the world oil oversupply brought about by underconsumption.

Thus, over the last ten years, more expensive oil has been used to crush industrial production, and now lowered activity in the economy is being used to lower oil production. Overall, less and less energy is flowing through the world economy.

This decreasing activity—or increasing disorganization—of the world economy will soon lead to an irreversible collapse in world economic efficiency, if the oligarchy's current tactical objective is realized: the wrecking of the economies of the developing sector oil producers. This locates the reason that the British and Venetian oligarchs have for the time being shifted their efforts into bringing about a low price of oil.

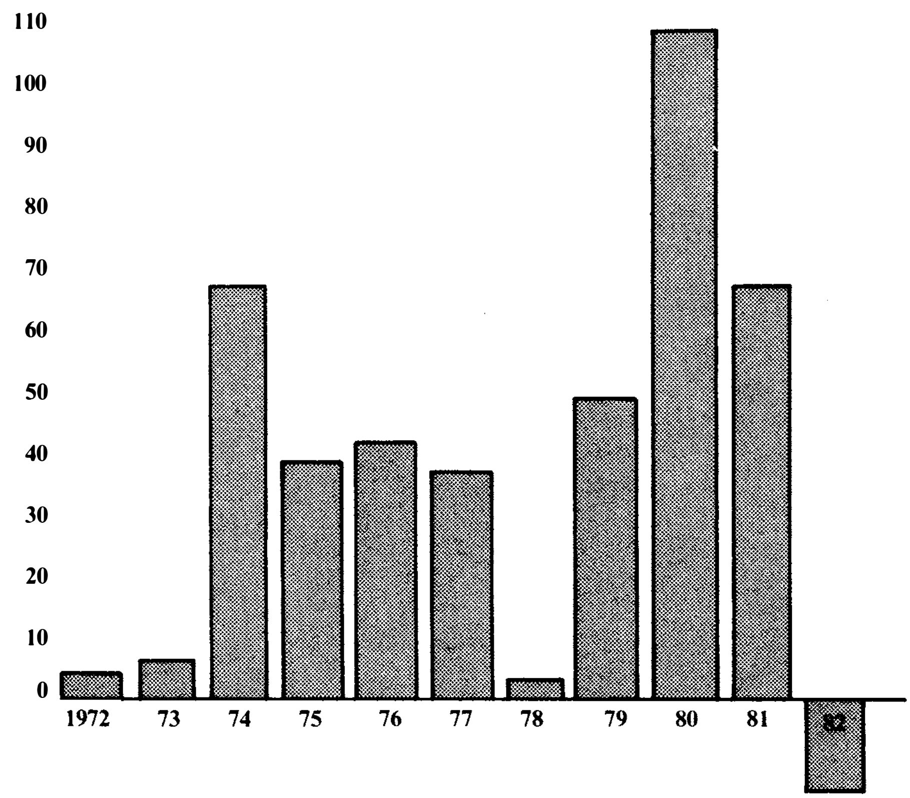
Objective: population reduction

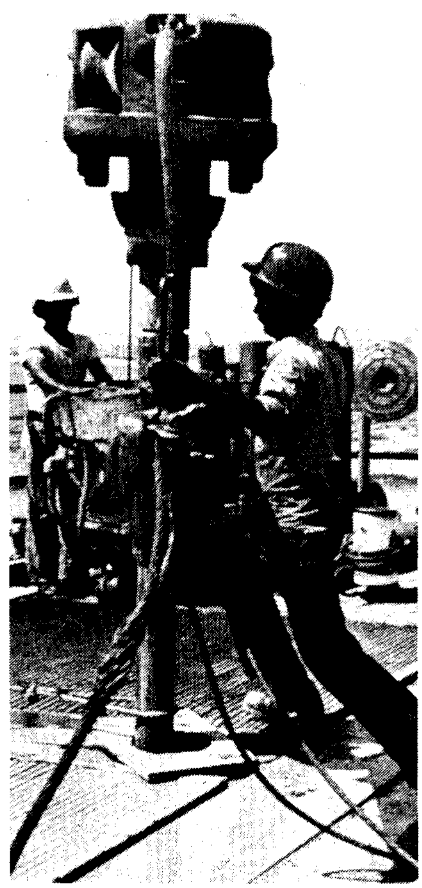
The first-line targets are those oil producing nations—Mexico, Indonesia, and Nigeria—that have sizeable populations and ambitious development programs. These nations are slated for economic destruction, and the energy crisis managers and their spokesmen make no bones about their ultimate objective: population reduction.

Figure 3

Yearly OPEC surplus (OPEC current account)

(in billions of current dollars)





Philander Claxton, one of the leaders of the Draper Fund and Population Crisis Committee, made the depopulation policy clear when he spoke with a reporter March 24. "Nigeria is already overrun with young people. They simply cannot be supported by the land," said Claxton. "Now [Nigerian President] Shagari will see, hopefully, that we were right, because they're going to have a decrease in oil revenues, and that means they will have to cut development programs, and that means that there will be less to go round, instead of more, for a still rising population. So Nigeria's future will look much worse. . . ."

Nigeria, a nation of 80 million people, (some estimates go as high as 100 million), one half the total population of Africa, earns 85 percent of its export earnings and gets nearly all of its international budget revenues from the sale and taxation of oil production. Of Nigeria's imports, which total about $22 billion per year, 50 percent consist of capital and manufactured goods—heavy machinery, power production equipment, and spare parts. These are used for port development and over-all industrialization. The Nigerian federal government has been pursuing a program of increasing wages, free public education, modernization and mechanization of agriculture, extensive medical care, and social security benefits.

With all imports slashed by Volcker and British Petroleum, Nigeria's industrialization plans, and the survival potential of its people, go out the window.

Mexico and Indonesia are being similarly ill-treated. Mexico was forced by a group of Swiss-led international bankers to undergo a 40 percent devaluation of the peso in February. The result is a vast increase in the cost of Mexican imports and the financing charges of Mexico's $60 billion foreign debt, denominated in dollars which are now 40 percent more costly. If the price of oil falls to $28 per barrel, and Mexico's production of oil for export stays where it is, Mexico's export earnings this year will be slashed by 25 percent.

In Indonesia, the agricultural programs and some of the industrialization programs the country has gotten off the ground—based on 85 percent of its export earnings coming from oil—will be similarly smashed.

A deficit for OPEC?

The other phase of this operation is the destruction of the OPEC oil surplus, which is already plunging (see Figure 3). According to some reports, the member-nations of Algeria, Iran, Ecuador, and Nigeria are running a deficit, and worse is expected. *EIR* calculates that if the price of oil were to fall to $28 per barrel, and the level of OPEC production were to fall to 16.5 million barrels per day, assuming OPEC expenditures for imports, invisibles, and aid transfers of $220 billion in 1982, OPEC will run a deficit of $40 billion this year. If oil production falls lower, and the price of oil also falls, then the deficit could be widened to $100 billion or more.

The lowering of the OPEC surplus means that many OPEC nations are short of funds, and must take two simultaneous actions. First they must cut back on their development programs; second, they must withdraw funds from banks heavily involved in the Eurodollar market. Most of that market, which has $1.6 billion in deposits, is pure paper. The hard core of the Eurodollar market is $300 billion, of which $125 to $150 billion is constituted by OPEC deposits. This "core deposit" base has been lent and relent out four to six times, creating the present "on-paper" size of the Eurodollar market.

In 1981, OPEC nations withdrew a small portion of their funds from the Eurodollar market. Each additional dollar of core deposits withdrawn means that between $4 and $6 worth of loan commitments based on that single dollar deposit is withdrawn. If this occurs at the time that the Third World has increased need for loans to roll over debts swollen by the high interest rates of Paul Volcker, the world will face a major banking crisis.

Fritz Leutwiler, the head of the Swiss National Bank and the incoming head of the Bank for International Settlements, predicted exactly this sort of credit market blowout, in a March 27 speech in Mainz, West Germany. Leutwiler told an audience that "the Third World had better cut back its lending before its creditors force them to do so." He then warned that "the world economy is headed toward a collapse," and proposed "international institutions," such as the BIS, the IMF, or "an ad hoc body may have to step into the breach" to direct the world monetary system dictatorially from the top down.

Crisis points are proliferating. On March 24, one day after the final day of the OPEC meeting in Vienna, Nigerian President Shehu Shagari announced that he was directing all commercial banks that Nigeria does business with to put a halt to all Nigeria-issued letters of credit—the instruments by which Nigeria orders goods. Shagari cited the fact that Nigeria, which had determined to produce 1.3 million barrels of oil per day, could only sell 0.7 to 0.6 mbd. British Petroleum, whose North Sea light crude is comparable to and competes directly with Nigeria's light crude, has been dumping its oil on the market at $30 to $31 per barrel, to drive Nigeria's oil off the market. At the time Shagari made his statement, Nigeria's foreign reserves had fallen by more than 67 percent from $8 billion a year ago to $2.7 billion today.

OPEC must stop this latest attack on Nigeria. If Nigeria cannot be defended, the entire OPEC pricing and production structure is worthless. And if that is so, then OPEC—and with it the world economy—is as good as through.

Italy on alert against 'Operation Nightmare'

by Vivian Freyre Zoakos, European Editor

The Italian government, alarmed by insistent reports of a planned Sicilian destabilization in the immediate future, is taking a series of strong steps against the forces behind the scenario.

At the same time, conversations with a series of high-ranking individuals overseeing the Sicilian revolt have confirmed that Sicily will be used as the detonator for a much broader destabilization of the entire Mediterranean area, including the Balkan states.

The deputy head of the Italian military police (Carabinieri), Gen. Carlo Alberto Dalla Chiesa, has been unexpectedly appointed "super-prefect" for the city of Palermo, Sicily, with powers extending beyond the city itself. The prefect is the direct representative of the national government. Dalla Chiesa's extraordinary prefecture will give him powers to follow investigations throughout Sicily, the rest of Italy, and abroad if necessary.

A high-ranking Italian political source very close to Prime Minister Giovanni Spadolini has also leaked in private conversation that the government plans to replace most or all of the existing prefects already on the island. Most of these are either compromised by or are the instruments of the Mafia and Sicilian separatists, who together with the so-called "peace" movement will play the up front role in the planned destabilization. Allied separatist movements are also on the rise on the Italian island of Sardinia and the French island of Corsica.

General Dalla Chiesa's job has been reported to be "to unleash an attack against the Mafia" and to "investigate the drug traffic, including identifying its political and international links." In order to do this, he has been allotted powers to "move with executive and operative independence in all places where the Mafia maintains its adjuncts."

He will be aided by a special deployment of forces into Sicily whose exact nature has yet to be released. They will be either trained military personnel or members of the elite Financial Guard (treasury police) or both, together with his own Carabinieri. The source reported that investigations will begin in earnest into the weapons traffic into the island from Spain, as well as on the role currently being played by the British consulate in Sicily in distributing weapons and ammunition.

Operation Nightmare

As *EIR* has documented, the Sicily scenario, code-named Operation Nightmare by its controllers, is a collaborative effort among British and Soviet intelligence, Libya, and former American OSS networks grouped in the State Department around Alexander Haig and Henry Kissinger. The channels date back to at least the war years, when the Allies employed the services of the Sicilian separatists and the Mafia in the invasion of Italy.

Those channels have remained live, as one source put it, through their continuing cooperation in running the international drugs and illegal arms trade. In Operation Nightmare they will be given a public cover courtesy of the misnamed peace movement, which, with Libyan money, Mafia weapons, and separatist support will begin staging demonstrations in Sicily April 4. The demonstrations will occur under cover of protesting the deploying of American medium-range nuclear missiles in the southern part of Sicily.

The weapons for the destabilization are being partially routed through the British consulate in Sicily. The ammunition is mainly arriving from Spain, a route which will now be investigated by the Italian government.

Not only the Italian cabinet has become alerted to the danger. Operation Nightmare, which was previously a highly secret project, has gained so much notoriety internationally, thanks in part to the efforts of this journal, that pieces of the scenario are beginning to appear in the European press.

The March 30 edition of the West German newspaper *Die Welt*, one of the most widely circulated in the country, carried a front page article advertising certain components of the gameplan. *Die Welt* reported: "According to analyses of Western secret services, the communist initiators [of anti-American demonstrations against the missiles] are counting on the support of the Sicilian separatist movement. The planned campaign is supported, according to the intelligence reports, by Libya's Chief of State Qaddafi. . . ."

Sicily only the detonator

In late 1979 the Italian banker Michele Sindona, best known in the U.S. as the owner of the collapsed Franklin National Bank, testified to the FBI that he had been contacted by certain networks in the American intelligence community to aid in planning a Sicilian separatist revolt. The individuals he had subpoenaed in this regard were Alexander Haig, then NATO European commander, Admiral Stansfield Turner, and Admiral Thomas Moorer. Sindona had been a collaborator of the Allies and the American OSS during the World War II Sicilian invasion, where he functioned as a liaison between the OSS and the Sicilian separatists, transporting to them weapons provided by the OSS.

Admiral Moorer, former head of the Joint Chiefs of Staff and the individual named by Sindona as implicated in an earlier separatist coup attempt in the island, has now revealed in discussion with a reporter that he is equally well informed on the current operation. Moorer's role in the present operation helps give weight to Sindona's earlier testimony indicting current Secretary of State Haig.

Moorer, together with other sources, now indicates that the Sicilian revolt will be only the "detonator" of a much broader destabilization effort that will encompass the whole of the areas bordering the Mediterranean, including the Balkan countries, some of which are within the Soviet orbit. That fact alone makes the Sicily scenario a potential detonator of an escalating thermonuclear war confrontation.

Among the other sources representing this view of the gameplan was a former top-ranking member of the Carter administration who maintains ties to the peace movement. Another was one of the leading OSS hands who inducted Sindona during the war years, eventually bringing him into the orbit of the top international intelligence networks as an international banker laundering money for organized crime elites.

All agree that the immediate targets are "Turkey, Greece and Yugoslavia," and "the leading Balkan and Eastern European states, particularly Romania, Hungary," and ultimately "even the Soviet Union itself." A successful or at least sufficiently powerful demonstration of Sicilian separatism would be the tip-off for a spreading wave of nationalistic sentiment throughout the various linguistic and cultural groups currently regrouped under various national governments.

Soviet intelligence, these sources report, is working together with the British to round up the various internationally-scattered leaders of such separatist, fascist groups as the infamous Yugoslav Ustashi, and returning them to their homelands in preparation for the coming events. The most immediate way to identify the relevant networks, another source noted, is to trace the drugs and arms smuggling routes that run throughout the Mediterranean, criss-crossing southern Europe both East and West, and run into the Middle East and Libya. These are the criminal networks that are involved in the planned destabilizations at an operative level.

Propaganda-2

British royal family tied to Sicily plot

by Scott Thompson

Lord Carrington, British Secretary of State for Foreign and Commonwealth Affairs, and the Duke of Kent, cousin of Queen Elizabeth II and eighth in line of succession to the throne, are both implicated in the attempt to destabilize the southern flank of NATO through a Sicilian upheaval (code-named "Operation Nightmare") that is timed to coincide with the Sicilian Vespers celebration in late April.

In Sicily, both the peace movement and its opposition are tied to the Sicilian separatist forces associated with the Mafia, Freemasons, and Italian black nobility that were welded into a unit by the British Special Operations Executive and Office of Strategic Services during World War II. Since an aborted attempt in 1943-47 period by these networks to install the House of Savoy as rulers over a Sicily transformed into an offshore haven for casino gambling and drugs, the Sicilian separatists have been used for outbreaks of terrorism and coup attempts in Sicily, including one in late 1979 coordinated by financier Michele Sindona and Licio Gelli's Propaganda-2 Freemasonic lodge.

Lord Carrington and the Duke of Kent are an ongoing tie between the P-2-coordinated Sicilian separatist networks and the highest levels of the British Secret Intelligence Service, as well as providing a bridge through their own business ties to the British-dominated international narcotics cartel.

Sindona, Hambros, and the strategy of tension

On Aug. 2, 1979 Michele Sindona, who was awaiting trial on multiple charges of fraud stemming from the collapse of his Frankling National Bank empire, disappeared. A few days later a note arrived from a heretofore unknown terrorist group stating that Sindona had been kidnaped.

In a June 17, 1980 interview taken after his return to New York, Sindona told FBI Special Agent Louis J. Vizi that rather than being kidnaped, he had been part of "a conspiracy . . . in Sicily between revolutionary Freemasons and some members of the Sicilian military and governmental authorities to participate in an armed uprising that would culminate in the secession of Sicily from Italy." Sindona proceeded to name members of the P-2 lodge as being responsible for running the coup on the ground. In March 1981, his attorney subpoenaed Secretary of State Alexander Haig, former CIA Director Stansfield Turner, former U.S. Ambassador to Italy Graham Martin, Admiral Thomas Moorer, and former U.S. Treasury Secretary David M. Kennedy as being complicit in the coup.

The involvement of Haig in a P-2 plot to destabilize U.S. ally Italy was subsequently confirmed by Italian magistrates. An affadavit corroborating Sindona's statements was also submitted by John McCaffery, the former head of British SOE operations in Italy, who is believed to have acted as a partial controller of Sindona for British intelligence. Shortly after he wrote the affidavit, McCaffery died under mysterious circumstances. With his death one of the key leads tying Sindona, P-2, and repeated Italian coup attempts to the highest levels of British SIS was cut off.

Among his many roles McCaffery had been a board member with Lord Carrington of Hambros Bank, which was one of the chief financial backers of Sindona. The ties between Hambros Bank and Sindona were established through Franco Marinotti, the president of Italy's textile giant, Snia-Viscosa, who had worked in the underground resistance with McCaffery. It was with the assistance of Marinotti that in 1959 Sindona took over the Banco Privata Finanziara (BPF), the building block of his financial empire and at the same time a bridge between the Italian black nobility, British SOE, the Propaganda-2 lodge, and the Mafia.

Together with Marinotti, Sindona approached Prince Massimo Spada, the "Vatican's financial ambassador to the outside world" and then head of the Vatican bank Instituto per le Opere Religiose (IOR), who bought a majority interest in BPF for the Church. Spada was also a member of the Sovereign Military Order of Malta, a central institution of the Italian black nobility whose members serve as the command structure on the Italian side over P-2. Almost all the chiefs of military and intelligence services exposed as members of P-2 were also in the Order, as were: Umberto II, head of the House of Savoy; Licio Gelli's patron Juan Perón; and Prince Spadafora, a leader of the Sicilian separatist movement who had been Mussolini's Undersecretary of Agriculture and who married Nazi Finance Minister Hjalmar Schacht's daughter. In 1964, while Pope Paul VI waged a campaign against the Order, Spada was ousted from his post with IOR, which promptly pulled out of the BPF. Spada remained on BPF's board.

It was at this point that Hambros stepped in to share the Vatican's former interest in the Banca Privata with the Continental Bank of Illinois, whose chairman, David M. Kennedy, was to become President Nixon's Treasury Secretary. During the period of collaboration between Hambros-BPF-Continental, Sindona's financial empire served as a funding conduit for the post-1968 "strategy of tension" in which NATO carried out massive terrorism and repeated coup attempts in Italy.

This combination was well-suited for such operations. Jocelyn Hambro, the Chairman of Hambros, had served with British SOE in Switzerland during World War II, as had Harry Spoborg, a Hambros board member assigned with McCaffery to join the board of BPF. Lord Carrington, who joined Hambros' board in 1967, had been First Lord of the Admiralty, in which post he oversaw Britain's Naval Intelligence operation. Carrington left Hambros in 1970 not out of disagreement with its policies, but to become Britain's Secretary of State for Defense and one of the chief advisers to Prime Minister Ted Heath. At the time he was on Hambros' board, Carrington was also a board member of Barclays Bank, on of the Big Four London clearinghouse banks involved in laundering funds from international narcotics traffic through its offshore operations.

With the backing of Hambros, Sindona launched an acquisition drive. One of his first projects was to swallow the Vatican's $300 million real estate conglomerate, Generale Immobiliere. This was ultimately accomplished through a joint effort by Hambros, BPF, and Gulf and Western. The deal Sindona worked out with Gulf and Western, which is today controlled by

Max Fisher's organized-crime crony Carl Lindner, became the subject of an ongoing Securities Exchange Commission investigation.

Sindona next acquired part interest in the Banca Unione of Milan which had been founded by Carlo Feltrinelli, the father of the terrorist Giangiacomo Feltrinelli who used income from the bank to finance the most hardcore groups in the May 1968 riots. Before his death in a premature bomb explosion, Giangiacomo Feltrinelli had sent 200 members of the Italian radical underground to Sicily. According to later testimony of their leader, Andreola, reprinted in the Italian publication *Il Settimanale,* the purpose of the relocation in Sicily was "to study the methods of the Mafia and to make contact with some of its representatives for revolutionary aims."

Such a meeting was arranged at the home of Mario Labisi, a leader of the Italian Socialist Party, who would later accompany Michele Papa and Billy Carter on their 1978 trip to Libya. During this trip Papa and Labisi had a secret meeting with the Palestinian Liberation Organization during the course of which they pledged the remnants of Andreola and Feltrinelli's forces to "fight alongside the Palestinians."

Sindona bought Feltrinelli's interest in the Banca Unione, while bringing his French brother-in-law, the Count André d'Ormesson, into his financial dealings.

According to a series in the London *Sunday Times,* Finabank, a wholly owned subsidiary of BPF, was also used to conduit funds to the Greek colonels before they seized power in 1967 and to General Vito Miceli: "Miceli personally received $800,000 from the then American Ambassador, Graham Martin. Miceli was later indicted—though, as a deputy of the neo-fascist MSI party, he had parliamentary immunity—for his part in the so-called Rosa dei Venti conspiracy, which almost led to a coup in Italy in 1974. One of that group of conspirators . . . talked to a young Italian magistrate. The financing for Rosa dei Venti, he said, had come through Sindona's Finabank."

The Duke of Kent and Licio Gelli

Edward, Duke of Kent, represents a direct tie between the British royal family and Propaganda-2. The Kents represent an especially "black" line of the House of Mountbatten-Windsor, with close ties to Edward VIII; the Cliveden Set; and through marriage to Schroeders Bank, a major organizer of the Hitler Bounty Fund, used to finance Hitler's 1933 rise to political power; and to key components of the international narcotics cartel. The Kents have also been major patrons of Freemasonry in Britain. In fact, in the history of British Freemasonry since 1737 only two of the heirs apparent have failed to become members, while the current Duke of Kent was elected Grand Master of the United Grand Lodge of Britain in 1967.

The British Grand Lodge is known as "The Mother Lodge," because together with that of Scotland it has chartered most of the other Grand Lodges of the world since the days when British SIS operative Elias Ashmole developed the craft as tool of British intelligence. It was the British Grand Lodge that chartered the Grand Orient Lodge of Italy originally, and it was the British SOE which reconstituted Italian Freemasonry after World War II, employing the exiled U.S. gangster Nick Gentile to swing support of the Grand Orient behind a 1947 referendum for Sicilian independence.

In 1966, while stationed with U.N. forces in Cyprus, the Duke of Kent initiated the process of returning Licio Gelli, a former member of Mussolini's OVRA, from 20 years exile in Argentina where Gelli had been a chief adviser to Juan Perón. According to Italian coverage, the Duke of Kent lent his name to Gelli to build up Propaganda-2 as a covert intelligence arm of the Grand Orient Lodge. With this backing Gelli began openly advertising that he favored a military coup that would restore the House of Savoy.

On Dec. 7, 1970 the first of a series of P-2 coups was attempted. Prince Borghese led a detachment of fascists and forest rangers into the Interior Ministry building where they were to announce the seizure of power. The coup was short-circuited at the last moment when the Christian Democratic Party and the Vatican threatened to expose the role of General Miceli, to whom funds had been laundered through Sindona's Finabank, in the coup plot.

The Kent family's involvement in fascist coups d'état is long-standing. George, Duke of Kent, the father of the current Duke and son of King George V, was known to be sympathetic with his brother, Edward VIII, who was forced to abdicate because of his overt support for Hitler, which the British oligarchy knew its American junior partner would never accept. The Duke of Kent accompanied his brother after his abdication on the first stages of a trip to meet with Hitler and Goering.

Princess Alexandra, sister of the current Duke of Kent, is married to Angus Olgilvy, the second son of the Earl of Airlie, whose family shares ties to the Nazis and to the families that have controlled international narcotics since the days of the Opium Wars in China. The Earl of Airlie, for example, is chairman of Schroeders Bank, while Angus Olgilvy is himself on the board of several firms (e.g., The Rank Corporation) that are at the center of the international narcotics cartel.

It is men like the Duke of Kent and Britain's Lord Carrington, who, with the Italian black nobility, are running the current Sicilian destabilization of Italy using forces from the Mafia to neo-fascist groups and the peace movement to achieve this goal.

Soviets bid to fill post-China Card power vacuum on Asian continent

by Richard Katz

Soviet President Leonid Brezhnev has launched a strategic initiative to fill the vacuum in Asia left by the demise of the China Card. In a March 24 speech, Brezhnev made new overtures to improve relations with both Japan and China, suggesting that the pattern of cooperation between the Soviets and India become the model for Soviet ties with those countries. Moscow's strategy is a parallel set of long-term, broad-scale economic cooperation arrangements between the Soviet Union and the three biggest Asian powers, India, Japan, and China, as an essential part of whatever new alignments emerge to dominate Asian geopolitics. Unlike Washington, Moscow recognizes that the elimination of the previous determing focus of Asian politics, the China Card, means a new political geometry, and that most of the nations in the region are beginning to respond to that fact.

For the past five years, American policy toward every country in Asia had been held hostage to the attempt to form a military alliance with China:

- The Carter administration helped to bring about the March 1977 electoral downfall of Indian Prime Minister Indira Gandhi, because she was, among other things, an obstacle to the China Card;
- Washington supported the July 1977 military coup in Pakistan by the Peking-allied General Ziaul Haq, and continues to arm Zia's Pakistan in preference to, and against, India;
- Washington has tried to pressure Japan into joining a triangular military relationship with China and the United States;
- The Carter administration backed up China's invasion of Vietnam in February 1979, and Secretary of State Alexander Haig continues to pressure the nations of Southeast Asia to aid China's attempt to bring Pol Pot back to power in Kampuchea.

Now, however, this China-centered edifice is rapidly collapsing. The Deng Xiaoping regime in China, caught in accelerating political turmoil, threatens to downgrade diplomatic relations with the United States (see *EIR*, March 16). Indira Gandhi is back in power in India, while the downfall of Zia, perhaps within months, is foretold by the thousands who now demonstrate in defiance of martial law. As the Chinese-armed Khmer Rouge suffer decimation on the battlefields of Kampuchea, the nations of Southeast Asia—who have long told Washington they fear China more than they fear the Soviets or Vietnam—are backing off from previous efforts to support an anti-Vietnam coalition including the Khmer Rouge. Even the Foreign Minister of pro-Chinese Thailand now speaks of "bilateral or regional" negotiations with Vietnam to settle the Kampuchean issue. Tokyo, while pursuing economic ties with China, refuses to join any three-way military schemes.

In short, the China Card is dead. Yet Washington refuses to come up with a policy to meet the new situation. Moscow, by contrast, is on the move.

Brezhnev's Asia strategy

Speaking in the Soviet Asian city of Tashkent, a few hundred miles from India, Brezhnev pointed to Indo-Soviet relations as exemplary of the cooperation Moscow hoped to achieve with Japan, China, and other countries. "For more than a quarter of a century now," Brezhnev declared, "the Soviet Union and India have been actively . . . working to develop . . . friendly cooperation . . . in the spheres of the economy, science, and culture." This refers to the fact that since the 1950s, the Soviet Union has assisted India's industrialization efforts while the United States repeatedly spurned Indian requests. In addition, Moscow had sided with India, both in the 1962 Chinese invasion of India, and when Washington "tilted" (in Kissinger's phrase) toward successive Pakistani military dictatorships in the 1965 and 1971 Indo-Pakistani wars.

This history of Indo-Soviet ties, continued Brezhnev, "strengthens in considerable measure the feeling of security in both sides. It creates a big zone of peace and stability on the Asian continent. It enables the Soviet Union and India to cooperate successfully in the international arena and the effort to preserve and strengthen peace.

Aware of the Indians' proudly independent nationalism, Brezhnev noted that such Indo-Soviet cooperation in international politics is based on "full mutual respect for the specific features of the foreign policy of either of the two countries." This is diplomatic jargon for his recognition that India does not care to see the South Asian region serve as a *military* base for *either* superpower.

Moscow's intervention in the late March Communist Party of India (CPI) congress to discourage further CPI alliances with Communist Party-Marxist (CPM) and Hindu chauvinist destabilization actions against Mrs. Gandhi shows the importance Brezhnev attaches to India's international role.

Mending fences with China

The Soviets, fully aware of Pekings's growing tension with Washington, have for some time been encouraging steps aimed at a Sino-Soviet thaw. For the first time in 20 years, China sent a top economic mission to the Soviet Union to study Soviet economic-management methods.

Brezhnev aimed his overture at those factions in China who have increasingly criticized Deng's close anti-Soviet alliance with the United States, though, as senior Soviet diplomats told *EIR,* Moscow has no expectation of a full resumption of the 1950s Sino-Soviet alliance.

Brezhnev laid out four principles aimed at ending hostility:

"First, despite the fact that we openly criticized . . . many aspects of the policy of the Chinese leadership . . . we have never tried to interfere in the internal life . . . and do not deny now the existence of a socialist system in China." This point is aimed at ending the bitter ideological polemics and appealing to those forces who think of China as belonging to a "socialist camp" along with the Soviet Union.

"Secondly, we have never supported and do not support now in any form the so-called 'concept of two Chinas' and have fully recognized and continue to recognize the People's Republic of China's sovereignty over Taiwan Island." The slap at the Reagan administration's arms sales to Taiwan is obvious, particularly as this has become a hot factional issue in China.

"Third, there was no threat to China from the Soviet Union . . . and we are ready at any moment to continue talks on existing border questions . . . [and] ready to discuss possible measures to strengthen mutual trust . . . on the frontier." This is the latest in a recent flurry of offers to discuss the border conflict that led to armed clashes in 1969. The phrase about measures for "mutual trust" is believed to refer to possibly willingness to discuss a mutual partial troop pullback.

"Fourth, we remember well the time when the Soviet Union and People's China were united by bonds of comradely cooperation. . . . We are prepared to come to terms . . . to improve Soviet-Chinese relations . . . economic, scientific, cultural as well as political relations." This is a direct appeal to the anti-Deng faction's nostalgia for the economic successes of the 1950s.

Though the Deng-controlled Foreign Ministry, as expected, issued an initial rebuff, ***Pravda***'s characteriztion of that rebuff as "cautious and flexible" shows Moscow's confidence in slow, steady progress as Deng's position weakens and American-Chinese ties worsen.

Appeal to Japan

Knowing, as a top Japanese government official told the *Los Angeles Times* on March 23, that Western recession and anti-Japanese protectionism make East-bloc markets and Siberian resources more enticing than ever, Brezhnev appealed to Tokyo for economic cooperation. He made a reference to the strain in American-Japanese reltions caused by Washington's pressure on Japan to support the China Card, to rearm, and to implement economic sanctions against the U.S.S.R. In the way of stronger Japan-Soviet ties, Brezhnev said, "stand no few hindrances created by external forces, which care little about the interests of our two countries, the forces which already since the first post-war years . . . strove to prevent Japan from operating in the world arena as an independent sovereign state."

When Foreign Minister Yoshio Sakarauchi came to Washington on March 23, he rejected Haig's pressure on Japan to back out of the Siberian pipeline project and to otherwise escalate anti-Soviet sanctions.

U.K.'s Health points to reality

Certainly Brezhnev's scheme will not come to immediate fruition; and many nations of the region clearly will not welcome an increased Soviet role; however, Haig apparently has yet even to recognize the new Asian situation into which Moscow is intervening.

Former Tory Prime Minister Ted Heath of Britain argued in a March 2 speech in Fulton, Missouri (*EIR,* March 23) that changes must be made in American policy, pointing in particular to "the damage which has been done to the security interests of the West in the Persian Gulf, the Horn of Africa, and in South Asia by the failure of the United States to develop a close political partnership with India. This is a country which in the next century is set to become one of the world's principal industrial powers. . . . I do not believe that India is, or has ever intended to be, a lackey of Soviet designs. . . .

Heath failed to put forth a policy toward China, though he had something to say on virtually every other subject, and India is not likely to be so easily lured by Imperial Britain; but Heath's insistence on India's pivotal role shows that this British aristocrat at least recognizes that the political power centers in Asia are changing and that world strategists must respond.

A lesson in Alexander Haig's 'romantic' death-squad democracy

by Gretchen Small

Whatever the wishes of those who voted, the results of the elections in El Salvador March 28 are a disaster for El Salvador, a debacle for U.S. interests in the area, and the probable trigger for general conflagration in Central America. Combined with the State Department-engineered Guatemalan coup d'état just five days before, which placed an "ayatollah" in power, Central America is facing wholesale slaughter in the months ahead.

Moderate forces around the Christian Democratic party behind President Duarte were weakened badly in El Salvador's elections for a Constituent Assembly. Majority control was seized by an extremist coalition, headed by El Salvador's new "strong-man," former army major Roberto D'Aubuisson, a founder of the White Warriors Union death squad, who campaigned on a platform of "exterminating" all opposition within three to six months after the elections. Duarte continues to fight for the power mandated by his party's 40 percent share of the vote, but he is not likely to succeed against the extremists. Duarte is open to the idea of a negotiated settlement to the civil war, and if he goes, so do any hopes for a mediated settlement in the area.

The electoral result in El Salvador will simultaneously strengthen the country's ultra-left. Prior to the elections, Jorge Bustamante, the head of Salvador's electoral commission, had warned that sections of the left might well throw their support to D'Aubuisson in order to heighten the "contradictions" in the country, thus building their base for recruitment. "Where there are now 3,000 guerrillas, tomorrow there will be 300,000," if D'Aubuisson wins, Bustamante stated.

Cuban radicals were also counting on a D'Aubuisson victory, Caribbean sources at the United Nations reported, to prove that negotiations were impossible, and a military victory is the only strategy for the guerrillas.

After D'Aubuisson's National Republican Alliance (ARENA) announced the formation of a five-party coalition excluding the Christian Democrats March 30, Christian Democrat Rey Prendes repeated the warning: if the Christian Democrats are not an important part of the next government, "then violence will be increased .... Perhaps many people will join not only the left but some might join the extreme right, making a tremendous polarization, and that means civil war . . . God save this country."

Haig's romantic democracy

The elections were rigged from the beginning to bring about the polarization that has occurred. Mexican government officials and Vatican spokesmen were among those who argued that elections under conditions of civil war were untenable, and measures had to be taken to stabilize the country and institute a ceasefire before elections could be successful.

Over a million Salvadorans turned out to vote, many because they sought an end to the irrational violence which has lacerated their country over the past two years. Many, however, also voted because officials marked each citizen's I.D. card "have voted," and in that terrorized country, anyone stopped on the streets for identification found without the markings is a good target for a roadside ditch as a supporter of "subversives." Villages on election day awoke to the thunder of nearby artillery—another subtle hint of how to vote.

"Observers" by and large were an embarrassment. The military dictatorships of Argentina, Chile, Paraguay, and Guatemala all sent observers. Former Bolivian Interior Minister, Col. Luis Arce, thrown out of office for being too publically involved in the cocaine traffic, was invited to join Badder Meinhof-lawyer Ramsey Clark on the observing team! The U.S. delegation was heavily weighted by old Vietnam hands, including two election specialists who had overseen the 1967 elections in South Vietnam.

Secretary of State Haig, who had once hoped to rule the United States in his military uniform, loved it. He made a special appearance before the March 29 State Department briefing to hail the elections as a sign of the "power of the democratic vision" and a "major achievement in the development of democracy in El Salvador . . . which we have all won." Haig had announced on national television the day before that military rule in "romantic societies" (sic) "without Anglo-Saxon roots" is often necessary to defend "human rights."

Starting over a month before the elections, Assistant Secretary of State Thomas Enders began backing the D'Aubuisson option in El Salvador, according to congressional sources, telling American politicians privately that the death squad leader (who once claimed responsibility for a machine-gun attack on the U.S. Embassy in San Salvador) is "manipulable"and necessary to keep the Christian Democrats in line.

Over the course of the elections, D'Aubuisson was thus converted from an important but fringe maniac, forced to operate in hiding for nearly a year, into the central powerbroker in Salvador's political factions, now a "legitimate politician." U.S. Ambassador Deane Hinton was an intimate part of this image-building effort. Two nights before the elections, Hinton called in selected journalists to announce that the United States was prepared to live with a D'Aubuisson government. "D'Aubuisson is a leader . . . charismatic . . . in the caudillo tradition of Latin America," Hinton mimicked Haig. We should judge the man by his future, "not for his past." After the elections, Hinton offered his personal assurances that D'Aubuisson had promised not to carry out his threats to "hang" Duarte if he won. According to latest reports, D'Aubuisson is seeking permission to visit the United States to receive blessings from Haig and company. A U.S. visa had been denied him in 1981 following his threats on U.S. officials.

The next steps

U.S. Ambassador Hinton has been busy after the elections, putting together the pieces of the next government. Although Duarte's party captured an estimated 40 percent of the popular vote, the combined forces of ARENA, and the Partido de Conciliación Nacional (PCN), the party associated with old landlord interests in the country which ruled for the military from 1960 to 1979, give them a larger number of seats in the Constituent Assembly which will determine the next government of El Salvador. Washington sources report that the announcement of final vote tallies and distribution of seats in the Assembly is being witheld until agreement is reached behind the scenes on a coalition that is acceptable to the United States, and the State Department, while willing to work with D'Aubuisson-dominated government, hopes to pull at least some Christian Democrats into a government to provide a "sellable" cover for the U.S. Congress and others.

The consensus remains thus far, however, that Duarte must go. PCN spokesmen announced March 30 that they could work with the Christian Democrats, with hesitations, as long as three conditions were met: 1) Duarte is dumped; 2) the land and banking reforms of the previous government are "rewritten"; and 3) continuation of the war against the guerrillas is guaranteed. "We will never accept negotiations," Rodriguez Equizabal said.

Those terms seem to be acceptable to Ambassador Hinton, who sponsored a "luncheon of national reconciliation" at his home, the day after the elections, to which he invited representatives of all six parties who participated in the elections, but excluded Duarte in order not to offend the death squad extremists who consider him a "communist."

The elimination of Duarte from the scene removes one of the few people inside the country prepared to join efforts for an end to cycle of violence and counterviolence between left and right which has left over 30,000 dead in the past two years, and blitzed the economy. Intelligence sources reported that Haig and his Socialist International allies feared the potential of an independent agreement on behalf of settlement mediated by the Vatican (whose Apostolic Administrator in El Salvador, Rivera Damas, has been outspoken against both right and left terrorists), President Reagan, and Mexican President López Portillo, who has maintained close relations with President Reagan throughout his administration. Shortly before the elections, the Christian Democratic government in Venezuela had given signs they were willing to add their support to an attempt to get negotiations going within El Salvador. With an extremist government installed in El Salvador, the chances for negotiations are nil.

Now, a new "ayatollah" factor has been introduced in Central America, with the ascension to power of Gen. Rios Montt in Guatemala during a bloodless coup on March 23. Rios Montt was called on by "young officers" directing the coup to assume leadership whole preaching at a Church of the Christian Word tent in Guatemala City. Rios Montt is an administrator of the Guatemala branch of the cult whose headquarters are in Eureka, California. One of his followers urged him to accept the call on the basis that it was a "sign from God," according to press reports, and General Rios Montt is now urging his countryment to join in "brotherhood" to reestablish peace, and end the fighting.

The main support for his coup, however, is the same death-squad apparatus behind D'Aubuisson in El Salvador. In Guatemala it is centered around World Anti-Communist League Vice-President, Mario Sandoval Alarcon. Sandoval heads the extremist National Liberation Movement party, advocates the same "extermination" approach to the opposition, and has been connected with the Guatemalan death squad Mano Blanca since its founding in the late 1960s.

Sandoval Alarcon and his wife were among the 10,000-plus civilians who demonstrated March 31 in support of the Rios Montt government—a march filled with religious banners and slogans. The introduction of a mass fundamentalist movement in superstition-ridden Guatemala may prove a shock-wave effect as important for the region as the theology of liberation movement of the late 1960s.

Caracas draws away from Haig's policies

by Dennis Small, Latin America Editor

Over the last two to three years, Venezuela has been one of the principal players involved in the Central American crisis. As a relative economic giant in the region and an oil producer, Venezuela teamed up with Mexico a year ago to provide cut-rate oil to the area's most impoverished economies, in what is known as the San José Accord. Through various other forms of economic aid Venezuela last year gave a total of \$81 million to El Salvador—more, government officials are quick to note, than the United States came up with during the same period. Venezuela's ruling Christian Democratic Copei party exercises particular influence over El Salvador's Christian Democratic Party, and its leader José Napoleón Duarte, who lived for many years in exile in Caracas.

Since 1979, when President Luis Herrera Campins came into office, this considerable Venezuelan influence in the Caribbean Basin has been wielded largely on behalf of the policies of the U.S. State Department. Often, in fact, Haig has turned to Venezuela to act on his behalf to counter the initiatives of the other large Latin power in the region, Mexico.

All that may now be changing.

In the course of a recent visit to Caracas, this writer was informed in no uncertain terms by high-level government officials that Venezuela was planning to "put some distance between us and the policies of Mr. Haig." The same message was delivered publicly on March 22 by President Herrera himself, who criticized America's "language of threats," and warned against any "armed intrusion" of the sort repeatedly suggested by Haig. Herrera also reported that the Venezuela government would be engaging in a "full review" of Central American policy, once the March 28 elections in El Salvador were past, and hinted that he might throw Venezuela's weight behind international efforts to reach a negotiated settlement in that war-torn country. The Vatican and the government of Mexico are two of the principal forces seeking such a negotiated solution.

Herrera then shocked the press by announcing that he had just received a letter from the FDR/FMLN guerrillas in El Salvador requesting his collaboration in seeking a peaceful solution to that country's crisis—a letter he characterized as "surprisingly sincere."

I asked many of the individuals I met with in Caracas in mid-March why their government was trying to introduce some daylight between its policies and Washington's. "Because we are scared of the way the Central American crisis is spreading," one high-level official with knowledge of the security field said. "U.S. policy is going to produce a strengthening of the right in El Salvador," the official predicted—one week before the March 28 elections that produced just that result. "That will lead in turn to a leftist countermobilization. Look for not only Venezuela, but also Colombia, to distance itself some from your government."

The governments of both Colombia and Venezuela fear the spread of Salvador-style right and left violence in their own countries, with all its attendant political instability. Colombia is already being subjected to this treatment, with the leftist M-19 guerrillas in an open shooting war with the rightist MAS death squads. Venezuela, for the moment relatively free of terrorism within its own borders, may well experience a sharp rise in violence in the period immediately ahead (see article below).

Not all factions in the ruling Copei party, however, share this concern over the drift of Central American events and their significance for the region. Herrera heads a minority grouping within his own party, which continues to be dominated by former president Rafael Caldera. For example, when Herrera recently criticized NATO maneuvers in the Gulf of Mexico for heightening regional tensions, Caldera violently opposed this view. Caldera, who for over 40 years has been on intimate terms with the worst of Europe's black nobiliity, favors continued tight coordination with Haig. Caldera recently threw his hat in the ring for the party's 1983 presidential nomination, and is widely expected to win Copei's nod. He will run against Jaime Lusinchi, the candidate for the opposition Acción Democrática party, which is officially affiliated with the Socialist International.

But an upstart from Herrera's faction, former Interior Minister Rafael Montes de Oca, has dared to challenge party patriarch Caldera, and has announced that he too is in the running. Although no major policy rift between Montes de Oca and Caldera has yet surfaced on issues like Central America, sources in Caracas emphasized to *EIR* that, immediately before his recent formal announcement that he was seeking Copei's presidential nomination, Montes de Oca was in Rome for a meeting of the international Christian Democratic parties. The gathering was addressed by Pope John Paul II himself, who launched a blistering attack on international terrorism and the powerful forces that deploy it. It is likely that Vatican officials used the occasion to make their preferences for negotiations in El Salvador known to Montes de Oca.

Can Venezuela stay free of terrorism?

by Dennis Small

Venezuela today is a virtual island of calm in a region of the world wracked by left and right terrorism of every description. Security specialists in that country describe the level of political violence as nothing worse than "background noise": an occasional guerrilla raid on a remote National Guard post; a bank robbery every now and then; periodic meetings of the "revoltionary left" which are moderately attended and emphatically uninspiring.

But the calm is deceptive. Venezuela in fact harbors some of the world's most dangerous terrorist groupings, of both the right and the left, who use that country as a kind of "rest and relaxation center" for their top cadre. Venezuela is a place where these groups *plan out* rather than execute their international terrorist activities. In this way the country is much like Switzerland in Europe, or Uruguay in South America.

One example of this is the Basque separatist group **ETA,** whose single largest foreign concentration is in Venezuela. Dozens of ETA cadre roam the streets of Caracas freely, meet among themselves to discuss their activities back home, and use their host country as a place to meet representatives of other foreign terrorist groups and their financial and political backers. Venezuelan security authorities claim that they closely monitor the ETA activists in their country and keep them on a tight leash, but Spanish authorities are displeased at this arrangement.

Right-wing Cuban exiles linked to the terrorist **Alpha 66** and **Omega 7** also use Venezuela as a base of operations. The infamous 1976 bombing of a Cubana airlines plane, which killed over 70 people, was reportedly plotted and coordinated out of Caracas. Venezuela has become home to tens of thousands of Cuban exiles who left their country after the 1959 Castro revolution.

Perhaps most significant are the activities of the Libyans and associated Arab radical groups. In November 1981, a major public event was held in Venezuela in honor of Libya's Muammar Qaddafi and his revolutionary "Green Book." The event brought together over 600 individuals representing Venezuela's left, the Palestine Liberation Organization, American black separatists, the Polish Solidarity Union, Namibian liberation forces, Salvadoran guerrillas, and bearded mullahs—not to mention less-known groupings like the Canary Islands Liberation Movement and Capuchin priests from the island of Malta.

The event was presided over by Qaddafi representatives **Abdel Hamid Faraj Mansur** and **Jalah Ibrahim Musa Ibrahim Nasser;** by **Jesús Pérez** of Venezuela's MAS party; and by **Luis Alberto Farías,** a sociologist who is a leader of the ultra-left Venezuelan Revolutionary Party. A central topic of discussion was the cooperation of revolutionary activities in the Arab world and Central America.

Reliable Venezuelan sources told *EIR* that they have detected a broader pickup in Libyan-led activities in Venezuela over recent months, focused on establishing contacts among the Venezuelan left and winning supporters to their cause. The Lebanese Christian **Kapchi brothers** were identified as an important logistical capability in this effort, since they operate a "travel agency," provide legal services, and help print radical Arab literature in Venezuela.

Another angle currently under investigation concerns the **Banco del Caribe** and its founder and president, **N. D. Dao.** Dao is a Lebanese immigrant, and his bank is affiliated to the Byblos Bank Sal of Lebanon, whose president is Camille Chamoun.

Although Venezuela has served as a staging ground for international terrorist activities for some time, this function has increased markedly in the three years that Luis Herrera Campins has been President. His predecessor Carlos Andrés Pérez had declared open warfare against the country's terrorist groups and outlawed them, but the more conservative Herrera government, ironically, declared an amnesty for all the groups that Pérez had banned. Herrera reportedly reached a "gentlemen's agreement" with the leftists that he would declare amnesty for them and give them some elbow room, so long as they didn't engage in domestic terrorist activities against his administration.

There are indications that this deal is now being broken by the terrorists. Earlier this year, a group of highly skilled but unknown terrorists simultaneously hijacked three Venezuelan airplanes and flew them to Cuba. Venezuelan security authorities are perplexed and alarmed at this development: they don't know who ran the operation, and it certainly was not on the agenda as part of their "gentlemen's agreement."

U.S. sources have also told *EIR* to expect a wave of urban terrorism in Venezuela, unlike any seen there in the recent period. Mexican sources confirmed this prediction, adding that the purpose of the terror wave would be to keep Venezuelan President Herrera Campins "in line," lest he adopt a Central American policy at odds with that being carried out by U.S. Secretary of State Alexander Haig.

Federal Reserve and IMF incite a stampede against Mexico

by Robyn Quijano

The U.S. Federal Reserve, the IMF, and top New York and London banks have set the agenda for the destruction of Mexico's economy, the violation of her national sovereignty, and the imposition of conditions designed to lead to Iran-style upheavals. The method is to destroy confidence in the economy, scare off foreign and domestic investors, impose drastic austerity, slash imports, and enforce a top-down clamp on credit.

The IMF plan

While the IMF has no legal capability as in the past to impose its conditionalities on Mexico, it has determined that the wage increase legislated by the government after the devaluation will "undermine their austerity program" and must go. How will the IMF impose this? "We are telling the banks to try to get the levels of imports down," said IMF official Julio Gonzáles March 25. "If imports and wages are not cut, then there will be absolute chaos in Mexico by the end of the year, because they will need to borrow so much money abroad that the banks will refuse to lend. So they must begin the austerity program now," said Gonzáles, the IMF Mexico/Caribbean division chief.

"The Mexicans say they want to cut, but we think this tremendous pay raise runs at cross purposes to the austerity program. The pay raise means workers will have a tremendous increase in demand for goods, so if they cut imports now, inflation will go through the roof. The wage program must go, or else it will be impossible to cut imports," stated Gonzáles. The internal fight on the pay hikes, rejected by large parts of the private sector, is still not settled. The average 24 percent increase was meant to make up some of the buying power lost by the 40 percent devaluation.

Claudio Loser, of the IMF exchange and trade relations bureau, who headed the IMF fact-finding mission to Mexico in January before the devaluation, expressed confidence that the new economic team, Jesús Silva Herzog in the Finance Ministry and Miguel Mancera at the central bank, are convinced that they must cut the budget. Loser went on: "Mexico has already put into place the basis for a real austerity program with the peso devaluation. By devaluing the peso they have already set the conditions for a reduction in their imports by 30 percent, which is what they must do. That will mean cutting about $8 billion in imports, compared to a $24 billion import bill in 1981. To handle this, they will have to make a similar-sized cut in domestic budget expenditures, to account for the reduction in imports. If they follow this program, which we support, that will be a quite severe program of austerity, especially since we think inflation could rise from 30 percent at present to 60 percent or more, which will mean real expenditures are down another 30 percent."

The U.S. Federal Reserve, seen in Mexico for over a year as the chief source of economic warfare for its imposition of credit-strangling interest rates, has taken the lead with the IMF in assuring a credit cut-off for Mexico. David Willey, an official of the New York Federal Reserve, told *EIR*, "Our message to the banks is, 'If you're a creditor to Mexico, you certainly should be putting some pressure on them to reduce their borrowing needs. You should at least go down there and ask some questions about their budget and how fast they're cutting it. That's a form of pressure. Either they implement austerity measures, or they face borrowing trouble. Mexico is far too dependent on foreign credit. They will have to knuckle under."

Fed, IMF, and banking circles are demanding that Mexico "knuckle under" to a minimum 20 percent cut in budget and 30 percent cut in imports or face a total credit cut-off by May or June.

"Unpopular programs" will have to be carried out, a political risk analyst at Bankers Trust, told *EIR*. Susan Purcell, the Mexico expert for the New York Council on Foreign Relations, is presenting the same total-austerity-or-else scenario for Mexico in closed-door sessions with bankers and top business executives, *EIR* has learned. The risk analyst put it this way: "What they have to do now is cut down growth as fast as possible. By this I don't mean a 3 percent cut in budget outlays [the government's present target—RQ]. I mean 20 percent in budget outlays and soon. The banks simply won't lend them money. . . . There will have to be another big devaluation unless they start indexing the peso downward to the difference between U.S. and

Mexican inflation rates. They will have to devalue at an annual rate of 40 percent or almost 3.3 percent a month. They will be a lot better off if they start this now. . . . By the middle of 1982 the banks are going to start cutting off loans to them. Then there will be a huge panic in Mexico City because no one will be willing to buy Mexican paper, and they will be forced to make large, sudden cuts in the budget. . . . This will be possible as early as May or June. To this sort of thing there will certainly be a social reaction of bus riots, labor unrest, heavy criticism from the left of the PRI, and more political repression and more austerity."

One particularly loudmouthed foreign currency trader said directly what the Fed and the Fed's buddies in the international banking community have clearly implied. Robert Boston of Thomson McKinnon described the inflation spiral kicked off by the devaluation as out of control. "The new President of Mexico will make no difference. What difference does a president make? What you need is a Paul Volcker in your central bank, that's what you need. That would throw Mexico into a depression."

The real economy

The international financier community running the stage-managed depression in the advanced sector is hell-bent on assuring that the Third World goes down first. A Paul Volcker for every country is the goal. The imposition of financial strangulation on basically sound economies can indeed destroy the real economy. Mexico, however, is still at a crossroads, a battle pitting the strength of its real economy and potential against the financial wreckers.

Despite the fact that the major outside pressure had begun long before, through the end of 1981 Mexico's overall real economic picture was far healthier than the U.S. economy in basic categories of increase in tangible goods production, fixed investment, and new-job creation.

The economic policy that made Mexico into a potential development giant was one of using oil revenues to bring new production on line. To fight inflation, the country would "produce, produce, produce," in the words of José López Portillo. The creation of new cities, the building of ports and other crucial infrastructure, and the development of capital-goods industries were the goals of the administration. A large number of these projects are now coming on stream.

One of the ways that the policy of expanded production was carried out was by confidence-building—both among Mexico's private sector investors and foreign investors. Mexico's long-stable political system, its oil revenues, and its determination to become an advanced sector economy by the turn of the century meant that U.S. investors as well as high-technology exporters throughout the world looked to competing for the Mexican market until the oil glut began to shake confidence and the international operations picked up steam against Mexico last summer.

One senior official of a London bank candidly remarked: "Nobody on the market doubts the long-term viability of Mexico. We have a foreign-exchange crisis due to failure to tailor their development to their foreign exchange earnings. . . . Now they must cut government spending and projects. . . . They need to restore internal financial discipline."

The dose of "discipline" being recommended would mean not only unrest in a population being hit by austerity, but the dismantling of the very idea of making Mexico into a developed country with all the obvious benefits that strategy has for the United States. Roughly two-thirds of Mexico's trade is with the United States. "Internal financial discipline" means the obliteration of America's fastest-growing export market, the only bright spot in the entire U.S. trade picture.

A leading think-tanker from the New York Council on Foreign Relations circles gave *EIR* a hit-list of the longer-term capital projects that "will have to go": nuclear power, petrochemical, steel, the ports program, and even maintenance on roads and highways.

Whether the incoming administration will take such recommendations for getting its "house in order," for the prize of an eventual, possible loosening of credits on the international markets, is not yet resolved.

While PRI candidate and future President Miguel de la Madrid has voiced disagreements with López Portillo's wage increase and hinted at other concessions to the international banking community, his willingness to give up Mexico's development prospects is far from assured. One should recall that candidate López Portillo made many similar verbal concessions when Mexico was under the IMF gun the last time around.

Countervailing options

While voices from London may quietly admit the long-term viability of Mexico, it is clear that that nation's capability to withstand the present pressure depends largely on the ability of nations like West Germany and Japan to buck the U.S. high interest regime and continue an anti-depression economic strategy.

Japan, which thinks in terms of long-term development investment, knows the viability of Mexico very well (see article, page 9). The $2 billion Pemex credit signed on April 1 after six weeks of difficult negotiations was saved when four Japanese banks stepped in to enter the syndication after four Arab banks pulled out, despite the no-confidence game played by the international financial press against the loan. The Fed's capability to control upcoming loans will define the next round.

Club of Rome's founder Alexander King on race, population, and the Vatican

Dr. Alexander King, C.B.E., C.M.G., was a co-founder of the Club of Rome in 1967 and heads the International Federation of Institutes for Advanced Studies (IFIAS), based in Stockholm and Paris. He is also a scientific adviser to the OECD, which shapes NATO policy. He candidly described in a June 23, 1981 interview with EIR *how the Club of Rome set up the environmentalist movement internationally.*

In a discussion in Paris with an American visitor excerpted below, Dr. King describes a "selective" approach to population reduction geared to sugarcoat Club of Rome policies for Latin America and the Soviet Union, and exhibits the racialist outlook that shapes depopulation policy.

Q: I am familiar with the work of *Global 2000* on demographics and it is my impression that the *Report* didn't go as far on this as some may have wished. . . .
A: I think *Global 2000* didn't do enough on demographics, that is certainly true. Through the group IFIAS and UNESCO, work is now being done on what we call "carrying capacity" of the land, so as to get closer to this demographic problem. My daughter, Jane King, is working on this at UNESCO headquarters in Paris, although she's currently in Geneva. She spent some years in Moscow as the cultural attaché at the British Embassy, and then decided to "go native."

Q: What kind of demographic study does this involve?
A: We are looking for a dynamic, not a static Malthusian model. Look at Hong Kong and Singapore: these are countries with no resources, but they are able to support a growing population. We have to look at things like new minerals, new industrialization, and so on. We want to look at population in terms of resources available and suggest guidelines to countries on population.

We hope to be involved in case studies for Egypt, Kenya, Tanzania, and Indonesia. Also, we want to look at Mexico. We want to look at the next 20 years and beyond. Africa will be the worst continent on the population-resource question. In Latin America, the picture is diversified. There will be population problems in Colombia and Venezuela, but Brazil is empty in many places, although in other places there are regional problems in Brazil. Argentina can have a great increase in population, which would benefit the whole food production of the world. Another place where there is considerable demographic disparity is the Soviet Union. European Russia, including especially Moscow, has the lowest fertility rate of anywhere in the world. But the East, in Uzbekistan and other areas, the increase is the same as the rest of the world. The Soviet Union is now threatened by becoming an Asian-Islamic nation. This is a very important preoccupation now of the Kremlin.

Q: What are they doing about it?
A: Nothing. I am very often in Russia, so I discuss this. IFIAS has very good connections with scientific academies in the Soviet Union, especially on the systems science side led by a man named Gvishiani [Dzhermen Gvishiani, son-in-law of late Soviet Premiere A. Kosygin]. He heads IIASA [the Vienna-based International Institute of Applies Systems Analysis—see *EIR*, Dec. 22, 1981] and is a member of the Club of Rome. I've had long discussions with Gvishiani on these problems. . . . By the year 2050, the present developed countries, including the Soviet Union, will be down to 15 percent of the world population. It is an alarming prospect. . . .

The thing to be feared is that the white world as we know it, including the U.S.S.R., could become a very highly militarized ghetto of the rich, armed with sophisticated weapons, and surrounded by a world that is overpopulated and hungry. It is precisely because of this prospect that I say we need a new international order that is more subtle and not totally economic. . . .

Q: More subtle?
A: The North-South dialogue is at an impasse. [Interrupted by telephone call]. . . . That was Sam Nilsson from Stockholm. He and I are the only ones who can make decisions for IFIAS in between board meetings. We are thinking about setting up a new institution, either

in Geneva or in Boston, that can give advice on science and technology to Third World countries.

Q: Who are the main people now backing up IFIAS's activities?
A: Robert McNamara for the past year has been a special adviser to IFIAS. Prince Bernhard of the Netherlands has been enormously helpful. Sweden's Gunnar Jarring, the former U.N. special envoy for Cyprus, and former Swedish Ambassador to the U.S.S.R. We are also talking to the Rockefeller Foundation and the Rockefeller Brothers Fund about studies relating to food and population. . . .

There *is* a change in attitude toward population control, through our efforts, I can say. For example, changes in Mexico occurred because of the Club of Rome meeting in Salzburg a few years back [in February 1974]. We had seven world leaders captive for two and a half days, ha, ha. [The Mexican President at the time, Luis] Echeverría was there, and was persuaded against all his Catholic prejudices on the need for population measures. . . . There is a corresponding thing in Europe. Look at the Pakistanis in England; England is becoming a multiracial country. In France, you have the situation with the Algerians and the Portuguese. In Switzerland, the guest workers have become a population problem. We have to get the population element taken seriously in planning. We need a methodology to measure carrying capacity, in terms of inputs and outputs of energy.

Q: I heard IFIAS is working on entropy modeling. . . .
A: Well, the entropy model is derived from the First Law of Thermodynamics. Once you have that, the question of the quality of energy comes when you do the First Law. We are working very closely with [Belgian theoretician Ilya] Prigogine on these questions. He's derived a whole program for non-equilibrium thermodynamics.

Soon, in Australia, we are having a conference on food-agriculture relationships, dealing with these matters. This will look at the whole Pacific-Southeast Asia question; it is titled "Self-Reliance, Resilience, and Interdependence.". . .

Oh, yes, this ghetto business. With the impasse in the North-South dialogue, we must look at alternative approaches to development, to regional models. Western Europe, Eastern Europe, and Japan as societies are all incredibly vulnerable. I just spoke to the former President of the Swiss Confederation, who is now a member of the Club of Rome, and he no longer pretends that Swiss national sovereignty really exists, the whole concept is bankrupt, and I think that idea is becoming current in Washington and Moscow. The problem is that no politician dares tell his country that the concept of national sovereignty is a lot of baloney. The U.S. is still vulnerable, because there are certain raw materials it doesn't have. I want a study on these questions, and have approached the Rockefeller Brothers Fund on this. . . .

We will be using Prigogine on the conceptual side, discussing the dangers of overshoot and the like. A British scientist named Ray Beverton will head it up. We are also doing a study in New York on the loss of productive soil, with the main work originating out of the University of Sussex in England. Robert O. Anderson is funding it, he's the man from Arco. In certain cases, like Egypt, we have looked at how the building of cities, with roads and other infrastructure, has affected the soil situation. Egypt has lost more productive soil through urbanization than it has gained from the whole Aswan Dam project. We have teams from 15 countries working on this, including Tanzania, Kenya, Mexico, Russia, and China. Very interesting work on related questions is being done by one man named Rolando Garcia from the University of Mexico. Financing is coming from the Netherlands, from the U.N. Environmental Program, and from a Japanese millionaire.

Q: You referred before to the "Catholic prejudices" of Mr. Echeverria of Mexico. . . .
A: There is nothing we can do about the Vatican as such. When I say "we," by the way, you should understand that I am talking about an old-boys' network that includes the Club of Rome, IFIAS, and a very interesting group in Toronto called the Foundation for International Training, which now has 60 projects throughout the Third World.

The Vatican question is very important, but you can't go at it head-on, it won't work. The Vatican can't back down without losing face. . . . But the Club of Rome has some very good connections with the Vatican through Cardinal Koenig of Vienna. Koenig is the one who heads the Vatican Bureau for Unbelievers, the Hindus, the Buddhists, you know, the cheap white trash. [In fact, the bureau deals with communist parties—ed.]

Q: "Cheap white trash"?
A: Yes, ha, ha, you shouldn't write that down or anyting like that; it's an expression you use in the South in the United States. It may not be exact for the Buddhists, in any case they're yellow.

Koenig has come to a number of Club of Rome meetings. We recently had a meeting in Salzburg on the microelectronics revolution, and Koenig was there and found it all very interesting. He's talked to the Pope about our work, not on population, but on microchips and so on, and out of this, the Pope himself has now proposed a meeting with Peccei and myself. We have other contacts in the Vatican. There is a man named Chagas from Brazil, who is Chairman of the Pontifical Academy of Sciences, and he is also one of IFIAS's advisers. . . .

After the Bangladesh coup

India fears a regional "tilt" toward instability, Islamic fundamentalism, and further economic disintegration.

Despite the initial calm and relatively few arrests following Gen. H. M. Ershad's March 24 bloodless coup in Bangladesh, political leaders in Bangladesh and in India fear that the takeover will be the latest in a series of violent government changes that have driven that country of 90 million people into greater famine, economic chaos, and political turmoil. Added to this are fears that Islamic fundamentalists partial to the Khomeini-allied Pakistan government of General Ziaul Haq might use the instability to gain political power. And observers in both Bangladesh and India emphasize that the growing instability makes more likely political intervention by countries outside the region into a zone of super-power contention, particularly because Indo-Pakistani tension is already heightened.

Part of the fear that growing instability inside Bangladesh could create the conditions for the emergence of Islamic fundamentalist, pro-Pakistani forces, who have a strong following in both the military and some political groups.

General Ershad's policies are as yet unclear. Thus far Ershad has tried to avoid antagonizing either the Islamic fundamentalist forces or the other major political force in Bangladesh, the Awami League, which under Sheik Mujibur Rahman led the liberation war to free East Pakistan from West Pakistan to create Bangladesh. The Awami League still has the greatest following amongst the population.

Ershad himself was one of the East Pakistani generals who stayed in West Pakistan during the war of liberation. Yet, he does not seem today to be part of the most extreme pro-Pakistan groups within Bangladesh, and is not a member of the Bangladesh branch of the Jamaat-e-Islami (Muslim Brotherhood) which rules Pakistan under dictator Ziaul Haq. Ershad had criticized the 75-year-old caretaker President Abdus Sattar, whom he overthrew, for bringing Jamaat-associated politicians around Prime Minister Shah Azizur into the government.

Since the coup, Ershad has arrested about 200 people. While members of the Jamaat have been among those arrested, the core group around Shah Azizur has so far been left untouched. On the other hand, Ershad has also not arrested members of the Awami League. Indeed, when this reporter was in Bangladesh weeks prior to the coup, there were reports that a faction of the Awami League party had secretly made a deal with Ershad in support of his coup bid. Another faction of the party opposed any such deal with Ershad because identification with the armed forces could seriously undermine mass support for the party.

First claiming he had no political ambition, Ershad in later press conferences announced that he hoped to restore civilian rule within two years, and if the population then wants his leadership, "I will surely come but not in uniform."

That the army took over is no surprise, as I reported in *EIR* March 30. For some time the armed forces had been demanding a greater share of the power, especially after the election held last November to pick a successor to President Ziaur Rahman, who was assassinated during a May 30 uprising by a faction within the army. In the aftermath of the assassination, Army Chief of Staff Ershad rallied the armed forces to ensure the succession of the 75-year-old Sattar. When, after the election, Sattar unexpectedly rejected the military's demand for a share of the power, Ershad stepped up the pressure.

By February Sattar had acceded to Ershad's demand for a National Security Council consisting of three military chiefs, the President, Vice-President, and Prime Minister to oversee the functioning of the cabinet. But rumors were already widespread in Bangladesh that a coup was imminent.

Political observers in South Asia say it is doubtful how long Ershad can hold the situation under control, despite his use of the slogans and songs of the Bangladesh liberation era to try to appeal to the population. At present instability is heightened because there is a serious danger of a food shortage and possible famine in the aftermath of a crop failure and a cutback in the foreign aid on which Bangladesh is dependent.

In the past, the stability of food supplies and the stability of governments has been closely connected. The mass irrigation projects that could resolve the food problem are not on the immediate agenda.

The hidden power of the Crown

The return to Canada of the right to amend its Constitution is nothing like full independence from Britain.

For the fifth time since Canada was conquered in 1760, the British Crown has graciously approved a constitutional regime for Canada without the country's consent, and against the will of the people of Quebec, following the path of the Quebec Act of 1774, the Constitutional Act of 1791, the Act of Union of 1840, and the Act of Confederation of 1867. The present reform, known as the Canada Act, has the advantage of having convinced most Canadians in 9 out of the 10 provinces that they are now fully independent.

The opposite is the case. As the publication at the end of March of the biography of former Governor General Jules Leger makes clear, the constitutional changes are meant to reinforce Canada's role in the service of the Crown—under the guidance of the Queen's official representative, the Governor General.

The Canada Act, which was approved by the Queen on March 29, "patriates" to Canada the power to amend its own Constitution. The Constitution itself remains the same, but included in the Act is a "bill of rights" that greatly increases the federal government's power over provincial resources and cultural policies. It was because of this that the province of Quebec refused to agree to the package.

In the British House of Lords on March 25, as the Canada bill passed, Foreign Minister Lord Carrington pronounced that the approval of nine provinces had been enough of a general consent for the repatriation to be accepted by Britain. Carrington was telling Quebec: "*Va te faire foutre.*" He emphasized that "the Supreme Court of Canada considered that the consent of all the Canadian provinces was not required, by law or constitutional convention, to the making of the request to Britain by the Canadian Parliament to bring about this historic change in Canada's constitution." Quebec's objections "did not provide grounds for declining to act," he declared, and Quebec's pending court case claiming that "by constitutional convention" it has a right of veto over constitutional change, is not an "impediment to Parliament proceeding."

The Queen will hand the Canada Bill to Premier Pierre Trudeau when she comes to Ottawa on April 17.

While private receptions are prepared in the nation's capital for the event, the Parti Québecois is organizing a massive protest demonstration in Montreal which Premier René Levesque is expected to lead.

Forces in western Canada, especially among independent entrepreneurs, are also hopping mad. Western Canada Concept leader Gordon Kesler, recently elected to the Alberta Provincial Assembly, has joined his voice to Levesque's in proposing that on April 17, flags should be flown at half mast. Praising Levesque's boycott of the Queen's visit, Kesler said, "I think René Levesque has shown a lot of courage."

The real fraud of the Trudeau constitution is quite evident in statements from Jules Leger, Governor General from 1974 to 1979. In his biography, the late Leger is quoted as saying that "Whatever the issue of the discussion on constitutional revision, the position of a Canadian head of state will remain. The name might change, so might the role and mandate. But the office itself will continue to be essential. And the more reinforcement it will have received, the better will the Crown be served."

What Leger was proposing with the full assent of the Queen is that the Governor General become a full-fledged head of state, while the role of the Queen is made less visible. Political decision-making in Canada has been "a continuous personal exchange of views between Her Majesty, the Prime Minister, and the Governor General, which made consensus rather easy whenever a decision had to be taken on any matter of common interest. It is this practice which, I believe, allowed Her Majesty to play a real part in the government of Canada."

Indicating that Pierre Trudeau has been the most ardent monarchist of all Prime Ministers, Leger concluded, "I wonder whether any sovereign was ever so directly informed and consulted by a Canadian Prime Minister."

In future columns, I will, among other things, outline the alternative constitutional approach for Canada presented by *EIR* founder Lyndon H. LaRouche, Jr.

Saudi-bashing escalates

The Saudis are getting slammed from all sides, thanks to some of their friends in London.

Saudi-bashing is in vogue again. And, if the British have their way, not only will Saudi Arabia be undermined, but with it U.S. influence in the region.

This is no long-term scenario on the part of the British Secret Intelligence Service. It is policy, and the policy is being carried out with a vengeance.

London has three vehicles of assault: Iran's renewed military offensive against Iraq; Israel's threat to Lebanon and Jordan; and Britain's declaration of war against Riyadh for its support of Nigeria. With the Reagan administration paralyzed by Secretary of State Alexander Haig's support for the dangerous policies of Menachem Begin in Israel and Ayatollah Khomeini in Iran, the Saudis are exposed and vulnerable to the operation being launched against them by the British and Britain's deployables in Iran and Israel.

On the Iran front, Khomeini's hordes, backed by arms from Begin's Israel, have launched a new offensive in its war with Iraq, which could unsettle the entire Persian Gulf by boosting the cause of pro-Khomeini subversives in Saudi Arabia and elsewhere.

Hurling thousands of brainwashed youth at Iraqi armor—draft cards in Iran are called "tickets to martyrdom"—the Muslim Brotherhood controllers of Teheran are escalating their threat not only to Iraq but to the Saudis, Kuwaitis, and other Gulf Arabs.

"Of course you can compare Khomeini to Adolf Hitler," said one Israeli official, who admitted that his country was arming the mullahs. "But Iran is the enemy of my enemy, and is thus my friend."

Together with Iran's escalation in the Gulf, the unprecedented crackdown by Begin and Defense Minister Ariel Sharon in the occupied West Bank—and the ever-present threat to Lebanon—threatens to radicalize the Arab world even further, putting the Saudis in a vise. During the last weeks of March, radical Palestinians in Kuwait rioted in the streets against Begin's West Bank repression.

The actions by Iran and Israel represent a new level of threat to the position of the United States in the Middle East. The British SIS, which is backing Begin, and Khomeini, is fully aware that the destabilization of Saudi Arabia and the decline of American interests in the region would strategically humiliate Washington.

"If Begin and Sharon do go into Lebanon, the fighting will be bloody," said one intelligence analyst, "and with each passing day the pressure will grow on Saudi Arabia to cut its ties with the United States."

The British, who orchestrated the 1979 revolution that put Khomeini in power, and who stage-managed the election of Begin in 1977, are using both Iran and Israel to assault U.S. influence in the Gulf. And Moscow, which has avoided making any overt commitments in the region, is expected to take advantage of any decline in America's role in the area.

Mr. Haig, operating at the behest of the British, is covering for both Israel and Iran. The evidence includes the fact that Haig has rejected repeated Iraqi requests to halt the supply of U.S. arms to Iran through Israel and other third parties. Thus he has guaranteed a steady flow of very sophisticated weapons to the Khomeini forces through Italy, Great Britain, and Pakistan.

These arms have enabled Iran to beat back an Iraqi offensive and return the Iran-Iraq war to yet another stalemate (though late-March press accounts of a major Iranian victory were exaggerated). Iran, financially strapped and in domestic chaos, is unable to withstand any long offensive.

Regarding Israel, Haig has also given important cover to Begin and Sharon in their atrocities on the West Bank. Despite a worldwide outcry since Israel began its West Bank crackdown, Haig has refused to issue even mild criticism of Israel, and has even blamed Jordan for the "events" on the West Bank!

On the oil front, as our Special Report documents this week, London, working in tandem with Libya, is engaging in a showdown over Nigeria with Saudi Arabia which has threatened to boycott any company that refuses to purchase Nigerian oil at current prices. Both Shell and British Petroleum, the prime marketers of Nigerian oil, are trying to force Nigeria to drop its price to that of British North Sea oil.

U.S. proposes oil-for-technology deals

President Reagan is said to be behind a renewed push for transfer of advanced technologies to Mexico.

The government of the United States strongly supports the desire of Mexico . . . to use nuclear energy as well as to expand its own technical and manufacturing capacity in this area," U.S. Energy Secretary James Edwards told a nuclear-energy seminar in Mexico City March 25. In a press conference later, the U.S. official announced that the Reagan administration is interested in exporting the most advanced nuclear technologies and knowhow to Mexico in exchange for increased amounts of Mexican oil.

Edwards's remarks mark a sharp departure from the hideous sabotage of oil-for-nuclear deals his predecessors engaged in. James Schlesinger's embargo of Mexican enriched-uranium deliveries in the late 1970s is still fresh in the minds of government officials here.

Despite such bad memories, these officials have welcomed Edwards's offer. There is of course a certain caution about the possibility that the U.S. official could be speaking with a "strategic-reserve" scheme in the back of his mind. Under this Hudson Institute-contrived plan, Mexico would play the role of a raw-materials supplier in a U.S.-dominated zone of influence pitted against other superpower-controlled regions.

Once their doubts are cleared, these officials think the Reagan administration's nuclear offers could certainly mark the beginning of a new era.

Signs indicate that the President himself is the main force behind this attempt to realize bilateral economic potentialities and to keep the battered U.S. nuclear-export market alive. The U.S. President has sent a letter, I have learned, to President López Portillo pledging full cooperation with Mexico in meeting its nuclear program, which calls for an installed capacity of 20 gigawatts by the year 2000. U.S. Ambassador John Gavin delivered the letter to López Portillo on Feb. 4.

Reagan's efforts are backed by elements of his California-based "kitchen cabinet" group, by high-ranking officials in the Department of Energy, by some White House officials, and by representatives of nuclear-supplier companies.

As part of their efforts, the DOE has organized a series of seminars here in Mexico City on advanced areas of nuclear research and technological applications, the first of which was attended by Secretary Edwards on March 25. Edwards discussed a framework for collaboration in the area of long-term training of nuclear scientists and technicians in a meeting with President López Portillo and Ambassador Gavin at the end of March.

President Reagan's overture to this country contrasts remarkably with the tremendous pressures the U.S. Federal Reserve and London-Wall Street bankers are putting on Mexico to cancel some of its most ambitious capital-intensive programs, among them the construction of the country's second nuclear plant. As I have reported, U.S., French, Canadian, Swedish, and German companies are now bidding for equipment contracts for this 2,400 megawatt plant.

London bankers are pretty confident they are going to get their way. "One cut the government is certain to make is a $2 billion nuclear reactor contract sought by American, Swedish, and Canadian bidders," the Feb. 27 edition of the London *Economist* forecast in a review of the probable effects of the February peso devaluation. A senior executive at Bankers Trust told an American journalist in March that "something's got to go . . . nuclear will definitely be cut."

The *Washington Post* has joined the anti-nuclear bandwagon by raising the "nuclear-proliferation" bogeyman. In an editorial March 8, the *Post* announced, "There is a string of trouble spreading in Latin America that is potentially at least as serious as the fighting in Central America." Dismissing Mexico's traditional commitment to such non-proliferation pacts as the "Tlaltelolco Agreement," the *Post* acuses Mexico and other Latin American countries of striving to obtain nuclear weapons technologies under the guise of nuclear energy development.

Up to now, the López Portillo government has reiterated its commitment to the nuclear program and is preparing to announce the results of the bidding on Aug. 1 as scheduled. Spokesmen for PRI presidential candidate Miguel de la Madrid have also publicly stated that he fully backs the present administration's commitment to nuclear-energy development.

International Intelligence

International terrorists take aim at France

On March 29 five persons were killed when a terrorist bomb went off on a train traveling from Toulouse to Paris. Jacques Chirac, Mayor of Paris and head of the opposition RPR Party, announced that he had been scheduled to travel in the car where the bomb exploded. At the same time the leaders of the French government have been targeted by the notorious assassin "Carlos."

The Socialist government of French President François Mitterrand takes a uniquely "sociological" approach to terrorism and pardoned offenders wholesale when it came to power last year.

Many Mafia figures from provinces adjacent to Corsica and the terrorists have collaborated with the French Socialists for years. But the controllers of both underworld armies are now merging them with the "disarmament" and ethnic separatist movements, for deployment against the state itself.

Franco-German group promotes nuclear energy

"Whether or not we can turn the situation around at a few minutes before midnight depends in large degree on whether we succeed in our fight for nuclear energy," Helga Zepp-LaRouche told the founding conference of the Franco-German Committee for the Promotion of Nuclear Energy in the small West German town of Biblis on March 26.

Mrs. LaRouche, Chairman of the European Labor Party, told her audience of 150 nuclear-technology advocates from France and Germany, which included a contingent from the local nuclear plant and several local politicians, that the greatest threat to world peace today arises from economic depression.

Asserting that a surrender to anti-nuclear "environmentalists" would be a death sentence particularly for the Third World, Mrs. LaRouche declared: "As Pope Paul VI said in his encyclical *Populorum Progressio,* 'development is the new name for peace.' "

The Committee agreed to hold simultaneous press conferences in Paris and Bonn on May 2, to be followed by concurrent demonstrations in French and German cities in June. It also resolved to build a broad membership base, organized into chapters which will conduct lobbying and educational campaigns. One French speaker at the meeting, engineer M. Curvale, stressed the need for scientific education to prevent young people from turning into "fanatic ecologists."

Haig and Iklé step up anti-Schmidt moves

Visiting U.S. Undersecretary of Defense Fred Iklé used the podium of a Christian Social Union (CSU) congress in Munich March 29 to insult West Germany and attack Chancellor Helmut Schmidt's policy of détente through economic cooperation with the Soviet bloc. Iklé called détente a long-standing illusion which has allowed the Soviets to mobilize politicians, entire companies, and associations for their own ends. Germany's only real alternatives are freedom, which means "standing with the U.S.," or subjugation by the Russians.

Iklé, who belongs to an important Swiss banking family, has been identified by congressional defense specialists as part of the Washington group that is trying to topple the Schmidt government. His vituperation was seconded by CSU leader and Bavarian Governor Franz-Josef Strauss. The CSU is the Bavarian branch of the opposition Christian Democratic Union (CDU) in West Germany.

EIR has learned that during his March 14-18 trip to the United States, Strauss met secretly with Alexander Haig. A Washington-based operative of the CDU/CSU reports that the American Secretary of State told Strauss point-blank that neither he nor the U.S. government supported Schmidt, despite public gestures to the contrary.

Haig revealed that only Ronald Reagan himself prevented U.S. officials from openly supporting a change in the West German government at present, but that when the time comes to finish off Schmidt, opposition leaders could count on the Americans.

Asians: 'Volcker is the biggest threat'

"Wall Street's high interest rates are, right now, a greater threat to security in East Asia than is the U.S.S.R., China, or Vietnam," was the message that security experts from across Asia presented to a Singapore seminar attended by Robert Barnett, former U.S. Deputy Assistant Secretary of State.

Barnett traveled to Tokyo after this seminar to try to persuade the Japanese to support the now-dormant World Bank scheme for funding oil exploration in the Third World. He reports that, instead, the Japanese told him that "critical energy deficiencies in the 1990s and after will be met by nuclear fusion and not by oil from present—or future developing country—providers."

Pinochet and Begin sign 'free-enterprise' pact

Chile and Israel, the foremost test tubes for Nobel Prize-winner Milton Friedman's economic nostrums, signed a broad economic cooperation agreement March 9. Israel was represented by Industry and Commerce Minister Gid'on Pat, then on a tour of South America. "Pat stated," reported Chilean domestic radio, "that the two countries have similar backgrounds: their economic systems are similar; both understand the danger of communist predominance...."

There are indeed similarities in the

two countries: the destruction of wage levels and industrial employment has forced the exodus of much of their skilled labor forces. The dictatorship of Gen. Augusto Pinochet has responded to the unemployment crisis by eliminating minimum wages for young and old workers, abolishing social security, and otherwise approximating an ideal "free-enterprise" system. The result was the bankruptcy last year of more companies than any time during the last 19 years.

Chile has thus eliminated inflation by eliminating industry. Israel is at a different stage: the current world inflation leader at 130 percent.

Pat also announced the transfer of Israeli "advanced technology": a joint venture assembling solar collectors in Chile. No arms deals were mentioned.

Spooks: 'Go East, young peacenik'

While Soviet officials applaud the growing disarmament protests in the West, and step up their own domestic agitation, Western intelligence sources are looking forward to new "peace" movements in the East bloc and the Balkans as a vehicle against governments there.

A former Mediterranean expert for the OSS (the World War II predecessor of the CIA) said on March 30 that the only efficient way to create a peace movement in Western Europe is to simultaneously create one in Eastern Europe, coordinating both through trade unions, churches, and cultural and academic institutions.

Not only would this not panic the Soviets, he said, but the disarmament movement could in this way impose its anti-technology views upon East bloc governments within three or four years.

An Israeli source in Italy added that the Balkan nations of Yugoslavia, Greece, and Turkey are key to this plan. In the Yugoslavian provinces, as in Sicily, ethnic separatism and disarmament protest were being mixed for the same end—destabilization.

Soviet hardliners have been encouraging the peaceniks, terming the antiwar upsurge the only opposition to U.S. circles who were carrying out "preparations for war as the basic policy," in the words of Central Committee Secretary Boris Ponomarev on March 26. Ponomarev gave the keynote at a meeting of the Soviet Committee for the Defense of Peace, where he shared the podium with the Patriarch of the Russian Orthodox Church.

This was preceded by enthusiastic coverage in *Pravda* of the recent electoral advances made by the environmentalist "Greens" in Lower Saxony. *Pravda* describes the greenies as a "protest" party composed of disillusioned Social Democratic Party members in reaction to "corruption" of SPD officials. On March 28 *Isvestia* picked up the theme with a full-page spread on chemical warfare installations in Western Europe.

Brazil: 'Don't intervene in Central America'

Brazil's policy toward Central America is to try to prevent any military intervention, Foreign Minister Ramiro Saraiva Guerreiro told *O Estado de São Paulo* on March 14: "This is the role many Latin American countries—not only Mexico and Venezuela—are seeking to play."

Saraiva said he found little credibility in Washington briefings on Soviet involvement in Nicaragua. "When the Sandinista leaders state they do not want to make Nicaragua into a second Cuba, I believe they are not merely making a rhetorical statement."

He lauded President Reagan's new concern for the economic problems of the Caribbean Basin, but not the decision to give those countries privileged access to U.S. markets instead of directly helping them build the infrastructure needed for industrialization. Brazil is afraid that exports from the islands will simply displace sugar and other items now imported from the equally poor Northeast of Brazil.

Briefly

● **A SENIOR** partner of a top Wall Street investment house believes that one reason Libyan dictator Qaddafi is funding the European peace movement is to tie Europe's hands in the event of a new Middle East war. "The PLO could stage an intrusion into Israel. The Israelis could retaliate by striking Saudi oil fields, sending prices back up . . . the Europeans . . . would be too busy with the peace movement to take any effective action in the Middle East."

● **MUAMMAR QADDAFI'S** model for economic development is the only basis for preventing population holocaust in North Africa, members of the Club of Rome told *EIR* in Paris. A similar view was taken by an official of the French Ministry for Economic Cooperation, who decried Western industrialization, and called cities "centers of violence."

● **FRANCESCO PIPERNO,** who is wanted for the 1979 murder of Italian Prime Minister Aldo Moro, was re-arrested in Canada March 20. Canadian authorities, who have given Piperno de facto asylum through the courts, were forced to act when Italy presented new evidence from Rome magistrate Fernandino Imposimato.

● **HOLLAND** will pull out of the giant Soviet-European gas deal, according to a front-page story in the March 31 *Financial Times* of London. The rumor is based on the expiration of existing credit arrangements; according to Algemene Bank Nederland, the Soviets have shown no interest in renewal.

● **EAST GERMANY** is reportedly clamping down on its own peace movement, despite its praise for disarmament campaigns in West Germany. One target is said to be the environmentalist East German Lutheran Church, which objected to the 1978 introduction of compulsory military training for 9th and 10th graders.

Minority Leader Wright poses challenge to Volcker

by Graham Lowry, U.S. Editor

While Congress continues its idiotic wrangling over proposals for further budget cuts and tax increases, a distinct note of sanity has emerged alongside the Wall Street-orchestrated chorus of lamentation over federal budget deficits. House Democratic Majority Leader Jim Wright of Texas, in a special presentation before the House Banking Committee March 30, launched a well-buttressed attack on the primary cause of growing depression conditions and the deficits that result from them, the high interest-rate policy of Federal Reserve Chairman Paul Volcker.

Wright denounced the continuing clamor over the size of the federal deficit and charged that the issue was being "used as an excuse" by those who "deliberately want to keep interest rates high." And, in answer to those Congressmen who piously bemoan the ruinous effects of high interest rates and urge further budget cuts as the sacrifice that will bring them down, Wright documented the folly of imagining that Congress could strike a deal on Volcker's terms. He reminded the committee how he and other committee chairmen met with Volcker in 1980 and asked him "If we were to cut $21 billion from the budget, would you bring down interest rates?" Volcker said, "That sounds right." "Well, we did, and he didn't." was Wright's conclusion.

'Interest rates cause inflation'

In his testimony, Wright also demolished the claim that high interest rates were the necessary response to inflation, demonstrating instead that hiking interest rates *causes* inflation as well as increased unemployment. Displaying a set of charts covering the period from 1970 to 1981, Wright showed how both the inflation and unemployment rates increased following rises in the prime rate of interest.

Wright's dramatic refutation of the Fed's most cherished fraud—that mounting deficits and continuing inflation justify high interest rates—is the first sign of a deliberate effort within Congress to break up the current pact with Volcker and his international banking friends who are dictating the dismantling of the U.S. economy.

Wright's intervention before the Banking Committee, blacked out in the press nationally, came one month after his call for an economic summit meeting of congressional leaders, President Reagan, and Paul Volcker—a meeting which Wright termed crucial for avoiding a depression, and at which he hoped to obtain a pledge from Volcker to lower interest rates. The administration has taken no concrete steps toward convening such a summit, and House Speaker Tip O'Neill was quick to reject the plan unless Reagan would first indicate that he would compromise with Congress on the budget.

While Reagan continues to hold the line on his proposals, especially against demands that he back major tax increases and defense cuts, over the last week of March virtually the entire Senate Republican leadership demanded that he give in, and both Budget Com-

Rep. Jim Wright (l) with House Speaker Tip O'Neill and House Budget Committee Chairman Jim Jones (r) last summer.

mittee Chairman Pete Domenici (R-N.M.) and Finance Committee Chairman Bob Dole (R-Kan.) have begun redrafting the President's budget in the name of Volcker's demands for reduced deficits.

The need for recovery policy

Any success in cutting through this lunacy, made the more palpable by the ongoing bankruptcy of the revenue base due to Volcker's high interest rates, depends on a competent economic-recovery policy to replace Volcker's policy of enforced depression. Lyndon LaRouche, Advisory Board Chairman of the National Democratic Policy Committee, responded to Wright's earlier call for an emergency economic summit by proposing that he and Wright meet with President Reagan to discuss the needed measures for recovery. LaRouche's four-point program for ending the depression calls for remonetizing the gold reserves of the U.S. Treasury at $500 an ounce, and establishing low-interest, gold-backed credit flows for the nation's industries and farms, and as well as large-scale government-backed projects to build up America's nuclear energy capacity and vital infrastructure.

NDPC chapters across the country, now numbering over 400, have been active in generating letters and petitions to Majority Leader Wright supporting the LaRouche program and the proposed meeting with the President. LaRouche and the NDPC have urged the Congress to end its months of maneuvering for "alternatives" to Reagan's budget, especially since most proposals on Capitol Hill would inflict far more damage on the economy than what the President has proposed. Instead, LaRouche has emphasized, Congress must get on with the most urgent business before the nation: that of dumping Volcker and ensuring real economic recovery. When this is accomplished, then the budget could be reconsidered.

During Wright's presentation to the House Banking Committee, he raised the necessity for a direct political solution to high interest rates. Emphasizing that Volcker "serves at the will of the President," Wright declared that "the President is the one that can remove Volcker," with the proper political support. Wright proceeded to underscore the power of the Presidency by recalling that when interest rates jumped from 5.5 to 6 percent during President Truman's administration, Truman "called the Federal Reserve Board members into his office and told them that the American people weren't going to tolerate this . . . and the Federal Reserve Board dropped them."

Popular outrage over today's high interest rates, which at the beginning of April were at 15.5 percent and rising, has a growing impact as the time for November's reckoning at the polls draws nearer. Hardly a speech is made in Washington today without some rhetorical complaint about the high cost of credit, followed almost invariably by demands to cut the deficit. Even Wright argued for rescinding part of the tax cuts enacted last year as a means of reducing the deficit, and there has been a chorus of demands for their outright repeal by other Democratic and Republican leaders alike.

End of the game?

But as long as Reagan continues to firmly reject any tampering with the tax cuts and any major cuts in defense, Congress is left only with the option of initiating major cuts in domestic programs in an election year—or abandoning the deficit-cutting game altogether. Should they abandon Volcker's game, the danger in the eyes of his international financial backers is that Congress *and* the President might gang up on Volcker, clearing the decks for measures such as LaRouche has proposed.

It is widely conceded on Capitol Hill and on Wall Street that the longer the budget stalemate continues without concessions from Reagan, the less willing Congress will be to take upon itself the onus for implementing Volcker's deeper austerity. At the end of March, Volcker backers in the Senate Republican leadership like Domenici and Dole sounded the alarm of "time is running out" as they rushed to draw up budget proposals based on even greater deficit projections to be dealt with.

And in his first appearance on Washington's political stage since 1980, John Connally emerged to address the Commodity Club March 30, the day before the President's first televised press conference in prime time. Connally threatened Reagan with a full-scale economic collapse unless he "compromises" within 30 to 60 days with congressional demands to cut the deficit.

Underscoring his longstanding collaboration with the Federal Reserve Chairman—it was Connally and then Treasury Undersecretary Volcker who conspired to sever the dollar's last links to gold in 1971—Connally rejected any idea of reining in the Fed, despite predicting that if interest rates remain high, "there will be no recovery."

Rumored in Washington to be waiting to take a post in the administration if the onslaught against Reagan succeeds in forcing a cabinet reshuffle, Connally added the threat that without slashing the deficit, interest rates will remain high, produce economic and political chaos, and cost the Republicans up to 50 seats in the House and a loss of control of the Senate in November. The longtime fellow-traveler of Italy's Propaganda-2 financial networks added that "if Reagan loses his bid for fiscal restraint," the country will move "further to the left," not as "what Americans want," but as "what America gets."

Down in Texas itself, where Jim Wright's attacks on the Federal Reserve went unreported in the news media, Connally's speech was covered under banner headlines.

Senate hearings link Abscam to Billygate

by Susan Kokinda in Washington

A Senate investigation being led by Dennis DeConcini (D-Ariz.) and Orrin Hatch (R-Utah) has opened to public view the contamination of the U.S. Justice Department by showing that the networks which ran the anti-constitutional Abscam operations were identical with those which covered up the 1980 Billygate affair.

As a result of the 18-month Judiciary Committee investigation, the two Senators heard witnesses describe the connections between figutive financier Robert Vesco, the Libyan government, and various officials and intimates of the Carter administration, with the unmistakeable outlines of a Carter/Justice coverup. This operation, like Abscam, was run out of the U.S. Attorney's office of the Southern District of New York, and the same informant was used in both.

The investigation finally bore fruit when two key witnesses, James Feeney and Jimmy Day, were granted immunity to testify before the committee on March 30 and 31. Feeney und Day were both made scapegoats in the ensuing coverup and are serving prison terms. Day, a political wheeler-dealer from Texas, provided the most explosive information when he revealed that James Brewer, an FBI con-man à la Melvin Weinberg, was bringing political figures both into the Abscam net and into the Billygate/Vesco affair. Day, a principal actor in the operation with Vesco to coax the administration into releasing a number of C-130 airplanes to the Libyans in exchange for Libyan favors to Billy Carter and others, was introduced to Vesco by Brewer. Brewer also introduced Day to the Abscam "sheiks," in an unsuccessful effort to draw Day and his acquaintance, Democratic National Committee Chairman John White, into Abscam.

The detailed testimony of James Feeney, a government informant who was "hung out to dry" by the Justice Department, provided a look at previously unrevealed Justice Department machinations taking place at time the Abscam operation was initiated. Feeney had been introduced to Robert Vesco and his multiple schemes to influence the Carter administration on behalf of the Libyans in January 1979, and had offered his sevices in sending Vesco to the Southern District of New York in exchange for immunity in another case. Working as an agent for the Southern District, Feeney learned of Vesco's involvement in the Charter Oil deal involving Billy Carter and the Libyans, and in Vesco's plan to pressure the Carter administration to release planes to the Libyan government. The names of DNC Chairman John White, White House Chief of Staff Hamilton Jordan, Deputy Secretary of State Warren Christopher, and "the big man himself" were actively discussed by Vesco and his associates as being "on board" the operation.

Throughout February and into March, Feeney reported those developments in detail to the Southern District attorneys. In March, word came back from the Justice Department Criminal Division head, Philip Heymann, to steer away from the Vesco investigation and to "go after John White" instead. And so, within the very time frame that Heymann and the Southern District were steering Feeney away from Vesco and his Carter administration friends, they were kicking Abscam into high gear. March 1979 is the precise date of the first meeting between former Senator Williams and the FBI agents masquerading as Abscam sheiks.

At the March 30 hearing, Feeney's lawyer, Daniel J. Sears, reported that Attorney General Benjamin Civiletti issued a memorandum on Sept. 19, 1979 alleging that the Vesco-Carter-Billygate affair was simply a scam on the part of Day and Feeney. Sears revealed that there was no evidence collected and no interviews conducted to substantiate that conclusion on the part of the Attorney General until ten days *after* the September memo was issued.

Former DNC Chairman John White insisted to the committee that, when asked by Jimmy Day to arrange a meeting between the Libyan Ambassador to the United Nations and President Carter, he called Deputy Secretary Christopher at State to warn him of the Day scheme. But, in interviews conducted by the FBI, Christopher and two other State Department officials have sworn that White called each of them to find out how to arrange a meeting between the President and the Libyan ambassador!

Senator DeConcini was constrained from questioning Feeney about Vesco's connection to the "Black Tuna" narcotics trafficking gang in Florida because Feeney felt that his security would be compromised by speaking about this in open session.

As *EIR* has charged, the Justice Department coverup was carried out not simply to protect the President or the President's brother, but to protect the entrenched networks within Justice, the Southern District, the State Department, and elsewhere which collaborate with international terrorist and drug networks. The Senate hearings will continue. The question remains whether this investigation, or any official investigation, will take on the deeper question which has become a national security matter.

Law

Anti-drug group sues ADL and Sun-Times

by Christian Curtis,
Managing Editor, *War on Drugs*

A lawsuit seeking $70 million in damages was filed on March 8 in the United States District Court for the Northern District of Illinois by the National Anti-Drug Coalition (NADC), Lyndon H. LaRouche, Jr., the Illinois Anti-Drug Coalition (IADC), and 11 individuals associated with Larouche and the IADC and NADC. The defendants in the lawsuit include the *Chicago Sun-Times*, Illinois Attorney General Tyrone C. Fahner, seven Illinois municipalities, employees of *High Times* magazine, the organized-crime-linked Anti-Defamation League of B'nai B'rith, and the National Organization for the Reform of Marijuana Laws (NORML).

The 65-page complaint charges the defendants with an illegal conspiracy to violate civil and constitutional rights. This conspiracy, according to one of the defendants, Chip Berlet, a former contributing editor to *High Times*, had as its goal the complete shutdown of NADC political organizing activities in 10 cities and the financial bankruptcy of the National Anti-Drug Coalition organization.

Background of the case

The NADC, publisher of *War on Drugs* magazine, was founded by *EIR* Contributing Editor Lyndon LaRouche. It is the nation's most vocal proponent of an international war on drugs which centers its resources on identification, exposure, and criminal prosecution of the drug mafia and of the financial institutions, media, and politicans who support or publicly promote the drug mafia's murderous activities. Since its founding in 1979, the National Anti-Drug Coalition has been under savage assault by individuals acting at the behest of the drug mafia internationally.

According to Michele Steinberg, president of the NADC, the systematic deployment of the Anti-Defamation League against the NADC began with the NADC's exposés of the drug and pornography empire associated with Jewish gangster Meyer Lansky.

"Lansky and his associates are inimical to the best interests of Israel and the Jewish people, and the state of Israel, as well as the NADC, would like to see these persons prosecuted fully," Steinberg said. "The ADL equates an attack on Lansky or an attack on the ADL's pro-drug activities with anti-Semitism. By identifying Meyer Lansky with the best interests of Jews the ADL engages in outrageous anti-Semitism." The ADL has about as much to do with Judaism as the Italo-American Anti-Defamation League, set up by gangster Joe Columbo, had to do with the Italian nation. The ADL lies that the NADC is anti-Semitic; Colombo's group characterized any attack on Italian gangsters as anti-Italian."

Recently, the Italian government sued the ADL's bank, Sterling National, which included on its board several ADL directors, in the Southern District of New York federal court. The lawsuit implicates Sterling in the financial frauds associated with the now-jailed Michele Sindona. Sindona is notorious as a financier of drugs and terrorism through the secret Propaganda-2 organization, and was indicted in January in Palermo, Sicily, on charges of trafficking heroin into the United States.

The Illinois conspiracy

According to the NADC lawsuit, the ADL's legal team and dirty tricks squad went to work in earnest in Illinois following announcement of a major NADC membership drive in December of 1980 and two NADC events which were attended by law enforcement officials and community leaders concerned with the drug plague. According to ADL Midwest Director Abbott Rosen, who is a defendant in the lawsuit, the ADL's strategy for illegally shutting down the NADC in Illinois had the complete support of the Illinois Attorney General, the *Chicago Sun-Times*, Chip Berlet and various other journalists and municipal officials.

The lawsuit states that the conspiracy included the following elements: 1) the filing of false complaints with the Illinois Attorney General and other law enforcement officials under the Illinois Charitable Organization laws; 2) widespread publication of knowingly false defamations that the NADC was engaged in illegal fundraising activities; 3) threats to any and all public officials associated with the NADC that they would be tarred by the media as endorsers of illegal fundraising techniques and anti-Semitism if they did not repudiate the NADC in a series of articles published in the *Chicago Sun-Times*; and 4) solicitation of individual informants and provocateurs such as defendant Jay Harris of NORML to harass, surveil, and disrupt NADC organization activities.

According to a participant in the conspiracy, once these elements had been successfully implemented, the Illinois villages named as defendants in the lawsuit "had the courage" to deny the NADC solicitation permits despite the fact that they knew there was no lawful basis for this prior restraint on First Amendment activities.

The NADC responded to a request by Illinois Attorney General Fahner to register as a charitable organization in January of 1981 by stating that it believed it was a political and not a charitable organization. Nonetheless, the NADC provided the Illinois Attorney General with a complete charitable organization registration in January of 1981.

Fahner, through Assistant Attorney General Robert Tingler, who is also a defendant in the lawsuit, demanded an annual financial statement from the NADC under the Charitable Organization laws. The NADC responded in March 1981 that it had started fiscal existence in June of 1980. Even if the NADC were a charitable organization, annual reports are not due until six months after the close of a fiscal year under Illinois law.

The NADC asked for a formal ruling from the Illinois Attorney General in the same March 1981 response, that its predominantly political activities would be classified as charitable under the Illinois laws. Political organizations are traditionally denied the benefits which, under law, accrue to charitable organizations.

The NADC heard no further from the Illinois Attorney General until Oct. 11, 1981, when various statements made by Tingler appeared in a defamatory "call to action" against the NADC in the *Chicago Sun-Times*.

The NADC quickly learned that Robert Tingler and Assistant Attorney General Danita Harth had circulated a two-page letter to Illinois municipalities in August of 1981 calling upon the villages to ban NADC organizing activities. The letter states that the NADC should be banned from such activities on the basis of its failure to provide an annual financial statement to the Attorney General under the Charitable Organization laws, its failure to apply for a foreign corporation permit in Illinois, and complaints against the NADC. The only complaints referenced by Harth and Tingler are the defamatory newspaper articles generated pursuant to the illegal conspiracy. These articles state that the NADC is engaged in fraudulent solicitation because solicitors do not disclose at all times that they are associated with Lyndon LaRouche. The complaint points out that this false allegation itself is proof of a conspiracy against constitutional rights, since there is no such disclosure duty disclosed in law, and the NADC and LaRouche still enjoy the right of freedom to associate in other areas of the United States.

The Illinois Attorney General had no legal authority to establish this prior restraint on First Amendment rights. It is well settled in the United States that all such restraints must be imposed for the shortest possible period by a court of law because any prior restraint impinges on fundamental liberties. This principle would obtain even if the the allegations of the Attorney General were factual, which they are not.

The second stage

In a type of Mutt and Jeff show, the *Sun-Times* on Oct. 11, 1981, published an article by defendant Alan P. Henry accusing the Illinois Attorney General of inaction against the NADC. The article, in reality, leaks a proposed lawsuit being prepared against the NADC by the Illinois Attorney General and includes statements by Assistant Attorney General Danita Harth to the effect that the alleged anti-Semitism of the NADC is the basis for the investigation and lawsuit. The *Sun-Times* followed this with an editorial on Oct. 13 demanding that Fahner file legal action. On Oct. 16, a lawsuit was filed in the Cook County Circuit Court demanding a temporary and preliminary injunction against the NADC's activities in Illinois and the dissolution of the NADC organization.

The application for a temporary restraining order was denied by Circuit Judge John Hechinger on Oct. 23, 1981. Nonetheless, Danita Harth and other representtives of the Illinois Attorney General stated to municipalities throughout the State of Illinois that a temporary restraining order or court agreement was in effect barring the NADC's solicitation activities, according to the NADC complaint.

These unprecedented abuses by the Illinois Attorney General resulted in an almost complete illegal ban on NADC organizing activities in Illinois, as various municipalities cited Attorney General Fahner's directives as the reason why solicitation rights would not be granted.

The NADC charges that the Attorney General's lawsuit in the Cook County Circuit Court is part of the illegal conspiracy and design.

In addition to claims under the civil rights act, the NADC complaint charges the defendants with abuse and malicious abuse of process, malicious prosecution, and sets forth four additional counts of defamation against the *Chicago Sun-Times* for articles, editorials and news releases published on Oct. 11, 1981, and subsequently. The defamatory statements made by the *Sun-Times* include false allegations that LaRouche is the leader of an anti-Semite movement and that the NADC has engaged in fraudulent activities.

Under the civil rights conspiracy statute, popularly known as the anti-Ku Klux Klan Act, a deprivation of civil rights based upon an animosity toward political beliefs by the conspirators is subject to damages in the federal courts.

Congressional Closeup by Barbara Dreyfuss and Susan Kokinda

Select group formed to investigate Abscam

Forced by former Sen. Harrison Williams (D-N.J.) to agree to launch an investigation into government misconduct in the Abscam frameup and related sting operations, the Senate voted March 25 to establish a Select Committee to conduct such an inquiry. Williams won this Senate commitment after he and Sens. Daniel Inouye (D-Hawaii) and John Melcher (D-Mont.) focused the Senate floor debate on Williams's entrapment into a discussion of the threat Abscam poses to constitutional government.

The resolution establishing the Committee, S.350, states that it will be looking into allegations including "improprieties in the formulation and conduct of the so-called Abscam undercover operation . . . the allegation that in the Abscam operation attempts were made to create improper conduct on the part of certain persons . . . questions of possible prosecutorial misconduct . . ." and the "pattern of illegal or improper targeting and investigative techniques utilized."

Whether the Select Committee carries out its mandate and gets to the bottom of Abscam will depend on constituent pressure.

The Committee will consist of four members from each party. The Democrats, announced the same day that the resolution was adopted, are Senators Inouye, Walter Huddleston (D-Ky.), Patrick Leahy (D-Vt.), and Dennis DeConcini (D-Ariz.), who has been actively investigating other dirty operations of the Carter Justice Department (see article, page 57).

The Republicans announced March 29 are Sens. Charles Mathias (R-Md.), James McClure (R-Idaho), Warren Rudman (R-N.H.) and Alan Simpson (R-Wyo.).

House questions FBI-DEA reorganization

The House Judiciary Subcommittees on Crime and Civil and Constitutional Rights and the House Select Committee on Narcotics held hearings March 29 and 30, respectively, to examine the FBI-Drug Enforcement Administration reorganization which has given the FBI increasing responsibility and oversight for drug law enforcement. A number of Congressmen expressed "serious concerns" about the reorganization, which put FBI agent Mullen as acting Administrator of the DEA, abolished DEA regional offices, and made the DEA accountable to the Director of the FBI rather than the Attorney General. Civil and Constitution Rights Subcommittee Chairman Don Edwards (D-Cal.) began the March 29 hearings, noting that they came in the context where "many people have real concerns that FBI people have been out of control and have damaged innocent citizens, particularly in their undercover operations such as Abscam."

The National Anti-Drug Coalition led by associates of *EIR* founder Lyndon LaRouche, recently issued a paper strongly critical of proposals to tie the DEA more closely to the FBI, criticisms echoed in the hearing. The NADC questioned the FBI's competence, considering its record in Abscam, and raised the fact that the FBI has no authority abroad, making it difficult to conduct serious investigations. Thirdly, since previous reorganizations of various agencies have taken years to become effective, there could be a crisis in law enforcement in the anti-drug field.

Associate Attorney General Rudolph Giuliani, who appeared before the committees with FBI Director William Webster and FBI agent Francis Mullen, testified that the reorganization was carried out in order to bring the resources of the FBI and its "expertise" in long-term surveillance, and in financial investigations of organized crime, into the drug-enforcement effort. Giuliani noted that "the FBI has encountered increasing drug-trafficking violations coincident with its involvement into public corruption. . . ."

Leo Zeferetti (D-N.Y.), the Chairman of the Select Committee on Narcotics, called for preserving the "integrity of the DEA as our lead drug-enforcement agency. . . . We are concerned that the involvement of the FBI in drug enforcement not so envelop the DEA as to jeopardize the essential relationships of the DEA with other government agencies and governments abroad." Bill Hughes (D-N.J.), Chairman of the Crime Subcommittee, asked why a task-force approach would not have sufficed to increase cooperation between the DEA and FBI, adding that every time a reorganization occurs "drugs enforcement efforts are set back substantially because of morale and other problems.

While Webster and other witnesses could not clearly delineate how changes in personnel and policy and in the chain of command would work in joint operations between the FBI and DEA, Webster tried to reassure committee members that the DEA remained its own agency. "All the vital organs remain intact," he claimed.

Congress sets new round of Euro-bashing

Several Senators are planning to stage another round of attacks on our European and Japanese allies for allegedly refusing to shoulder their fair share of the West's defense burden. The spectacle, schedule tentatively for April 22, will coincide with the West German Social Democratic Party Congress in Munich and could undermine the efforts of Chancellor Helmut Schmidt to stay in office.

According to aides to Senate Majority White Ted Stevens (R-Alaska), the Senator will chair hearings in the Defense Appropriations Subcommittee of the Senate Appropriations Committee on whether the United States should continue to maintain troops in Europe. In March, Stevens announced that he was considering legislation to pull all or part of the U.S. NATO force home and "force the Europeans to defend themselves."

"He is still damn angry and frustrated," said an aide of Stevens. "Our thinking is that we want to give the boys a chance to bash the Europeans, and especially the Germans, real good."

Other sources report that should Stevens go so far as introducing actual legislation, it will call for withdrawal of funding for two additional divisions agreed to be placed in Europe, rather than withdrawing troops. Aides to Stevens confirm that there is a desire to go after the Japanese, as well

Senate sustain's President's veto of Oil Emergency Bill

The Senate sustained President Reagan's veto of the Standby Petroleum Allocation Act March 24, falling five votes short of an override. The Act, drafted by Sen. James McClure (R-Id.) was a replacement for the expired Emergency Petroleum Allocation Act and would have given the President authority to implement, or not implement, an emergency allocation system in the event of an oil crisis.

The President vetoed the bill on the grounds that in a crisis the free market could best allocate scarce resources. While the President and a number of Republicans are pushing the free-market approach for ideological reasons, the major oil companies and Eastern Establishment think tanks are also backing this approach. As Sen. James Exon (D-Neb.) warned on the Senate floor, in the event of an oil crisis "I would suggest that the term 'free market' merely means that Big Oil is free to do whatever it wants to do."

The key backers of the free-market approach in the Senate are not conservative Republicans, but liberal Democrat Bill Bradley (D-N.J.) and liberal Republican Charles Percy (R-Ill.), an in-law of the Rockefellers. An aide to Percy, who is often called the Senator from Standard Oil of Illinois, indicated that another benefit of the free-market approach is that many independent oil companies and small companies that "do not have any business being here" would be bankrupted.

Senate committee blocks the MX

The Senate Armed Services Committee, meeting in closed session March 29, decided against any interim deployment of the MX missile in existing silos, according to Capitol Hill sources. The full committee apparently has accepted a subcommittee report to eliminate the $2.2 billion requested by the administration to deploy the first nine MX missiles in existing Titan II or Minuteman silos.

On March 23, the subcommittee on Strategic and Nuclear Theater Forces voted 9 to 0 to withdraw the funds in the 1983 budget for MX deployment.

The key Senator who has been lobbying for cutting the interim MX deployment, Gary Hart (D-Colo.), is one of the heads of the Reform Caucus in Congress which includes a number of outside defense analysts, particularly those at or working with the ostensibly conservative, Washington-based Heritage Foundation.

Hart and his associates oppose the MX interim deployment because they are trying to reorient U.S. defense strategy, focusing it around conventional weaponry. Capitol Hill observers believe that Hart will try to use the MX action to begin a debate on strategic weaponry generally.

National News

American churches used to build peace movement

The American Friends Service Committee and Pax Christi, an American Roman Catholic peace organization, are leading national coordination of the nuclear-freeze movement in the United States.

The Rev. Leroy T. Matthiesen, Bishop of Amarillo, Texas, launched the peace movement in Houston March 28 with a speech scheduled for the Dope, Inc. de Menil family's Rothko Chapel, which hosted the Muslim Brotherhood last October. Matthiesen claimed that the debate within the Catholic Church is whether to extend the Vatican II prohibiton against "indiscriminate weapons" to include the possession of *any* weapons, thus eliminating the conception of a "just war." Matthiesen quoted theologian Romano Guardini, who called humanity's greatest moral problem "controlling the technologies it has created," not the issues of human life and development that Pope John Paul II has repeatedly stressed.

The American Friends Service Committee, which runs terrorist recruitment in America in the guise of the prison-reform movement in New England and the Northwest, is coordinating a petition drive in New York and New Jersey congressional districts to collect 5,000 signatures per district supporting the nuclear-freeze campaign.

Population controllers praise Buckley

Population control and global-environmentalism advocates Sen. Clairborne Pell (D-R.I.) and Rep. Don Bonker (D-Wash.), Chairman of the House Foreign Affairs subcommittee on Human Rights and International Organizations, heard effusive praise for Undersecretary of State James Buckley at subcommittee hearings March 30 on the "state of the international environment 10 years after Stockholm."

Bonker, who chaired the hearings, noted that he was "just as frustrated" during the Carter years "because of the "institutional problem" at the State Department of lack of concern for global-environmentalist issues such as ocean dumping, the "earthwatch" on global pollution, overpopulation, and the whales, among others. "If not for you," Bonker told Pell, "and the man that follows you in testifying today [Buckley], we would not have gotten the commitment for UNEP [United Nations Environmental Program]." "You don't know how good it is," Pell responded, "to have a strong advocate in Secretary Buckley."

The greatest concern Pell expressed was that because of the seabed mining provisions, the United States would not sign and ratify the Law of the Sea treaty. "We'd lose all the environmentalist protections in the treaty too," Pell moaned.

Haig sends Walters to consult with Willy Brandt

Secretary of State Alexander Haig has dispatched his special assistant, the Propaganda-2-connected Gen. Vernon Walters, for high-level discussions with the leadership of the Socialist International, meeting in Bonn in early April.

According to a source with extensive contacts in the State and Defense Departments, Haig ordered Walters to fly to Europe immediately after the March elections in El Salvador. Haig reportedly wants the Socialist International, acting through its chairman Willy Brandt or some other prominent figure, to "bail the United States out of the hole it has dug itself in Central America." Walters, who has been focusing on the Central American situation, also briefed France's Socialist government.

This latest revelation of Haig's collaboration with the Socialist International came as the U.S. press covered the plans for riots against the June NATO summit in Bonn. The demonstrations, organized in part by Brandt's Socialist International networks, are aimed at weakening the government of Chancellor Helmut Schmidt.

In a front-page feature article in the *Boston Globe,* reporter David Nyhan predicts that the June 10 demonstration will be larger than last October's 300,000-person demo in Bonn. It will also be violent, writes Nyhan, because demonstrators will attempt to capture the attention of the world's media, especially U.S. television.

Congressional candidates announce on East Coast

Two Democrats supported by the National Democratic Policy Committee (NDPC) of Lyndon H. LaRouche, Jr. announced their candidacies in this year's congressional races the last week in March.

Lawrence Freeman, former Southeast Coordinator of the NDPC, is running against Parren Mitchell in Baltimore's 7th C.D. Freeman stated that he was dedicating his campaign to preventing Baltimore, one of the most highly industrialized cities in the United States, from "turning into a new post-industrial center." Mitchell has consistently supported drug liberalization, population control, and related policies, rather than industrial expansion.

Fernando Oliver, former New York-New Jersey Chairman of the National Anti-Drug Coalition, announced his candidacy for the 21st C.D. in New York's South Bronx March 31. The incumbent, Robert Garcia, is co-sponsor with New York Rep. Jack Kemp of the free enterprise zone bill designed to open devastated areas of American cities to Hong Kong-style sweatshops. Garcia is also sponsoring H.R.2642, a bill proposing the legalization of use of heroin for terminally ill cancer patients.

Oliver is heading a slate of candidates including 15-year veteran New York State Assemblyman Armando Montano.

Oliver led an NDPC group which intervened at a Community Conference on American Foreign Policy, an organizing vehicle for the nuclear-freeze movement, held at Columbia University on March 28. Oliver told the 700 participants, which included Rep. Ted Weiss (D-N.Y.) and representatives of SANE, the Russell Sage Foundation, and the Council on Foreign Relations, that the issue of war is the issue of industrial collapse and genocide as proposed in the Carter administration's *Global 2000 Report.* He quoted extensively from peace-movement founder Bertrand Russell's 1924 work, *The Future of Science,* in which Russell declared that science was allowing "uncivilized races" to proliferate, and advocated "a world government" to make "subject races" "less prolific . . . to solve the population question."

Space Shuttle: flexible and highly reusable

The third test flight for the Space Shuttle orbiter Columbia which ended on March 30 after eight days in space accomplished all of the primary engineering and scientific objectives of the mission. Spokesmen for the National Aeronautics and Space Administrtion (NASA) termed the mission 100 percent successful and are now fully confident that the new Space Transportation System will provide a frequent easy access to space.

The thermal-stress tests on the orbiter—pointing its nose, tail, and payload bay toward and away from the Sun—provided NASA technicians with a good picture of how the vehicle responds to temperature changes. As expected, one of the payload bay's 32 latches warped from the cold, but reformed when it was pointed toward the Sun for 15 minutes.

Preliminary results from the scientific experiments aboard the Shuttle promise important data in solar physics. It was found that the electromagnetic and radio frequency environment created by the Shuttle in space is benign, and will not interfere with future scientific instruments to be flown in the payload bay.

The Remote Manipulator arm was exercised for about 30 hours and accomplished all its objectives, including grappling and waving around a package of instruments.

In a post-flight press briefing, flight director George Page announced that due to minimal tile damage and the overall improved performance of the Columbia the fourth and last test flight has been moved ahead 10 days to June 28. President Reagan has accepted an invitation to be at the landing on July 4.

Steel to re-open national contract?

Steel workers are likely to be the next section of the American labor movement to be forced into reopening their contract early and granting large "givebacks," including wage cuts on a UAW scale, to the steel companies. U.S. Steel Chairman David Roderick told a March 29 gathering of the Economic Club of Detroit that the eight companies which comprise the "major steel" bargaining unit are in dire need of reduced labor costs, and cannot survive the "Japanese challenge" without reopening the current contract with the United Steelworkers. Normally, the contract would not expire until August 1983.

Union headquarters denies that it has been approached for early renegotiations by the companies, and says that they expect the present pact to be enforced.

However, as in the case of the autoworkers, who sold contract givebacks to the membership by avoiding mention of the cause of their industry's problems—high interest rates, not labor costs—the steelworkers' union is also avoiding a political fight with the Federal Reserve, and seems to be acclimatizing its members in preparation for the kinds of measures U.S. Steel's Roderick called for March 29. On that and the following day, the union took out full-page ads in a dozen newspapers, which attack high interest rates and the "purposeful recession," but instead of blaming Paul Volcker's policy of usury, blamed President Reagan.

Briefly

● **THE ITALIAN-AMERICAN** Committee of New York City heard Italian President Sandro Pertini on March 31, who stressed his nation's concern with preservation of détente and development of the Third World. Pertini called the rescue of NATO General James Dozier from the Red Brigades an international victory, because, he said, terrorism is being deployed against Europe by international networks.

● **PRESIDENT REAGAN** sent a letter to Austrian Prime Minister Bruno Kreisky in March stating that he opposes further U.S. participation in the International Institute of Applied Systems Analysis (IIASA). Kreisky, a Socialist International leader, had urged Washington to maintain its $1 million annual government contribution. IIASA was established 10 years ago by Club of Rome officials Alexander King and Aurelio Peccei, with the support of Djermen Gvishiani, a leading Club of Rome sponsor within the U.S.S.R.

● **CYRUS VANCE, JR.** and Robert F. Kennedy, Jr. will become assistants in the Manhattan District Attorney's office headed by Robert M. Morgenthau.

● **CARL R. AJELLO,** Connecticut's Attorney General for the past eight years, will soon join Saxe, Bacon & Bolan, the New York law firm of mob attorney Roy Cohn. Mr. Ajello will open offices for the firm in Hartford and Stamford, Connecticut. Mr. Cohn acknowledged that the new addition is "controversial" because of suspicious business transactions, but noted that he "has a lot of friends."

● **RON DELLUMS** and Parren Mitchell, Democratic Congressmen from California and Maryland respectively, were among the sponsors of a March 27 demonstration to protest the U.S. presence in El Salvador. Speakers also included Rep. Barbara Milkulski of Baltimore.

Editorial

Time for a real oil policy

Speaking in late February at our Houston conference on the water resources crisis, *EIR* founder Lyndon H. LaRouche, Jr. put forward an outline proposal for the role of the U.S. oil majors in solving the second great resources challenge of the 1980s: the energy crisis.

An equitable price for oil and a healthy rate of crude production can once again be realized, said LaRouche, on the basis of new, bilateral treaty arrangements between the American multinationals and the producing nations in the developing world. These treaties would emphasize a commitment to the near-term switchover of the world economy to a nuclear-energy base, and the use of world oil supplies for the buildup of petrochemical industries. That switchover can be accomplished, LaRouche stressed, only within the context of a policy of low interest and plentiful credit for development and trade.

LaRouche's proposal, first developed during the energy crisis-wracked 1970s, is particularly timely at this moment, when the same City of London-centered forces that subjected the world to gas lines and tripling of energy prices since 1973 are preparing to deliver a third oil shock to the world economy: a price drop of \$5 to \$15 a barrel, a halving of the world oil price.

The push for lower oil prices—which prompted *EIR*'s cover story this week—caught many by surprise, especially after years of being told by the multis, their banks, and their think tanks that the world does not have enough oil. However, the high-interest-rate regime of U.S. Federal Reserve Chairman Paul Volcker, on top of a decade of oil-price jack-ups, has created an oversupply relative to diminished demand, referred to in the press repeatedly as an "oil glut," allowing the London-dominated multinationals to dump stocks of oil onto the Rotterdam spot market at prices below those established by the OPEC producers. Continued dumping can, and will, lead to an oil crisis in reverse: the plummeting of energy prices internationally.

What does London have to gain from a third shock to world energy-pricing structures? The price hikes of the 1970s not only redounded to the financial advantage of such London-dominated institutions as Chase Manhattan and Citibank, which were flooded with petrodollar deposits. The first two shocks satisfied the more important strategic goal of the energy-price manipulators as well; this goal, detailed in the *1980s Project* reports by the New York Council on Foreign Relations, was the "controlled disintegration" of the world economy.

What London hopes to gain from the third energy shock are the final steps in this controlled disintegration process: the broad-scale depopulation of the Third World, and the breaking of the OPEC cartel as a force in the world economy. A collapse in world oil prices will swiftly accomplish these objectives. It will collapse the revenues of developing-sector oil producers, principally Mexico, Nigeria, and Indonesia and force abandonment of these nations' development programs. It will break OPEC, one of the last remaining counterpoles to London's complete domination of world energy supplies.

The seriousness of the threat of a third oil shock was indicated March 26, when the Saudis, who had issued a stern warning against British Petroleum's attacks on OPEC-member Nigeria's sales position at the cartel's meeting a week before, reprimanded the British multis in stronger terms than ever before. The Saudis announced that any oil company which continues to cut its purchases of Nigerian crude will be subject to an embargo of direct and indirect sales from Saudi Arabia.

The strong tone of the Saudi warning is a good indicator of the ferocity of the British-led attack against OPEC, an attack which can be expected to continue unabated. If this attack is successful, a further consequence of the third oil shock and the disintegration of OPEC, whose dollar surpluses have provided the critical margin of liquidity to an overextended world monetary system throughout the 1970s, will be a global banking crisis that the managers of controlled disintegration will find quite uncontrollable.