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Executive Intelligence Review

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EIR

From the Managing Editor

There is an atmosphere of shame and fear, not triumph, in Washington, following the Senate and State Department actions at the end of April to subjugate the United States to British neo-colonial aims. Few legislators are as brazen as the Queen's cousin, Sen. Malcolm Wallop of Wyoming, who instructed his colleagues to behave like the Tories in the House of Commons. A great deal can be done to bring Capitol Hill to its senses.

Under the Monroe Doctrine the United States was automatically placed on a war footing against the invader last month as the British fleet moved into the Western Hemisphere. Unless the Monroe Doctrine has been revoked by due process, the Senate's vote to support Britain had no binding power: it was a roll call of those seeking to give aid and comfort to the enemy, a proclamation that the Senate is no longer an authentic American institution.

This, of course, is the same Senate which has tolerated Paul Volcker while industry came crashing down around the nation. And now Capitol Hill remains oblivious to the financial warfare that could bring down international banking as well. Under the present system there is not enough liquidity worldwide to cover the debts of major borrowers this year. Maneuvers and counter-maneuvers over the Argentine debt are conditioned by the battle among creditors over who will be hit by bad loans. The Swiss, comfortably hedged in gold and real estate and the British oligarchy, with its raw-materials control, expect to remain unscathed in the chain-reaction horrors that would engulf the world economy as a whole in the event of a debt panic.

Congress has another option: in our International section, we present *EIR* founder Lyndon H. LaRouche's outline, which he is currently discussing in India, of the way "East-West" and "North-South" economic and diplomatic relations should be conducted. The historical sections of our Special Report will show you how the Founding Fathers carried out that approach.

Susan Johnson

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Swiss to preside over global financial panic

by Laurent Murawiec, European Economics Editor

As part of Her Majesty's government's campaign to break the back of recalcitrant inferior races, the favored weapon of financial warfare is being deployed from London as a principal tool of belligerence. Argentina's foreign-exchange reserves are rapidly dwindling, roll-overs are less and less frequently accepted and renewed, and no fresh money is coming in; only confirmed lines of credit generate fresh cash, which the hard-pressed Argentinians, fearful of defaulting on their foreign account, remit to their creditor banks' accounts in Zürich and the New York International Banking Facilities.

The plug has not been pulled—until now. It may be in the coming days. Not only is Argentina exposed, but the rest of Latin America has been badly affected by London's financial warfare, and the uncertainty factor created by the Malvinas crisis. Even reckoning with the obvious element of psychological warfare included in such disclosures, an article in the *Times* of London on April 27 made a point of stressing that "the crisis has served to highlight the present economic problems of the debt-ridden Latin American economies and make bankers reassess their lending policies. . . . To some extent, banks were already beginning to draw in their horns before the latest crisis erupted. . . . There are signs that the ability of . . . Latin American borrowers to raise credit has also been harmed.

"Banks . . . may precipitate the very crisis they are seeking to avoid if they cut back on lending," the London daily adds, concluding that "confidence in sovereign

borrowers from the East bloc to Latin America has been badly shaken over the last year."

Argentina, indeed, *could* default. As a matter of fact, London sources confirm that a fair number of banks are not being paid by Argentina. The ties that link borrower and creditor operate both ways. Whether this will be a *de jure* default called by one or a group of banks, or the piling up of arrears which will push the banks beyond the threshold of failure, is a secondary question. "The accounts of the big American banks, end-1981, are essentially fictional," a distinguished British banker stressed in an interview, while admitting that the City of London was no less able to produce fiction than the average U.S. bank auditor.

The whole banking system is at risk. The nine largest U.S. banks' combined loans to Argentina, Brazil, and Mexico represented 127 percent of their capital one year ago, and probably upwards of 150 percent by now, without taking the short-term loans rolled over on a routine basis into account.

'Parallels with 1931'

This scenario is common currency throughout the international banking community. It has even reached the level of the daily press when London's *Daily Telegraph*, prompted by hysterically fearful comments of David Rockefeller, printed an editorial feature entitled "Why Argentina Could Bring Chaos to World Banking—Parallels with 1931." The piece, authored by Prof.

Brian Griffiths, influential private adviser to Margaret Thatcher and Geoffrey Howe, presents the chain-reaction, or domino effect, of Argentinian default: failure of the largest American and British banks, including Lloyds and Barclays, at which point 15 years of world economic crisis would come together in the day of reckoning, just as in 1931. An immense mass of financial paper, in this view, gets written off at one fell swoop. International banking authorities, the International Monetary Fund (IMF), the Bank for International Settlements (BIS), and the central banks then take over the failed banks, and, as the author told me in regretful tones, "there is no free-market solution to the crisis."

In fact, in the words of one leading European central banker, "none of the [financial] trouble-spots alone can start the disaster by itself, but all of them together will. Take the Malvinas crisis, plus a Middle East crisis, general instability—and the system goes."

What is summed up above could be called the exoteric version of the unfolding financial crisis. The more esoteric aspect was aired for a more restricted audience a few weeks ago when Swiss Central Bank head (and new chairman of the BIS) Fritz Leutwiler told a German audience that the international official institutions would have to step in to stop an international financial-monetary disaster. The *Neue Zürcher Zeitung*, house organ of the Basel-Zürich banking community, was the only daily paper in the world to report these words of warning.

In truth, the speech of Dr. Jelle Zijlstra at last autumn's Washington Per Jacobsson lecture was a writing on the wall for even the very myopic: the central bankers' coordinator warned that the anarchy in the monetary system could only be remedied by some return to gold.

"Austria, Switzerland and Luxembourg" will be the only surviving banking centers controlling the world's credit flows when the dust has settled, Professor Griffiths contends in the *Daily Telegraph*, and so do representatives of the old continental European *fondi*, the oldest and largest fortunes in the world. A leading Swiss official's view of the situation is that "there are developments that nobody can control any more, and of such magnitude that nobody can find a way out. The situation is one of chain reaction. Whatever the origin of the problems, the situation is worsening. Nothing of what is being done seems to have any effect, be it monetary, financial, or economic."

The conclusion drawn by the managers of the *fondi* was described thus: "They are hedging and super-hedging. In the general bankruptcy reorganization of the system, the slow-footed ones will be caught, while precautionary action has already been taken by those who can. The *fondi* are practicing a reasonable form of insurance, a safe nest egg in stores of value, into which

a lot of money is flowing, while the Euro-markets will *evaporate*. . . . The City of London will not positively disappear—it will not suffer more than the system as a whole. After all, it is a convenient logistical and accounting center. But lots of banks will disappear."

Policy of triage

The central question being asked, discussed, and acted upon at present, is this: which countries will be written off, which banks, which currencies? Instead of everybody's paper being written off by 30 or 50 percent, the effort of the *fondi* is to force 30 or 50 percent of the world's nations, and population, to shoulder *all* of this gigantic depreciation! "It is all a question of repartition, of distribution," a top European central banker said, and added "that the international debts will *never ever* be paid back is not a hypothesis, it is a certainty." Hence the policy of triage.

With a \$1.7 trillion Eurocurrency market, which has lost any reasonable correspondence with either its own deposit base or the wealth produced in the world economy to substantiate such a mass of paper, the 'triage' needs indeed to be gigantic. Whole institutions which have been functioning in part as the instruments of the oligarchy's *fondi*, are now collapsing, starting with the Euromarkets, and including the City of London, the IMF, the New York banks, and the confetti-money banks known as "offshore" centers.

While tears could be spared for these, the problem is that they threaten to bring down world trade in their own fall. The very fabric of world trade has been unraveling for some years now, under the combined effects of markets, trade embargos, and other Malthusian policies. Shocks have rammed into the structure of world trade and shattered it: Latin America today, shortly after the East bloc, and the Middle East tomorrow, each "geopolitical" shock provoking yet another contraction.

At present, world trade stands on the edge of something infinitely worse: the currencies in which it is conducted, the banks which fund it, are on the verge of disintegration.

The *fondi*, which have bought extensive land holdings, gold stocks, and highly diversified (geographically as well as economically) assets, from South America to virgin lands in Canada or Australia, hope that they have this process of disintegration under control, and that the financial centers under their control—those of what they consider is the undying Holy Roman Empire, whose continuity has not been broken in their eyes—Geneva, Zürich, Basel, Luxembourg, Brussels, and Vienna, will rule the waves once the rest has sunk. The finger on the nuclear button, they explain that once the chain reaction has started, they'll bunch the neutrons together as they please.

Fed describes the Swiss plan

Excerpts from an April 26 EIR interview with an official of the New York Federal Reserve:

Q: What will happen if banks go under?

A: There are a lot of people around in very high places who are very worried, I can tell you that. There are a lot of places in the world which are very unsafe to lend to. If you were a banker with surplus funds, where in the world would you go today? Why, even major U.S. corporations are going under one by one. You can yell and scream about problems abroad, but there are some pretty big ones here too, major bankruptcies.

This is serious. You know, two weeks ago I told you there'd be shooting and the Argentines believed otherwise. Who knows how far their stupidity will lead?

It doesn't surprise me that high U.S. and British bankers are going to the press and saying "Gee, this is really serious." It *is* really serious. Nobody knows what the consequences of this [the Malvinas crisis] are yet. Nobody knows exactly what to do.

The problem is that the commercial bankers are aware that their own action can precipitate exactly what they fear. They are cautious, which means not opening any new commitments with suspect countries, although trying to roll over everything coming due, including from suspect countries. But if they create this atmosphere of fear, and cut lending too much, they might create a situation where their own fears become real, where a number of countries could be forced to the edge. The problem is that commercials' tendency is not to make the hard decisions until they have to be made, and that time may be approaching. They've made all those loans, and a lot of them were bankrupt, but no banker ever called default. . . . The idea of calling Argentina or Poland into default might not be as disturbing to a central bank.

A national monetary authority could decide to do that on a regulatory basis. There are central banks now which are very conservative, who have been warning for some time now that international lending has ballooned too far, and banks are overextended, that countries cannot pay their debts and are borrowing too fast, and these conservative central banks would like to put some rules in place and clamp down on international lending.

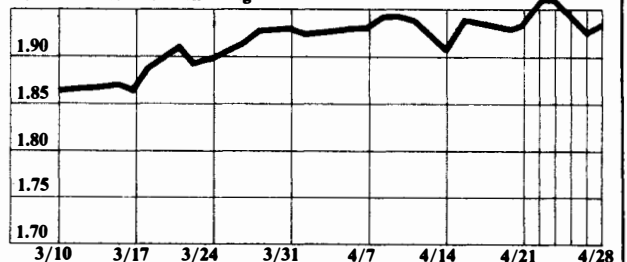
Q: You mean the Swiss National Bank? Or Henry Wallich?

A: No names. Figure it out. But there are conservative central bankers who feel that they have lost control over bank lending and want to exert control over the banking system to reduce world lending. . . .

Currency Rates

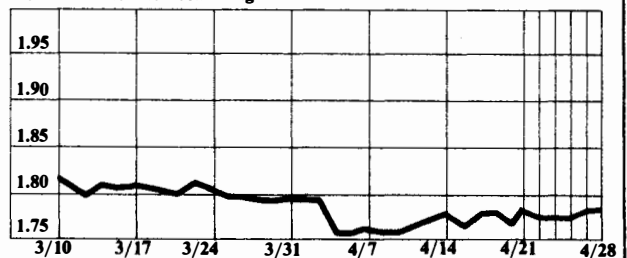
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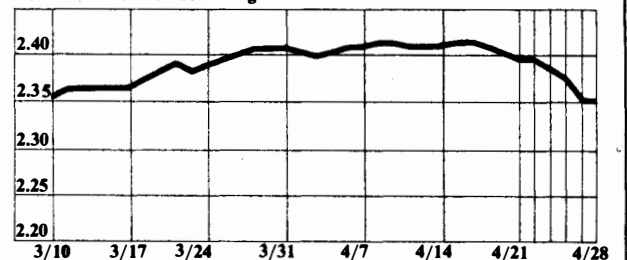
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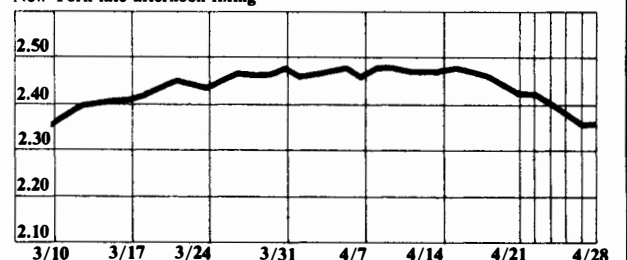
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The anatomy of a Euromarket crash

by David Goldman, Economics Editor

Basel-based central banking sources, who declined to be identified by name or institution, report an extraordinary shift in the marginal movement of funds in the \$1.7 trillion Eurodollar market, the market for claims on American dollars or other currencies held outside their national markets. During the two years following the late-1979 doubling of oil prices, what Europeans call the "second oil shock," the investible surplus of the Arab nations poured into the Eurodollar market. Deposited in Eurodollar banks and later re-lent as Eurodollar loans, these OPEC surpluses (or spare cash after payments for imports) to a certain extent compensated for the immense burden the higher oil prices had placed on the world's poorer nations, including both the developing sector and the less-well-off nations of the industrial world.

In 1980 the surplus peaked at \$110 billion, and is estimated to have been in excess of \$75 billion last year; the average surplus for 1980-81 was, to give an idea of the importance in world financial balance, about equal to the average deficit of the developing nations (in the International Monetary Fund's definition for the same two years). That is not to say that the OPEC surplus as such was lent to the developing nations, but that it increased the deposit base of the Eurodollar market to roughly the same extent that the lending requirements of the market grew with respect to the deficits of the underdeveloped nations.

As *EIR* has reported, and has been widely discussed, the OPEC surplus will dissolve this year due to the halving of demand for OPEC oil from peak 1979 levels and the drop in the oil price; starting in the last half of 1981 no further OPEC contributions were available to the Eurodollar market, and bankers in European money centers report substantial net withdrawals from OPEC depositors. Various monetary authorities have been asking why, in fact, the Eurodollar banks have kept lending, and why the entire underdeveloped sector has not gone bankrupt. Apart from politically originated problems, such as the current Argentine situation, the Third World has been borrowing essentially all the debt payments it makes back to its creditor banks.

The recycling process has broken down on two grounds, central bankers with access to detailed information on the state of Eurodollar activities report. First, the surplus is no longer there; and secondly, the banks which had been absorbing the surplus and re-lending it are no longer willing to do so. After the November 1979 American seizure of Iranian assets, Arab depositors began to avoid putting new funds into American banks, preferring Arab banking institutions, which rapidly became a major force on the international markets as a result, and Japanese institutions, who underwent their biggest growth period since they first entered the Eurodollar arena. That is far from saying that the Japanese or Arab institutions took all the risk of "recycling" Arab deposits back to Third World borrowers. Much of the primary OPEC deposits they received were off-lent, through the interbank market, to American institutions. Nonetheless they became the decisive force in lending to the underdeveloped sector during 1980.

Now these institutions have pulled back sharply. "It is not so much a matter of whether the Arab dollars are there or not," one central banker said. "Rather, the point is that no bank will now lend good Arab dollars to already bad debtors." Specifically, the Japanese and Arab institutions stopped lending heavily, while the Germans pulled back substantially. A director of one large German bank said, "It doesn't matter to us whether our central bank tells us to stop lending to the Third World or not. We're stopping on our own." A Swiss regulatory official says that Swiss banks have been virtually out of the market for new loans to developing countries for the past two years.

U.S. funds replace OPEC's

The entire difference has been made up, unbelievably, by the large American banks, the same institutions who have cried most loudly during the past two years that they cannot afford to keep increasing their exposure. Despite warnings from senior Federal Reserve officials, including repeated admonitions from Federal Reserve Governor Henry Wallich, the American banks put an additional \$30 billion net into the Eurodollar market during the second half of 1980, replacing the flow of OPEC funds lost, according to a top central bank economist working out of Basel. "This represents an enormous amount of credit creation from the United States, and an enormous risk," the official added. The flow has continued at roughly the same rate during 1982 so far, preliminary data are reported to indicate.

That the United States should become a massive exporter of capital at a point when its own internal demand for funds has grown enormously, due to both corporate as well as government deficits, is all the more extraordinary. "The United States, however, has a two-tier credit system," the central banker explained. "Even

though many traditional credit users are starved for funds, the major money-center banks are continuing to export loans, as a result of the severe and continuing recession. As for the federal government, it will have to be financed through the recession, which eliminates credit demand in the economic base."

From the balance sheet standpoint, such continuing commitment to financing the Third-World-Lending side of the Eurodollar market might appear to be an act of pure insanity. The Eurodollar banks will have to write off between 3 and 4 percent of their total balance sheet during the next few years, according to a highly sophisticated estimate made available by central banking sources to *EIR*. However, the capital cover of the Eurodollar banks, including that assigned to foreign branches and subsidiaries by American banks, represents less than 1 percent of their balance sheets. Whenever the ice-dam breaks, the banks will be shown to be bankrupt. That the American banks, the most exposed of all the national banking sectors, should increase their exposure is a matter of great surprise. That it has passed without comment, thus far, is not difficult to explain; rather than syndicating public loans, the banks are simply lending short-term funds to debtor countries to enable them to roll over old debt service payments.

However, short of letting their debtors default, the banks have no choice but to continue financing them. The only really remarkable thing is the extent to which the American banks have been left holding the bag, as befits senior creditors. Since the Federal Reserve is not adding sufficient reserves to the banking system to finance the operation through traditional banking means, the Eurodollar banks are applying the equivalent of what is called "creative financing" in the Eurodollar market to this problem. That is, they are manufacturing money out of thin air.

Take the following hypothetical example: Brazil owes Citibank \$100 million, and can't pay. Citibank goes onto the interbank market, the market for funds between commercial banks, and bids for \$100 million in deposits (which Citibank could obtain in about 20 minutes). It then lends these funds to Brazil for six months at 1.5 percent over its own cost-of-funds, or London Interbank Rate (LIBOR). Brazil immediately pays the \$100 million back to Citibank, which then repays its depositors. On paper Citibank may even show a profit, although the whole operation represents what Adam Smith, in his day, fondly called "kiting of cheques."

'Kiting cheques'

Of course, no such soap-bubble can go on forever; when the banks' political pressures on Third World nations to reduce their imports to free up funds for debt service, an exercise which central bankers admit freely

cannot produce substantial amounts of money, go overboard, political crises erupt, and debts stop being paid, as the Argentine crisis appears to threaten. At this point the banks cannot keep "kiting cheques," and can do one of three things:

- 1) close their doors;
- 2) persuade the central banks to buy their utterly worthless paper from them at something close to par value; or
- 3) declare their own debt moratorium.

The third option has attracted considerable attention in the past several weeks. American bank management is considered stupid, but not stupid enough to ignore the sort of elementary tricks that every garment-center operator who has gone bankrupt in favor of his brother-in-law knows. In this case the following scenario is under review at a number of leading regulatory institutions: The American banks book loans to the Third World not through their head office but, say hypothetically in the case of Chase Manhattan, through a British bank, Chase Manhattan, Limited of London, which happens to be 100 percent owned by Chase Manhattan. Whether Chase Manhattan, Limited is in fact a branch of Chase Manhattan, or merely a British Bank in which Chase has an investment, is a question that is easily answered in fact, but not easily answered in a court of law.

The American loans, done through various such "investments" in banks in London, or the Cayman Islands, or heaven knows where, would be funded through the interbank market, as noted above. The banks would not be so stupid as to put their best deposits from their best customers, say Exxon in the case of Chase Manhattan, onto the books of the same subsidiaries who hold the worst loans, say to the Third World. Exxon's deposits would be held in New York, presumably at the "International Banking Facility" Chase set up late last year. Should the Third World bubble go, Chase would regretfully write off the capital it invested in its foreign subsidiary which fell victim to the bust, a negligible sum, and regretfully announce that it could not take responsibility for its deposits! The possibility for such a chain reaction collapse of the interbank market was a major theme of the Bank of England's September 1981 *Quarterly Review*.

A senior official of Chase Manhattan, Limited in London, who asked not to be identified, said, "Technically we could indeed do that, but it would be immoral and unethical."

The result would be, however the technicalities worked themselves through, the elimination of an international market for lending as such, and retrenchment into national markets linked through heavily controlled exchanges, something like central Europe in the 1930s, with devastating consequences for world trade.

plan was originally devised by the California Parsons Company engineers to benefit all three North American countries, and *EIR*'s economic analysis confirms that it would have this effect.

NAWAPA provides 250 million acre-feet of usable water per year, 20 times the annual consumption in Canada. This water would be collected from Alaskan and northern-flowing Canadian rivers, and from U.S. sources in the northern Rocky mountains.

The benefits for Canada can be divided into three categories: power, irrigation, and transportation. Of these, Canada has been most energetic in developing hydro-power, has done little with water for agriculture, and almost nothing with water transportation since the St. Lawrence Seaway was completed. The development of hydro-power in northern Quebec, on the other hand, has already far exceeded the goals set in the NAWAPA project with a capacity of 5.3 megawatts. Similar large-scale construction is planned for British Columbia, although there the designers of NAWAPA had estimated the power-generating capacity at a hefty 15 megawatts.

Agriculture will be a major beneficiary of NAWAPA. This is connected to transportation, since water is the ideal means of transport for both bulk agricultural products and for fertilizer. The direct benefits from irrigation and water management can be considered together.

Irrigating the prairies

The benefits which would be felt in the prairie provinces from irrigation were spelled out in 1966 by a researcher at the Winnipeg, Manitoba, Research Station, Dr. Hannah, who estimated yield increases from adequate irrigation as averaging 100 percent for wheat. Although current yields have increased, the "irrigated" values he cites are still a 50 percent increase over those achieved today.

NAWAPA calls for the provision of 30 million acre-feet of water for irrigation in Canada, most of it in the prairies. Due to the cool, short growing season, this amount of water can irrigate approximately 22.5 million acres. At present, the total irrigated area in Canada is barely over 1 million acres. Using the conservative estimate of a 50 percent increase in yield on this acreage, this represents the potential for an extra 9 million tons of grain, which is half of the *total* current wheat production of the three prairie provinces.

There is also little doubt that NAWAPA would reverse Canada's present *laissez-faire* policy towards flooding. In 1979, for example, over \$30 million (Canadian) damage was inflicted on an area near Winnipeg by a single flood. This area is one targeted by the Parsons Company for improved flood control through NAWAPA.

A further indirect benefit would come through the stimulation of the farm machinery industry. In addition

to direct spending on irrigation equipment, farmers are freed from the fear of a severe drought, such as occurred in 1979, and can therefore justify more capital-intensive operation *in general*. This is simply one example of the process whereby infrastructure investments generate productivity, the ability to produce wealth, as well as any direct profits they may yield.

The benefits of NAWAPA are not free, of course, and the costs are high. Canada's share of the overall construction bill would be between \$50 and \$150 billion (U.S. 1981), and some 50 million acre-feet of Canadian water would be diverted outside the country. But the costs would be counterbalanced by the stimulation from such massive, high-technology infrastructure projects.

Transportation capabilities

The effect of NAWAPA on the Canadian transportation infrastructure is not easy to quantify, but some preliminary estimates can be made, based on the existing transfers of high-bulk commodities between Saskatchewan and Manitoba in the west and Ontario and the eastern provinces. In 1978, over 13 million tons of grain was moved into Ontario, a transportation load of over 10 billion ton-miles, where most of it was transferred to water transport. The Great Lakes Seaway, an integral part of the NAWAPA plan from its conception, would allow transshipment of the grain to be done much closer to the point of production. If we assume a saving of 25 cents per ton-mile (a very conservative assumption, since U.S. studies, such as estimates for the Tennessee-Tombigbee projects, assumed double that rate), on half the ton-mileage, the net saving to the economy would be \$1.25 billion.

Fertilizer imports partially balance the traffic in grain and other agricultural products moving out of the western provinces. Canada bought over three million tons of phosphate rock for fertilizer production from the United States. Florida is the major area for phosphate mining in the United States; the Mississippi River and projected Great Lakes Seaway would connect Florida directly to the Canadian prairies.

In addition, Canadian potash exports to the United States could grow significantly. At this time, Canada produces potash in Saskatchewan, supplying almost the entire requirements of the northern and mid-western part of the United States, from North Dakota to Ohio. If NAWAPA were built as projected, water transport connections between Saskatchewan and the Mississippi through the Great Lakes Seaway would make areas of the South and Southern Great Plains accessible to Canadian potash producers. In 1979, the total demand for potash in Texas, Louisiana, Mississippi, and Florida was over half a million tons, of which Canada supplied only 185,000 tons.

The most significant aspect of transportation devel-

opment that NAWAPA would contribute would be improvements in Canada's internal water transport network. At present, Canada's iron and steel industry is hampered by lack of cheap transport facilities between the coal fields of Alberta and the iron ore deposits in Labrador. A barge canal from Labrador to Lake Huron, which was originally designed in conjunction with, rather than in competition with, the hydro-electric development of James Bay, would allow efficient transport of the area's rich ore to the coal-bearing areas of the Maritime provinces and of Alberta. Most important, the development of a steel industry in the western provinces would expand the industrialization of Canada, which is now overly concentrated in Ontario.

As the map shows, NAWAPA would also make existing uranium deposits much more accessible to industry. The processing of uranium is an extremely high-technology operation. The effect of the exploitation of the uranium fields would be to move technical capabilities northward, breaking the pattern of border-strip development which has prevailed in Canada to this point. In 1961, almost three-quarters of the Canadian population lived within 200 miles of the border, and less than 5 percent of Canadian land area was officially classified as occupied land. Given the high value of uranium, exploiting of the deposits will provide impetus for developing prefabricated modular units for large-

scale, complex industrial processes.

In addition, barge canals, leading to the western shore of Hudson Bay and the southern tip of James Bay will have a similar effect on minerals development. These canals will allow access to known uranium, nickel, and copper deposits, and more importantly, the same type of industrial and population expansion which is being done in Siberia could be done in Canada.

One problem with the NAWAPA plan is the lack of any connection to the Pacific. The Parson proposal originally included a tentative proposal for adding barge-transport capabilities to the westernmost leg of NAWAPA. However, the Fraser River, the natural pathway for such a canal, is very steep and is currently being fully developed for hydro-power. A possible alternative is the construction of a shorter, lower-altitude canal across the northern section of British Columbia, connecting to the existing port facility at Prince Rupert. Although this would be an enormous project, the remote location would allow the use of Peaceful Nuclear Explosives, which are extremely efficient at moving large quantities of rock. Although the necessary preliminary studies for this plan have not yet been done, it would provide the one necessary portion missing from the currently projected NAWAPA project, and would be the true technological challenge which could act as a science "driver" to the entire economy.

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Bankruptcy and illusion

The significance of four recent Chapter 11 bankruptcies has been underplayed by the press and the Fed.

While certain analysts on Wall Street are frantically searching for the proverbial needle in the haystack, i.e., the evidence that the economy is emerging from recession, they are missing two essential points.

First, between April 13 and April 26, four major U.S. firms with half a billion dollars or more in annual sales have gone bankrupt. Second, Federal Reserve Board Chairman Paul Volcker is in the process of tightening, not loosening, the supply of credit.

The bankruptcy picture marks a qualitative change in the U.S. situation. Previously, most of the bankruptcies were in the range of corporations with less than \$1 million, with an occasional firm of \$10 to \$100 million in assets. But the bankruptcies that struck during late April were all in the top 5000 companies.

Many bankers have said that there is no danger of chain-reaction corporate bankruptcies as long as a given bankruptcy, no matter how large, "was known and expected in advance." However, of the four bankruptcies that have recently occurred, only that of AM International, the former Addressograph-Multigraph Company, could be said to have been anticipated.

A quick review of those four bankruptcies shows the potential problems they pose.

AM International: AM, which produces electronic addressing ma-

chines, copiers, and phototypesetting equipment, filed in Federal District Court in Chicago on April 13 for a Chapter 11 bankruptcy in which it would be allowed to cancel \$254 million out of the more than \$400 million in debt it owes to creditors. Under Chapter 11, a company is permitted to continue operating under existing management with court protection from creditors while it tries to work out a plan to pay its debt. But AM, which lost \$245 million in 1981 on sales of more than \$600 million, is fairly certain it can't meet any of its debts to banks, which total \$254 million.

Saxon Industries: The producer of paper products and photocopier machines filed for Chapter 11 bankruptcy on April 14, in New York Federal District Court. The company, which listed assets of \$500 million, stated that it has liabilities totalling \$461 million. Saxon's Vice-president for Law, Jay Jacobson, reported April 14 that Saxon's largest expense has been interest payments, forcing it into bankruptcy.

Wickes Companies: One of the largest lumber and furniture retailers in the country, Wickes has been particularly hard hit by the depression. It filed for bankruptcy in Los Angeles Federal District Court on April 26. Wickes is one of the 100 largest companies in the United States, with \$4 billion in annual sales. It owes \$2 billion to a gigantic list of creditors. According to its

new chairman, Sanford Sigoloff, it will "conservatively" take Wickes at least three years to recover and come out of bankruptcy.

RedBall Inc.: The nation's sixth largest trucker, this trucking company, with \$460 million in revenue in 1981, filed for Chapter 11 bankruptcy in Houston Federal District Court on April 26. RedBall cited the downturn in the economy, and the effects of trucking deregulation, as the reasons for its collapse. RedBall, according to its parent company, Telecom, will be stripped down to one special commodities operating division.

The U.S. financial press has attempted to downplay the significance of these four bankruptcies. But in the event that the companies do not substantially repay their debt, as is certainly the stated case of AM International, then banks and other creditors will be stuck with nearly \$3 billion in bad paper. This cannot be easily written off.

Nor have the small-scale bankruptcies stopped. For the latest reporting week ended April 22, bankrupt firms totalled 511.

And Volcker is showing no sign of really easing interest rates. The increase of the official money supply to nearly \$454 billion for the week ending April 21 has given the Fed the excuse to keep federal funds in the range of 14.5 to 15.0 percent. After an eight-week constant level of business borrowing from banks, in the first three weeks of April it rose \$4 billion, putting pressure on banks for funds. A Chase Manhattan Bank official said on April 26, "We have had three different people talking with the Fed, including a Senior Vice-President of the Fed, and the Fed has told us that Volcker will remain tight."

The pendulum swings

The developing nations are now buying, and Europeans are selling off some of their gold.

Friends in London who have previewed the forthcoming annual report of Consolidated Gold Fields point to an extraordinary development in the world gold markets, which helps define the \$50 rise in the gold price during the month of April as something more than mere whimsy. Consgold's *Gold 1982*, the yearly authoritative source for gold-market statistical data, reports that the pattern of net sales of gold by the developing sector, and net hoarding by European private investors, has reversed itself.

In the developing sector, whereas during 1980 and some of 1981 the political collapse in Iran and extreme financial pressure on the rest of the developing sector led to divestiture of more than 150 tons of gold, this has ceased. The huge sales (in particular by small savers there) of their gold jewelry and small bullion hoards has halted and jewelry purchases are rising.

In particular, although many developing-sector central banks continued to sell gold to raise cash during 1982, private-sector purchases of jewelry from the Middle East actually rose on net balance during last year. Dealers report that the demand for gold jewelry destined for shipment to the Middle East is now rising dramatically. According to one well-informed gold-market source in London, demand for jewelry is so intense that European refineries cannot keep up with the demand for the metal.

On the other side, however, small private holders of gold in Europe, who had been absorbing the previous dis-hoarding from the developing world, have now been forced to liquidate large amounts of gold. This is partially due to liquidity pressures, as rates continue high, and business bad, in Europe, and small investors become increasingly disillusioned with the long-term fall in the gold price.

The net effect of both shifts, it seems, is that the newly rising demand for jewelry in the Mideast is completely absorbing the sell-offs in Western Europe.

Not all European investors are dis-hoarding. Quite the contrary: the business manager of the largest surviving fortune among Europe's princely houses assured me recently that his *fondo* was continuing to invest in gold, with the view that \$350 or so per ounce represented a very good price indeed. The chiefs of the gold departments at some of the largest commercial banks in Zürich and Frankfurt told me recently, in private discussions, that large private fortunes were continuing to buy gold while smaller investors leave the market.

In fact, the viewpoint that I have expressed frequently during the past years, namely, that gold may become the principal international medium of exchange by default, is now heard frequently on the continent, and even in London.

One of Mrs. Thatcher's most

influential advisers expects a 1931-style breakdown of the international markets. Mr. Brian Griffiths, Dean of the London City University Business School, told my associates at the end of April that if the developing nations' debt crisis causes international bankruptcies, then there will be a "withdrawing of banking operations behind national boundaries," and a move to use gold to settle national accounts.

With this eventuality in mind, the oldest and most sophisticated investors are buying substantial, if not spectacular, amounts of gold.

This is, in a curious way, not necessarily in contradiction with the reports—undoubtedly accurate—that the chief demand for gold is now moving through the jewelry markets. Chief among the financiers of the European jewelry market, which has its principal seat in Florence, is the oldest bank in Europe, Monte dei Paschi of Siena, Italy. The banking house of Chigi in Siena, which founded the Monte dei Paschi, bounded into the ranks of the great during the 1509-11 War of the League of Cambrai, when the Chigi financed Swiss mercenaries for beleaguered Venice and enabled Venice to survive the war and emerge as Europe's decisive power. Their connections to the Mideast remain excellent.

Therefore, it is not to be assumed that merely because the principal form of gold demand is Italian-produced jewelry, only small-investor demand is rising. The circuit through which the rising gold demand must run belongs to the best-entrenched of the old families, and it may be assumed that the rising tide of gold dealings through this circuit reflects their own investment interest.

Dollar instability returns

As EIR predicted, the U.S. dollar has apparently been caught in the world economic crisis.

The U.S. dollar was hit with a round of sharp selling during the last week in April for the first time in many months, falling against every major currency including the British pound sterling, itself weakened from the Falklands crisis. During the week of April 26-30, the dollar dropped 2 percent against the German mark from DM 2.40 to DM 2.35; 3 percent against the Japanese yen from ¥ 243 per dollar to ¥ 236 per dollar; and similarly against the Swiss franc. Sterling rose from \$1.77 to \$1.78. "They're kicking the dollar in the head," one foreign exchange trader stated.

Several factors of the world economic downturn combined to produce the dollar's drop. First, speculation is rampant on the foreign exchange markets that the interest rates will not keep foreign investments flowing into the dollar. U.S. economic production is collapsing at so fast a rate that demand for credit could collapse faster than the Federal Reserve can keep tightening.

Short-term developments seem to bear this out, for interest rates did drop sharply at the beginning of the week, with the U.S. Federal Funds rate falling from its 15 percent levels of the previous week down below 13 percent for several days. The Federal Reserve, in fact, seemed to be trying to feed money into the system by its short-term actions. Rather than tightening up, the Fed injected almost \$1 billion in

repurchase credits into the banking system April 27 and 28, which leads some traders to believe the Fed is trying to lower rates to keep the economy from total free-fall. Upon seeing this short-term action of lower rates, speculators began selling in waves.

As well, the U.S. announced a widened trade deficit for March of \$2.65 billion the last week in April up from February's \$1.2 billion deficit, which also hurt the dollar. In spite of the sharp drop in U.S. oil imports due to the recession and the oil price fall, U.S. imports of goods now manufactured more cheaply elsewhere rose rapidly.

These, however, are in fact quite short-term developments, and say little in the end about whether the dollar will continue to fall or stabilize. "We see the dollar stabilizing from here," Chase Manhattan Bank told *EIR*, "with the floor being about DM 2.30 or higher. There is no major reason to continue to sell dollars."

For one thing, U.S. interest rates may have been temporarily weak, but it will be a long time before they will fall anywhere nearly sharply enough to create a continuing fall in the dollar rate, I believe. As explained in our Domestic Credit column, Paul Volcker has been quite clear in his recent messages to Congress and to President Reagan. The Fed intends to do everything in its power to continue to drain credit from the economy

and maintain tight money, and is ready to continue accepting major corporate bankruptcies as the direct result. While at some point this policy will certainly produce a full-blown 1930s depression in which credit demand will completely drop off, that point may not come for some months yet.

The view of the long-term, older family money in Europe remains very pro-dollar. "The collapse of world trade will hurt the U.S. economy and thus the dollar, but it's relative. It will hurt Europe even more," one top private banker in Frankfurt told me. "So why dump the dollar as a long-term investment? The French economy is being completely destroyed. Britain may be finished as a world financial center if Argentina defaults. Germany has no economic leadership and when the dust settles, the U.S. may be the best of all bad places for investments."

One leading German commercial banker told me in fact that almost 25 percent of German private portfolio investment has been diversified into dollars during the past three months as a hedge. The vast bulk of this, he said, is in long-term U.S. triple A corporate bonds, thus locking in high interest rates yields for the long-term. "Even if the dollar does fall a little, this will only be because interest rates fall, and with the dollar bonds, we still get the locked-in higher previous rates," the banker explained. "On any balance, the dollar is the best of all risks."

For the near term, however, instability will be the watchword for the dollar. As the world plunges into economic crisis, no one can call short term foreign exchange movements.

Trade Review by Mark Sonnenblick

Cost	Principals	Project/Nature of Deal	Comment
NEW DEALS			
\$1bn.	Indonesia from U.S./Japan	Pertamina signed contract with Exxon Chemical and Japan's TSK for 2nd part of \$2 bn. three-stage oleofins petrochemical complex. First phase will make ethane from natural gas; second is composed of 350,000 tpy ethane cracker, 125,000 tpy low-density polyethylene plant, and 70,000 tpy high-density polyethylene plant; third phase is 270,000 tpy vinylchloride monomer plant and chlor alkali plant.	Indonesia is going ahead with its \$7 bn. petrochemical and oil-refinery building plans.
\$440 mn.	South Africa from U.K.	GEC Turbine won contract for six 600 MW turbine generators from South Africa's Electricity Supply Commission, one of largest buyers of power plant equipment. Turbines are for plant in South East Transvaal coalfields.	U.K.'s ECGD guaranteeing \$300 mn. buyer credit; Hill Samuel has set up \$200 mn. Euro-dollar syndication.
\$4 mn.	Japan/West Germany	Japan and West Germany will jointly develop a high-speed surface transportation (HSST) vehicle. The system pioneered by Japan Air Lines levitates a vehicle above a track using electromagnets fitted on both sides of the body. A West German system levitates the vehicle by electromagnetizing the track itself. Japanese National Railways is working on a system in which the car is levitated by a repulsive force of a superconducting magnet using super-frozen helium.	3-yr. project will be funded by both govts., to be signed at May Joint Committee on German-Japanese Scientific and Technological Cooperation.
	Jordan from France	Jordan plans to develop the 1 bn. ton phosphate deposit located 70 miles north of Aqaba into a 3 mn. tpy mining operation. The phosphate will be made into phosphoric acid and exported through Aqaba.	A consortium of French and local firms will do feasibility studies.
\$28 mn.	Jordan from Switzerland	Jordan Fertilizer Industry is building plant to turn phosphoric acid into aluminum flouride at its fertilizer complex.	Alesa Alusuisse awarded turnkey contract.
\$87 mn.	Saudi Arabia from South Korea	ICC won contract for building Tabuk sports complex, including 15,000 seat stadium, gym, pool, hostel, and lecture hall.	Complex will have its own mosque.
\$170 mn.	Saudi Arabia from South Korea	ICC Construction of Seoul will build sewage treatment plant at city of Taif and install sewer mains.	Part of \$877 mn. water/sewage project for Western Saudia Arabia.
UPDATE			
\$3 bn	Norway from U.S.A./France	STATOIL is awarding contracts for segments of the 520-mile gas pipeline from off-shore oil fields in the North Sea to the coast. McDermott of New Orleans won a \$153 mn. contract to lay 300 miles of 28-30 inch pipeline underwater. ETPM of France and Djoerge of Stavanger, Norway won a \$93 mn. contract to lay the remaining 220 miles of pipeline. Fluor Ocean Services is managing procurement of pipes, pumping stations, etc.	
	Mexico from Japan/U.K.	Additional financing for phase 2 of the Sicartsa state-owned steel complex was provided by Japan and Britain. The loans will support export of capital goods for new steel mill, under construction since 1979.	Japanese \$230 mn. includes \$130 mn. of low-interest export promotion loans and \$100 mn. from banks at 0.75% over LIBOR.

Business Briefs

Monetary Policy

Japan not to raise interest rates: Komoto

Economic Planning Agency head Toshio Komoto told Prime Minister Zenko Suzuki April 27 that he will not accept European and U.S. requests for Japan to increase interest rates at a ministerial meeting of the Organization for Economic Cooperation and Development (OECD) in Paris on May 10-11.

Although the United States and Europe have criticized the policy, Komoto said, he will tell them that given relatively low prices in Japan, low Japanese rates are reasonable. Suzuki consented.

Japan will complete a new package of market-opening measures by late May in a bid to solve trade friction. He will ask the United States at the OECD session to lower its high money rates in order to revitalize the world economy.

March industrial production levels in Japan fell 0.9 percent from February, the fifth consecutive drop. This is the worst record since the 1974 recession.

Sluggish exports due to world recession and protectionism are seen as the cause of recession in this trade-dependent country. The Ministry of International Trade and Industry expects production to fall in April and May as well.

Foreign Policy

America's abrasive Versailles agenda

The United States will make three items top priority discussion items for the Versailles summit June 8-10 of heads of Western nations, according to a State Department source who is working on the summit. All three items are areas of strong disagreement between the U.S. and its European and Japanese allies.

The U.S. will attempt at the summit to have European nations eliminate their loan subsidies to the East bloc, and to evaluate the possibility and the appropriate responses in the event of an East bloc

debt default. The U.S. will press the summit leaders to discuss advanced sector nation relations, centering around interest rate questions. "We know that interest rates will come up from the Europeans," the source said, "and if we can get a budget compromise in Washington over the next few weeks, we could take this and tell the Europeans that interest rates will come down. This would serve as an article of faith."

The source concluded: "We think that a reciprocity bill on trade is appropriate for the U.S. to pursue. As Robert Strauss recently said, 'reciprocity is the basis for free and open trade.'" The Europeans and the Japanese are known not to share this view.

International Credit

Creditors put squeeze on Mexico's Alfa

Mexico's Alfa Group conglomerate, which skirted bankruptcy last fall, has been forced by its foreign creditors to cease payments on debt principal pending a full review of the firm's finances and debt profile at a creditors' meeting in Houston April 30.

Some 300 foreign banks hold chunks of Alfa's \$2 billion foreign debt. Almost all are expected to show up at Houston. But a debt and management restructuring package will be hard to hammer out.

A half dozen of the largest lenders, led by Citibank and Continental Illinois, have set up an informal steering committee to present the banks' demands to Alfa. An executive in one of Texas's largest banks said that he wanted to see at least an initial agreement to bring the Mexican government into a crisis management group running the company while its finances are straightened out. The government helped bail out the conglomerate, Mexico's largest, last fall when high interest rates threw overboard the firm's financing projections.

Many of the creditors are squabbling over who gains claim to Alfa's profitable Hylsa steel division, as collateral in the debt restructuring. And financial press such as the *Wall Street Journal* are running scare stories which stress that

should even one of the 300 banks involved balk, the firm's debts could be declared in default, and "confidence in Mexico has a whole will be shaken."

East-West Relations

Banker: Trade crisis will dwarf Malvinas

The senior economist of a major U.S. commercial bank declared at the beginning of May that a new round of Eastern European debt and trade crisis will dwarf the significance of the British-Argentine confrontation in the South Atlantic.

The economist said that "once the dust settles in the Falklands, the crisis over East bloc debt will erupt, led by a collapse of Polish debt.

The main victim of this crisis will be Western lending to the East bloc, including the swing credits currently being extended to East Germany by the West Germans. The opposition Christian Democrats, according to the economist, will use the threat of Eastern default against the government of Chancellor Helmut Schmidt.

Talks on rescheduling Poland's 1982 debt began this month in London. American banks are demanding full interest payment before any stretch out in principal amounts will be discussed.

Banking

Morgan Guaranty doesn't trust the Swiss

Dennis Weatherstone, Chairman of the Executive Committee of Morgan Guaranty Trust Bank in New York, told a reporter April 27 that he cannot agree with the public statements being made by Swiss National Bank Chairman Fritz Leutwiler that the world banking system is about to collapse. Leutwiler warned recently, and his aides repeated, that major Western banks may go under due to excessive developing sector borrowing.

"On the one hand," said Mr. Weatherstone, "I wouldn't say we are sanguine

Briefly

about the world debt situation. It is clearly possible for Argentina to develop into a Latin American problem, and Poland to develop into a Comecon problem." If bankers cut back credit to nations in general because of the instability of the Argentine debt situation, for example, he said, "this could create tight credit and squeeze other nations as well."

However, Mr. Weatherstone saw no point in what he called the Swiss attempt to create "panic." "I sat down with Mr. Leutwiler last week, and listened to him talk about the possibilities that there could be escalating problems of LDC nations defaulting. But I must ask you—how seriously do you take the Swiss?"

Leutwiler's statements, he said, only serve to undermine U.S. and British banks, which have the biggest stake in Argentina's foreign debt. "Confidence is a terribly important thing—it's the only thing we have in banking. Otherwise the system fails," Mr. Weatherstone stated. Mr. Weatherstone, a British national, said he could only surmise that Herr Leutwiler is trying to "gain control" of the banking system for the Swiss at the expense of British and U.S. banks.

U.S. Industry

Boeing plans up to 10,000 layoffs

Boeing, the nation's largest aircraft manufacturer, announced in late April that it is laying off between 8,000 and 10,000 workers because of order cancellations.

Cancellations have rolled in as each of the four major airlines which have reported first-quarter results has posted losses. The largest loss was Pan Am's \$100 million; even the normally profitable Delta went into the red for the period.

Boeing's earnings in the first-quarter dropped 58 percent from the previous year's first quarter, while working cash and investments dropped to \$744 million from \$2.3 billion at the end of 1979 and \$1.6 billion at the end of 1980.

The company now expects to use its \$3 billion credit line while selling medium- and long-term debt.

Military orders are filling some of the

shortfall caused by cancellations of commercial aircraft. The military order backlog increased from \$19.39 billion at the end of last year to \$20.65 billion on March 31, 1982.

U.S. Budget

Tip O'Neill torpedoes compromise for Volcker

House Speaker Tip O'Neill (D-Mass.) deliberately "scuttled" any chance at compromise on the U.S. budget April 28, Washington sources told *EIR*. O'Neill is working with Federal Reserve Chairman Paul Volcker to force Reagan to accept Volcker's budget, which calls for \$100 billion in spending cuts.

President Reagan personally went to Capitol Hill April 28 to meet with O'Neill and congressional leaders, and offered "substantial compromises" to achieve a budget agreement, Washington sources said. Senator Howard Baker (R-Tenn.) told the press that President Reagan was ready to postpone the third year of his tax cuts by 90 days; raise other tax revenues by \$122 billion over three years; cut \$28 billion from defense spending over three years; and increase spending on entitlement programs.

House Speaker Tip O'Neill "scuttled the compromise, although leading Democrats such as Dan Rostenkowski [D-Ill.] and Jim Jones [D-Okla.] wanted to go along," the source stated. "O'Neill's aim is to totally embarrass the President, and not give him anything," the sources added.

O'Neill wants the President's budget presentations totally rejected by the Congress, so Congress can write its own budget, along Volcker's lines. In a Washington speech the last week in April, the Fed Chairman demanded a full \$100 billion cuts in spending in 1983 alone.

"There can be no compromise—we must have congressional government, congressional dictatorship" over the President, a source close to O'Neill told *EIR* April 29. "The President's budget will be rejected, and the Congress must go to him with their budget and say 'Here it is Mr. President, *sign!*'"

● **THE EMS** may have to be realigned, National Westminster Bank and Manufacturers Hanover Trust reported April 28. The large differences in inflation in West Germany, whose rate is much lower than those in France and other European Monetary System member nations, make a further readjustment upward of the German mark within the EMS "probable" this year, David Kern of NatWest stated.

● **THE ARGENTINE PESO** is in for a huge devaluation if hostilities with Britain deepen, British banks report. The peso, which was trading in the range of 11,000-11,700 to the dollar on the eve of the Malvinas Islands crisis, "is overvalued," British banks in New York told the press. If the crisis were resolved today, the peso would fall to 14,000 to the dollar, and will drop to 22,000 to the dollar by year end, bankers predicted.

● **THE U.S. BUDGET** will be discussed at the NATO heads of state summit," not at the Versailles June heads of state economic summit, a noted NATO economist told *EIR*. "The major question of the U.S. budget is the U.S. defense budget, which can only be worked out by NATO," he said. "The U.S. can only make the defense budget cuts which Europeans want, if Europe will agree to go for their own conventional military buildup."

● **THE CENTRAL BANK** of Honduras reported at the end of April that at least \$3.4 billion left Central America over the last two years due to the political chaos spread in the region. Of the nearly \$1 billion that left both Nicaragua and Guatemala from the second half of 1979 to the end of 1981, most was converted into Honduran currency and then into dollars, and deposited in U.S. banks.

The British Empire: a menace to peace

by Nancy Spannaus, Contributing Editor

Not since the Suez crisis of 1956 has there been a local conflict that was not immediately attributable in the Western propaganda mills as a case of communist subversion or aggression. Soviet presence in Southeast Asia, the Middle East, and Africa—not to mention on the borders of their own state, like Afghanistan and Poland—has made it possible for the official interpreters, East and West, to define conflicts in those areas as part of the primordial fight between communism and capitalism. The fact that the Malvinas (a.k.a. Falkland Islands) crisis breaks this pattern offers significant hope that the actual causal principle behind world strategic conflict may finally become addressed in day-to-day political life.

There can be no question in the mind of anyone informed by historical fact that the Malvinas have been held by the British as a colonial outpost in blatant violation of 1) the United States commitment in the Monroe Doctrine against European colonial expansion in the Western Hemisphere; and 2) U.N. resolutions mandating decolonialization. Yet the British are determined to assert their imperial rights contrary to international law. British imperialism has been caught red-handed in a strategy for world domination that could escalate rapidly into the kind of superpower tensions that would lead to World War III.

The British, who worked behind the scenes to detonate World War I and World War II as limited wars of depopulation, but saw them run out of control, now are visible to all as the detonators of a crisis that could become the third world war by miscalculation.

Trigger for World War III?

Reviewing quickly the way the Malvinas crisis could explode, as our founding editor Lyndon LaRouche has done in previous issues, we can identify three crucial ways it will exacerbate the war danger:

- 1) If the British succeed in blackmailing or cajoling the United States into backing its colonial prerogative through the Malvinas caper, this will



This U.S. cartoon, published during the 1895 British-Venezuelan dispute over territory in "British" Guyana, is captioned: "Cornering Him: Little Venezuela: "Yah! You big bullies! You daren't go over that fence!" England and Germany (together): "All right, young man, we can wait!"

win the United States not only the enmity of all the Latin American nations, but the general hostility of the Third World which will correctly see the United States, and other European nations who are going along with the British, as enforcers for the looting policy of Britain and its allied international financial institutions.

2) Such a U.S. role would be a de facto surrender of the principle of national sovereignty, as delineated in the Monroe Doctrine and the U.S. Constitution. The further weakening of this principle, which includes the responsibility of nation states to provide for the economic development of their peoples, both in the United States and the rest of the world, will strengthen the power of the supranational institutions who look toward a Malthusian order of famine and conflict.

3) Since neither the Soviet Union, nor a large number of Third World nations can, or will, submit to such supranational dicta, the U.S. alliance with Britain will lead to expanded openings for the Soviet Union in the developing sector, and rapidly to geopolitical confrontation that could easily lead to war.

As clearly as the British imperialists are exposed as provoking war in the dangerous crisis over the Malvinas, however, is the American System alternative to that devastation provided.

The power of the American System

Scratch any oligarch, either from Britain or the continental families, and he or she will not be shy in identifying the American republican commitment to the

idea of progress as the chief obstacle to their total domination of world finance and politics. The quotes of Lord Bertrand Russell which we reprint below give some flavor of the attitude. More recently, that outlook was taken up as official policy by the New York Council on Foreign Relations in its *Project for the 1980s* series of policy papers. While elaborating the policy of "controlled disintegration of the world economy" as the preferred goal for this decade, the authors singled out the "neo-mercantilists" like Alexander Hamilton as, along with certain Marxists, the chief enemies of their supranationalist outlook.

Thanks to the butchery of American history by the British "intellectuals," most Americans—emphatically including our President—do not understand the fundamentals of the conflict between the American System and the British System, much less the fact that it is still the basis for the dramatic world crisis today. The American Revolution, waged as an international war by committed republicans worldwide, was based on the scientifically provable fact that a society based on a landed nobility, the primacy of fixed natural resources as wealth, and the workforce as productive cattle (or sheep) to be milked, had to lead to a regime of constant war, disease, and famine. To counter such an oligarchical regime, best represented at that time by the British monarchy, Hamilton, Franklin, and Washington established a constitutional republic committed to fostering mass education, city building, and continuous technological progress.

No nation before had ever attempted to accomplish what the Americans set out to do. Yet despite its relative isolation, and continuous attempts of the British to splinter the country through sectional warfare in particular, the United States was phenomenally successful. Its dirigist system of protection for manufactures, its national bank, its fostering of the development of the population's mental and moral powers, and its encouragement of scientific and technological progress led the United States to be the model for development for Germany, Japan, Russia, and the bulk of Latin American nations. No one in the pre-Civil War period would question the assertion of Henry Carey, Lincoln's chief economic adviser, that the fundamental fight in the world was between the American System of "universal peace" and industry and the British System "slavery and war."

The foreign policy of the United States during the first 100 years was based on the knowledge that the survival of the American System required its expansion against the imperialists. It was not sufficient for the United States to merely build up its independent strength, and certainly not to build it up by laying claim to the natural resources of other nations, as Great Britain and the other empires did continuously. What was necessary was an expansion of trade and commercial relations that contributed to the most rapid increase in well-being and industrial capability of all the countries involved. The American System recognized the benefit in the increased enrichment of other nations through technological progress and urbanization because such progress increased the wealth of the world overall—in direct contrast to the imperial view of competition for scarce resources. The American System rejoiced in the creation of strong sovereign nations committed to industrial progress; Great Britain and her oligarchial allies committed every resource to destroy them.

One of the nodal points in defining this American System outlook was the Monroe Doctrine of 1823. Although erased from the memory of most Americans, the Doctrine is remembered in certain Latin American nations as proceeding from a positive commitment to national sovereignty against the British. It is also remembered clearly in Great Britain, from the standpoint of being an obstacle to the commitments Her Majesty wishes the United States to honor.

The basic form of opposition which Britain has to the Monroe Doctrine is to insist that supranational commitments of the United States—either to the United Nations or to its NATO spinoff—supersede the United States's commitment as a sovereign nation to protect other sovereign nation states. Dressed up in moralistic disguise, this is the same argument that Britain used throughout the 19th century to maintain as many of its

police powers as possible. Presuming that one nation's increase in wealth must always proceed at the expense of another's, and probably at the expense of its territory as well, the British demand the national prerogatives of development must always give way to the strongest power. Whereas this power was the British Empire directly in the last three centuries, it has usually been wielded through the international financial institutions today.

There is no basis for providing equitable means of development for all the nations of the world without the guarantee of protection for sovereign nation states, guaranteed to have their own means, especially national credit, to build up their own human and industrial resources. The Monroe Doctrine as a commitment to protecting national sovereignty therefore must take precedence over any general dictum against use of force, or other Aristotelian legalisms. Without a base of sovereign nation states, there can be no just international order.

The new imperialists

It would be tragic if the world were not to take this opportunity of exposure of the British imperialists to remove their power once and for all. By taking aim at the hulking British fleet, the whole slew of evil oligarchial powers which stand behind it can be knocked off as well.

As our review of the extant British empire elaborates, the power of Great Britain is virtually identical with the invisible hand of Adam Smith. Control of raw-materials markets, control of insurance ratings through the pacesetter Lloyds of London, control over credit creation in the offshore free-enterprise zones or through the financial police organizations like the International Monetary Fund and World Bank—these are the kinds of power London exerts. And there are many who are allied with, or work through, London in this current imperial adventure, like the Swiss, Venetian, and Hapsburgian oligarchs, who are anxious that British refrain from the crass use of force, and rely instead on the behind-the-scenes manipulations that have served their cause so well. Others see in Britain's new imperial adventure the opportunity to shake out the monetary system, and consolidate more control, especially in Switzerland.

It is this financial oligarchy, so fanatically committed to their looting policy that they will risk World War III, that must be challenged fundamentally in the weeks ahead. Oligarchic economics—the source of British geopolitics and imperialism—is the cause of the world's motion towards war. A new world monetary system based on the common commitment of sovereign republics to industrial progress—a worldwide Monroe Doctrine, if you will—can wipe it out for good.

Economic empire is alive and well

by Leif Johnson

Today's British empire, now called the "Commonwealth," consists of 45 nations across the globe, with a total mass the size of the Soviet Union, the world's largest nation. Some of Britain's Crown Colonies, like Hong Kong and Gibraltar, are among the most important pieces of geopolitical real estate in the world, while eight Commonwealth possessions ring the Caribbean, America's most strategic area for trade and security.

Of course, Britain is no longer his Majesty's Royal Navy slaughtering the unarmed natives, forcing opium into the veins of Chinese at the point of a gun barrel, or scraping the gold, silver, and other precious metals from the possession of a third of the world's people. But, although it is killing off its own population by collapsing its industrial base, Great Britain, by owning or controlling through finance the world's shipping, banking, insurance, trade, and the West's supply and price of raw materials—including, increasingly food production—has maintained its power as an empire ever since the Venetian-Swiss oligarchy conferred its authority to the London banks from the Amsterdam banks in the crisis of 1775.

Britain's trick is to not produce anything, but to control the trade in all things that are produced, thereby dictating to the world the price and supply levels of raw materials, fuels, food, and machinery. This is the system of "rentier-finance" made public in *Wealth of Nations*, British East India Company retainer Adam Smith's violent protest against the industrial aspirations of the American colonies.

Everywhere it gains ascendancy, the Empire wrecks existing industry and prohibits the mass education and capital investment required for future industry—as in India, where it tore down textile manufactories, broke the hands of skilled workers, and forced the population to produce cotton and opium instead.

British control of credit

Today, together with its allies in lower Manhattan, the British empire controls the entire \$1.6 trillion Euro-dollar financial market including \$300-\$500 billion in the Cayman Islands and \$50-\$100 billion in the Hong Kong-Singapore "Asia-dollar market." These are the

markets upon which every major corporation, including American companies, depends for credit. Paul Volcker's high-interest-rate policy has been the major factor forcing U.S. corporations into the British credit market, because the American banking system's ability to generate lendable reserves has been strangled since late 1979.

The unregulated offshore banking systems have created millions of dollars in synthetic liquidity. With no reserve ratios or other restrictions on dollar-denominated credit in the offshore banking operation, American corporations are mortgaging whatever productive assets they still have in exchange for "credit" with only 2 to 5 percent backing from the Cayman Islands banks. Credit issued from the Caymans or Hong Kong with this level of backing are honored in the American banking system for lending purposes, flooding the U.S. economy with worthless paper. U.S. dollars are being printed in the form of checks and fund-transfers not on the basis of the number of dollars flowing out of the United States, but on the basis of 20 to 100 times that amount.

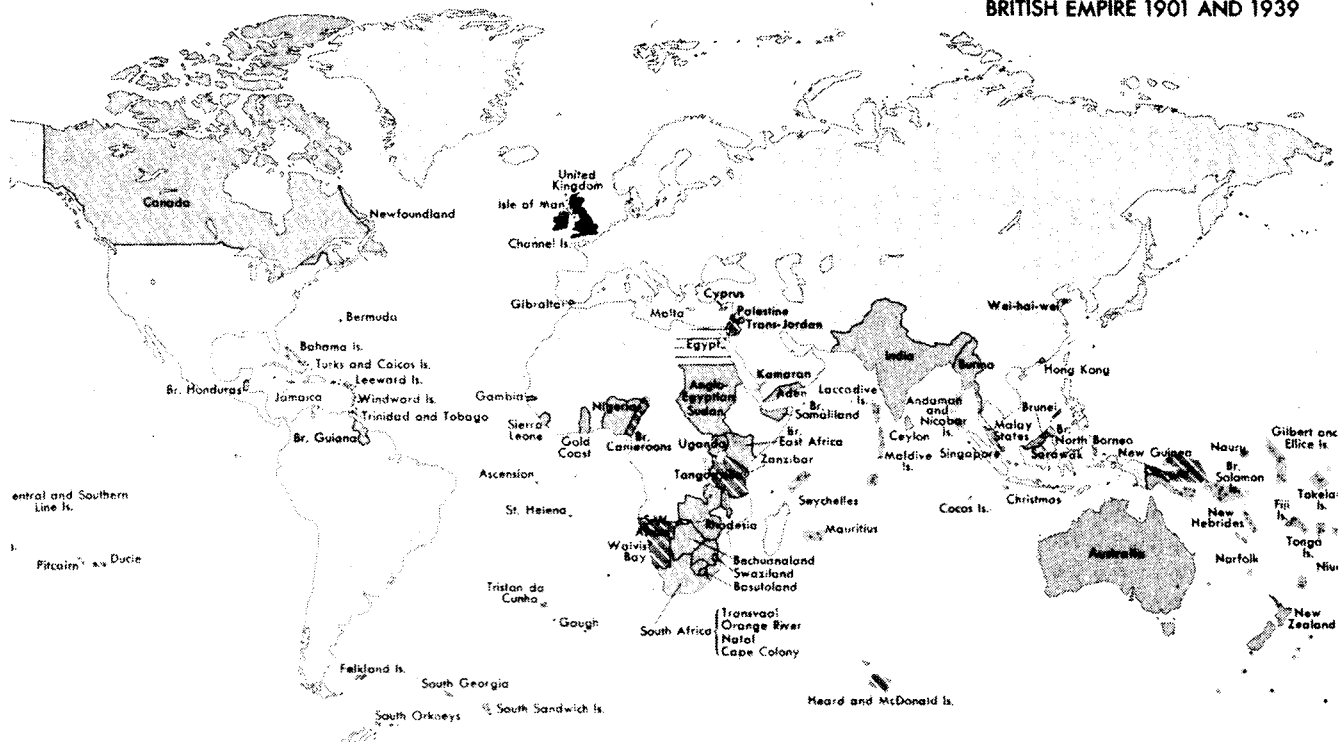
The London banks set the terms of lending and interest rate for the Eurodollar market, in relation to the London Interbank Borrowing Rate (LIBOR)—the United States has no control over this vast pool of American dollars. U.S. banks like Citibank, on whose board of directors sits the powerful British financier Lord Aldington, collaborate in this market.

The Hongkong and Shanghai Bank—the "central bank for the central banks of Asia"—and the British offshore havens in the Caribbean are the secret to British domination of the \$400 billion annual international drug trade. And it is for this reason that the HongShang refused to open its books in its successful request to the Federal Reserve to buy up the American Marine Midland Bank in 1979.

British domination of the narcotics trade has not ceased since Her Majesty's ships opened fire on Chinese ports in the 1850s in its Opium Wars to open up China to "free trade" in drugs. Today, British control begins with the HongShang's financing of the opium crop every year in the Golden Triangle, and extends through to the British colony of Canada, the transshipment point for drugs into the United States from Asia. The money meanwhile flows through the Canadian banks into their unregulated branches in the Caribbean.

British control over raw materials

The British empire controls, directly or indirectly, all the non-communist world's commodity markets, including oil and gold, industrial minerals, and strategic defense-related materials. It directly owns or controls the trade and pricing of between one-third and one-half of all raw materials commercially marketed in the



Western world today. The world's largest metal market, which controls speculative pricing of world metals, is located in London.

South Africa—nominally independent but financially controlled by London—produces 23 percent of the world's antimony, 25 percent of the chromite, 20 percent of the diamonds, 64 percent of the gold, 19 percent of the manganese ore, 35 percent of the platinum metals, 13 percent of the uranium, and 43 percent of the vanadium.

Since the American Civil War, the British cartels, run by the Rothschilds and the Oppenheims, have gained control of most raw materials, including oil and agricultural raw materials, produced outside the United States.

The South African-based Oppenheims alone, through their DeBeers subsidiary control 80 percent of all diamonds mined in the world, and a substantial part of the world diamond trade. Through Consolidated Goldfields and Anglo-American Mining, the Oppenheims run 40 percent of all gold-mining operations in the West, and control 65 percent of all platinum mined. Another subsidiary, Phillips Brothers, one of the largest commodity trading groups, controls, among other things the Rotterdam oil market, which is the world's largest "spot" or non-contract oil market.

With the addition of the Rothschild group, which includes Rio Tinto Zinc, the total of the yearly revenue of Britain's raw materials group is over \$150 billion, three times the income of General Motors Corporation.

British control of 'soft' commodities

Britain continues to dominate the "soft" commodities markets, controlling the trade and pricing of the exports upon which large parts of the developing sector depend, such as sugar, cocoa, manioc, coffee, jute, tea, and palm oil. British imperial policy was based in part on looting these primary products from its colonies, or former colonies, fostering the combined "cheap-food" policies and single cash-crop economies that continue to hold much of the Third World in backwardness and poverty. The colonies produced the commodities; London sold them.

Historically, Britain has exerted a controlling influence over the world grain trade through the Commonwealth. Canada and Australia, together with the United States, are the major producers of grain for export—and thus the loudest voices on matters of policy, such as putting forth repeated proposals for centralized control over the world's surplus food supplies. Though not directly British-name companies, the multinational grain merchants—from Continental to Bunge and Dreyfus—were founded by, and are still controlled and run as, aristocratic family empires by the Queen of England's oligarchic relatives in Europe. London's pivotal role as the center for international trade financing and ship chartering—the famous Baltic Exchange—has given the United Kingdom added leverage.

British control over U.S. land and resources

With the millions in offshore credit created in the

Caymans and Bermudas, shell corporations, such as the Oppenheimer Minerals and Resources Corporation (Minorco) have been set up to buy out U.S. mineral reserves. Citibank chairman Walter Wriston was appointed to Minorco's board of directors.

Sir Harry Oppenheimer let it be known in early 1981 that "we mean to expand into North America." At that time, Oppenheimer owned the medium-sized Inspiration Copper and Engelhard Minerals, the largest U.S. metals company. During 1981, takeovers by British interests of American firms reached \$70 billion. These included the purchase of the Pan Am building in New York City by Grand Metropolitan, a British hotel and casino operator, and the Sohio (Standard Oil of Ohio) buy-out of Kennecott Copper. Sohio is majority-owned by British Petroleum, which in turn is jointly owned by the British government and controlled through the Queen's household. Currently, Sohio is negotiating to purchase the coal holdings of Republic Steel.

Much of the buy-out of American industry and natural resources comes through Canada, whose government is integral to London's Foreign Office (the former Colonial Office) and its Secret Intelligence Services. The function of the corporate elite of Canada is the takeover of the United States through direct buy-out, by controlling a major portion of organized crime and narcotics in the United States since Prohibition, and by waging resource warfare.

Canadian grabs for U.S. natural resources and real estate are a concomitant of the immense land holdings of Morgan-controlled railroads, manufacturing giants like U.S. Steel, DuPont, or paper and lumber companies. The Canadian concerns amass minerals resources not held by the Morgan companies after they have "shaken out" the market in a particular resource. The recent precipitous crash of uranium prices led to such an orgy of Canadian-directed buying.

The recurrent paper shortages in the United States, coupled with ruinous price increases, especially of newsprint, point to Canadian control of this resource. In Canada, forests are "Crown lands," not privately held. Periodically in the past, prices were vastly reduced to eliminate U.S. competition or trustify U.S. production.

America's Northeast, and possibly even the Mid-Atlantic region, will soon be dependent on Canada for electric power. Because there is no "environmentalist" movement in Canada, nuclear power-plant construction has proceeded normally. In fact, an overcapacity is being planned to sell to the United States when U.S. utility companies find themselves financially incapable of replacing obsolete conventional power plants. Northeasterners remember well one of the most dramatic results of dependence on Canadian power: In 1964, ostensibly because of a malfunction in an Ontario hydroelectric power plant, the entire Northeast was

thrown into chaotic blackout for 13 hours.

British control over world energy supplies

The "energy crisis" of the 1970s, better named the British oil weapon, was manufactured by British Petroleum (BP), the British National Oil Company (BNOC), Royal Dutch Shell, and a handful of British and Swiss banks, in conjunction with think tanks at Oxford and Sussex Universities.

British Petroleum, the largest industrial corporation in the United Kingdom, is owned 48 percent by the British government and 20 percent by the Bank of England. BNOC is entirely state-owned. The development of the North Sea oil fields, in which BNOC has over 50 percent control, and BP an additional 35 percent, was used by the British to consolidate control over world oil production levels and pricing.

In its April 13 Special Report, *EIR* develops in full the history of the oil hoax, prepared for by the 1969 coup of Muammar Qaddafi in Libya, at the time the nation with the highest daily oil output, and the 1973-74 Middle East War which loosened the control of the Arab moderates in OPEC. The 1978-79 Khomeini/Muslim Brotherhood coup in Iran consolidated British, as opposed to OPEC, control of oil.

In the early 1970s, BP depended almost entirely on OPEC for its supply of crude. By 1980, it was out of Iran and Nigeria, and drew 73 percent of its reserves from the North Sea, and its share in the Alaskan North Slope, in which it holds an interest through its Sohio subsidiary. Because North Sea oil is a better-quality crude, BP has led the process of raising oil prices. Now, BP and Royal Dutch Shell-led multinationals are moving to break OPEC once and for all, this time by drastically cutting oil prices—with every intention of raising them drastically later.

This process has already begun, because British asset Paul Volcker's interest rates have forced such cuts in industrial production that there is little to support high energy prices. If oil prices are cut now, such Third World nations that still have industrial development programs, such as Mexico, Indonesia and Nigeria, for the most part based on oil revenues, will be forced to abandon those programs and revert to raw materials production.

At the same time, the collapse of oil prices would force OPEC into a deficit. If that happens, the OPEC nations will be forced to withdraw funds from banks heavily involved in the Eurodollar market—the \$300 billion core of "hard funds" in the market. A sharp contraction of Eurodollar funds would make it impossible for the major banks to roll over the \$550 billion outstanding Third World debt—forcing a depth of credit collapse which the Empire and its allies have used against their enemies for centuries.

Lord Russell and British racism

by Carol White

The British Round Table grouping was founded at the turn of the century, as a group of bright young men clustered around Cecil Rhodes, the first prime minister of South Africa. It was then brought to England by Rhodes's protégé Lord Alfred Milner. The Round Table has since spun off such not-so-august institutions as the New York Council on Foreign Relations, and its sister organization, the London-based Royal Institute for International Affairs.

The Round Table's purposes were and are no less blatant than the ongoing British invasion of the Malvinas Islands implies: the maintenance of British imperial domination over the underdeveloped sector. It is perhaps less obvious to U.S. readers that members of the Round Table and its daughter organizations very definitely include the United States in this informal empire; in fact, British Embassy personnel in Washington, D.C. refer to the U.S.A. as "the unofficial colony."

The recent submission of U.S. foreign policy to British interests is only the latest humiliation suffered by "the unofficial colony." Not a day has passed since the Revolutionary War when the British have not pursued attempts to regain control of this country lock, stock, and barrel.

Round Table founder Cecil Rhodes's name is familiar to many because of the scholarship fund created in his will, which allows the brightest U.S. college graduates the advantage of being trained in the arts of colonial empire as Rhodes scholars at Oxford University. Rhodes's will, first drafted when he was 24 and continually amended, contains his master plan for the re-establishment of a global British empire by other means as well.

In the first draft of his will Rhodes ordered that his vast fortune should form the endowment of a secret society, the very society that was later named the Round Table grouping, which would devote itself to:

The extension of British rule throughout the world . . . the colonization by British subjects of all lands where the means of livelihood are attainable by energy, labour, and enterprise and especially the occupation by British settlers of the entire Conti-

nent of Africa, the Holy Land, the Valley of the Euphrates, the islands of Cyprus and Candia [Crete], the whole of South America, the islands of the Pacific not heretofore possessed by Great Britain, the whole of the Malay Archipelago, the seaboard of China and Japan, the ultimate recovery of the United States of America as an integral part of the British Empire. . . .

Rhodes further clarified his conception of the secret society in an 1891 letter to his collaborator W. T. Stead, editor of the *Pall Mall Gazette*:

Please remember the key of my idea discussed with you is a Society copied from the Jesuits as to organization, the practical solution a differential rate [tariff]. . . . That the work, with America in the forefront, is devising tariffs to boycott your manufactures and that this is the supreme question, for I believe that England with fair play should manufacture for the world and, being a Free Trader, I believe until the world comes to its senses you should declare war—I mean a commercial war—with those who are trying to boycott your manufactures. . . . You might finish the war by union with America and universal peace, I mean after 100 years.

Sometime after Rhodes's death, the Round Table grouping became known as the Cliveden Set (after the estate at which it met) or alternately the Astor circle (named for that family of American anglophiles). By these names, Rhodes's heirs became famous for their open support of Adolf Hitler, which lasted at least until the beginning of World War II.

At arm's length: Bertrand Russell

But like the Jesuit operatives who are orchestrating both the right and left sides of the political violence destroying Central America today, the Round Table had its lines of control into every subdivision of the political spectrum. One example of their diversification is Bertrand Russell, who was an early member of the group but who later was maintained a discreet arms length from the Cliveden set. Even in his most extreme "leftist" phases, Russell had security clearance with the Round Table.

Russell began his career as an academic, during which phase he wrote vicious attacks on the founders of mathematical physics, Leibniz, Riemann, and Cantor. From World War I on, he assumed responsibilities for British intelligence, concentrating on the development of Britain's modern capacity to deploy terrorist movements. While operating as a member of pacifist and anarchist organizations, he was secretly an architect, along with Winston Churchill, of the British first-nucle-

ar-strike policy, which took the form of demands that the United States attack the Soviet Union before it developed nuclear weapons.

In 1951, in the same period as Lord Russell was openly calling for a pre-emptive nuclear strike against the Soviet Union, he wrote the following passage in *The Impact of Science on Society*:

At present the population of the world is increasing at about 58,000 per diem. War, so far, has had no very great effect on this increase, which continued throughout each of the world wars. . . . War has hitherto been disappointing in this respect . . . but perhaps bacteriological war may prove effective. If a Black Death could spread throughout the world once in every generation, survivors could procreate freely without making the world too full. The state of affairs might be unpleasant, but what of it?

Russell's conversion to the peace movement shortly thereafter, following a Soviet demonstration that the U.S.S.R. had the hydrogen bomb, should come as no surprise to those of us who have just seen a remarkably similar conversion by Robert "Body-Count" McNamara, Cyrus "Missiles" Vance, and MAD Henry Kissinger.

Russell was associated early in his career with Rhodes's protégé Lord Alfred Milner. Milner in the 1920s wrote in his *Credo*, a manifesto which could appear in the British press today.

I am a British (indeed primarily an English) nationalist. If I am also an Imperialist, it is because the destiny of the English race . . . has been to strike fresh roots in distant parts. . . . My patriotism knows no geographical but only racial limits. I am an Imperialist and not a Little Englander, because I am a British Race Patriot. . . . It is not the soil of England, dear as it is to me, which is essential to arouse my patriotism, but the speech, the tradition, the principles, the aspirations of the British race.

Milner's mentor and one of the architects of this Nazi racism was a man named Charles Dilke, who wrote in his book *Greater Britain*: "In America we have seen the struggle of the dear races against the cheap—the endeavors of the English to hold their own against the Irish and Chinese. In New Zealand, we found the stronger and more energetic race pushing from the earth the shrewd and laborious descendants of the Asian Malays. In Australia, the English were triumphant and the cheaper races excluded from the soil not by distance merely, but by arbitrary legislation; in India, we saw the

solution of the problem by the officering of the cheaper by the dearer race. Everywhere, we have found that the difficulties which impede the progress to universal dominion of the English people lie in the conflict with the cheaper races. The result of our survey is such as to give us reason for the belief that race distinctions will long continue, that miscegenation will go but a little way towards blending races, that the dearer are on the whole likely to destroy the cheaper peoples and that Saxondom will rise triumphant from the doubtful struggle."

It is not strange that with such ideology dominant among the British monarchical circles and ruling elite, Adolf Hitler would there find promoters and supporters. However, the name of the author of the following remarks (a covert member of the Russell-Milner Round Table group) may surprise you: "It is not possible to form a just judgement of a public figure who has attained the enormous dimensions of Adolf Hitler until his life work as a whole is before us. . . . History is replete with examples of men who have risen to power by employing stern, grim and even frightful methods. . . . He has succeeded in restoring Germany to the most powerful position in Europe."

No, that was not written by Neville Chamberlain (cousin to Hitler's early adviser, the infamous racist Houston Stewart Chamberlain); it was written in 1935 by his successor as British Prime Minister, Winston Churchill!

There are some poor wretches in the United States so treacherous that they are willing to welcome the viper again to our shores. They willingly ally themselves to the imperial aims of the racist British. Lest they be too sanguine about their perfidy, I would like to close by quoting some remarks on America by dear Bertie Russell. The first quotation is from a letter to his mistress, written in 1914:

I find the coloured people (in the United States) friendly and nice. They seem to have a dog's liking for the white man—the same kind of trust and ungrudging sense of inferiority. I don't feel any recoil from them."

Then in 1921, in *The Problem of China* Lord Russell wrote: "The Chinese have a civilization and a national temperament in many ways superior to those of white men. A few Europeans ultimately discover this, but Americans never do. They remain always missionaries—not of Christianity, though they often think that is what they are preaching, but of Americanism." On this trip, Russell was teaching classes in "philosophy" to Mao Tse-tung and Chou En-lai. His leading student, Mao went on to leadership of the Chinese Communist state, a position he used to promote the immiseration and depopulation of that unfortunate land.

Will Adam Smith kill Argentina?

by Mark Sonnenblick

For one faction of the Argentine military, the decision to send troops to reoccupy the Malvinas Islands on April 2 was not merely an attempt to reassert its sovereignty over some underdeveloped real estate in the South Atlantic. It represents the first step in a campaign by Argentina's nationalist faction to win the independence of their country from the destructive grip of Britain's "informal empire."

During the last century, men-of-war flying the Union Jack would often thunder into Argentine waters to enforce a London ultimatum. Such unsightly behavior has not been necessary in more recent times. The European financial oligarchy has found it far more convenient to operate through Argentinian finance ministers, who have faithfully executed the orders handed down from the London banks, the Swiss-based Bank for International Settlements, and the International Monetary Fund.

During the past six years, the "free-enterprise" policies forced on Argentina by these banks have so efficiently wiped out Argentine industry that the people of what was until recently the most advanced country in Latin America found them themselves well on the way to being transformed into a nation of shepherds, like the "Falkland kelpers" who recognized the British flag.

When the nationalists in Argentina's military saw the ax about to fall on the last viable sectors of the nation's economy—those central to the national defense—they revolted. For the most enlightened sections of the armed forces, the repossession of the Malvinas Islands from the Queen of England was *not* a "target of opportunity" to distract an angry population from the hardships of economic collapse, but rather a way of attacking British free-enterprise economics, the *cause* of Argentina's economic crisis. It is not at all to the liking of Argentina's nationalist military faction that Argentina has marched toward the status characterized by the *Sunday Times* of London as a "once-industrialized nation" by applying the free-enterprise economics that have reduced Great Britain to a pile of industrial rubble.

Military strategists like retired Gen. Juan Guglielmeli, publisher of the prestigious *Estrategia* journal, view their nation's history as a perennial battle between those

patriots like President Carlos Pelligrini (1890-92), who fought to develop and protect Argentina's industrial capabilities, and who recognized as their enemies the English "free-trade" liberals who favored locking Argentina into a pastoral existence. Although sharply critical of recent U.S. policies toward Latin America, Guglielmeli has a profound respect for the economic outlook of George Washington's Treasury Secretary Alexander Hamilton, the American System of economics which built America into the greatest industrial nation in the world. In fact, Guglielmeli's circle in Argentina, the architects of the Japanese economic miracle, and the U.S. policy makers grouped around *EIR* founder Lyndon H. LaRouche, are the only advocates of the Hamiltonian American System active in the world today.

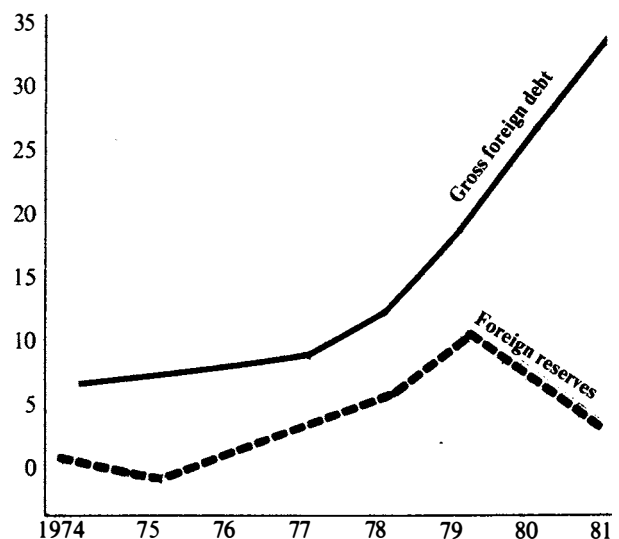
The Argentine daily *Clarín*, which has also promoted Henry Carey's formulas for the central government-directed development of industry and the productive work force, attacked the British-trained economic authorities who have strangled Argentina's industry by allowing speculators to run up interest rates. "The country cannot be guided by the 'invisible hand' of Adam Smith," wrote *Clarín*. "Rather it requires the very 'visible' hand of a finance minister who doesn't delegate his powers to the perturbed free market."

Roberto Alemann's economic disaster

The immediate target of *Clarín*, and of the military nationalists who executed the Malvinas takeover, is Argentine Finance Minister Roberto Alemann. Alemann is Swiss-born and Swiss-trained, in large part

Figure 1
Profile of Argentine foreign debt

(in billions of U.S. dollars at end of year)



Source: Banco Central

Figure 2
Argentine balance of payments

(in billions of current U.S. dollars)

	1975	1976	1977	1978	1979	1980	1981
Exports (fob)	3.0	3.9	5.7	6.4	7.8	8.0	9.2
Imports (cif)	3.9	3.0	4.2	3.8	6.3	10.5	9.2
Trade balance	-1.0	0.9	1.5	2.6	1.5	-2.5	0.0
Service balance	-1.2	-0.8	-1.0	-1.4	-1.6	-2.3	-3.7
Net capital inflow	0.2	-0.5	1.5	1.3	4.4	2.6	0.5
Reserves changes	-0.8	1.2	2.2	2.0	4.4	-2.8	-3.8
Gross foreign debt	7.9	8.3	9.7	12.5	19.0	27.2	34.0

(at year end)

Source: Banco Central



through his stint as the Argentine representative of the Union Bank of Switzerland. Like his predecessor, José Martínez de Hoz, Alemann's allegiance to British free-enterprise economics is a matter of public record: Alemann has repeatedly asserted that Argentina's "natural vocation" is that of a deindustrialized supplier of raw materials to the world commodity markets controlled by London. Both Alemann and de Hoz used their time in office to attempt to reduce Argentina to the status of a pastoral protectorate of Great Britain.

Argentine workers felt the impact of these policies when an indefinite wage freeze was imposed by Alemann in January. Since then inflation has eroded 22 percent of their wages.

Every day additional plants close their doors. Industrialists are lectured on the Darwinist dictum of "the survival of the fittest." Both de Hoz and Alemann worked to strip away Argentina's protective tariffs and wipe out broad-based purchasing power. Industrial bankruptcies are at a record rate. Industrial employment has fallen by more than a third since de Hoz took office in 1976, as a result of plant closings. Output fell 16 percent in 1981 alone, and is still plunging. The bankrupted industrialists have been so severely weakened that their demands for new growth policies have been cavalierly ignored by finance ministers whose eyes, hearts, and bank accounts are in London and Zürich.

Finance Minister Alemann, however, stretched his luck too far when he began in earnest to sell off the country's huge military industries, its substantial reserves of oil and gas, and other sections of publicly owned industry. To the London banking houses, these enterprises are "deficit-ridden white elephants." To major factions of the Argentina military, on the other hand, they are the bulwarks of national security.

The more elements in the military had let themselves be dazzled by sweet talk from the de Hoz and Alemann

monetarists about how letting "the winds of free competition blow away inefficient and artificially sustained" civilian industry would "reduce inflation" and "stimulate modernization." But when Alemann swore to cut military budgets, slash the nuclear-energy program, sell off the state oil company, and close down the military industries, the military nationalists drew the line, and countered by taking back the Malvinas, whose territorial waters include rich oil deposits.

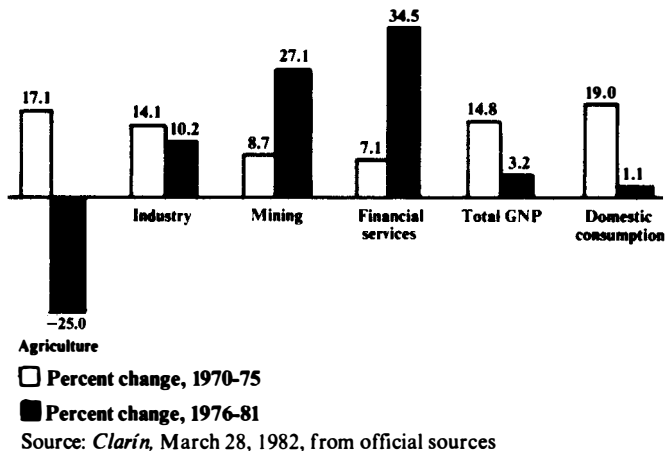
The timing of the nationalists' counter-attack on the Malvinas was also influenced by the March 30 upsurge of labor against Alemann's murderous economic policies. This made it patently obvious—even to President Leopoldo Galtieri, who had appointed Alemann—that his policies had no social base. The military nationalists let Galtieri know they were unwilling to use repression to protect Alemann—and Galtieri—from the growing rage of the population. "Alemann is more damaging to Argentina than a British submarine," declared one labor leader. Galtieri is now faced with the choice of either dumping Alemann and working with nationalist military leaders, or finding his own position endangered.

The legacy of Dr. de Hoz

Repeated efforts by Argentines to develop modern industry have been short-circuited by the polo-playing, tea-sipping oligarchy of Argentina's agricultural exporters. A prime specimen is Dr. José Martínez de Hoz, Argentine Finance Minister from 1976 until March of last year. De Hoz grew up in England with an English nanny, attended Britain's elite Eton and Oxford amidst other royal family retainers, and to this day, speaks a more perfect Queen's English than Spanish.

While in power, de Hoz eloquently articulated the "free-market" doctrines of quack Milton Friedman and fought to dismantle the industry built up under state

Figure 3
How Thatcherism has hurt
Argentine economic performance



sponsorship by predecessors who had been influenced by the American system. De Hoz enjoyed safaris with Henry Kissinger and asked that Argentina become the "fourth leg of the Trilateral Commission," the round table of North American, European, and Japanese spokesmen who promote oligarchic economic interests internationally.

During his five years in office, he more than tripled Argentina's foreign debt from \$8 billion to \$27 billion. One might think this infusion of almost \$20 billion in foreign capital during a very few years would have launched Argentina into a spectacular economic take-off. Argentina is one of the few developing nations which had a literate and skilled workforce; a mature, diversified industrial base; fertile plains comparable to the American Midwest; and near self-sufficiency in

Figure 4
Industrial capacity utilization

(percent of capacity utilized during month)

Industry	September 1981	February 1982
Steel	47.0	46.6
Automotive	20.1	30.7
Cement	68.8	53.2
Paper	57.1	43.5
Meat packing	57.1	50.8
Synthetic fibers	39.4	27.4
Oil refining	75.7	72.5

Source: Instituto de Economía, UADE (Argentine Business University)

energy supplies. It was probably the Third World country best prepared to put that capital to profitable reproductive use.

Despite all these advantages, the monetarist free-enterprise policies pursued by the "wizard of Hoz" left the country stripped of industry, with a looted agricultural sector, and with a debt vulnerability that the Bank of England is now going to town with. De Hoz inserted the national economy into the "free play" of the Euro-dollar market, resulting in one of the most spectacular asset-stripping operations in the history of world monetarism.

Hot-money bubble

Starting in 1978, de Hoz organized the whole economy in the interests of international monetary speculation. He cut back on credit in the economy, which forced up interest rates to sky-high levels. At the same time he guaranteed in advance that the peso would be devalued each month at a rate far lower than the peso interest rate. This meant that any institution which follows that orientation could send \$1 million into Argentina and be sure to take out over \$1,040,000 at the end of the month. That gave the speculators an annual net profit in dollars of 30 to 50 percent, with little risk.

About \$6 billion in "hot money" flew into Argentina to make a killing on this "Argentine merry-go-round." Domestic capital was sucked into the same quick-buck whirlpool. The Wall Street banks jumped into the insanity, while on the side granting Argentina huge loans to permit the middle class to lose its bearings in an orgy of foreign shopping trips. This credit-financed consumers' spree created an aura of prosperity while usury was destroying the productive sectors of the economy.

As with all such chain-letter monetarist hoaxes, the Argentine bubble had to burst. During 1980, so many of the industrial and agricultural borrowers collapsed under the burden of their debt pyramids that banks began to crumble. De Hoz propped up his economic fraud with infusions of foreign bank loans until the closing months of his term, when he exploded the bubble.

De Hoz warned his speculator friends to pull their chestnuts out of the fire. Successive waves of panicky capital flight triggered one devaluation after another. At the beginning of 1981, you could buy a dollar with less than 2,000 pesos; at year end, you needed over 10,000. (When the legal exchange market closed down this April, it took 14,000 to buy a dollar.) Companies which had borrowed in dollars went under; factories could not afford to import needed inputs; everybody was illiquid and interest rates remained high. For nine months, President Roberto Viola and his finance min-

ister were paralyzed and unable to take counter-measures. They were driven out of office by the military.

On Dec. 11, 1981, Army Commander Leopoldo Galtieri seized Argentina's presidency in a bloodless coup. According to an Argentinian diplomat, Galtieri had been encouraged to make this move by the public endorsement given him by such figures as Gen. Vernon Walters, U.S. Secretary of Defense Caspar Weinberger, and former National Security Adviser Richard Allen during the last of Galtieri's three 1981 visits to Washington.

The coup was not so much directed against the ailing General Viola, who had already practically withdrawn from the presidency. Its primary target was the anti-speculation measures issued by Interior Minister Gen. Horacio Liendo in the early days of December. Such controls were intolerable to the City of London. As was explained to *EIR* by a senior official of a Wall Street bank, London's banking interests offered Galtieri the presidency, and six months of peace, if he appointed Swiss banker Roberto Alemann to the finance ministry once he had seized it. In London's eyes, Alemann was the perfect candidate to finish off the deindustrialization that de Hoz had begun.

'War economy' for Argentina?

But as the military nationalists have made manifestly clear to Galtieri, the Malvinas crisis has transformed Alemann from an asset to a liability for an Argentinian president who wishes to stay in power. Alemann's many enemies are calling for a sweeping series of measures to salvage the industrial and agricultural sectors, including debt moratoria, tariff protection, export assistance, and sharp penalties against speculators and currency-flight operators. They characterize such a program as a "war economy" for Argentina.

Alemann has conceded that his opponents want "a war economy, but it is a war against me." American bankers also fear that this war economy may be put into place. Belated U.S. banking efforts to aid Alemann include the April 23 decision of an American banking consortium which had previously suspended all new loans to Argentina in the wake of the Malvinas crisis to release a \$60 million 180-day credit. But this may not save Alemann. His boss President Galtieri is the son of a poor Italo-Argentine artisan. Galtieri did not fight his way up to the presidency in order to lose it in the service of British free-trade economics.

If the Argentine leader does chart a course for economic revival and national unity, his success will be in large part determined by America's willingness to help finance the reconstruction of Argentina's ravaged industrial economy. This kind of cooperation, in the spirit of hemispheric alliance, would create jobs from Buenos Aires to Milwaukee.

The free-market record

The comparison of Argentina's productive sector, Gross National Product, and consumption figures for the 1970-75 period with the 1976-81 period (see Figure 3) demonstrates the economic disaster created by the application of the monetarist "free enterprise" system in that nation. The first period was one of extreme political turbulence until the widely welcomed military coup of early 1976. But even under these conditions, Argentina's economy fared better than during the reigns the British-allied finance ministers Roberto Alemann and José Martínez de Hoz, which began in April 1976. Since then, substantial growth has been achieved only in the wasteful "financial services" sector, which expanded by 34.5 percent, and in mining, which increased by 27.1 percent, largely in response to incentives for private oil production. Agriculture, which was supposed to be favored by the elimination of export taxes and of tariffs on inputs, grew less than during the preceding period. The tractor industry disappeared entirely.

Industrial production had shown respectable growth during the high-wage period previous to 1976, but collapsed by 25 percent during the recent professedly pro-business period. As one banker told *EIR*, "Whatever progress Argentina made in industry has taken a great step backwards over the last half-decade."

A telling indication of the level of investment in modernization of production facilities is the level of machinery and equipment output, which was down 39.5 percent in the fourth quarter of 1981 from a year earlier. The exceptions were aluminum and oil refining, which were protected by the military. By February 1982 most industries were using only 30 to 60 percent of the capacity (see Figure 40).

The impact of the economic collapse on labor has been equally dramatic. The FIEL think tank has produced statistics showing that from 1974 to 1981, the number of productive workers employed in industry fell by 29.7 percent. Since industrial production has continued to fall, the decline is probably close to 35 percent now. "Free enterprise" has been equally painful for workers who have remained employed. *Ambito Financiero*, an Argentine business daily, reported March 19 that during the year 1981 real wages for skilled workers fell by 15.9 percent, and those of unskilled by 18 percent. Malnutrition is now rampant in a population that until recently had the highest standards of living, and education, in Latin America.

The Monroe Doctrine was aimed at Britain

by Nancy and Edward Spannaus

With the declaration of the Monroe Doctrine on Dec. 2, 1823, the United States pledged itself as the unique and sole defender of the republican independence of the nation-states of the Western Hemisphere, against the oligarchical adventures and intrigues of the European nations of the Holy Alliance. This fact surprises most Americans, who have been told that President James Monroe's declaration was the beginning of a new Anglo-American alliance for imperialist domination of the emerging nations of Latin America. But a review of American history shows that the primary target against which the Monroe Doctrine was established, and against which it has been invoked by U.S. Presidents, was the grasping British empire, and that the Monroe Doctrine is a fundamental extension of U.S. constitutional law.

Great Britain had by no means given up hopes of expansion in the Western Hemisphere by the early 1820s, hardly a decade after the War of 1812. The United States had recognized the independence of Colombia, Peru, Chile, Buenos Aires (capital of what is now Argentina, then the United Provinces of the Rio de la Plata), and Mexico, but Great Britain had recognized none. Pleased that the empires of Spain and France had been curtailed in the New World, the British still had by no means reconciled themselves to the end of colonialism—as their control of colonial Canada today underlines.

Yet in 1823 British Prime Minister George Canning made an offer to the United States which he believed it could not refuse. In discussions with U.S. Ambassador to London Richard Rush, Canning proposed a joint U.S.-British declaration to guarantee the emancipation of Spain's colonies in the Western Hemisphere. The five-point declaration stated that Spain's former colonies should not be recoverable by Spain, nor transferred to any other power, although it renounced claims by the authors to impede negotiations between Spain and the colonies or take possession themselves. Within this Wilsonian rhetoric, however, there was one tell-tale omission: Rather than recognizing the former Spanish colonies as independent states, the Canning proposal said: "We conceive the question of the recognition of them, as Independent States, to be one of time and circumstances."

John Quincy Adams—the statesman who represented the very best of the American System tradition inherited from his father John Adams and his mentor Benjamin Franklin—was the only principal in the Monroe administration not taken in by the Canning declaration. While President Monroe was receiving advice from former Presidents Jefferson and Madison to the effect that such a de facto alliance with Great Britain would be the best protection for the militarily weak United States, Quincy Adams launched a campaign for a unilateral U.S. declaration against all the oligarchical powers of Europe.

No community of principle with Britain

Quincy Adams, who was to be elected to the presidency the next year, had, throughout his service as a statesman, worked to strengthen America's commitment to the spread of republicanism in Latin America. Even before the United States had recognized many of the continent's new nations, Quincy Adams wrote: "The emancipation of the South American continent opens to the whole race of man prospects of futurity in which this Union will be called in the discharge of its duties to itself and to unnumbered ages of posterity to take a conspicuous and leading role. . . . That the fabric of our social connections with our southern neighbors may rise in the lapse of years with a grandeur and harmony of proportions corresponding with the magnificence of the means placed by Providence in our power and that of our descendants; its foundations must be laid in principles of politics and of morals, new and distasteful to the thrones and dominations of the elder world. . . ." (Letter to Richard Anderson, U.S. minister in Bogota, Colombia, May 27, 1823.)

When Canning's proposal reached his desk later in 1823, world events made clear to Quincy Adams the necessity of defending the principles of non-colonization, and non-interference in the Western Hemisphere by all the powers of the Holy Alliance. Russia was at the very same time in negotiations with the United States about lands it claimed along the Pacific coast in what is today the state of Oregon. France also had claims against Middle America.

On the face of it, Britain was the only one of the Holy Alliance powers willing to renounce colonization, and was the strongest of these powers in military terms. But John Quincy Adams argued that as long as Great Britain would not recognize the sovereign independence of the new nations in the Western Hemisphere, the United States could not even entertain the idea of signing a parallel declaration with the British, much less a joint declaration. He wrote: "So long as Great Britain withholds the recognition of that [independence], we may, as we certainly do, concur with her in the aversion

to the transfer to any other power of any of the Colonies in this Hemisphere, heretofore or yet, belonging to Spain; but the principles of that aversion, so far as they are common to both parties, resting only upon a casual coincidence of interests, in a national point of view *selfish* on both sides, would be liable to dissolution by every change of phase in the aspect of European politics. . . . Britain and America . . . would not be bound by 'any permanent community of principle.' ”

Adams's concept of a community of principle was well-known among the proponents of the American System at the time, including the Marquis de Lafayette. It meant relations between states were to be based on mutual respect for national sovereignty, that sovereignty itself being defined not by mere brute exercise of power, but by the commitment to the betterment of its population morally and materially. Such a commitment to the principle of sovereignty demanded peaceful relations among states and stood in total contrast to the maneuverings for looting arrangements that characterized the relations among the European powers.

Thus John Quincy Adams wrote in his diary of Nov. 7, 1823 that an independent American declaration of support for republics of Latin America against the European powers was necessary because: “It affords a very suitable and convenient opportunity for us to take our stand against the Holy Alliance and at the same time to decline the overture of Great Britain. It would be more candid, as well as more dignified, to avow our principles explicitly to Russia and France, than to come in as a cock-boat in the wake of the British man-of-war.”

Promulgation of the Monroe Doctrine

President Monroe was won to Quincy Adams's position. On Dec. 2, 1823, the Monroe Doctrine was promulgated, echoing the policy enunciated in the *Federalist Papers* and George Washington's great Farewell Address, in which our first President warned of entanglements with the politics or controversies of Europe on the grounds that the United States as a constitutional republic must not subordinate its interests to those of the European oligarchies. The Monroe Doctrine extended this protection to all the nations of the hemisphere: “as a principle in which the rights and interests of the United States are involved, . . . the American continents, by the free and independent condition which they have assumed and maintain, are henceforth not to be considered as subjects for future colonization by any European powers. . . . In the wars of the European powers in matters relating to themselves we have never taken any part, nor does it comport with our policy to do so. It is only when our rights are invaded or seriously menaced that we resent injuries or make preparation for our defense. With the movements

in this hemisphere we are of necessity more immediately connected, and by causes which must be obvious to all enlightened and impartial observers. The political system of the allied powers is essentially different in this respect from that of America. This difference proceeds from that which exists in their respective Governments; and to the defense of our own, which has been achieved by the loss of so much blood and treasure, and matured by the wisdom of their most enlightened citizens, and under which we have enjoyed unexampled felicity, this whole nation is devoted. *We owe it, therefore, to candor and the amicable relations existing between the United States and those powers to declare that we should consider any attempt on their part to extend their system to any portion of this hemisphere as dangerous to our peace and safety.*”

Within a few years of Monroe's proclamation, it had become a guideline for U.S. foreign policy. In 1825, President John Quincy Adams's Secretary of State Henry Clay sent a set of instructions to Joel Poinsett, the U.S. minister in Mexico, directing Poinsett to bring the Mexicans' attention to Monroe's message “*asserting certain important principles of intercontinental law, in the relations of Europe and America.*” The first principle was that the Americas would no longer be considered subjects for colonization by European powers. The second principle, wrote Clay, is that “we should regard as dangerous to our peace and safety” any effort on the part of Europe “to extend their political system to any portion of this hemisphere. The political systems of the two continents are essentially different.”

In 1863, Mexican President Benito Juarez urged the United States to invoke the Monroe Doctrine against the attempts of the Swiss financial oligarchy to impose a monarchy on Mexico to guarantee the payment of that nation's foreign debt. Under the London Convention of October 1863, the navies of France, England, and Spain, and more than 20,000 troops, had combined to mount an invasion of Mexico to revoke the Mexican government's sovereign decision to impose a debt moratorium against those countries.

The weakness of the war-torn United States prevented Lincoln from going to the aid of his ally Juarez. There are numerous documents demonstrating that Lincoln's strategy was to fight his battles one at a time, with this basic concern at that time being to safeguard the Union, and to neutralize British agents of influence, who, like his Secretary of State Seward, were working against him from within.

The Venezuela dispute

In 1895, President Grover Cleveland invoked the Monroe Doctrine against Britain during the British-Venezuela boundary dispute concerning “British” Guiana. The British raised the objection that the Mon-

roe Doctrine was incomplete and not a part of international law. Cleveland responded that the doctrine “was intended to apply to every stage in our national life and cannot become obsolete while our republic endures.” Cleveland added that the doctrine “has its place in the code of international law as certainly and securely as if it were specifically mentioned.”

At Cleveland’s instruction, his Secretary of State Richard Olney delivered a long message to the U.S. ambassador in London for transmittal to Lord Salisbury. The Monroe Doctrine, wrote Olney, applied the logic of Washington’s Farewell Address by declaring that American non-intervention in European affairs necessarily implied European non-intervention in American affairs. “The rule is . . . that no European power or combination of European powers shall forcibly deprive any American state of the right and power of self-government and of shaping for itself its own political fortunes and destinies. That the rule thus defined has been the accepted public law of this country ever since its promulgation cannot be fairly denied.” Olney continued: “What is true of the material, is no less true of what may be termed the moral interests involved. . . . Europe as a whole is monarchical, and, with the single important exception of the republic of France, is committed to the monarchical principle. America, on the other hand, is devoted to exactly the opposite principle.”

In the 20th century

Although it is the case that British-influenced occupants of the White House and State Department in the 20th century—especially Theodore Roosevelt—have more often applied the Monroe Doctrine in service of the financial interests of the European oligarchy, the spirit of James Monroe and John Quincy Adams’s original declaration was still alive in the April 19, 1939 speech of Franklin Delano Roosevelt to the Pan-American Congress. “The American family of nations pays honor to the oldest and most successful association of sovereign nations which exists in the world,” Roosevelt told the Congress. “What is it that has protected us from the tragic involvements which are today making the old world a new cockpit of old struggles? The answer is easily found. A new and powerful ideal—that of the community of nations—sprang up at the same time the Americas became free and independent. . . . The American peace we celebrate today has no quality of weakness in it. We are prepared to maintain it and defend it to the fullest extent of our strength, matching force to force if any attempt is made to subvert our institutions, or impair the independence of any one of our group.

“Should the method of attack be that of economic pressure, I pledge that my own country will also give economic support, so that no American nation need

surrender any fraction of its sovereign freedom to maintain its economic welfare. This is the spirit and the intent of the Declaration of Lima: the solidarity of the American continent. . . .”

When the U.S. invoked the Monroe Doctrine

by Mark Sonnenblick

- **1823: Monroe Doctrine proclaimed**
- **1825-26: Bolivar’s Panama Congress**

President John Quincy Adams, author of Monroe’s message, dispatched two delegates to a conference of American nations called in Panama by the British-run “liberator,” Simon Bolivar. Bolivar’s agenda would have made Spain’s former colonies into British protectorates, but the Monroe Doctrine aided Latin republicans to foil Bolivar’s plot.

- **1833: Malvinas Islands**

The Monroe Doctrine was *not* invoked in response to the first major overt violation of its principles, because the traitorous administration of President Andrew Jackson was an active participant. In 1831, the *U.S. Lexington* reacted to Argentine efforts to enforce sovereignty over whalers operating in and around the Malvinas by physically devastating the Argentine settlement. Argentina broke relations with the United States and pressed fruitless claims for reparations. Secure they could mock the Monroe Doctrine with impunity, the British grabbed the battered “Falklands.”

- **1838: French intervention into Mexico**

France blockaded Mexico’s main port from 1837 to 1839 to collect debt claims. In 1838 the House of Representatives unanimously passed the resolution of Rep. Caleb Cushing (Mass.) quoting Monroe’s message and questioning “the ulterior views and designs of the French government with regard to the Mexican Republic.”

- **1838-45: British and French blockade of Argentina**

In 1838 British and French fleets jointly occupied the Plate River (in Argentina) to attempt to overthrow the Rosas government of Argentina and make Uruguay a British protectorate. The United States repeatedly protested in the name of the Monroe Doctrine.

- **1842-48: Texas**

President Tyler’s 1842 message to Congress threatened “war between the United States and Great Britain”

should Britain not stop its project for controlling the proxy republic of Texas. On Dec. 2, 1845, a statement by President Polk strongly reiterated the Monroe Doctrine and extended it to cover all "European interference" in the American republics. But Polk's use of the Monroe Doctrine as cover for the expansion of slavery caused many in Congress to question its use.

- **1842-45: California**

U.S. Commodore Thomas Jones briefly occupied Monterey in the name of the Monroe Doctrine to pre-empt a British conspiracy to assure, in the words of British Minister Pakenham, "that California, once ceasing to belong to Mexico, should not fall into the hands of any Power but England." The Monroe Doctrine was also invoked by Secretary of State Buchanan on the same question in 1845.

- **1844: Oregon**

A House of Representatives committee report on British plans to extend Canada to Oregon stated that the Monroe Doctrine "has deservedly come to be regarded as an essential part of the international law of the New World." President Polk stated, "Let a fixed principle of our Government be not to permit Great Britain or any other foreign power to plant a colony or hold dominion over any portion of the people or territory of either [American] continent."

- **1848: Yucatán Indian rebellion**

From its colony in Belize, the British armed the Indians of Yucatán and encouraged them to rebel against the local government. The United States feared Britain could take over Yucatán and then Mexico. The United States intervened with military force to help crush the rebellion. Polk stated, "the transfer of dominion or sovereignty either to Spain, Great Britain or any other power" would not be tolerated under the principles enunciated by President Monroe.

- **1841-48: Mosquito coast**

In 1848 several Britons raised a crude Union Jack on the Caribbean coast of Central America and claimed most of that coast in the name of the "Kingdom of the Mosquito Indians." In 1845, Nueva Granada (now Colombia) appealed for the United States to invoke the Monroe Doctrine, which it did in 1847 and 1848.

- **1861: Spanish re-annexation of Santo Domingo**

With the United States locked in civil war, Spain landed troops in Santo Domingo and declared the Dominican Republic again part of Spain. Lincoln's representative in Spain, William Preston, protested, "There is no doctrine in which my government is more fixed than in its determination to resist any attempt of an European power to interfere for the purpose of controlling the

destiny of the American republics or reestablishing over them monarchical power. . . ." Preston later threatened Spain with war. Spain withdrew just as the Union won the Civil War.

- **1861-67: Hapsburg monarchy in Mexico**

In late 1861, French and British troops landed in Mexico on the pretext of collecting debts. Lincoln immediately sent messages explaining the principles of the Monroe Doctrine to the European governments. Congress approved a resolution supporting the Monroe Doctrine as U.S. policy by a 109-0 vote.

- **1864: Spain reclaims Peruvian islands**

On the grounds that Spain never recognized Spanish America's independence, Spain seized Peru's Guano islands. Lincoln protested, leading to a Spanish promise to withdraw, not to recover any part of its former colonies, and to recognize the Monroe Doctrine.

- **1884: French base in Haiti**

Secretary of State Frelinghuysen objected to plans for Haiti to sell France a naval base on straits between Haiti and Cuba. France backed down rather than "expose us to confront the redoubtable Monroe Doctrine. . . . You shall not have, at least at this time, an occasion to apply it against us."

- **1889: Pan American Conference**

Secretary of State James Blaine finally fulfilled his dream of uniting the American republics for peace and mutual economic development. The Pan American Union continentalized the Monroe Doctrine and set up the framework for Organization of American States and the Rio Treaty of 1947.

- **1902: Calvo Doctrine**

British and German gunboats attacked Venezuela and blockaded its harbor to collect debts. Argentine Foreign Minister Luis Drago extended the Monroe Doctrine, "a doctrine to which the Argentine Republic has heretofore solemnly adhered, to mean that the public debt cannot occasion armed intervention nor even the actual occupation of the territory of American nations by a European power. . . ."

- **1904: Roosevelt Corollary**

Teddy Roosevelt, a tool of the British Morgan bankers, responded that, in order to prevent European intervention to collect debts, "the adherence of the United States to the Monroe Doctrine may force the United States, however reluctantly, in flagrant cases of such wrongdoing or impotence, to the exercise of an international police power. . . ." Roosevelt thereby turned the Monroe Doctrine on its head. It has never recovered its original meaning.

LaRouche in India: how to end the world depression

by Paul Zykofsky, New Delhi Bureau Chief

This statement was released in New Delhi, India, April 23.

Prominent American economist and political leader Lyndon H. LaRouche, Jr., who is on a two-week visit to India, paid a call today on the Prime Minister, Mrs. Indira Gandhi. Mr. LaRouche, accompanied by his wife Helga Zepp LaRouche, spent more than 35 minutes with the Indian leader and had what was described as a cordial exchange of views.

Mr. LaRouche, a former candidate for the Democratic party nomination for President in 1980 and presently chairman of a national faction of the Democratic party, the National Democratic Policy Committee, has been touring India, meeting various groups, including prominent scientists, and speaking publicly at scientific institutions and universities.

Mr. LaRouche delivered a major policy address today on "A New Approach to North-South Relations" before the Indian Council of World Affairs in New Delhi. He called for a new "grand design" for a new world economic order based on a three-way agreement combining "East-West" and "North-South" in a "general comprehensive agreement on broad lines of planning and policy" for concrete objectives in economic development.

Combining U.S.-Japanese-Western European assistance to the Soviet Union for the development of the Ural and Siberian regions, such cooperation would in turn create new productive capacities which could be exported in the form of capital goods to developing countries for "joint projects in three-way trade." "We would agree,"

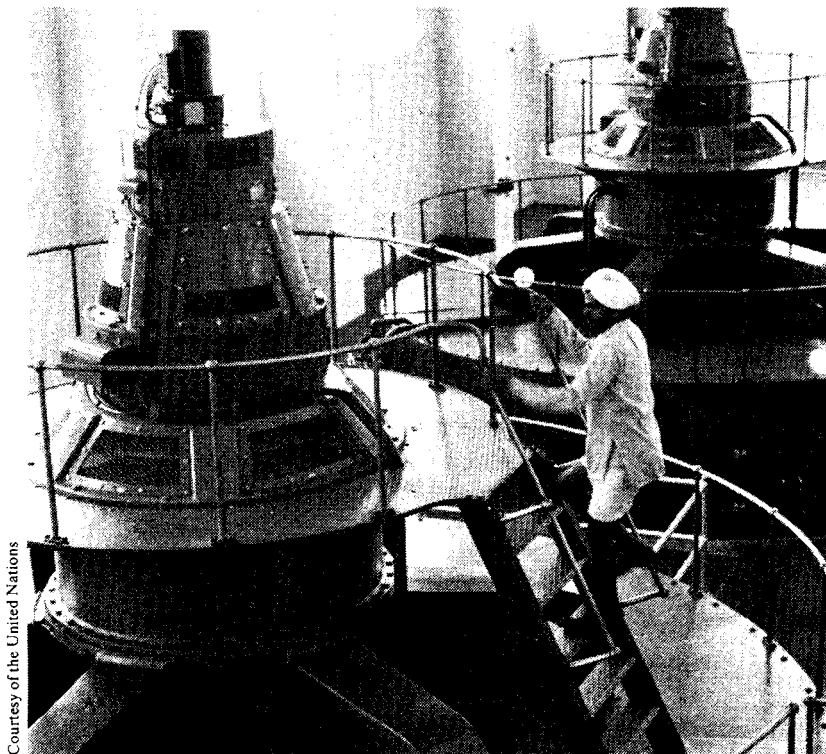
Mr. LaRouche told the Indian audience, "that over a period of 25 to 50 years, certain general economic projects have to be accomplished, organizing new credit mechanisms to facilitate meeting those objectives.

"Only such a grand design," Mr. LaRouche stressed, can avert the crisis of world depression and thermonuclear war that now faces the world. "New proposals for North-South relations are pointless as long as they are technical because the problem is two-fold," he said. "First of all because the dominant institutions of Western Europe and the United States—the Anglo-American forces centered around the Bank for International Settlements, the International Monetary Fund, the City of London and the New York banks—are absolutely determined to crush the developing sector economies to facilitate their depopulation.

"The second aspect of the problem," he continued, "is the presence of the British system of economics, the economics of oligarchism, of 'free trade' economics, against which the American Revolution was fought and the American System of economics developed."

Mr. LaRouche concluded his policy address with a call for developing nations to "ignore the Brandt Commission nonsense" and make unilateral initiatives to "stop world depression, not by peace negotiations, not by disarmament, but by creating conditions under which peace negotiations are unnecessary and under which disarmament does not require negotiation."

"Therefore, I propose that the developing nations and/or spokesmen of them, whether official or unoffi-



Courtesy of the United Nations

Twenty-nine years ago the first hydro-electric generator of India's Tilaiya Dam was switched on. In an international order based on scientific and technological progress, India would be an indispensable bridge among "North," "South," "East" and "West."

cial, make a unilateral statement to this effect: that there be international cooperation on East-West, North-South development in an interrelated manner; that conditions of political stability and peace be premised on the mutual self-interest of the parties in economic development. Because this is a time of crisis, and because that which I have been proposing since 1974 has been suppressed and rejected and made a figure of attack by prevailing institutions, those very institutions have weakened themselves in conditions of depression.

"Now perhaps we can intervene and appeal to the conscience of nations, nations which now themselves despise these institutions.

"If we give leadership, if you of the developing sector give leadership this time when your intervention is needed, perhaps even to stop World War III, perhaps you will succeed when peace and crisis negotiations have failed."

'The United States must stop Britain'

The following article appeared April 23 on the front page of the progressive national Indian daily, The Patriot, published in New Delhi, during a two-week tour to India by EIR founder Lyndon LaRouche.

The U.S. will face a major foreign policy debacle if it

does not stop Mrs. Thatcher's government from carrying out a threat of armed action against Argentina on the Malvinas (Falklands) Islands issue, according to the Chairman of the National Democratic Policy Committee of the United States, Lyndon LaRouche.

A noted U.S. economist, Mr. LaRouche is currently on a visit to this country.

If the U.S. "does not oblige the British fleet to turn back, and if, as a consequence of the U.S. failing to do that, hostilities break out between Argentina and British forces, then the entire international strategic situation would deteriorate.

"This would mean that the entirety of Latin America would turn against the United States, which would have no credibility in foreign policy in any part of the world," Mr. LaRouche said in an exclusive interview.

Mr. LaRouche, who was a contender for the Democratic Party's nomination in the last Presidential election in the U.S., is accompanied by his wife, Helga Zepp-LaRouche, head of the European Labor Party.

The Monroe Doctrine was enacted after two American frigates, *The Essex* and *The Constitution*, cleared the British fleet from most of the South Atlantic and a good deal of the South Pacific during 1812 to 1815, he recalled. In this war the U.S. allied itself with what became Argentina, and the Malvinas Islands.

Mr. LaRouche described the British actions as a flagrant violation of international law and the principles underlying the arrangements the U.S. has entered into with Latin American countries. "From the standpoint of

U.S. law, the Malvinas Islands have always been Argentine territory *de jure* and the British presence there has always been in violation of the law.”

He said that under the Monroe Doctrine and various treaties ratified by the U.S. Senate, “British military action against sovereign states in the Western Hemisphere, as opposed to some colony or semi-colony is an act of warfare against the U.S.”

Replying to a question whether the British government would succeed in gaining the support of the U.S. on the grounds of the NATO alliance and the so-called alliance between the U.S. and Britain, Mr. LaRouche said it was difficult to say. There were two factions in the U.S. “One is the Anglophile section which at present dominates the State Department and Secretary of State Alexander Haig. There are also people in the naval services and the Pentagon, who for special reasons, support the British in this crisis. Furthermore, the U.S. Anglophile banking community supports the British on this question, but they may not be able to sustain that position, because their own financial interests are very much at stake in this crisis. So there is a conflict between the Anglophile group and the second faction, some simple patriots who do not have these British complications.”

Mr. LaRouche said that Israelis and others could use the diversionary implications of the South Atlantic crisis for unleashing an adventurous action in West Asia [the Mideast—ed.].

He expressed the view that Lord Carrington, former British Foreign Secretary, set this mess into motion deliberately. The Argentine press had made it clear in January of this year that Argentina was going to occupy the territory unless the British came to terms in negotiations. So when the talks in New York reportedly broke down in February, Lord Carrington knew that the Argentines were determined to intervene and occupy the Malvinas.

Mr. LaRouche pointed out that the area that it includes one of world’s richest fishing grounds used by Argentina. It is also an area that is reputed to contain oil deposits on the order of magnitude of the North Sea. So essentially what the British were trying to do was to use the *de facto* occupation of the Malvinas Islands to attempt to steal some of the richest oil reserves and fishing grounds in the Patagonian shelf.

At the same time they were building camps inside Argentina, trying to pull a coup d’état and trying to break up and steal the Argentine national oil company. These were issues that primarily triggered this explosion to rage on the part of the Argentines. That is why the British refused to negotiate.

Mr. LaRouche will call on Prime Minister Indira Gandhi during his stay in the country. He is scheduled to meet planners, economists and scientists.

LATIN AMERICA

Mexico’s growth plans under further attack

by Timothy Rush

On April 20, the same day a new 17-point austerity package was announced by Mexico’s economic cabinet, one of the country’s most powerful business ideologues sounded the call for an assault not just on the Mexican economy but on the very idea that Mexico has the potential to become a great industrial power.

Agustín Legorreta, head of the Swiss- and French-controlled private banking giant Banamex, declared that Mexico’s “principal error” of the past four years was to have grown at over 8 percent per year, and that it was now reaping the harvest of such temerity with a sharp devaluation of the peso, rapidly rising inflation, and massive international indebtedness. He particularly singled out Mexico’s industrial port-development program and expansion of steel capacity as the kind of “wrong priority” which had pushed the “all-important source of dollars, the tourism industry” into the background. Mexico’s destiny is at best, he declared, that of “reaching an intermediate stage of development.”

Legorreta’s manifesto to a business meeting, which was reproduced verbatim in all the major Mexican papers the next day, stood in the sharpest contrast to President López Portillo’s exhortation at the beginning of his administration’s historic industrialization drive: “Think big.” López Portillo’s instruction to his planners was to think of Mexico at the portals of the 21st century, and build so that Mexico in two decades would be ranked as an industrialized, not a backward, nation. Legorreta’s counter-theme on April 20 can be summed up: “Think little.” He was joined on the podium by foreign businessmen who demanded that Mexico join GATT and roll back its restrictions on 100 percent foreign investment.

Legorreta could make his call not because of any intrinsic failure of the industrialization effort. A joint study by the *EIR*, the Mexican Association for Fusion Energy (AMEF), and the Fusion Energy Foundation in early 1981, demonstrated that Mexican growth rates of 12-15 percent per year are both feasible and desirable.

Legorreta could speak as he did only because Volcker’s high international interest rates and the fall-off of oil consumption in the advanced sector had already created the depression conditions elsewhere which Legorreta indicated he had “not the slightest doubt” of being able to reproduce in Mexico.

Columnist García Soler, writing in *El Sol* April 25, noted that so far no major figures of the "think big" forces had issued a defense of the growth strategy. But those analysts for the *New York Times* and *Wall Street Journal* who have dwelt on the rise of "middle-class dissatisfaction," in reporting on the current situation, have omitted from the picture the importance of Mexico's republican historical traditions, and in particular the legacy of Article 3 of the 1917 Constitution, which declares the Mexican republic's dedication to "the constant material and social improvement of the population."

The labor movement in Mexico is one of the bastions of pro-growth sentiment. On April 22, the leaders of the organized labor movement, headed by the CTM's Fidel Velásquez, paid a well-publicized call on the President to receive his support for the traditional May Day parade and rally in the central plaza of Mexico City. López Portillo went out of his way to state that he wanted to see a "gigantic multitude" this year. His parting words at

the door: "See you there."

Noteworthy also is the role of the Mexican Labor Party (PLM), which is mounting strong electoral campaigns in Mexico City, Sonora, Monterrey, and Puebla around a program of popular mobilization for growth and economic sovereignty. The PLM's role gains particular significance in the light of a "politicking as usual" approach from the overwhelming majority of candidates of the hegemonic PRI party in this year's election, which culminates the first week of July.

Contrary to the picture fostered by the Wall Street and London financial press of an iron wall of hostile pressure on Mexico from abroad, there are forces outside Mexico still in a position to line up with Mexico's pro-growth factions.

Japan has maintained lending at a considerable clip for tangible-goods trade and development projects. Included in the most recent lending is a \$130 million package for the capital-goods expansion at Lázaro Cárdenas, and \$100 million for Pemex capital-goods acqui-

The government's new austerity package

On April 20, after a tense meeting of the economic cabinet with President José López Portillo, a set of 17 new austerity measures were released, which has gone largely unreported in the foreign financial press. Where reported, the tone has been "skepticism" about their significance in the light of increased government and PRI party spending going into July 4 elections. However, the measures represent a new ratchet of cutbacks which will be deeply felt in the country and among Mexico's prime trading partners, both before and after July 4. The principal measures:

- An additional 5 percent cut in the federal budget, beyond the 3 percent of the Feb. 19 package;
- A \$6 billion slash in imports, divided \$3 billion each on public- and private-sector account. This is fully one-fourth of Mexico's 1981 imports of \$24 billion, two-thirds of which came from the United States;
- A "strict" ceiling on net new public sector foreign indebtedness of \$11 billion. *EIR* had previously calculated that \$15 billion was the bare bones Mexico needed to get by this year without collapse levels of cut-backs;
- An injunction to all agencies of the government "to refrain, immediately, from carrying out any works

not directly related to the productive process, as well as postponing the beginning of new investments and reducing the pace of outlays in all possible cases."

The cabinet adopted the new measures with a gun to its head. BIS-IMF circles had made it clear that otherwise Mexico would face another devaluation shock. President López Portillo had charged angrily two days earlier, on April 18, that damaging rumors of a new devaluation were sweeping the country "from sources inside and outside the country." However, bending to the blackmail has not eased the threat. Highly reliable sources indicate that capital-flight operations are again at high levels.

Nor is there an immediate let-up in the pressure of weak oil markets, despite a current firming of prices. Industry minister José Andrés de Oteyza announced April 22 that Mexico was cutting back its export target levels from 1.5 mbd to 1.25, to conform with supply reductions adopted by the other major oil producers. The potential income loss is approximately \$200 million per month.

The search for new oil contracts brought de Oteyza to Washington along with Pemex director Moctezuma Cid and other high-ranking energy officials, for an unpublicized reception and dinner April 26 which from the U.S. side included Secretaries Edwards and Baldrige, and top executives of the U.S. oil multinationals. The reception was hosted by the American Petroleum Institute; according to one attendee, "De Oteyza made it plain that Mexico was interested in selling more oil."

sition. Though not on the scale of the multibillions that Mexico needs to make its overall debt obligations this year, this keeps a vital "insulated" channel of credits open to on-the-ground development projects.

West Germany was the site of Mexico's largest-ever foreign trade fair the last 10 days of April, at Hannover, where it was announced that the Veba energy group had bought a trial consignment of Mexican oil and that if refining the heavy crude works out, larger West German contracts are in the offing.

Perhaps most important is whether the outside forces

'Crime was 8% growth'

The following are excerpts from the keynote speech—delivered in a tone reminiscent of a Mexican presidential State of the Union address—given by Banamex president Agustín Legorreta to the Mexican Businessmen's Council on Foreign Affairs (CEMAI) in Mexico City April 20.

Mexico has problems—economic problems. I do not intend to deny them, but rather to discover the "hows" and "whys."

The first cause, and the most important, is that starting in 1978 we adopted an expansionist economic policy. Second, we did not formulate the ordering of our national priorities with the necessary rigor. Third, we did not make a greater effort to contain inflation. Fourth, last in order but not in importance, we demanded that the country perform above its true capacity. . . .

We should not have accelerated the economy as we did. The annual GDP growth of 8 percent was simply too much.

Concerning the ordering of priorities, let me refer to the deep-draft ports. Everyone who knows Mexico knows the need of constructing ports—except that plans for building five ports were drawn up, which meant a dispersion of our resources. It would have been preferable to have concentrated in the building of one or two.

Another case of wrong priorities is the area of steel and iron production. In view of the fact that there are many countries with excess capacity, we could have imported what was necessary to cover our necessities. I believe it was an error to assign significant resources here.

It is necessary to keep in mind that, although we have indeed been able to reduce our demographic growth, our statistics are still high, measured against international norms.

backing Mexico's premier oil-for-technology project, the next stage of its nuclear program, intensify their moves to keep the effort on track. Three U.S. companies are among the leaders in bidding for the contract, due to be awarded in August and worth \$2-3 billion. But unless the Reagan administration and U.S. businessmen pinpoint and counter Federal Reserve and IMF-directed financial pressure on Mexico, these contracts may well go down the drain.

Psychological warfare

Legorreta's manifesto set off a host of similar declarations from Malthusian ideologues in the country, some of them in the circles of power. Political scientist and sometime presidential adviser Henrique González Casanova, declared in a meeting of the PRI think tank, IEPES, April 24 that "modernization means the self-determination of collective will . . . it is *not* economic modernity." The meeting was at the home of PRI presidential candidate Miguel de la Madrid. More surprising was a statement by José Antonio Ugarte, the long-time adviser to President López Portillo who broke from his boss at a seminar on U.S.-Mexico relations. "We must fight the negative effects which rapid development has brought. We must rationally and intelligently hold back some impulses of economic growth, such as the growth of population," he declared.

The backers of such Malthusianism know that the current economic shocks, strong as they are, will not be sufficient to break the Mexican population's commitment to a future as a strong, industrialized power. Other carefully targeted psychological warfare operations have gone into effect to create mass disorientation in the country.

In the first three weeks of April, over 200 bomb threats were called into major office buildings, government ministries, and hospitals in Mexico City. Mass evacuation after mass evacuation, in some cases almost giving way to panic, plunged the city of over 13 million into fear.

At the same time the bulk of the PRI "opposition" parties, acknowledged vehicles for destabilization with no chance of winning, have stepped up regional unrest. In one of the most advanced situations, the solidarist National Action Party (PAN), pulled off a successful one-day "strike" of storeowners the third week of April in the transportation hub of north central Mexico, Torreón.

But the most significant spark for mass psychosis—with overtones of a deliberate use of an "Iran model"—is the hold of cult forms of Christianity in backward layers of the population. A new and dangerous surge of cultism is being fostered by anti-government Church layers around a "sighting" of the venerated Virgin of Guadalupe in Sonora state (see p. 47).

Countergangs in Nicaragua

Valerie Rush explains Eden Pastora's role in Central America and the British psychological-warfare tradition from which it stems.

On April 15, former Sandinista leader Eden Pastora convoked a press conference in San José, Costa Rica, to declare war against the Nicaraguan regime he had helped put into power. Pastora, who became famous throughout the world during the 1979 revolution against Somoza as "Comandante Cero," denounced the Nicaraguan junta as "bourgeois . . . corrupt, and traitors," and pledged that the nine junta members would be driven "from their mansions and Mercedes Benzes with bullets." The former Nicaraguan Vice-Minister of Defense also denounced foreign influences in Nicaragua, a presumed reference to Cuban advisers inside the country, and insisted that "only Nicaraguans can solve the problems of Nicaragua." At Pastora's side throughout the press conference was his close associate, former Panamanian Vice-Minister of Health Hugo Spadafora, a member of an oligarchic Italian family who founded a Latin American-wide mercenary force, the "Internationalist Bolivarian Brigades," which he calls the "natural allies of the Socialist International."

This is not a case of natural political fissures, betrayals, and rivalries. It is an example of the "gang/countergang" method of "low-intensity operations" perfected by British intelligence in the course of the 20th century in order to subject target populations to violent insurgencies and utter disorientation as to the identity of their true enemies, the colonial gamemasters.

The making of 'Comandante Cero'

Pastora was sponsored in the early period of the Sandinista movement by the Costa Rican ex-President, "United Brands socialist" José 'Pepe' Figueres, who had bankrolled a succession of guerrilla movements since seizing power in his own country in 1948. Figueres provided both his money and his son to the Southern Front of the Sandinistas in the 1970s, and made Pastora his pet project. Remembered as the Costa Rican president who welcomed fugitive swindler Robert Vesco and his stolen millions in the early 1970s, Figueres has been a stockholder in United Brands Company since the

1940s, when UB in Costa Rica financed the arms for his original guerrilla bands.

Since his split from the Sandinistas nine months ago, Pastora's operation has been quietly built up as an "asset" by the State Department and certain Socialist International-tainted sections of the Central Intelligence Agency. His one-time colleague, former Deputy Minister of the Interior José Valdivia, revealed at a press conference in Managua April 19 that Pastora held meetings with U.S. government officials late last year.

Asked at his press conference who is supporting his operation, Pastora answered with a smile that he was willing to accept aid from anywhere—"the CIA, the Soviet Union, political parties"—for his military campaigns.

After leaving Nicaragua, Pastora went to Guatemala to offer his services to that country's guerrilla movement. He also visited Libya, where he claims Qaddafi offered him \$5 million for his mercenary army. On a trip to the Sahara, he reported to have pledged his full support to the terrorist Polisario "national liberation struggle." His generous pledges notwithstanding, Pastora apparently lacked the courage to go with his reputation. In the Sahara, he begged off from joining the Polisario guerrillas because he said he was "a man of the tropics." Observers of his press conference in Costa Rica report that Pastora appeared under the influence of drugs.

Aptly dubbed Commander Zero, one State Department official not long ago remarked that Pastora is known to "lack smarts" but nonetheless has dreams of becoming the next "Fidel Castro or Omar Torrijos" of the region. Pastora himself once offered an insight when he stated that the only thing he has in common with Castro "is that we were both educated by the Jesuits."

A new civil war

Pastora's usefulness is far from over, however, for he is intended to play a role in fomenting the three-way civil war now looming over Nicaragua. From the north

an estimated 6,000 Somocistas, the former National Guardsmen of Anastasio Somoza, are carrying out commando raids into Nicaragua from camps across the border in Honduras. Inside the country, the Democratic Forces of Nicaragua (FDN), another group of ex-Sandinistas who are expected to join forces with Pastora, are fighting government troops in at least seven different parts of the country. And from the south, bordering Costa Rica, Pastora's commandos are launching operations as the newly-formed "Revolutionary Sandinista Front."

Not one of the groups involved has a program of action other than "liberating"—with bullets—Nicaragua. Radio broadcasts from the FDN inside Nicaragua could be mistaken for those of Radio Verceremos in El Salvador, the underground radio of the Salvadoran leftists. Both promise that the "freedom bullets of the liberation commandos will soon beat back the dictatorship."

In anticipation of widespread fighting, the Nicaraguan government has declared a state of emergency, constructing barricades and trenches throughout the country, and has promised to defend the revolution to the last man. Sandinista soldiers are reportedly burning their membership cards bearing Pastora's signature en masse, pledging "death to the traitor."

The outcome of these contending "liberation" forces will be a level of violence and destruction that will make the battles of 1979, in which 50,000 died, look mild by comparison, since none of the forces has the power to successfully overthrow the others.

Central America, as seen in the case of El Salvador, has been targeted for what the State Department has dubbed a "population war," where manipulated fighting among controlled forces will decimate what remains of the country's productive infrastructure and a large portion of the working-age population. What is not destroyed by war will fall to famine and disease.

Why? Thomas Ferguson, the Latin American case officer for the State Department's Office of Population Affairs, has explained it as strategic necessity. "There is a single theme behind all our work," he told an interviewer last year. "We must reduce population levels. . . . We look at our strategic needs, and we say that this country must lower its population—or else we will have trouble. So steps are taken." Ferguson described "your average" civil war, as in El Salvador, as too slow "to do the job." To be effective, he emphasized, "you have to pull all the males into the fighting and kill significant numbers of fertile, child-bearing-age females."

William Paddock, a United Brands employee himself for decades and adviser to Carter's *Global 2000 Report*, explained it in more strategic terms at a seminar on demographics at Georgetown University last April. Paddock, author of the Malthusian tracts *We Don't*

Know How and Famine, 1975, told his audience of policy planners that an unending cycle of instability must be created, a sort of perpetual death machine. The United States, he argued, must first support the opposition to a government, and then "the opposition to the opposition," and then the opponents of the opposition.

Gang/countergang

Paddock's lunatic scenario is not original. It was formulated at least 30 years ago by British Brigadier Frank Kitson, then in charge of British special forces and covert operations for Kenya. Kitson, who elaborates his "gang/countergang" theory of psychological warfare manipulation of national populations in his two books, *Low Intensity Operations* and *Gang-Counter-gang*, was a trainee of John Rawlings Rees, a director of London's Tavistock Institute. Rees's concern was to use psychological profiling to determine a neurotic "map" of national sectors, thereby separating out the "constitutionally inferior" layers of the population, or the "dullards," as he called them, "for proper allocation of skills." Rees was quick to determine that the dullards included most of the world's dark-skinned populations; the policy planners of the State Department have renamed the problem "overpopulation."

Kitson's strategy for defeating the potential independence movement in Kenya in the 1950s, the Mau Mau, was to use Reesian methods to create a pseudo-guerrilla, or counter-gang, movement of insurgency, then used to infiltrate, take over, and ultimately disorient and destroy the original guerrilla force. In Ireland, Kitson personally set up the provisional Irish Republican Army as a counter-gang used to perpetuate civil war in that country as well as provide a ready training-ground for British troops. In his memorandum to the British army, *Low Intensity Operations*, Kitson stresses the importance of "organizing the population along lines similar to those employed by the enemy," getting "right under the skin of the population" by using "a carefully planned and coordinated campaign of what for want of a better word must regrettably be called psychological operations."

What Kitson does not elaborate in his writings is the inevitable genocidal outcome of his Tavistockian manipulations. These were described by an American businessman close to the present situation in Central America:

"The right infiltrated the leftist movements to identify the leadership, to then kill them all. But then the left got the same idea, and infiltrated the right, and began killing its leaders. Now the countries are controlled through political assassination, and the criminals end up running the whole show."

Is Nicaragua to be the next Kitsonian testing ground?

A cowardly compromise stabilizes Helmut Schmidt... for the time being

by Rainer Apel, Bonn Bureau Chief

Political adversaries of West Germany's Chancellor Helmut Schmidt, who had hoped that the Munich National Convention of the Social Democratic Party would dissent strongly from the Chancellor's politics and would thus contribute to Schmidt's fall, were disappointed. The vast majority of the 400 delegates to the Munich convention stated their interest in keeping Schmidt in power in Bonn, and—even more important—gave general support to Schmidt's policy in NATO. Schmidt's 1979 designing of the "Double-track" approach, through which the Federal Republic made support of 1983 plans to station Euromissiles in Germany contingent on continuing negotiations between the United States and the U.S.S.R., has become an unassailable platform of his administration, which none of his opponents—left or right—have been able to justifiably oppose.

While many of the 400 delegates were far from being in full agreement with NATO's plans for stationing of the Pershing II and cruise missiles by 1983, they left no doubt that they would not allow this issue to become a lever for toppling the Chancellor's government. In spite of all disagreements, especially by the left-wing side of the SPD, with Schmidt's general policy, there was a basic commitment to avoid political maneuvers which would weaken the stability of the Schmidt government and thus enable the opposition Christian Democrats to take power in Bonn.

This least common denominator among left-wing, environmentalist, and pro-labor social democrats, which stabilized Schmidt for the time being, was made possible by a deal within the SPD leadership to not allow the Munich convention to become the occasion of major controversy. The deal, which was made before the convention started on April 19, was, however, a dirty one, since it meant that the issue of incompatibility of the SPD as a basically labor-related party with the radical environmentalist movement, which has won many sympathizers in the party, would not be debated at all. A great chance to force a clear political distance from the "greens," which would have helped the SPD in the three upcoming state-level elections of this year, was thus spoiled for the sake of "party unity."

While it is still an open question which of the different

wings in the SPD will profit more from that compromise, Schmidt will undoubtedly try to utilize the "all-party-support" gained at Munich by exactly that volatile compromise. Schmidt's first move to increase his control after the Congress was to announce a reshuffle of his cabinet. Three ministerial posts and three advisory posts were shifted around in a way that increases control wielded in the government by the right-wing SPD faction (also known as the "Kanalarbeiter").

On the party level itself, however, new trouble is already on the horizon: the SPD left-wing left no doubt that they will support the mass "peace" demonstrations planned for June 10 when U.S. President Reagan comes to Bonn to address Parliament. These demonstrations could easily become violent, U.S. and German security officials have warned, and will definitely have an "anti-American" character. New trouble can also be expected around the controversial issue of necessary investments in nuclear energy-generating projects which are being opposed by strong pro-environmentalist wings of the SPD in two of the states which will have elections this year, Hamburg and Hesse (both still governed by SPD governments).

Labor, unemployment, and energy

To a certain extent, the debates in Munich on labor politics, unemployment, and energy policy reflected the positive impact of labor-base organizing inside the SPD which from the beginning of 1981 had addressed the necessity of the SPD giving more emphasis to workers' concerns in everyday party work. A major problem of the inner-party life of the SPD since 1972 has been that the traditional profile of the party as a predominantly labor-oriented party was being shifted toward "new layers of society": the sociologists, psychologists, and other "ologists."

Since the new layers' were able to dominate the intra-party debate on politics to the extent that the necessity of formulating positions on investments in the productive industry was treated as a side-aspect, worker members became increasingly demoralized. The effects of this became clear in two state elections this year, where the SPD sustained heavy defeats, the main cause

of which had been that worker voters often saw no reason to vote for SPD candidates who showed no interest in issues of concern to labor, such as the rising rate of unemployment. Most of these dubious SPD candidates were also radical environmentalists.

The inner-party battle on the control over the party's general politics emerged during the first months of 1981, when the future of West Germany's central steel-producing region, the Dortmund region in the Ruhr, was becoming uncertain due to the EC's Davignon plan to severely limit production. A year-long fight has been conducted by Dortmund steel workers, local and regional administration officials, and some of that region's industrialists to insure that a new steel plant will be built to replace obsolete capacity being shut down. A series of labor-industry meetings pressured the state government and parliament to fund the future of tens of thousands of skilled jobs in the steel industry. As a leading official of the West German metal workers told *EIR* during the SPD Munich convention, "this fight has been very decisive for the economic situation in this country: it helped to guarantee employment in the key productive industries of this country—otherwise, unemployment would be much higher now than it is."

This statement gains significance in light of a West German unemployment rate of around two million in April, many of the unemployed being skilled workers laid off from productive industries such as auto, construction, and steel.

The same official, however, also indicated how much the dirty deal struck at the SPD executive level for the Munich SPD convention had suffocated the urgent debate on two crucial issues: currency and investment policy, and the environmentalist blockade of investments in the construction and energy-producing sectors. As the official told *EIR* in Munich, "these issues should have been on the agenda, but the party executive decided to not bring them up. They thought that if we started to debate the environmentalist problem, then the energy policy debate here would not have proceeded smoothly, and this would have caused problems during the crucial debate on NATO and the missiles problem. . . ."

As it turned out, the debate on NATO did not proceed without problems, and environmentalist members of the SPD told *EIR* they would not stop organizing against nuclear energy and big industrial projects even after the Munich SPD convention. The problem of having to confront the "green" wing of the SPD in an open debate on policies has therefore not been solved, but only postponed in Munich. It must even be feared, that the Munich "ceasefire" between the hostile lines of the SPD will break just during the crucial elections in the state of Hesse, whose SPD governor, Holger Börner, is the last reliable ally of Chancellor Schmidt on the

state level. Even marginal losses of votes due to factional warfare between the hostile wings of the Hesse SPD—the environmentalist wing is extremely strong there—could ruin Börner's chances for re-election.

The debate at the Munich convention did feature some solid arguments in favor of investment in the productive industrial sector, such as steel and construction, and during the debate on energy policies, labor-based delegates stressed the urgent need for building new conventional and nuclear power plants in order to provide reliable sources of energy for West Germany's industry. The secret deal on the party executive level not to attack the environmentalists, however, contributed to treating nuclear energy as only a secondary option after coal power. The chairman of the West German mining workers, Adolf Schmidt, however, stressed in his presentation that the high temperature reactor technology was key to developing ways of processing coal into more valuable products than just fuel for power-generating facilities, as it is still the case today.

Among the positive aspects of the Munich convention debate on energy was that a call for a two-year construction ban on all nuclear power projects, written by the "green wing" of the SPD, was voted down by a 60 to 40 percent margin.

NATO disarmament and the peace movement

As had been predicted before the Munich convention started, the debate on NATO, the Euromissiles, and the peace movement became the most controversial. Political lobbying from the side of the SPD's labor-base had, however, succeeded in making the unemployment and investment issue the number-one topic on the agenda, and in pushing the NATO issue down to second place. This helped to channel at least some of the broader left-wing sentiment against NATO into general support for Schmidt, because only very few of the SPD's left-wing would risk being blamed for not showing interest in the unemployment problem.

Although, therefore, the NATO debate "only" occupied one of the four days of the Munich convention, it made clear what the political adversaries of Helmut Schmidt, especially on the U.S. side and in the international press, had meant when addressing the "erosion of SPD party support for Schmidt on the NATO issue." For most of the SPD membership, and not only for the left-wing which is very close to the so-called mass peace movement, NATO is still a negative factor, and arms policy is always considered a subject to be avoided. Most of the SPD membership had, after the last war, opposed West Germany's re-armament and joining of NATO in 1955, and the basic sentiment against the military is still alive, although SPD defense ministers have commanded West Germany's armed forces since 1969. This emotional resistance against military affairs,



Party Chairman Brandt and Chancellor Schmidt.

mixed with prevailing socialist objections against any kind of "military-industrial complex," has always allowed demagogues to rally parts of the SPD against those in the party, who, like Helmut Schmidt or Hans Apel, decided to become ministers of defense in SPD-led governments.

The Munich convention indeed featured a high degree of this demagoguery, the main spokesmen for which were Oskar Lafontaine and Erhard Eppler, both also spokesmen for the environmentalist wing of the SPD. Both of them—in this respect certainly comparable to U.S. peace movement figures such as Roger Molander, or Edward Kennedy and Jane Fonda—show actual interest in matters of defense and armaments only to the extent that they suffice to stir emotions against the military in general. Lafontaine has developed the dubious art of posing a simplistic, false choice between defense and "life," using the slogan "We want to live, and not die" at the Munich conference. Lafontaine is tied into genocidalist networks like the Club of Rome off-spring IIASA (in Austria); Eppler was one of the 50 Germans selected in the late 1950s to attend Henry Kissinger's "strategic seminars" at Harvard, which created the notion that Dr. Strangelove politics were viable strategic policy.

The involvement of both Lafontaine and Eppler with these networks make it clearer why they are involved in mobilizing Schmidt in a kind of anti-Vietnam-protest-style of mass upsurge against NATO. While the Munich SPD convention rejected the resolutions from the Lafontaine-Eppler side with a two-thirds majority, there is, however, no reason to believe that the left has in any way reneged on its decision to support

the potentially violent demonstrations which will greet the summit meeting. Erhard Eppler himself gave the marching orders at the Munich convention: either the SPD votes for the "Real America" of Edward Kennedy against Reagan, or it votes for Reagan and against Kennedy, he said, and if the SPD voted thus against Kennedy and the U.S. peace movement, the peace movement in West Germany would turn away from the SPD and run amok.

It should be mentioned that some of the contributions to the SPD debate on NATO in Munich did, indeed, produce useful arguments. Hans Apel, Minister of Defense in Bonn, said, for example, that "our government does, unlike many other governments in the West . . . lay emphasis on social and economic stability as a major factor of defense. We insist on economic development and stability of the Third World. We do, unlike many other Western nations these days . . . [possibly referring to Britain in the present Malvinas conflict—R.A.] respect the sovereignty of Third World nations, and we have a justified interest in détente with the Soviet bloc."

Bonn Minister of Development Policy Hans Offergeld, said that economic development in the Third World is perhaps as important as military defense for the world's security, and the former SPD parliamentary faction's spokesman for defense matters (now senator for internal security in Hamburg), Alfons Pawelczyk said that what should raise much more immediate concern for peace was the fact that the "general foreign policy consensus on détente is not only eroding between East and West, but even within the NATO alliance. And once that consensus breaks, we can forget about efficient disarmament politics, because then we will lack partners for détente in the West. . . ."

Hans Apel added that his impression was that the 1967 NATO platform for détente politics, the "Harmel Report," which had also been the basis for the 1979 NATO double-track decision, seems to no longer be respected by the present U.S. administration, and he added as an admonishment to his colleagues Weinberger and Haig that "what should not be forgotten is that the NATO 1979 decision does not only bind us in Bonn, but also the Americans as well as any other NATO partner." He said, as kind of a warning to the Anglo-American approach, that whoever tried to decouple from one of the two equal parts of the 1979 double-track decision, would make the decision invalid.

These statements from the government bench, made at the Munich SPD convention, seem to indicate that the Schmidt government has not given up its efforts to convince the rest of NATO that there is no alternative to détente and disarmament, and that the peace movement will not succeed in compromising the government in Bonn.

EC torn over the Argentine sanctions

by Renée Sigerson and Mark Sonnenblick

Angry opposition to the European Community's economic sanctions against Argentina emerged by the end of April, and at the beginning of May Europe was in turmoil on the question.

On April 28, twenty Italian industrial and political leaders formed an Ad Hoc Committee Against Sanctions, calling on Italian President Sandro Pertini to use his influence and authority to have the sanctions revoked immediately. The initiative was launched by Fiorella Operto, secretary-general of the European Labor Party (POE) in Italy, and the initial members include representatives of meat and grain importing companies, Christian Democratic spokesmen, and leaders of the Italian community in Argentina.

The Bund Deutscher Industrien (German Industrial Federation) issued a public demand April 27 for nonrenewal of the sanctions, and on the same day, West German Christian Democrat Walter Leisler Kiep, a member of Parliament, stepped forward as the first leading West German politician to publicly denounce the sanctions. Kiep made his announcement after discussions in Bonn between a delegation of Latin American Christian Democrats and members of the West German CDU. Following that meeting, speculation was picked up in Bonn that the CDU may shift support behind Argentina.

Some background

Italian businessmen told *EIR* at the end of April that the trade sanctions imposed April 14 on Argentina by unanimous decision of the 10-member European Community (EC) were conditional on Great Britain's abstention from military action in the Malvinas Islands. The *Observer* of London reported April 25 that "the decision to show solidarity with Britain was reached so quickly because of an unwritten agreement between the EC partners that the embargo on trade with Argentina would be lifted immediately if the British abandoned diplomacy in favor of force."

According to Italian and German industrialists, the EC wanted to appease London, and its threats of pulling troops out of Berlin, by *substituting* the economic sanctions for Britain's armed onslaught against Ar-

gentina. Following Britain's attack on the Argentines, the deal appears to be off, even before the official expiration of the sanctions on May 17.

The sanctions were voted at an EC meeting on April 14, but did not go into effect until April 17. A leader of an Argentine business delegation to Italy told *EIR* in late April that Bonn and Rome had engineered the 48-hour delay of the start of the sanctions. During two business days, he said, many of the European countries signed a mountain of new trade deals. West Germany and Italy, with support from countries such as Holland, had also pushed through an EC stipulation that economic deals signed before April 17 would not be affected by the sanctions.

And on April 29, the French Foreign Ministry reversed its initial position of one-sided condemnation of Argentina, and officially demanded that London immediately resume negotiations for a non-violent settlement. The Mitterrand government had opportunistically hoped to trade off British concessions on the EC-budget for all-out support of Britain in the Malvinas. When Britain broke its side of the deal, France did not feel bound by it; and French opinion is by no means heavily in favor of an alliance with Britain. The anglo-philic Socialist government is juggling day by day.

No great damage

The pre-existing economic deals between EC members and Argentina are still in effect; most of the grain harvest has already been shipped, and exports continue to flow to Europe. The sanctions simply mean that for a month, no new deals may be concluded. The director of the Argentine Trade Office in New York, Ricardo Fox, told *EIR* that if necessary, Argentina could use third-party arrangements to circumvent the boycott. The condemnation of the EC boycott by the Latin America Association for Integration and Economic Development shows Latin America will be quite willing to help Argentina move the large harvest expected during the second half of this year.

Britain buys merely 2.1 percent of Argentina's exports, while the EC as a whole is taking 26 percent. Europe's percentage of Argentine exports has dropped from 40 percent several years ago due to the ever-increasing importance of the Soviet Union as a buyer of Argentine grain and meat. The Soviets already are buying three-fourths of Argentine grain exports. Western Europe understands that to the extent that Britain is able to squeeze Argentina out of its traditional Western markets, the economic influence of the Soviet Union in Argentina will advance. The official spokesman of the Argentine Air Force, Vice-Commodore Eduardo Fontaine, probably had such a shift in Argentine allies in mind when he warned, "The United States very well may be the biggest loser."

The Syrian terror wave in Europe

by Judith Wyer

A bomb went off on a busy Paris street during the morning rush hour of April 22, claiming one life and injuring 62. The explosion, the worst terrorist incident in a decade in France, demolished the building that housed the Arab newspaper *Al Watan al Arabi* and qualified the regime of Syrian President **Hafez al Assad** as a leading force in international terrorism.

Within hours of the blast, the French government ordered the expulsion of both the cultural and military attachés of the Syrian embassy, who are accused by the French Interior Ministry of orchestrating the bloody affair. The French press has since revealed the scope of the Damascus regime's increasing involvement in plotting assassinations and terrorist attacks throughout Europe.

Al Watan al Arabi, one of the more influential of the numerous Arabic language newspapers in Europe, had conducted an outspoken campaign against the Assad regime for its open alliance with the Ayatollah Khomeini against Iraq and the latter's moderate allies, particularly Saudi Arabia. *Al Watan* had interviewed both *EIR* founder Lyndon H. LaRouche, Jr. and his wife Helga Zepp-LaRouche, Chairman of the European Labor Party, and had reprinted numerous articles from the *EIR*.

Al Watan al Arabi had also exposed Syria's cooperation with Libyan dictator **Muammar Qaddafi** and the **Austrian government** in plotting future terror in Europe and revealed that the international terrorist kingpin **Carlos** had relocated from Libya to Syria.

French exposés

It can hardly be called coincidental that the bomb exploded when a French trial was beginning of two of Carlos's terrorist colleagues, **Bruno Breguet** and **Magdalena Kaupp**. Carlos had issued warnings that unless the two were released, Paris would undergo a wave of terror in retribution.

Days before the bombing incident French television ran a documentary on the 1981 murder of the French ambassador to Lebanon, Louis de Lamare, accusing Syria—which maintains 30,000 troops there as a peace-keeping force—of the killing, a charge echoed by French Foreign Minister Claude Cheysson days later. Since that incident Lebanese sources report that French intelligence has been investigating the covert operations

of the notorious Syrian secret police headed by one **General Chanem** and Syrian intelligence head **Rifaat Assad**, the Syrian President's gangster brother.

Syria had previously attempted to bomb *Al Watan*. In one case the Syrian military attaché, **Hassan Ali**, was identified as directly involved in the plot. Ali works directly under Ghanem and Assad, as did two other named in the bombing, **Abdel Massaoui** and **Mohammed Yacine**. Massaoui is a pseudonym for an Iranian with the last name of Isfahani who works with the crack commando unit, the **Red Knights**, the Lebanon-based gestapo force of Rifaat Assad. Armed and trained by Bulgarians involved in massive black-marketing of weapons, the Red Knights are a vehicle for training and deploying terrorists. Hassan Ali was in charge of recruiting radical pro-Khomeini Muslim students in France into Rifaat Assad's mafia.

In a series of exposés on Syria's role in fostering terrorism, the French weekly *Liberation* questioned the link between the Assad brothers and the bombings which hit the French embassy and Air France offices in Vienna that same week, in which a group called the **Committee to Safeguard the Islamic Revolution**, a front for Khomeini's notorious secret police, SAVAMA, claimed responsibility.

Rifaat Assad was in France at one of his frequent stopovers, Bordeaux, when the April 22 incident occurred. Both Rifaat and Hafez Assad have cultivated ties with the French Mafia through Marseilles and Monte Carlo. Reliable Arab sources confirm that the Assad brothers have ambitions to carve out their own empire in global crime though their growing drug-running enterprises. The Syrian troops in Lebanon provide the pretext for the Assads to share in the lucrative hashish and opium cultivation which is now estimated to comprise 30 percent of Lebanon's gross national product. The Assads have been fingered by drug-enforcement authorities in moving opium into Europe by way of Cyprus, Sicily, and southern France and into North America.

Earlier this year the Italian authorities investigating the Red Brigades kidnapping of General Dozier attempted to extradite a Syrian drug runner named **Salah al Din Bakash** for his "business dealings" with the arrested Italian terrorist **Rafaelo Reggio**.

The Assads have also established strongholds in Bonn and Hamburg for future terrorist operations via a newly created group calling itself **Europe and the Arab**. Investigators of the Paris bombing say that they have identified the two organizers of the new group as having played a role in the Paris bombing. A Lebanese source observed that the "vehicle" by which Assad and his Iranian and Libyan allies intend to "consolidate" their position in organized crime in the coming months will be through escalated terror such as the Paris attack.

A Haig maneuver

Intensified support for Iran and Israel is reverberating against the Saudis and the rest of the Gulf.

While the White House was up to its ears dealing with the Malvinas crisis and the Israeli return of the Sinai to Egypt, the State Department slipped an operation through Washington bureaucratic channels: breaking the two year-old U.S. government boycott of Iranian oil. Sometime in late April, the Defense Department Fuel Supply Center negotiated a purchase of 1.5 million barrels of Iranian crude for the U.S. strategic reserve—the first American oil transaction with Iran since the outbreak of the November 1979 hostage seizure. Pentagon spokesman Thomas Gelli, in a statement to the press on April 23, was quick to point out that the controversial move had an “okay” from the State Department.

An oil-industry source called the purchase a “Haig operation,” noting that with a massive oversupply of crude oil on world markets, “the U.S. could easily get cheap oil elsewhere. . . the decision to conduct business with Iran was a clear political gesture to Khomeini.”

The action is no departure from the consistent behind-the-scenes pro-Khomeini posture of the State Department, in continuation of the Carter administration policy. The State Department and its allies in the Pentagon have been working on a parallel track with Israel in providing arms to Iran in the Iran-Iraq war, and has covered up the activities of certain New York-based Ira-

nian bankers involved in arms sales to Iran.

A London-based source with close ties to Israeli intelligence told *EIR* that there is a “clause” in the oil-purchase agreement which commits the United States to deliver both arms and spare parts to Iran.

Haig still adheres to the so-called Kissinger doctrine that Iran and Israel are the bulwark of U.S. interests in the Mideast, even though both of them threaten the security of Saudi Arabia, one of the United States’ closest Arab allies.

Despite the fact that President Reagan officially ended the embargo against Iran in January 1981 with the return of the hostages, both Washington and U.S. oil companies have refrained from buying oil from Iran as a matter of policy.

The timing of the U.S. purchase, which will open the door for more both government and private transactions, is a slap in the face to Saudi Arabia. At the March 26 OPEC meeting, Riyadh hammered out an agreement with OPEC to cut oil production and counter the oversupply of oil which has depressed prices, in order to avoid a chaotic price war. Since then Iran has escalated the price cuts it jointly initiated with Great Britain and Libya three months ago.

European sources say that Iran’s rapid upturn in oil sales was aided by both British Petroleum and its sister company Royal Dutch

Shell, both of which were the first major oil companies to negotiate supply contracts with Khomeini after the 1979 revolution in Iran.

Unconfirmed reports indicate that Iran is selling up to 1 million barrels a day of non-contracted oil via the spot markets, making it the second largest oil exporter in the Persian Gulf. An adviser to OPEC told *EIR* that Iran’s cutthroat marketing tactics of underselling other OPEC producers by up to \$10 a barrel is aimed at weakening the Gulf States’ ability to financially back Iraq’s war effort. Iran’s strategy is to force the Gulf states, principally Saudi Arabia, to lower either oil output or prices, either way cutting into oil income. Already OPEC’s oil output is at a 20-year low of 15.8 million barrels per day.

Though mediation of the war has intensified, Iran’s mullahs continue to threaten Iraq with new offensives like the one in March which pushed Iraqi troops back substantially. The Saudis fear the war will sooner or later spread to other Gulf oil producers.

On Saudi Arabia’s western front, there is growing concern about increased Israeli reconnaissance flights over the Saudi airfield at Tabuk near Saudi Arabia’s border with Jordan. American intelligence sources say that Haig has given Sharon a green light to bomb the Saudi early-warning AWACS planes in the event of an Israeli-Jordan war, for which Sharon is known to be itching. Thus far Saudi Arabia has kept those planes away from Tabuk and focussed on the Gulf war. But both Sharon and Khomeini would like the AWACS out of the way in order to increase their military standing throughout the region.

The Virgin of Guadalupe reappears

"The element of the supernatural always comes at the key moment," explains an anthropologist-controller.

Just before Easter, a group of Mexican peasants in the Northwest state of Sonora witnessed a miracle. The venerated image of the Virgin of Guadalupe appeared to them etched in the glass of a windowpane in the home of a poor laborer in the city of Ciudad Obregón.

Such apparitions come from time to time, and are dismissed. An ostensible sighting of the Virgin on a wall in the Mexico City district of Coyoacán April 25 was immediately debunked by Archbishop Corripio Ahumada as the outline of an image on a previous coat of paint.

But in Sonora, the bishop of the state, Luis Quintero Arce, immediately issued a call giving the Ciudad Obregón vision legitimacy. "If the people see the Virgin, it is because they are looking for her," he declared. "Mexico has always sought the Virgin of Guadalupe in historical moments in which it finds itself unprotected, when its human rights are violated. This is the way in which the marginalized people make their voice heard, asking for the solution to their pressing needs, solutions which the current regime is not able to offer them."

It was a blatant call to use the image of the Virgin as a rallying point against the ruling PRI party and the government, and it came from a bishop who is close to both the most reactionary land-owning families in the state and the ultra-hippie environmentalist commune

called "Los Horcones."

The news of the vision and the bishop's blessing spread throughout Sonora and is now making its way around the nation, just as the original sighting of a figure of a woman on the shawl of Indian peasant Juan Diego in the 1530s eventually became the most potent cult symbol in Mexico.

The impact of the new "sighting" should make clear to readers of this column why the warnings that Mexico could be turned into another Iran must be heeded.

Take the case of Brad Fisher, editorial director for a Philadelphia anthropology collective called the Institute for the Study of Human Issues (ISHI). "The element of the supernatural always comes at the key moment, always in the nick of time. Yes, we took notice of the Virgin's appearance" in Sonora, he said in an interview.

ISHI was established over a decade ago, bringing together elements of the British psychological warfare unit known as the London Tavistock Institute; the macabre cultist Dame Margaret Mead; and, as partner in some of its major publishing on Mexico, the Rockefeller-chaired Center for Inter-American Relations, part of the Council on Foreign Relations complex.

Fisher explained that Mexico will now "shift to the left," toward a "sophisticated multi-party structure." The ruling PRI party "has

become a fossil" and must be pushed out of the way.

"The supernatural is a *deus ex machina*, a theatrical device coming just at the perfect time to set the stage for the next scene; it comes historically to help the transition."

Fisher modestly indicated he had "some familiarity with these things," citing the work he and his associates had done in 1969, when visions in Egypt called the "apparitions of Zeitoun" caused a "furor."

Sonora has been selected for the cult "apparition" because it is a pole of Mexican development, with the nation's most productive agriculture, and the site of Mexico's next major nuclear reactor center. Its governor, Samuel Ocaña, is one of the leaders and future hopes of the country's pro-growth forces.

Note that the activation of renegade "Theology of Liberation" currents in the Church does not depend on the Virgin. In the poor southern states of Oaxaca and Chiapas, eight "Liberationist" bishops issued a proclamation on April 23 which called for "solidarity with the poor" against the "incredible lack of sincerity, demagoguery, and total lack of democratic representativeness" of the existing government—precisely the same language as Sonora's Bishop Quintero Arce.

U.S. academic Clark Reynolds, completing the second year of intensive Rockefeller Foundation-funded "Mexico project," decided it was time to inform a U.S.-Mexico seminar April 25, in Coronado, that "there will be a notable increase in the influence of the Catholic Church over the next presidential term, in response to popular demands for greater public morality."

International Intelligence

Iraq loses last oil export pipeline

The only outlet for Iraqi oil exports, a pipeline traversing Turkey to the Mediterranean, was hit with the third explosion in nine months on April 25. Iraq had just expanded the pipeline to move up to 900,000 barrels a day since its normal outlet through the Persian Gulf has been blocked as a result of the 19-month Iran-Iraq war.

The explosion came less than one month after Syria, a close ally of Iran's Ayatollah, shut down Iraq's only other outlet which crossed Syria and Lebanon.

The region of Turkey where the Iraqi pipeline exploded is near the Syrian border at Bakce, a known smuggling area to which Syria has free access. In March, shortly before the Syrians cut off the Lebanese-Syrian pipeline, Syria threatened "guerrilla warfare" against Iraq. Arab sources report that Syria has mobilized several thousand troops on Iraq's border to divert Iraqi forces as Iran prepares for a new offensive.

As Iraq's meager oil exports dropped to zero after the explosion, Iran's exports have soared to an estimated 1.3 million barrels a day, as a result of cut-throat price slashes.

Deng escalates purge against opponents

The Chinese regime of Vice-Chairman Deng Xiaoping has announced plans for a sweeping "restructuring" of the State Council (cabinet) bureaucracy, large-scale personnel reductions and other changes, signaling an escalation of the regime's ongoing purge of officials and institutions opposed to its anti-industry policies.

Deng ally Premier Zhao Ziyang, speaking for the 23rd Session of the Standing Committee of China's National People's Congress, declared that 11 of the current 13 vice-premierships would be abolished and the number of commissions under the State Council would be

reduced from 52 to 41. Thousands of officials will be dropped entirely from the government bureaucracy.

Though the precise nature of the restructuring has yet to be announced, it is expected that the Deng regime will target those institutions and officials who are resisting the regime's industry-wrecking economic program. Rumored to be slated for dissolution or downgrading are those commissions in charge of capital construction, machine-building, energy, and agriculture.

Deng's assault on opponents in the government coincides with a movement to oust large numbers of Maoists and other opponents from the ranks of the Chinese Communist Party and the armed forces. Informed sources note that resistance to both the purge and the current regime's economic policies is mounting and that the political situation in China is likely to become more unstable over the months ahead.

Nationalist landslide in Malaysian vote

In an unprecedented surge of enthusiasm, four out of every five Malaysians voted to bring the ruling National Front party back to power in Malaysia's general elections last month. The National Front, led by Prime Minister Dr. Mahathir bin-Mohammad, captured 131 of 154 parliamentary seats—an overwhelming majority which will enable the premier to achieve his aim of turning Malaysia into a self-reliant nation, with sovereignty over its own economy.

Dr. Mahathir, who called general elections 16 months early, sought a mandate for a program, known as the New Economic Policy, to bring the indigent Malay population into the mainstream of the nation's economy. Dr. Mahathir had also injured Britain by taking over large plantations and mineral holdings through legal means. He criticized the economically powerful overseas Chinese in Malaysia for working in tandem with the former colonial rulers to keep the Malays at the bottom of the economic ladder.

With a massive mandate behind him, Prime Minister Mahathir is expected to drop some old political faces from his new cabinet, which is scheduled to be announced in early May.

Bush-league treatment for George in China

Though the Reagan administration's announcement suggested otherwise, inside sources note that in fact it was China's mandarins who kept a genuflective George Bush waiting on his request to visit Peking, before allowing the Vice-President entry into the Middle Kingdom.

Contrary to reports, Chinese officials are not likely to discuss with Bush the controversial U.S. decision to sell \$60 million in military spare parts to Taiwan or any other significant issue. Instead, in time-honored fashion, the Chinese are expected to treat the Bush delegation as a tributary advance party for a possible visit to China later this year by President Reagan.

The sources note that Bush will not even be allowed to fly directly to Peking, but will be routed through Shanghai or Hangzhou for sightseeing before finally being granted an audience in Peking.

Neo-feudalists drool over Balkan devolution

The Siemens Foundation, whose director, Armin Mohler, is a spokesman for the fascist "Conservative Revolution" in West Germany, brought together a spy-manual's assortment of academic specialists and secret service operatives in Wiesbaden, West Germany on April 23-24 to discuss the dismemberment of the Balkan East bloc states, and the restoration of the Austro-Hungarian Empire in southeastern Europe.

Typical of the participants were Fred Singleton, a former British intelligence agent in Yugoslavia, and Paul Lendvai, who is producing a program on Serbia

and Croatia (two Yugoslav federal states) for Austrian TV. Lendvai's program, he told a journalist, cannot be shown on West German TV because it would be "too provocative" (of precisely the kind of ethnic strife promoted by the gathering).

The conference, organized by the South-East Europe Society, advocated, in one of its publications, the formation of a "Danube Federation" in place of the nations of Hungary, Romania, Bulgaria, and Yugoslavia, formerly considered the "backyard" of the European nobility. These countries only became semi-industrialized under Soviet influence after World War II. With the nosedive of the Western economies starting in the 1970s, that process came to a halt.

The strategists want the introduction of decentralizing "market reforms" throughout the East bloc. Such reforms were introduced, in Hungary 10 years ago. Since then Hungary has the slowest economic growth in the East bloc, turning negative since 1980.

Begin moves toward annexing settlements

Israeli Prime Minister Menachem Begin has announced that he will seek a parliamentary law to prevent the dismantling of Israeli settlements in the West Bank, Gaza, and the Golan Heights in the event of any future peace treaties with Israel's Arab neighbors. The move is generally viewed as the first step toward formal annexation of the remaining occupied territories. Israeli Interior Minister Yosef Burg said flatly that the West Bank is "ours, and there is no discussion about it."

Begin is seeking the support of opposition Labour Party leader Shimon Peres. The Labour Party has opposed the bill as a vehicle for the "grandiose tendencies" of the ruling Likud bloc. Begin is also offering to join with Peres in a government of national unity, something that Peres has so far resisted. According to sources, Peres will only join Begin's coalition if Ariel Sharon, Begin's wild-eyed defense minister, is ousted.

Vietnamese to Bonn: Help us stabilize Asia

Visiting Vietnamese Foreign Minister Nguyen Co Thach held a press conference in Bonn April 27 as part of a diplomatic campaign that took him to France, Belgium, Sweden, and East Germany. With the weakening of the "China card" forces both in China and the United States, the Vietnamese see an opening for peace and stability in Southeast Asia, and the long-hampered economic development of Vietnam. They want an end to EC sanctions against Vietnam as a first step.

"Germany contributed an important part to détente in Europe," Thach noted, "and could play a very helpful role in Southeast Asia. They could help countries to talk, and not to play the game of China: to push one country against another."

The European Community position, following the Sinophile insanity of the U.S. State Department, is that no trade with Vietnam is possible while Vietnamese troops remain in Kampuchea. The Vietnamese have been there since 1978, when they threw out the regime of Pol Pot, which had butchered about 3 million Kampucheans under the direction of the Chinese. Thach said Vietnamese troops would leave Kampuchea "one day after" the Chinese threat to that country was removed.

Thach bluntly told the Europeans that they had been "tricked" by China: "they are very happy to keep up that threat [to Kampuchea] for that means we receive no aid from the EC." And in answer to a question about German aid to Kampuchean refugees, he declared: "The West is proud to give aid to the Kampuchean people. That is all right, but we rescued them from genocide. The West is proud to give food to the Kampuchean people—that's good. But the West criticizes us for saving them from death! We have helped them to get out of Hell."

Thach's trip continued to Moscow, and then to India, where he held talks with Prime Minister Indira Gandhi and other officials.

Briefly

● **PIERRE MAUROY**, French Premier, met with Canadian Prime Minister Pierre Trudeau to plan a joint strategy *against the United States* at the NATO summit in Bonn this month and at the Versailles summit in June. Their "global negotiation" idea includes mobilizing the threat of Canada's "immense reservoir of resources" to force humiliating new trade relationships on the United States and Japan, under the guise of improved "North-South" dialogue.

● **MARIVILIA CARRASCO**, General Secretary of the Mexican Labor Party (PLM), announced April 28 that she was running for a seat in the National Congress for the First District of Mexico City. She said she would concentrate her efforts on defeating the "fascism" of her opponent, PAN party head José Angel Conchello. The PLM is Lyndon LaRouche's co-thinker organization in Mexico.

● **JAPAN**, the United States and Western Europe have agreed to raise interest rates on governmental credits to be supplied to the Soviet Union by 0.25-0.5 percent to 11.0-11.25 percent per annum in a move to step up their sanctions against the Soviets, the *Nihon Keizai* reported April 27.

● **SUMNER WELLES**, Secretary of State under FDR, wrote in the *Washington Post* in March 1948: "The dangers in the dispute between Great Britain, and Argentina and Chile over the sovereignty of the South Atlantic islands should not be minimized. The British government has dispatched warships to the Falklands. . . . If this controversy . . . grows still more serious, not only will the security of both Argentina and Chile be prejudiced, but the peace of the entire hemisphere may be endangered. . . . An immediate initiative on the part of the inter-American system is demanded."

Treason in Washington on the Malvinas question

by Richard Cohen, Washington Bureau Chief

At no time in the post-World War II history of the United States has the nation's capital witnessed the kind of shocking display of treachery on the part of leading government officials as in the days since the early April recapture of the Malvinas Islands by Argentina. For three and a half weeks, Washington has been increasingly transformed into a city operating on a wartime footing. Shocked White House sources observe that the obeisance offered to the British Crown during this period has outranked anything the formidable "Zionist Lobby" has received from official Washington.

That is the meaning of the Senate's April 29 vote by 79 to 1 to abjectly support Great Britain in the Malvinas conflict, and of Secretary of State Haig's April 30 announcement of U.S. sanctions against Argentina combined with "matériel support for British forces." Reliable sources report that Navy Secretary John Lehman (a former Cambridge University student) has given two nuclear-powered U.S. submarines in the South Atlantic sealed orders to enter the fighting on the side of the British if need be. In complete violation of the NATO charter, a NATO South Atlantic monitoring unit has been set up to track the military operations around the Malvinas; the treaty organization is defined as a defense alliance, restricted to a specific treaty area. Sen. John Tower (R-Tex.), reported to be among those Americans responsible, is also said to be seeking an official Senate repudiation of the Monroe Doctrine.

Pro-British pressures both inside and outside the

White House have forced President Reagan to abandon a centerpiece of his original foreign policy approach and act against both his own better judgment and commitments to legally binding guidelines of American foreign policy, the Monroe Doctrine and the Rio Treaty, by condoning the treasonous renunciation of the Treaty by Secretary of State Alexander Haig at the April 26 session of the Organization of American States (OAS). In fact, Washington-based think tanks with ties to the intelligence community have recently been spreading scenarios on the imminent collapse of Reagan's already tattered commitment to a policy of pre-eminence for hemispheric security and the spread of anti-Americanism throughout Latin America due to administration actions in the crisis.

Aside from Lyndon H. LaRouche, Jr. and his National Democratic Policy Committee (NDPC), only one voice in Washington has been raised to defend the Monroe Doctrine and hemispheric security during the course of the crisis. And, following Sen. Jesse Helms's (R-N.C.) initial assertion of the applicability of the Monroe Doctrine in the Malvinas case, "he was cut off from the White House," according to sources close to the Senator. These sources now say that Helms will be the target of an AFL-CIO-sponsored nationwide effort led by Victor Camber to oust him from office.

The crushing of Presidential commitments and the silencing of virtually all opposition to British designs have been carried out with an obedience from high-ranking U.S. officials unmatched in the postwar period.



The U.S. State Department on C Street in Washington. Outside the Union Jack-bedecked window is a monument to General Bernardo Gálvez, the Spanish Governor of Louisiana who in 1776 joined the Americans in fighting the British.

Active in blackmail, lies and deceit on the Crown's behalf have been Secretary of State Haig, Secretary of Defense Weinberger, the majority of the Joint Chiefs of Staff, senior White House staff closely associated with Vice-President George Bush and White House Chief of Staff James Baker III, decisive elements of the U.S. intelligence community, and important Senators and Congressmen. Through use of wartime censorship and psychological warfare techniques, they have maneuvered the President into capitulation, silenced opposition, and integrated Washington into the overall British effort against Argentina. Now, as these efforts have apparently failed to secure an Argentine capitulation, these forces are moving with speed, almost unopposed, to bring the United States into a bloody war against the Argentines.

On the evening of April 28, Haig met in closed-door session with the Senate Foreign Relations Committee. According to Capitol Hill sources, Haig told the Committee that negotiations on the Malvinas had reached a dead end and that the United States would now have to deliver an ultimatum to the Argentines. If the Argentines still refuse to leave the Islands, Haig continued, then Washington would have no choice but to launch an economic embargo against Argentina as well as abide by as yet undefined deeper commitments to the British war effort. Even before Haig's appearance on the Hill, National Security Council staffer Dr. Norman Bailey was directed to tell a Washington press breakfast that "when the shooting starts, we will of course back the British

short of direct military action."

Senator Joseph Biden (D-Del.) had moved on April 28 to introduce S.R.378, which the Administration has not objected to. It calls for open U.S. support of the British position and open-ended U.S. assistance for the British in the event of fighting. The resolution, according to Capitol Hill sources, will pass easily even if some Senators heed the warnings of Ted Stevens (R-Ala.) and Barry Goldwater (R-Ariz.) that the resolution amounts to another Gulf of Tonkin. A similar resolution passed the House International Relations Committee on April 29, sponsored by Stephen Solarz (D-N.Y.).

Now everything has been set up for the President to jump even deeper—a trap which can only lead to irrevocable U.S. humiliation.

The President's early desire to avoid asserting a Monroe Doctrine policy based on U.S. national interest, and instead to fall into the role of "honest broker," opened the door for that calamity. Haig was swiftly integrated into the British game of deceit. He has functioned as an open British agent through the course of the crisis. Haig, for instance, was reportedly guaranteeing that the British would not invade South Georgia Island until after the April 27 OAS meeting, while at the same time urging the British to speed up their plans for invasion in order to give Haig an additional "stick" in talks with the Argentines.

The latter have not been the only victims of organized "wartime" deceit, however. On April 26, the White House Press Office under the direction of Bush-Baker asset David Gergen reportedly had only logged 12 telegrams and telephone calls to the White House on the Malvinas crisis. Sources close to the White House have told me that the suppression of this evidence—a widely used measure of public attitudes—was part of a broader campaign directed by James Baker to shape a perception for the President of pro-British popular sentiment. In fact, sources extremely close to Bush in the White House were blunt in conversation with me about their emotional pro-British approach only three days into the crisis.

Private briefings from the Defense Intelligence Agency (DIA) claimed that Argentina would get no military help from any other Latin American country, two days before Peru and Brazil offered Argentina military aircraft. This pattern of misinformation from the intelligence community has not been restricted to the Pentagon.

Washington-based think tanks, reflecting the outlook of the majority of the intelligence community, have been gushing from the onset of the crisis with pure British-scripted psychological warfare. Think tanks usually representing "liberal" policies, such as the Carnegie Endowment for Peace, agree with "conservative" American Enterprise Institute that the Galtieri government miscalculated diplomatically, politically, and militarily.

British intelligence specialist describes London's blackmail against the U.S.

When Oxford University Professor of War History Michael Howard delivered the banquet address April 22 at a symposium at the U.S. Military Academy at West Point on national security policy, he was delivering a message from the British crown on the current Malvinas crisis.

Howard, aside from his Oxford post, is a senior executive of both the Royal Institute for International Affairs and the London-based International Institute of Strategic Studies. The former institution, otherwise known as Chatham House, was established at the close of World War I as part of the reorganization of British intelligence and is currently the top-most of the formal, above, surface policy-making branches of the British Secret Intelligence Service (SIS). The latter entity, IISS, was launched in the 1950s as a subgroup of the RIIA. The RIIA and IISS are the controlling influence on the New York Council on Foreign Relations in the United States and its off-shoot, David Rockefeller's Trilateral Commission.

While other military figures, analysts, and academics at the conference made only historical allusions to the current period, Howard devoted his entire presentation to current matters. His message was simple: if the United States did not back Britain in the Malvinas crisis, Britain would make things nasty for the United States in Europe.

His bluntness stunned even some of the diehard anglophiles in the audience, and caused the handful of patriotic Americans present to shudder. One retired American general asked Howard the next day whether he realized that what he was asking America to do would cost the United States its allies in the Western Hemisphere. Howard replied curtly: "That is your problem. You have your obligations, moral and otherwise, to Britain. . . . You have no choice but to make the right choice."

In an exclusive interview with this journal, Howard repeated these threats. He further identified the Malvinas crisis as a point of leverage for a broader reorganization of NATO, along the lines proposed by the European Security Study of which he is a member. Its basic thrust (see *EIR*, May 4) is to force a shift of NATO's forces into the developing sector to fight no-win police actions of

the type that made the British colonial army notorious. As a corollary, Howard proposes that the West build up its conventional forces, as recommended by his friends McGeorge Bundy and Robert McNamara in their recent *Foreign Affairs* article.

Reading ever-so-slightly between the lines, one sees Howard's proposals as a renewed demand for the United States to play the dumb, brutal giant, butchering the developing sector on behalf of British policy interests.

Howard is emphatic that the United States as a nation has no sovereignty over its foreign policy, that such policy, including all treaty obligations, are subordinated to supranational arrangements like NATO.

Q: Would you care to reiterate some of your remarks from last night about the Falklands crisis?

A: Obviously I am biased and I don't want to prejudge what the claim of the Argentines is to the Falklands, but I made three points that I want to reiterate. First, the islands have been in British possession for longer than California has been part of the United States and that was also territory seized originally by force. Secondly, the inhabitants of the Falkland Islands have repeatedly reiterated their wish to remain under British sovereignty as British citizens. If that were not so, we would have probably reached an accommodation with the Argentines many years ago. Thirdly, whatever the rights to the islands the Argentines claim, there is no question about their blatant violation of international law, and their obligations as members of the United Nations. . . .

I drew a rather sharp distinction between the attitude taken by President Eisenhower at the time of the Suez affair in 1956, when, although the British and the French were the closest allies of the United States, he left us in no doubt about the outrage that he and the United States felt about our blatant violation of international law, taking the law into our own hands. . . .

He would have condemned the Argentine invasion in as forthright terms as he condemned the British and French invasion of Egypt. And he would have threatened as absolute sanctions against the Argentines as he did against Britain and France. This action, if taken by the United States, would have brought this whole crisis to a

halt in a matter of days. The whole situation would then get cleared up on the basis of the status quo. There would have been very disagreeable repercussions for relations between the Argentines and the United States, but I would think that this is a small price to pay for maintaining the reputation of the United States for upholding international law, whether it be defied by ally or adversary.

Q: You have expressed great dissatisfaction with the conduct of the White House and the American government. What do you want the United States to do now?

A: I think that having gone as far as it has, without taking the steps I said, it is too late to backtrack. Having decided, disastrously wrongly, to adopt an even-handed attitude between the two participants, that is to say, between a robber and his victim; having preserved, as a result of this, good relations with the Argentines, then we are very grateful that Mr. Haig is using his good offices for crisis management. But no settlement is feasible unless the Argentines are prepared to withdraw their forces, re-acknowledge British sovereignty, at least in the short run, and accept that the wishes of the inhabitants of the Falklands are going to be paramount.

Q: Should there be war, at that point, what role should the United States play?

A: Well, all I can say is that if the United States remains totally neutral, the repercussions on the relations between Britain and America are going to be terrible. I am afraid that America will be seen around the world as a sort of whipping boy. You are going to be blamed for anything that goes wrong, and there is very little doubt that a lot is bound to go wrong. It is hard to see how the operation can be launched without casualties and losses of material and life. This will predictably create emotional repercussions within Britain, and there will be a price to pay by the United States for any kind of hostility or bellicosity, there's no denying.

If on the other hand, the United States says, all right now, the situation is now clear, the chips are down, the British are using force in accordance with their rights as members of the United Nations, and we are going to help them, then I should think that this would probably repair any damage that has been done. By help, I doubt that anybody would expect your armed forces to take part, but what we mean is open assistance with your intelligence, open condemnation of the Argentines, and refusal to cooperate with the Argentine forces.

Q: What about the point that we have solemn treaty obligations to our Western Hemispheric allies?

A: You have no treaty obligations with us that cover the Falklands. The only obligation that we would call upon are those that the United States has under the U.N.

charter for collective action to oppose aggression. The trade-off between obligations under the U.N. charter and obligations in any kind of regional agreement is something that has to be assessed by your government. I would think that the overriding obligation to the preservation of international law would mean that you regard the Argentines as the aggressors and as such, not entitled to call upon your help under any kind of hemispheric agreements.

Q: Last night, you said that a failure of the United States to back Britain in this crisis would lead to a breakup of the Atlantic alliance, that Britain would have no choice but to make life difficult for the United States in Europe. Could you spell this out more?

A: In this way. At the moment, the British are still the best friend that the United States has within the alliance. I wouldn't say that it is quite up to our old friend, the "special relationship," but certainly in all alliance consultations, when the chips are down, the British usually line up with the United States, in any conflict or confrontation with our continental allies. The sources of tension are between United States and Germany over the continuation of détente, between the United States and France over U.S. actions in the Third World, and in all this the British on the whole tend to side with the Americans. If you lose the good will of the British, then the result is going to exacerbate strains between the United States and Europe as a whole. The British are going to be more inclined to line up with the adversaries of the United States than with the United States.

Q: Who are these adversaries?

A: Well, when I say adversaries—how should I put it—I mean those who disagree with the United States. Of course that was foolish of me, since the word adversary implies adversaries outside of the alliance. There will be less inclination to make things easy for the United States. I think that this is the best way to put it.

Q: This leads to another question. In this context of crisis, a re-evaluation of NATO is taking place. People are saying that the Falklands crisis points toward the type of eventualities that NATO will have to deal with, problems in the developing sector. People are telling us that there are only three countries within the alliance that have the capabilities to deploy out-of-area [outside Europe and North America—ed.]—Britain, the United States, and France. They talk of the need for informal coordination among these countries. . . .

A: This is what France and de Gaulle called for in 1958, and became very unpopular as a result. I think that it is certainly true that you cannot expect NATO as an organization to take up positions on these out-of-area problems. NATO contains a lot of very unequal partners, all

of whom joined for different reasons. . . . So NATO as a whole is not a good forum for considering these matters. It is therefore necessary to visualize another forum. My own feeling that it is best to do so on a bilateral basis. There are certain areas, for example, where the British ought to be helpful and until recently could be helpful, and certain areas also where the French ought to be helpful. I think that one has to deal with these matters rather piecemeal, more simply. Once you get into the alliance, then the decision-making becomes almost impossible. You can't respond like we are doing in the Falklands.

Q: Is NATO structured force-wise to handle these kind of problems, even as individual nations? The arguments by McNamara and others are that we are too top-heavy on nuclear forces and that these nuclear forces are not much use in future conflict.

A: There are two points here. The first is really associated with what we have just been talking about, "out-of-area problems." The Europeans really have got to take a great deal more responsibility for the defense of our territory than we have been prepared to in the past. It is not a matter of free-loading or not free-loading. We have been doing a reasonable amount. But I think that the time has come, when without the United States exercising Mansfield Amendment-type pressures [the threat to withdraw American troops from Europe—ed.], that the Europeans—and, especially the French and the British and the Germans—will get together and say we cannot go on expecting the kind of guarantees of the type we have had in the past. We must find ways and means of creating a far greater European participation and presence in the defense of our own continent. Apart from anything else, this would be the most immediately hopeful way of enabling the United States to deal with out-of-area problems. This is something that the Germans are indeed willing to do. They say that we Germans are not prepared to send our forces to the Gulf or anywhere, but we will do what we can to make it possible for you to release your forces to go if necessary. Or the alternative possibility is that the British try to take more weight off American maritime forces in the North Atlantic area.

Q: Is that possible, given current British defense cutbacks?

A: Given the existing financial strictures within the existing defense deployment, it cannot be done. And when I say that the Europeans have got to be prepared to do this, it does mean a radical re-think of our defense commitments.

Q: What would this re-think mean for the British deterrent and the recent Trident decision?

A: I think that we should cut back [on Trident].

Q: Do you think that such a cutback and redeployment of funds to conventional technology as you have specified could be an outcome of the present crisis?

A: It could well be. I have never held out very high hopes of the Trident decision sticking. I think that there are rather heavier odds against it as a result of the events of the last three weeks. The naval lobby is going to have some very strong material now, saying that it was a disastrous decision to cut back on our naval forces.

Secondly, more has got to be in the field of conventional defense [the European defense increase]. And that is where the European Security Study [ESECS] comes in. Although it is an American-sponsored study, it is directed towards seeing how far the conventional defenses of Europe can be improved. It is beginning with an examination from the point of view of weapons technology. What can be done with existing anti-tank technology or anti-aircraft or mines or whatever, that could be further developed? Is it something that can be handled not by regular forces, but by militia forces, and if so how could this be built into the structure of Western defenses?

Q: Does the U.S. place too much emphasis on strategic weapons and nuclear technology as McNamara, Bundy, and now even Henry Kissinger are saying?

A: I entirely feel that the U.S. is doing that. It seems to me that emphasis placed on the level of high strategic weapons-systems is entirely wrong. That is not where the real problem lies. The real problem lies in the ability to present a credible deterrent against Soviet-inspired conventional aggression. If we cannot be that, then it is no good improving technology at the level of strategic deterrent, because we are never going to use it, however good it is.

Q: Bundy and the others say that these nuclear forces will be of little use in the wars of the future, that they can't really be brought to bear on Argentina, for example. . . .

A: Nor are they going to be of any use in Europe, if the Soviet Union can reach the Rhine within 36 hours. It is seldom asked what the Russian objective would be if they were to invade Western Europe at all. I don't see their objectives as likely to extend very much beyond the Rhine. Once they reach the Rhine, Western Europe as a whole is virtually gone, and if they reach the Rhine without our even being able to hold them for long enough to reach a decision to launch a nuclear first strike, then we are not going to launch a nuclear first strike, either theatre or tactical or strategic.

Q: What is your reaction to the McNamara article?

A: I have read it. I feel that it is inspirational rather than operational, that it would be very good if we could move into a position where we can say that there would be no

first use. He does say that we shouldn't do it right now. That I cannot fault. But it is going to take a bit of time to get there. That is the direction in which we have got to move, however. We cannot go on believing that the first-use strategy is either credible or operational or a serious option for us.

Q: Should we and could we revive the special arrangement between the United States and Britain?

A: These things will come naturally. I forget who said this, but America should have a special relationship with all its allies. I think you need a very special relationship with West Germany and I would hate to see a relationship between Britain and the United States excluding our continental allies or making it more difficult for Britain to be a full partner in Europe.

One cannot expect too much from the alliance. The danger is that one should try to make it do things that it can't. . . . There is no doubt that creating a serious functioning political unit in Europe is fundamentally affected by the economic policy of the member countries, and we have failed so far to transcend individual economic policy to create policy which is in the interest of all of us.

Q: Do you see Britain in the aftermath of this crisis taking more of an open role in determining policy for West? Someone referred to it as waking out of a slumber.

A: It is not a slumber. It is an agonizing turmoil about her own affairs, about our trying to get our economy in order, and solve our social difficulties, which do tend to absorb you, to the exclusion of foreign policy. It is not that we are indifferent to foreign-policy questions, it is a question of the amount of priority that is being allotted to them by the elites. I think that Falkland Islands will give Britain a jolt. If we go back to the same old problems about inflation and labor relations and the inability to make the economy work, which beset us [they] will make it impossible for us to play the full part in foreign policy we should.

Q: Did you have the opportunity to meet other policy-makers while you were here?

A: Not really. I gave a talk at the Council on Foreign Relations and passed the time of day with Mac Bundy and other people.

Q: When the chips are down, must the U.S. back Britain?

A: All I can say is, that in the limited time that I have been here, I have yet to meet anybody who does not believe that the U.S. would not back Britain. Given the kind of pressures that are building up on your President, he will have great trouble remaining as even-handed as has been his tune.

From Howard's speech

The following are excerpts from the banquet address delivered by Prof. Michael Howard on April 22 to the symposium on the "Theory and Practice of American National Security, 1945-60" at the U.S. Military Academy at West Point, entitled "The Perils of Deterrence."

I am somewhat shocked at being in the middle of such a convivial atmosphere—usually I have to speak before more sober audiences. You people are actually having fun. I'll see if I can stop that. . . .

Every nation has had the desire to defend as far as they can. You must make sure that the territory next to you won't be used by the enemy. . . . you must safeguard your security by expanding it. The British Isles were at one end of the world, and all of the tribes were at the other. . . . We found ourselves in Madras and Calcutta. Soon we found that we had to take over India. . . . We had to control the route to India. That found us at the Cape of Good Hope. . . . To defend the Cape of Good Hope we had to conquer the interior of Africa. To conquer the interior, we had to move into northern parts of Africa. . . .

No one in Europe is happy about U.S. mega-defense in nuclear weapons buildup. . . . The endless escalation of mega-violence has caused concern among us, not about the threat of the Soviet Union, but from U.S. plans to counter that threat. . . .

We are worried about the apparent abandonment by the U.S. of détente. The purpose of détente was not to bring the Soviets closer to the West. It was not to bring Western ideals or liberalism to the Soviet Union. The purpose of détente has been to open up Eastern Europe to the U.S., and that has been achieved.

The third issue that divides us in Europe from the United States is the question of the Third World. The Third World will have to suffer for years. Marxist rhetoric doesn't worry us too much. In Central America, the U.S. shouldn't oppose revolutionary movements.

Britain has always supported you. We have U.S. support for granted. Now we will have to see if we still will support you. . . .

In the Falklands crisis, there can be no even-handedness by the American administration. We are grateful to Secretary Haig, but remember Neville Chamberlain and his shuttling to the Sudetenland. The Sudetens wanted to join Germany, but the Falklanders don't want to go with the Argentine.

There will be lasting repercussions with the U.S. if the American position is not reconciled. There is a latent anti-Americanism that could be stirred up in Europe and England if the U.S. doesn't come around. . . .

Book Review

The lessons of the Philippines

by Dean Andromidas

Hero of Bataan: The Story of General Jonathan M. Wainwright

by Duane Schultz

New York: St. Martin's Press, 479 pages

Douglas MacArthur: The Philippines Years

by Carol Morris Petillo

Bloomington: Indiana University Press, 301 pages

Both these books center around the Philippines, at a time when conventional warfare in far-flung islands once more preoccupies the public. What the Philippines theatre in World War II exemplified was in fact the same strategic debate that is proceeding—at a lower intellectual level—today. That is the reason to examine Douglas MacArthur's ability not only to command the allegiance of the best U.S. officers, like Gen. Jonathan Wainwright IV, who remained in the Philippines after the Allied command forced MacArthur to withdraw, but to recreate a profound conception of the goals of war-winning.

Unlike William Manchester's slick *American Caesar*, the shallowness of these two biographies is immediately apparent. Petillo provides psychoanalytic gumdrops about MacArthur's "periodic retreat to the island haven which from the outset had provided him with a structure which supported his psychic needs," and with "a center stage" as well. Schultz, a military historian, exhibits an anecdotal adulation of a Wainwright heroically facing impossible odds—because, he alleges, of MacArthur's fantasies about the Philippines' defensibility. This is a gross injustice to both men.

The Civil War tradition

MacArthur and Wainwright were the last representatives of a generation of military thinkers in the original West Point tradition, for whom things military were far more than competence in the weapons of war or a romantic heroism. The negotiation of the battlefield was premised on mastery of the fundamentals of geometry and hydrodynamics, and on a grasp of history and

philosophy from approximately 2600 B.C. This is evident in MacArthur's writings, with their rich allusions to Plato, Dante, Thucydides, and others.

The West Point classes of 1904 and 1906, which graduated MacArthur and Wainwright respectively, were among the last to have had instructors, parents and friends who fought in the Civil War. They taught in the tradition of Lincoln, Grant, Sherman, and Sheridan, that those who wantonly chose war violated the precepts of natural law—but should war become necessary, it must be fought with a scientific will to win. It was General Sherman, the commander of Douglas MacArthur's father Arthur, who studied the scientifically based Prussian Reforms and created the Schools of Application at West Point, including the Cavalry School. Schultz portrays General Wainwright as proficient merely in the grooming of steeds and the swash-buckling mounted charge: students at West Point in reality learned the scientific application of shock waves on the field of battle, and their exploitation by the sustained pressure of the infantry. It was this education that enabled such cavalry officers as Gen. George Patton to develop rapid armored movements with the advent of the tank.

MacArthur's father, a veteran of the Civil War, fought in one of the first "limited wars" imposed through British manipulations on the United States: the Spanish-American War. With the ruthlessness of a Sherman, he crushed the insurgents commanded from British Hong Kong. But at the conclusion of the war, he ushered in a period of development of education, economic activity, and civil government, in order, as he said, to lay the basis for a republic in the image of the United States.

The prewar fight

When Douglas MacArthur became Chief of Staff in 1930, the undermanned U.S. Army ranked fourteenth among the military powers of the world. It was armed with outdated equipment despite the tremendous technological innovations that a decade later would lead to development of the most advanced military machine in the world.

Despite congressional budget cuts, he developed the military organizational structure, the mobilization plans, and the wartime economic contingency plans that later shaped the World War II effort. He toured Europe, holding strategic discussions; his view of military alliances differed from those of the anglophile policy makers around Franklin Roosevelt. Once, briefing an officer about to become a military attaché in a European capital, he cautioned him not to take Great Britain seriously—"no one likes sleeping with a corpse."

By 1935, when U.S. military unpreparedness amounted to de facto support for Hitler and Mussolini,

whom the British openly supported, MacArthur and his faction lost a key battle. He was ousted as Chief of the General Staff, and a general purge of his associates began. MacArthur took up the position of adviser to the Philippines government, charged with creating a military force that would make the islands impregnable by 1946, when they were scheduled to achieve full independence.

In his first report to the Philippines President, MacArthur described "the local situation as an articulate part rather than as a detached phenomenon of civilization's development." The report specified how Asia, as exemplified by Japan's achievements, was fully capable of rapid industrialization, and identified technologically and politically progressing republics there as the key to war-avoidance.

In military terms, he said, an impregnable Philippines would block a "strike south" by Japan's militarist faction. With an underfunded group of American officers, including Col. Dwight Eisenhower, he built a Filipino military force based on the American concept of universal training for the citizen-soldier.

By July 1941, Roosevelt had decided to fortify the Philippines to the best of America's ability, but it was too little too late. Japan struck Pearl Harbor four months sooner than Washington planners expected. Three days after Pearl Harbor, MacArthur called on the Soviet Union to mount a "master-stroke" attack from the north against the overextended Japanese. A speedy defeat of the Japanese, he argued, would have opened a secure line of supply to the U.S.S.R. from the United States to defeat the Nazis.

MacArthur's adversaries moved quickly. Admiral Hart, commander of the Asiatic fleet, ordered all his major fighting ships from Philippine waters within hours of Pearl Harbor, only to see them sunk in a futile defense of the Dutch East Indies. Within days, Winston Churchill met with Roosevelt in Washington and reaffirmed that the Pacific theatre would be secondary. Chief of Staff George Marshall, drawing in Eisenhower to back him up, declared the Philippines unable to be reinforced.

Schultz documents the irony that the Japanese commander, General Masaharu Homma, teetered on the brink of disaster as his Philippines campaign stretched from a planned month into a gruesome five months. Yet Schultz fails to draw the obvious conclusion: despite its powerful air force and navy, Japan did not possess the in-depth capabilities to conduct amphibious assaults on heavily fortified and defended positions. Its rapid victories through Southeast Asia were the result of its adversaries' unpreparedness. Had MacArthur's plans been carried out, the Japanese would have been defeated at the beaches, Wainwright and his men would not have spent three and a half years in Japanese captivity, and

untold numbers of lives on both sides might have been saved.

Alexander versus Scipio Africanus

In March 1942, Roosevelt ordered MacArthur to escape from Corregidor to Australia. Wainwright continued to fight on Bataan and Corregidor to gain time; he surrendered after five months without supplies or reinforcements. MacArthur was fighting an equally desperate battle to reorganize his meager forces and, most important, to force a change in Allied command policy.

Pearl Harbor was the result of Churchill's strategy. If Alexander the Great was MacArthur's model, the Roman consul Scipio Africanus was Churchill's. In the third century B.C., Scipio Africanus ravaged Italy, Spain, and North Africa in quest of the defeat of the great Carthaginian Hannibal; the 15-year Second Punic War made Rome the undisputed ruler of the known world, but civilization did not recover for centuries.

Churchill's policy was to drag American armies across Italy, North Africa, and eventually continental Europe, leaving hundreds of thousands dead and the regions devastated, in hostilities that the Prime Minister—who vetoed British support for the 1944 plot against Hitler—hoped would last something like a decade and shore up the global pre-eminence of the British Empire.

Dovetailing with this policy was the U.S. Navy's longstanding plan for the conduct of war in Asia. Assuming 18th-century British cabinet-warfare methods (as opposed to a high-technology naval and amphibious mobilization), they foresaw frontal assaults against heavily fortified Japanese positions in the Central Pacific. The aim was to establish air bases for strategic bombing against Japan—bombing that proved militarily ineffective, as in Germany, but eliminated civilian population—and, by destroying Japanese industry, to set back for decades the economies of Japan and the rest of Asia.

MacArthur's counterstrategy was to effect a speedy defeat of the Axis powers, and strike a postwar alliance between the United States and the Soviet Union, as the most industrialized nations, dominating the British and other colonial powers. In his "Grand Design," the massive U.S.-U.S.S.R. industrial capacity could be used to modernize both China and the Asian nations freed from colonialism, as the principal task of the second half of the 20th century.

Upon his arrival in Australia in March 1942, with the mission of organizing a counterattack, MacArthur found no army, no navy, and no air force to speak of. The country was on the edge of invasion by Japan, but Churchill refused to allow Australia's best troops to return from British command in the Middle East.

Examining once more the far-flung archipelagos across thousands of square miles of ocean that lay along the axis of advance between Australia and Japan, MacArthur revived the classical method dubbed by his staff "hitting them where they ain't": to cut lines of supply by striking enemy flanks. During the war years MacArthur described his strategy: "The system is as old as war itself . . . the ancient principle of envelopment. . . . It always proved the ideal method for success by inferior in number but faster-moving forces."

MacArthur was able to take the initiative by January 1943. His Southwest Pacific operations had the lowest rate of casualties of any theater; despite the fact that he received an average of 5 tons of equipment per man, (compared with 50 tons in North Africa), he demonstrated, in often heavy and bloody engagements, that he could wield the modern weapons of war with both economy of force and minimal loss of life—while the Navy, hammering away at Japan's island strongholds, spent lives so extravagantly that it shook American public opinion.

Writing shortly after the successful Papua campaign in late 1942, MacArthur states:

The outstanding military lesson of this campaign was the continuous calculated application of air power . . . employed in the most intimate tactical and logistical union with ground troops. . . . For months on end, air transport with constant fighter coverage moved complete regiments and artillery battalions across the almost impenetrable mountains and jungles of Papua and the reaches of the sea; transported field hospitals and the other base installations to the front; supplied the troops and evacuated casualties. For hundreds of miles bombers provided all-around reconnaissance, protected the coast from hostile naval intervention, and blasted the way for infantry. . . . The offensive and defensive power of the air . . . in effective combination with ground forces, represents tactical and strategic elements of a broadened conception of warfare that will permit the application of offensive power in swift, massive strokes, rather than the dilatory and costly island-to-island advance that some have assumed to be necessary. . . .

The final campaigns

By 1944, MacArthur was prepared to fulfill his pledge to return and liberate the Filipinos. Admiral King, the Navy Chief, and General Marshall wanted to bypass the Philippines and instead invade Formosa and mainland China to gain strategic bombing bases against Japan. MacArthur's protests prompted the conference in Pearl Harbor among himself, the President, and Fleet Admiral Chester Nimitz, in July 1944, where MacArthur "stated that if I could secure the Philippines it

would enable us to clamp an air and naval blockade on the flow of all supplies from the south to Japan, and thus by paralyzing her industries, force her to early capitulation. Psychologically, I argued that it was not only a moral obligation to release this friendly possession from the enemy now that it had become possible, but that to fail to do so would not be understandable to the Oriental mind. . . . The President accepted my recommendations and approved the Philippine plan."

Following the defeat of the Nazis, the campaign marked the largest American effort in the Pacific, deploying over half a million men. But it violated two of MacArthur's principles: the necessity for a unified command of all theatre forces, and adequate air cover for all offensives. The result was near-disaster: the Navy insisted on maintaining operational control over its battle fleets, which included the bulk of the most powerful aircraft carriers. During the early phases of landing operations at Leyte, the inadequately defended fleet was attacked by a powerful Japanese contingent. MacArthur could not communicate with Admiral Halsey, whose fleet was on a fool's errand chasing a Japanese decoy.

As Supreme Commander of Allied Forces in the Far East, MacArthur then planned the invasion of Japan. President Truman superseded those plans with the atomic bombing of Hiroshima and Nagasaki, an evil decision which deepened MacArthur's determination to create the preconditions for lasting peace. "Military alliances, balances of power, Leagues of Nations all in turn failed, leaving the only path to be by way of the crucible of war. The utter destructiveness of war now blots out this alternative," he said in his radio broadcast to the American people following the official Japanese surrender ceremony. "We have had our last chance. If we do not devise some greater and more equitable system Armageddon will be at our door. The problem basically is theological and involves a spiritual recrudescence and improvement of human character that will synchronize with our almost matchless advance in science, art, literature, and all material and cultural developments of the past 2,000 years. It must be of the spirit if we are to save the flesh."

What precisely MacArthur meant, and why he and his faction failed to avert the disasters of the postwar period, are beyond the scope of this review. What must be finally noted is that the General's occupation of Japan, in the Lincoln tradition, free of the destructiveness of Anglo-American policy in occupied Germany, stands as testimony to his statesmanship. The respect the Japanese people accord him, and the tremendous economic success of postwar Japan, stand as a rebuttal to those who seek to sow new Carthages with salt, and annihilate America's own power to bring industrial civilization to every realm on earth.

Why Admiral Inman left his CIA position

by Paul Goldstein



In what was characterized as a surprising move, Admiral Bobby Inman resigned April 21 as Deputy Director of the Central Intelligence Agency, after a year-long battle with CIA Director William Casey, pro-Haig members of the National Security Council, and James Baker III, White House Chief of Staff, over the direction and orientation of U.S. intelligence policy. The strategic implications of this battle are only now coming to light.

According to high-level intelligence community sources, up until the most recent round of strategic crises, Inman was working in total opposition to the maneuverings of British and Israeli intelligence. According to one source, he was blocking the flow of information to British intelligence during the initial phases of the Malvinas Islands conflict, while passing critical military intelligence to sources for the Argentine military.

Inman's attitude reflected a growing concern among intelligence professionals, even those most cynical and skeptical, that the British intelligence establishment and its U.S. agents and assets were making a bid to take over the foreign-policy and intelligence operations of the United States. *EIR's* long-standing charges of British efforts to destroy American intelligence capabilities, according to one intelligence source, have been "vindicated beyond belief. Your attacks against the British are fully confirmed as the result of events this week. No one questions your credibility on this issue—that is, anyone who knows how British intelligence works."

Factional battle

Under the Reagan administration, the CIA has had two policy orientations, one policy represented by Anglophile William Casey and the other represented by Inman. The fight was carried out in two primary areas: foreign covert operations and counterintelligence.

On the first level, Casey continues to forge a foreign covert-operations policy which basically subordinates those operations to foreign intelligence agencies, nota-

bly the British and Israeli. Casey and Secretary of State Alexander Haig, a factional ally of Casey on these matters, proposed and implemented these joint intelligence operations in especially Latin America, Asia, and Africa. Ostensibly, the purpose is to counter Soviet operations. However, their included result is crucial support for British intelligence interventions on behalf of the reorganized British Empire. Part of British intelligence activity enjoying the use of CIA assets is devoted to the destabilization of such key U.S. allies as West Germany, Japan, and Mexico.

Inman opposed the effort to reorganize U.S. counterintelligence, as proposed by a staff member of the National Security Council, so that the CIA and its rival, the Federal Bureau of Investigation, would be subordinate to new centralized structure. This proposal has been a longstanding project of former CIA counterintelligence chief James Jesus Angleton, a longtime friend of William Casey.

British-Soviet collusion

According to sources in the CIA, highly sensitive investigations into joint Anglo-Soviet intelligence operations were being conducted at the point of Inman's resignation. Sources close to this inquiry told *EIR* that the investigation was prompted by information that officials in the British Admiralty, Royal Household, and the British naval fleet deployments in the South Atlantic were giving their Soviet counterparts precise and detailed plans of British fleet deployments so that Argentine military intelligence could come to rely on the Soviets instead of the intelligence conducted by the CIA into Argentina. Inman's resignation might bring to the surface this duplicitous operation and the way in which Casey and his associates such as William F. Buckley were covering up the double-dealing. Yet despite Inman's resignation, the factional battle within the intelligence community is continuing.

Volcker Democrats move to defend monetarism

Anticipating a collapse in the negotiations seeking a budget "compromise," two pieces of legislation were introduced into the Congress at the end of April designed to defend monetarist policies. Senator Alan Cranston (D-Calif.) introduced S.2147 to amend the Federal Reserve Act to "provide for the increased responsiveness and accountability of the Federal Reserve System." And in the House, Rep. Fernand St. Germain (D-R.I.), Chairman of the House Banking Committee, introduced legislation to extend the Credit Control Act of 1969 which is due to expire on June 30, 1982.

Among the requirements of the Cranston bill are provisions for the Chairman and Vice-Chairman of the Fed to be coterminous with the term of office of the President of the United States, that the Secretary of the Treasury be on the Board of Governors of the Fed, and that the Fed get its operating funds through a congressional appropriation. While appearing at first glance to begin to call the devastating high-interest-rate policies of the Fed into account, Cranston made his intentions clear by saying in introducing his legislation, that "monetary policy is important, and to paraphrase Milton Friedman, it is too important to be left in the hands of central bankers . . . the present high-interest-rate policies of the Fed may be right or wrong; that is arguable." The net effect would be to involve the President, the Congress, and the American population in the process of "deciding" which among different

monetarist policies will prevail, leaving the credit-generating criteria of the Fed untouched.

In motivating the extension of the Credit Control Act, St. Germain said its powers could be used in "controlling the inflationary uses of credit. . . . The legislation would also allow the credit-control powers to be used to slow the uses of credit for nonproductive purposes such as unnecessary corporate takeovers." St. Germain totally ignored the major dislocations caused by invoking the act under the Carter administration.

Helms quizzes Weinberger on space weapons

Senator Jesse Helms (R-N.C.) interjected the only element of reality into Senate Foreign Relations Committee hearings on nuclear freeze proposals by questioning Defense Secretary Caspar Weinberger on U.S. capabilities and intentions in the sphere of space-based weapons.

The April 29 hearings on the "Global Strategic Situation" were the first of a series of hearings called by Senate Foreign Relations Committee Chairman Charles Percy (R-Ill.) to "explore" the issues raised by the myriad of nuclear freeze and arms-control resolutions introduced into the Senate. In his opening statement, Percy said that he hoped, after hearing from "all sides," the Committee would be able to report out an arms control resolution which could command the overwhelming support of the Senate. Percy indicated that he felt that something less definitive than a ratification of SALT II, but reaffirming U.S.

commitments to abide by the SALT II limitations, might be a useful approach.

While Percy, and "freeze" supporters such as Mathias (D-Md.), Pell (R-R.I.), Tsongas (D-Mass.), and Dodd played cat and mouse with Weinberger over whether the United States or the Soviet Union were strategically superior and over what form of arms control is desirable, Helms alone brought up the question of frontier space system technologies which would give the United States the capacity to shoot down Soviet missiles—before these missiles re-enter the atmosphere—the ultimate form of arms control. Citing Retired Air Force Gen. Daniel Graham's call for a full U.S. effort in the area of space-based laser and other weapons systems, Helms asked Weinberger if Graham were right. Weinberger snidely replied that Graham might be right by the year 2000, but not at present: "There is no indication we can rely on such capabilities in the near future." When Helms asked if Weinberger's experts agreed with his assessment of the year 2000, Weinberger replied that his experts would probably think he was being overly optimistic.

Helms continued the questioning by asking Weinberger if enough money was going into this form of research and development. Weinberger said "well, with all the talk around about reducing our money, we have to devote our efforts into getting what we have now in terms of deterrence, not something we aren't going to know about." Joint Chiefs of Staff Chairman David Jones concurred with Weinberger's assessment.

Abscam denounced as 'totalitarian' tactic

The Abscam operations of the Justice Department represent "a dangerous and unwarranted venture into a type of law enforcement heretofore reserved for totalitarian regimes," Richard Ben-Veniste, a federal prosecutor and defense lawyer for 14 years, told the House Judiciary Subcommittee on Civil Rights April 22. The Committee, chaired by Rep. Don Edwards (D-Calif.) was continuing its investigation on the conduct of FBI undercover operations and heard witness blast the total lack of procedures and guidelines for such operations, the use of agent provocateurs, and the totally uncontrolled and unsupervised nature of the Abscam scheme. "The FBI wasn't crazy enough to go after the judicial branch of government," Ben-Veniste declared, "but this attack on the legislative branch is a first step and if it's not stopped here then [George Orwell's] *1984* will come early to this country."

Michael Tigar and Samuel Buffone, attorneys for Abscam target and former Rep. John Murphy (D-N.Y.), directed their testimony to refuting the statements FBI director William Webster and then Assistant Attorney General Philip Heymann made at Congressional hearings March 4. Webster then claimed that a series of precautionary steps, enforced by an elaborate review procedure, had been utilized throughout Abscam to ensure that the potential for constitutional violations was minimized.

Buffone and Tigar outlined point-by-point how the Murphy case was a "nearly total failure of

the safeguards, guidelines, and review system." Buffone charged that Murphy was lured into the Abscam setup "based on information [coming from] an unreliable middleman. . . . There was no effort made to verify the information . . . no attorneys were present to monitor the transaction. . . . FBI agent Amoroso, contrary to Webster's testimony, had not been instructed in the law of entrapment . . . and no clear and unambiguous offer of criminality was made and no other indication was given to Congressman Murphy of the illegal nature of the meeting." Buffone further charged that Webster's view that the Abscam meetings were so sleazy that only the guilty would attend marked an "insensitivity to the basic nature of our representative form of government" where public officials must be ready and willing to assist constituents.

Subcommittee ranking Republican Henry Hyde (Ill.) asked Tigar who "besides Judge Webster should be held accountable for these overreachings." Tigar identified Irv Nathan, Mr. Margolis from the Eastern District of New York, and Thomas Puccio, the prosecutor. Tigar added, "I am not suggesting that this is the first time the FBI has gone off the rails."

National Democratic Policy Committee spokesman Susan Korkinda testified to the Senate appropriations subcommittee against cuts in the Drug Enforcement Agency budget, on the grounds that "Official investigations in Italy have implicated sections of the Departments of Justice and State with elements tied to drug-running in Italy. What is our law enforce-

ment policy, when we give those departments more money to run political entrapment operations like Abscam?"

Senators propose collective NATO conventional force

Senator William Roth (R-Del.) is circulating a sense of the Senate resolution which would call on the President to propose at the upcoming June NATO summit a "collective conventional force" for NATO and a collective NATO industrial base. The proposal is to subjugate the conventional forces and military-industrial base of the NATO nations to control by the NATO civilian command, thus undermining the national sovereignty of the member NATO nations.

Roth is circulating the resolution for co-sponsorship by other Senators and already has as two principal co-sponsors, Sens. John Glenn (D-Ohio) and Sam Nunn (D-Ga.). These Senators plan a press conference May 3 to announce their proposal.

Roth, a member of the Trilateral Commission, has the support of a number of the Trilateral Commission members for his proposal, and sent letters to Commission members prior to their early April meeting in Tokyo on the plan.

In addition to being an attack on national sovereignty, the proposal is a component of the anglophile plan to retool NATO away from highly sophisticated weaponry to forces capable of fighting in regional wars in the Third World.

Sources confirm that this proposal is being actively organized for by leaders of the British government and Belgian oligarchy.

National News

Nunn and Warner join 'crisis management' effort

Senators Sam Nunn (D-Ga.) and John Warner (R-Va.) cosponsored an amendment to the Defense Authorization Bill April 26, similar to Sen. Henry Jackson's proposal for a joint U.S.-Soviet "command center" to prevent nuclear war "by miscalculation."

The Nunn-Warner amendment, by ensuring joint U.S.-Soviet policing of third-country nuclear arms buildups, would open the way to deep cuts in strategic arms and defensive systems, according to one congressional staff specialist on defense matters.

Other Washington sources said the amendment provides for joint U.S.-Soviet policing and monitoring of nuclear arms development, in order to prohibit nuclear energy development.

NDPC challenges a pro-Khomeini meeting

On April 28 in New York City, the National Democratic Policy Committee held a press conference and informational picket line outside the only open session of the inaugural conference of the Cathedral Peace Institute, a project of the Anglican Cathedral of St. John the Divine.

Speaking for the NDPC Fact Finding Division, Robert Dreyfuss, co-author of *Hostage to Khomeini*, stated, "The Cathedral Peace Institute's conference 'Violence: Is Religion its Cause or its Cure?' is a threat to the national security of the United States. . . . 'The bulk of the participants at this conference collaborated in bringing to power in Iran the Ayatollah Khomeini, a sworn enemy of the United States. . . . Other spokesmen for the NDPC accused conference participant High Foot, Lord Caradon (the brother of the leader of the British Labour Party) of involvement in destabilizing Mexico along the Iran model. Cara-

don had stated that murdered Egyptian president Sadat had "in effect" written his own death warrant by attempting to oppose the fundamentalist sects.

Conference participants included former Secretary of State Cyrus Vance, and William Crawford, the last Ambassador to Iran, and a close associate of Muslim Brotherhood protectress Mme. Dominique de Menil, patron of the Rothko Chapel in Houston. Despite the initial intention to publicize the event, Bishop Paul Moore of the Cathedral refused to allow the public or representatives of the press to attend, because of the NDPC opposition.

The Institute is headed by Moorehead Kennedy, a former State Department official who was taken captive in Iran. Despite his year as a hostage, Kennedy privately praises Khomeini as an important political phenomenon.

Conservatives divided on Malvinas conflict

Mainstream conservative groups—Reagan's staunchest base of support—were uniformly "torn" over the situation in the South Atlantic, according to interviews conducted with representatives since the Malvinas crisis began. Unlike the George Bush-type liberal Republicans, these conservatives "think there is a lot to be said for the Argentinians in this dispute," and fear the consequences for the United States in Latin America and the rest of the world if the Reagan administration capitulates to a strongly pro-British posture. In fact, the only selling point these conservatives recognize for the United Kingdom's position is that they would prefer not to see the Thatcher government fall to the British Labour Party or to the new Social Democracy.

These conservatives, most of whom have close connections to the Reagan circle, acknowledged that Reagan shared their misgivings but that the White House crowd around former Bush aide James Baker III, Chief of Staff, were the source of pressure for "tilting toward the

British." A source in the Committee for survival of a Free Congress, stated that conservatives "feel that we have a lot to lose by siding with the U.K. . . . The Bush types do not even see the Soviets as a big threat—that we may lose Latin America."

A source at the American Conservative Union noted that at a recent meeting of Kingston conservatives, the guest speaker was a British official in Washington with the delegation of Foreign Secretary Pym of Great Britain. "He was pushing us very hard to side with Britain. But there was no real enthusiasm for the British from any of the conservatives."

A source connected to the Fund for a Conservative Majority claimed that both mainstream conservatives and the New Right were beginning to see a pro-British tilt as undermining U.S. opportunities in Central and Latin America.

Cardinal Cody's death a national loss

John Cardinal Cody, head of the Roman Catholic archdiocese of Chicago, the largest in the United States, died April 25 after a long illness. Cody was primary defender of the Church's traditional moral and theological teachings within the United States, and had made a point of cracking down on the small but extremely active radical element in the Chicago Catholic community after he was named archbishop by Pope Paul VI.

The "scandal" launched by the Chicago *Sun-Times* last year, alleging misuse of Church funds by Cody, was a direct counter-attack by the Chicago radicals. The group, organized by sociologist Saul Alinsky under the financial and political auspices of Chicago financier Marshall Field, and whose spokesmen included University of Chicago sociologist Andrew Greeley and Alinsky intimate Msgr. Jack Egan, had set out, by its own admission, to transform the American Church into a dionysian cult.

Cardinal Cody's hard-line stance against drug use and other practices advocated by the Field group provoked the

Briefly

months-long series of "exposés" in the *Sun-Times*, which triggered a grand jury investigation that has failed to produce an indictment.

Cody recognized that the *Sun-Times* operation was part of a much larger plan to destroy the Roman Catholic Church, one of the handful of powerful international institutions opposing Malthusian policies. "Any accusations against the shepherd," Cody said, "are also against the Church." Cody stated in a letter released after his death that he had forgiven his persecutors, but God might not. His family refused to allow the *Sun-Times* to attend the funeral.

Koch for President? 'Oy vey!'

According to well-placed Washington intelligence sources, there is a movement under way in a faction of the American Jewish community to put Edward Koch, the Mayor of New York, in the White House in 1984. Koch's 1982 campaign for the governorship of New York is seen as a steppingstone for the presidency.

The sources report that the Koch-for-President effort and the motley coalition of forces behind it are part and parcel of the Mafia networks now dominant in Israel.

The key backer of the Koch race is Rupert Murdoch's *New York Post*, for which Howard Squadron is the lawyer. Squadron holds the top position in the American Jewish community as President of the Conference of Presidents of Major American Jewish Organizations, and is currently badly on the outs with the Reagan administration.

Also behind Koch as his campaign manager is the consulting firm of David Garth and Garth's partner Ze'ev Furst, former representative for the Anti-Defamation League in Israel. Garth and Furst ran Menachem Begin's campaign for the prime ministership last summer, in what was widely acknowledged as the dirtiest electoral campaign in Israel's history.

In late April, the American Jewish Congress issued a formal resolution at-

tacking the Reagan administration and pledging to organize American Jews against Reagan. The Anti-Defamation League's *B'nai B'rith Messenger* and the *New York Post* both played up Squadron's attacks, including hysterical swipes at Al Spiegel, President Reagan's close friend and informal adviser on Jewish affairs.

What is Julian Simon afraid of?

Fordham University's Economics Club was to sponsor a debate with University of Illinois Professor Julian Simon, whom the *New York Times* has been promoting as the leading U.S. spokesman for expanded global population. The U.S. Environmental Protection Agency (EPA) is also enthusiastic about the work of the Illinois professor and wants to give Simon and the Hudson Institute's heavyweight, Herman Kahn, \$200,000 to "re-construct" the Carter administration-sponsored *Global 2000 Report*. EPA's proposal is facing opposition, however, from the Council on Environmental Quality (CEQ), which fears a toning down of the admittedly Malthusian report.

Opposing Simon were to have been representatives of Planned Parenthood, a group which endorses the *Global 2000 Report's* call for reduced world population levels; and Paul Gallagher, Executive Director of the Fusion Energy Foundation (FEF). The FEF, while sharing Simon's antagonism to the *Global 2000 Report*, insists that Simon's laissez-faire economics would ultimately lead to the same Malthusian collapse Simon professes to deplore. Simon refuses to attack Paul Volcker and Milton Friedman for their damage to the U.S. economy.

When the professor arrived on April 27 and discovered that the FEF had been promised a brief presentation, he strongly insisted that he be the only speaker. The audience was upset at the blatant stifling of discussion, and an FEF spokesman was able to deliver the critique Simon had sought to prevent.

● **MEL KLENETSKY**, National Democratic Policy Committee-backed candidate for the senatorial nomination for New York, was given a standing ovation by 250 members of the Long Island Laborers Local 66 after a speech April 21 in which he called for labor support to bring the Shoreham nuclear plant on line.

● **THOMAS PUCCIO**, federal prosecutor in the Abscam frame-up trial of former N.J. Sen. Harrison Williams, announced April 26 that he was taking a job in the private sector, joining the Manhattan law firm of Barth, Lipton and Lipton. Puccio will be defending "white collar crime" cases, at a considerable raise in salary.

● **GEORGE C. PRATT**, the federal district judge in the Williams trial, was promoted to a seat on the U.S. Court of Appeals April 23.

● **MARIO MONTUORO**, the federal informant in numerous prosecutions against the labor movement and a source of slanderous allegations against Labor Secretary Raymond Donovan, was awarded \$2.5 million by the New York State lottery April 26.

● **PHILIP GEYELIN**, a leading member of the Queen's own Ditchley Foundation, wrote in the April 27 *Washington Post*: "More than a year ago . . . one of Britain's leading pollsters sampled views on whether 'the future of Britain should rest mainly with the Commonwealth, the United States, Europe, or none of them.' The winner, with 33 percent, was 'none' . . . the runner-up was Europe (27 percent), next came the Commonwealth (25 percent) and 'don't know' (9 percent). Dead last was the United States with 6 percent—not exactly a solid base for the sort of 'special' Anglo-American relationship that British and Americans leaders speak of in after-dinner toasts."

Editorial

The question of sovereignty

In a message from India upon being notified of the 79-1 Senate approval of U.S. support for Great Britain against Argentina, and of Secretary Haig's official commitment of the U.S. government to the British cause, *EIR* founder Lyndon H. LaRouche stated:

"This humiliation has been meant by our enemies, the British monarchy, to reduce us to a second-rate, quasi-bankrupt country deploying its military against nations of the developing world in defense of British colonial interests. As I have outlined, America's policy toward the developing world ought to be part of a 'grand design' for the industrial, technological, and scientific development of the formerly colonial world. . . . Either the American people rally on behalf of the Founding Fathers' cause in building this nation, or the American people shall have tragically lost their moral fitness to survive. Let us help rally them."

Senator Jesse Helms, Republican of North Carolina, was the other American leader to speak on behalf of reason. Addressing the Senate on the evening of April 29, the Agriculture Committee Chairman and Chairman of the Foreign Relations Committee's Subcommittee on Latin America stated: "What we face is the possibility of severe strains to the inter-American system as a result of the dispatch of the British fleet to the Western Hemisphere. U.S. diplomacy has failed by allowing even a highly regarded European ally to display force in the South Atlantic, thereby polarizing the Americas. . . .

"Britain's intervention in the Western Hemisphere in 1832-33 violated the Monroe Doctrine, which had been specifically proclaimed to contravene intervention from Imperial Russia in Alaska, and from the British, French, and Spanish Empires in Latin America and the Caribbean. The British presence in the Falklands was thus, historically, an anomaly. . . . Legalistic interpretations of the [Rio] Treaty will be of little avail in preventing most of the nations of the Americas, left and right, from

unifying against British imperialism.

"Should that happen, then the U.S. could find itself isolated from its hemispheric allies as a result of its failure to deter Britain from its show of force.

"Having failed to prevent the crisis from developing, the U.S. should act to reconcile our two allies. Can Britain's claim to a colonial outpost 8,000 miles from London be upheld in the face of the overwhelming trend against colonialism? . . .

"The British claim to these islands in 1832-33 was without foundation. The seizure not only was a violation of international law prevailing at the time . . . but it was a violation of the no-transfer principle of the Monroe Doctrine. . . .

"We had been presented with a Gulf of Tonkin-like resolution without the benefit of careful study and reflection on our obligations. . . . Fortunately, major changes [in the Biden Resolution] have been made [at Helms's behest—ed.].

"There have been those that have argued that our obligations to NATO come first. . . . It is my belief that the NATO treaty related to wars in the European theater—wars of Communist aggression. For years, it has been generally held that the NATO boundaries are limited to the North Atlantic down to the Tropic of Cancer. . . .

"I am not at all persuaded that the NATO treaty can be invoked as a rationalization for legal support of Britain in the crisis. . . . The principal objective for the U.S. at this time is to promote a peaceful resolution of this crisis. The only solution to the matter would be one which recognizes the underlying sovereignty of Argentina to the Malvinas Islands. We must insist that both sides cool off and proceed with direct face-to-face negotiations on substantive matters. . . .

"My position is certainly not anti-British; rather, I have tried to view this issue on purely a basis of historical fact and our true national-security interests. I cannot allow my affection and respect for Prime Minister Thatcher to obscure the reality of the matter. The stakes are too high. . . ."

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